Introduction
CHAPTER - 1
INTRODUCTION

Introduction

India is a land of huge natural and human resources. The human resources are, however, afflicted by poverty. Right from the days of obtaining Independence, poverty and unemployment have been considered as major challenges to our country. Therefore, it was imperative on the part of the government to formulate poverty alleviation policies and programmes for generation of minimum level of income for the rural poor. One such initiative has come in the form of provision of credit in the rural sector through a wide network of commercial banks, rural banks, co-operative banks and other financial institutions. In addition, the Government of India, through Reserve Bank of India (RBI) has introduced several credit linked schemes such as Integrated Rural Development Programme (IRDP) and Prime-Minister Rojagar Yojana (PMRY) to alleviate the rural poverty. A huge amount of manpower and money was spent on these programmes. But, these programmes failed to achieve the desired targets owing to local political conflicts, lack of co-operation and co-ordination between the beneficiaries and government employees and poor recovery performance of banks. Among others, the beneficiaries generally understood the loans to be grants and, therefore, did not feel the responsibility of repaying it. In addition, bankers too did not evolve a foolproof mechanism to monitor the repayment process vigorously. As a result,
these schemes could not achieve much in fulfilling their objectives. Consequently, the Indian economic planners and policy makers turned their attention on innovative schemes such as micro-finance and Self-Help Groups (SHGs). In this context, the role of SHGs has assumed a greater significance.

The SHG is the brain-child of Grameena Bank of Bangladesh, founded by Prof. Mohammad Yunus of Chittagang University in the year 1975. In India, the National Bank for Agriculture and Rural Development (NABARD) initiated SHGs in 1986-87. But, the real efforts have been activated with the linkage of SHGs with banks from 1991-92.

Self-Help Group is a homogenous group of not more than 20 members, who join on a voluntary basis in order to undertake some common activity through mutual trust and mutual help. It is a group of people possessing a common background, experience and problems who come together to share their experience, knowledge and skills to mutually give and receive support from each other. This arrangement cannot be considered as credit or savings groups alone. These groups are formed on the basis of mutual strength and collective action which address not only the basic problems of economic conditions, but also other social and political issues. Once, the group is able to mobilize sufficient amount of savings, then it will be encouraged to take up various income generating activities either as group activities or individual member activities. It is now realized that instead of targeting the individual development, it would be more useful to adopt a group
approach to development. This is necessitated due to the fact that the poor people do not have enough capital to take up any business enterprises on their own. The group approach makes available the collective wisdom and combined resources. In recent years, SHGs have become significant institutions in rural development at the grass roots.

Need for the Study

India is a rich country but inhabited by the poor. To come out from this vicious circle of poverty, the poor require micro credit as well as savings services to meet the various contingencies of life as well as to invest in productive activities. The inability to obtain small amount of loan from financial institutions compels the poor to depend on various informal agencies like money lenders, traders, employees, friends and relatives. The formal financial institutions are unable to offer micro credit without tangible collaterals. The collateral based lending policies of the formal agencies automatically drop out the poor from the lending who cannot provide tangible collaterals. Similarly, due to high cost of transactions associated with small savings, formal banks exclude the poor while providing savings and credit services. As a result, a great majority of the poor are excluded from the purview of formal financial system.

In this context, micro financing or group lending is being looked upon as an instrument that can be considered as the golden stick for poverty alleviation. The system of micro-finance through SHGs has a
well developed institutional framework to provide financial services to the poor to reduce their poverty. Micro-finance through SHGs is not just a tool for poverty eradication but also for individual development, skill up-gradation and growth in entrepreneurial activities in economically backward areas. Small finance through SHGs, benefits to the poor both in economic and social aspects. SHGs can also provide a platform to its member. From this platform, the poor can become active in village affairs, stand for local elections or take actions to address social or community issues such as abuse of women, alcohol, dowry, education, sanitation and water supply.

Further, the review of literature (Page No. 6-9) shows that there are few studies on this theme. The existing research studies do not provide a comprehensive discussion on process and norms of group formation, different model of linkage of SHGs with banks and role of banks in promoting and financing of SHGs, mobilization of financial resources, credit management and socio-impact assessment of micro-finance with a holistic perspective. This thinking necessitated to pursue a study on micro-finance focusing on SHGs, which is more suitable in India at the present conditions.

**Statement of the Problem**

The expansion of the rural credit delivery system since 1947 has not changed the dependence of the poor on money lenders and traders. Many underdeveloped areas still do not have bank branches. The day to
day banking transactions are negligible and the transaction cost for borrowers and bankers is also high. As a result, the poorest of the poor have been excluded from the bank finance.

Before introducing SHGs schemes in India, the nationalized banks, regional rural banks and co-operative banks provided long-term finance to the people engaged in agriculture and small business. Hundreds of schemes have been launched by the government after Independence for uplifting the poor. Among these schemes, micro-credit through SHGs is prominent one. But, most of the asset less poor are ignorant about the concept, variety of delivery models of micro-finance and the role played by different banks in promoting and financing the SHGs. Hence, to make SHGs meaningful and successful, awareness about the concept of micro-finance and importance of banks in providing micro-finance is very essential.

Organization of people for formation of SHGs in rural areas is not an easy task. NGOs and banking institutions have made great efforts to organize the people, particularly the women. This is because majority of the rural people are illiterate and they are unaware of the various poverty alleviation schemes introduced by the government. The poor households do not possess the required skills of formation, rules and regulations of groups and mobilization of resources.

The SHGs collect savings from members and advance loans of small amounts. There is a need for upscaling their activities. Only
providing small amount of loans through groups does not make the process complete. Proper use and management of this micro-finance is important. The success of SHGs depends upon efficiency and effectiveness of credit management of groups. Impact of micro-finance through SHGs helped to generate and collect small savings from rural poor who were incapable of having any capacity to save. Impact of micro-financing on the income levels, standards of living, social and political upliftment of their members is positively felt. In the light of this scenario, a study on the dynamics of group formation and functioning, mobilization of financial resources by SHGs, examination of credit management practices of SHGs and strengthening socio-economic conditions of members through micro-finance become imperative. Hence, the statement of the problem "Working of Micro-Finance Mechanism: A Study of Selected Self-Help Groups in Dharwad District" was undertaken.

**Objectives of the Study**

Considering the information and insights gathered from various sources in general and the literature review in particular, the study seeks to answer these questions: What is the dynamics of group formations and micro-finance? What is the comparative analysis of working of micro-finance under various banks? What is mindset of respondents about formation of SHGs? What procedure is followed while formation of groups? How do SHGs mobilize and deploy their financial resources? How do SHGs recover the credit? and What is
impact of micro-finance on socio-economic and political conditions of members?.

The following are the specific objectives of the study:

1. To make a comparative analysis of working of micro-finance mechanism under commercial banks, regional rural banks and co-operative banks.
2. To examine the process of formation and functioning of self-help groups.
3. To study the mobilization of financial resources by self-help groups.
4. To examine the different aspects of credit management of SHGs under micro-finance.
5. To evaluate the impact of micro-finance on the socio-economic and political conditions of SHG members.

**Hypothesis of the Study**

Following are the hypothesis of the study:

1. There is no significant association between different type of assets and number of assets before and after formation of groups.
2. There is no significant impact on type of domestic assets and number of assets before and after formation of groups.
3. There is no significant association between different type of assets and number of assets before and after formation of groups.


**Scope of the Study**

Though the study area covers the entire state of Karnataka, the scope of sample groups and respondents was restricted to five taluks in Dharwad district. This confinement was made due to the constraints such as the availability of time and resources. However, keeping in mind the social responsibility, sincere efforts are made to add integrity and intensiveness to the study.

The study covers a wide area on empowerment of the rural poor through SHGs under the system of micro-finance. These SHGs provide not only micro-finance, but also adequate knowledge and information to the poor people on how to escape from vicious circle of poverty as well as from the clutches of money lenders. The members’ opinion on group formation, credit management and its effectiveness, mobilization of resources and recovery process and impact of micro-finance on socio-economic conditions of members are collected. The performance of SHGs is analyzed from the point of view of savings, loans given to the members, interest on loans and loan repayment.

**Research Methodology**

The methods and procedures followed in conducting this research is furnished under the following sub-headings.
A) Selection of the study area

The present study focuses on SHGs operating in Dharwad district of Karnataka state. Dharwad district consists of five taluks. Among the five taluks, maximum numbers of SHGs are concentrated in three taluks namely Dharwad (300), Kalaghatagi (250) and Hubli (200). However, the SHGs of all the taluks in Dharwad district are considered for sampling for this study. This district was selected taking into account the availability of the study materials, time and convenience of the researcher.

B) Selection of SHGs and members

After selection of district and taluks, next step was the selection of SHGs in each taluk for an in-depth study. Sample SHGs are selected from the list prepared by the commercial banks, regional rural banks and NGOs. Simple random sampling method was used for the selection of villages, SHGs and the individual members from each SHGs. From each of the five talukas, 8 SHGs were selected. Hence, forty SHGs were selected finally for this study. Further, 40 members are selected from each SHG i.e., 5 members in group from each taluka. Thus, the total members of SHG covered under the study include 200 members from all the five talukas put together. The complete details of the number of SHGs and their members selected for the study are given in Table 1.1.
Table 1.1: Details of selected self-help groups and members

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the taluka</th>
<th>Total No. of SHGs*</th>
<th>No. of SHGs selected</th>
<th>Total No. of individual members*</th>
<th>No. of individual members selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Dharwad</td>
<td>300</td>
<td>8 (2.67)</td>
<td>3600</td>
<td>40 (1.11)</td>
</tr>
<tr>
<td>2.</td>
<td>Kalaghatagi</td>
<td>250</td>
<td>8 (3.20)</td>
<td>3100</td>
<td>40 (1.29)</td>
</tr>
<tr>
<td>3.</td>
<td>Hubli</td>
<td>200</td>
<td>8 (4.00)</td>
<td>2500</td>
<td>40 (1.60)</td>
</tr>
<tr>
<td>4.</td>
<td>Kundagol</td>
<td>195</td>
<td>8 (4.10)</td>
<td>2100</td>
<td>40 (19.05)</td>
</tr>
<tr>
<td>5.</td>
<td>Navalagund</td>
<td>48</td>
<td>8 (16.67)</td>
<td>600</td>
<td>40 (6.67)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>993</strong></td>
<td><strong>40 (4.03)</strong></td>
<td><strong>11900</strong></td>
<td><strong>200 (1.68)</strong></td>
</tr>
</tbody>
</table>

Note: Figures in the brackets show the percentage share to their respective totals

* Source: Information provided by files of KVG Bank

From Table 1.1, it is clear that out of 993 SHGs, 40 SHGs were chosen for the study which constitute 4.03 per cent of the total population of SHGs. An uniform sample size is maintained for all taluka. Selection of respondents (individual members of the groups) is also based on random sampling method. All the selected respondents were interviewed for the study.

C) Sources and methods of data collection

This study is primarily based on primary data collected at two stages. In the first instance, the data were collected from the SHGs. For this purpose, a questionnaire was designed and administered on the group leaders to know the perspective of SHGs (The proforma questionnaire administered on groups is given in annexure).
Fig. 1.1: Map showing the study area
The information collected from administering this questionnaire on the SHGs is analyzed in chapter 3, 4 and 5 of this thesis. In the second instance, a questionnaire was administered on the members of the SHGs which aimed at eliciting the information with a view to examine the impact of micro-finance on the socio-economic conditions of the SHG members (A proforma questionnaire administered on the members is given in annexure).

Secondary data were also collected from the records of SHGs, banks, NGOs, Zilla panchayat, Dharwad and other government departments. Wherever required the meaning of the questions asked in the questionnaire were explained in Kannada and were recorded accordingly.

**D) Period of study**

The survey of selected SHGs and their members was conducted during 2008. The mobilization of financial resources by SHGs covered a period of 6 years starting from 2003 to 2008.

**E) Data presentation and analysis**

Data collected for the purpose of the study is presented through various tables and graphs. Various techniques such as percentages, averages, growth rates etc. are used in analyzing the data and drawing inferences. In case of testing of hypothesis, the chi-square test for independence of attributes is applied. The application of these tests and results therefrom are discussed at appropriate places in the thesis.
In case of analysis of tables in chapter 3, 4 and 5, the drawing of inferences is done with two perspectives. In the first instance, analysis is made for the data which relates to all the SHGs covered under the study irrespective of the classification on the basis of promoting organizations and thereby drawing inferences based on the entire data. In the second instance, the inferences are drawn with regard to the SHGs promoted by NGOs as well as SHGs promoted by banks separately. For drawing inferences, column percentages are used in these chapters.

In case of chapter 6, the focus is on the impact of micro-finance on the promotion of socio-economic conditions of members of SHGs. The impact analysis is done for the entire clientele of respondents consisting of 200 individual members. The analysis is made for the entire 200 respondents without any classification such as members of SHGs promoted by NGOs and by banks. In this analysis, the column percentages are used for analyzing the impact of micro-finance on the socio-economic and political conditions of SHG members. Chi-square test is performed in this chapter for testing of the hypothesis.

**Significance of the Study**

Self-help groups play a major role in transforming the socio-economic conditions of weaker sections into worthy people with earning capacity. Despite the availability of a number of government schemes, the micro-finance option has proved itself as a worthy and productive means to change the status and self respect of the poor people, in
It is equally true that, there are many problems faced by SHGs such as lack of information and guidelines regarding formation of groups, lack of finance, lack of proper accommodation, maintenance of accounts, etc. The present study proposes solutions to these problems and helps SHGs and its members to become financially strong by taking up income generating activities.

**Limitations of the Study**

The study is carried out largely based upon the opinions of respondents whose education and exposure were much limited. The data obtained from field work is based on the memory of the respondents as they do not have the habit of keeping books of accounts in a proper manner. Moreover, the books of accounts of SHGs are not properly audited by the legal auditors at the end of the year. Above all, the investigator's constraints with regard to time and resources are also deemed to be the limitations of the study.

**Organization of the Study**

The study is presented in seven chapters as below:

**Chapter-1: Introduction**

The first chapter is on introduction to the study. It consists of details about introduction, need for the present investigation, review of literature, statement of the problem, objectives of the study, sample selection, data source, significance, scope, limitations and presentation of the study.
Chapter-2: **Micro-Finance: A Theoretical Framework**

This chapter presents the concept of micro-finance, need for micro-finance and an overview of delivery models of micro-finance. It also offers a comparative study on working of micro-finance mechanism under commercial banks, regional rural banks and co-operative banks.

**Chapter-3: Analysis of Group Formation and Functioning**

This chapter deals with the process of formation of SHGs. It briefly discusses the need for group formation, process of group formation, norms of group formation. It also provides an overview on functioning of the groups with an emphasis on maintenance of books of accounts.

**Chapter-4: Mobilization of Financial Resources by SHGs**

This chapter discusses the process of mobilization of financial resources by the SHGs from the various sources which include both internal and external.

**Chapter-5: Credit Management and its Effectiveness**

This chapter deals with the credit planning, credit disbursement, credit recovery, recycling of funds and the impact of credit supervision on profitability of SHGs.

**Chapter-6: Impact of Micro-Finance on Socio-Economic Conditions of Members**

This chapter discusses the transformation of socio-economic conditions of the respondents consequent on micro-finance. The role of
micro-finance in creating various assets of group members before and after formation of group is discussed in this chapter. The chapter also addresses the improvement in political conditions of members as a result of micro-finance.

Chapter-7: Findings and Suggestions

It provides the summary of findings and suggestions. It also offers a direction for future research in the area of micro-finance.
### Concepts used in the study

**Adequacy of credit**: It is the optimum quantum or size of the credit requirements of the group members.

**Association model**: It is a model under which the largest community initiates and forms an “Association”. It is composed of youth, men and women.

**Attendance register**: It is a record of the members attendance at SHG meetings.

**BPL**: Below poverty line is indication of a member whose income is less than Rs. 11800 (pa), having less than 4 acres land.

**Business risk**: It refers to risk arising on account of sudden fall in the prices, sudden change in demand and supply of goods.

**Clients**: Micro-finance clients are low income persons that do not have access to formal financial institutions.

**Collateral**: It is an asset pledged by a borrower to secure a loan or credit.

**Common fund**: It means groups generate a common fund out of small savings by curtailing unproductive expenditures.
**Consumption needs**: Money given to members for consumption needs such as meeting medical expenses, educational and social ceremonies.

**Co-operative model**: A co-operative is an autonomous association of people who are considered as the members of the co-operative. These members are united voluntarily to meet their common socio-economic and cultural needs.

**Credit union**: It is a financial institution formed by a particular group / institution / organization with a motive of saving their money together and lend to members with a democratically pre-determined rate of interest.

**Defaulting member**: Members who fail to pay their weekly savings amount.

**Economic empowerment**: It means increased financial resources both inside and outside the household and reducing dependence on money lenders.

**External financial resources**: Finance raised through external agencies such as loan from banks, revolving fund etc. is called as external financial resources.
<table>
<thead>
<tr>
<th><strong>Federations of SHGs</strong></th>
<th>It is an association formed by the SHGs. These SHG federations act as financial intermediaries. Banks finance to these federations and the federations finance their SHGs members.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td>Bank deposits, insurance, loans and advances where members invest their savings are called financial assets.</td>
</tr>
<tr>
<td><strong>Financial intermediaries</strong></td>
<td>The links between banks and members of SHGs are called financial intermediaries, NGOs and federations of SHGs are prominent among them.</td>
</tr>
<tr>
<td><strong>Formal credit system</strong></td>
<td>It is a credit system where financial institutions are registered according to the Registration Act. The formal financial institutions are commercial banks, regional rural banks and co-operative banks.</td>
</tr>
<tr>
<td><strong>Grameena Bank</strong></td>
<td>Grameena means &quot;Rural&quot; or &quot;Village&quot;. Grameena Banks are the largest rural financial institutions which provides loans to the poor who do not have anything to put up for collateral.</td>
</tr>
<tr>
<td>Term</td>
<td>Description</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Grameena Joint Liability</strong></td>
<td>This model had focused on poor sections of the society with no access to formal banking for augmenting their socio-economic situations.</td>
</tr>
<tr>
<td><strong>Group Model</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Grameena model</strong></td>
<td>It is a model under which loans are provided for loans for productive purposes by the MFIs/NGOs directly to the members of small groups on the strength of group assurance.</td>
</tr>
<tr>
<td><strong>Group fund</strong></td>
<td>It is an additional savings made by the SHG other than weekly savings.</td>
</tr>
<tr>
<td><strong>Group lending</strong></td>
<td>Provision of credit to the groups is called group lending.</td>
</tr>
<tr>
<td><strong>Homogenous SHGs</strong></td>
<td>The SHGs where the membership comprises of people from comparable socio-economic background are called homogenous groups.</td>
</tr>
<tr>
<td><strong>Individual lending</strong></td>
<td>Provision of credit to individual members of a SHG is called individual lending.</td>
</tr>
<tr>
<td><strong>Informal credit system</strong></td>
<td>It is a system consists of the private sector players such as money lenders, traders etc. who undertake micro-finance services as their main activity.</td>
</tr>
<tr>
<td><strong>Internal financial resources</strong></td>
<td>When SHGs mobilize their required finance within the group such as savings, group fund etc. are known as internal financial resources.</td>
</tr>
</tbody>
</table>
**Internal lending**: It is an arrangement for sharing the liability where the common savings fund should be used by the SHG for lending to its own members.

**Joint liability**: It is an arrangement for sharing the liability where five to seven borrowers are identified and organized into a group.

**Micro-Credit**: Micro-credit refers to the provision of small loans extended to the poor for undertaking self employment projects that would generate income.

**Micro-finance institutions**: The proposed Micro-Finance Services Regulation Bill defines micro-finance services as “providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for an amount, not exceeding Rs. 50,000/- in aggregate”.

**Non-financial services**: It includes skill upgradation and entrepreneurship development rendered to the poor for enabling them to overcome poverty.

**Partnership model**: It is a model under which banks lend money directly to an MFI clients and MFIs and charge a service fee to the clients.
<table>
<thead>
<tr>
<th><strong>Production needs</strong></th>
<th>Money given to members as a loan for investment in income generating activities such as business, livestock etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revolving fund</strong></td>
<td>This is nothing but a simple subsidy to each and every groups which are below the poverty line.</td>
</tr>
<tr>
<td><strong>Self-Help Groups</strong></td>
<td>SHG is a homogenous group of not more than 20 members, who join on a voluntary basis in order to understand some common activity through mutual trust and mutual help.</td>
</tr>
<tr>
<td><strong>SHG bank linkage model</strong></td>
<td>It is a model under which an informal credit system is developed with assistance from formal financial institutions. In this scheme, NABARD, Banks, NGOs and SHGF members are involved.</td>
</tr>
<tr>
<td><strong>SHG model</strong></td>
<td>A number of individuals, from the same gender come together to resolve various socio-economic and other issues like education, health etc.</td>
</tr>
<tr>
<td><strong>Transaction cost</strong></td>
<td>It is cost incurred by SHG members for availing of the loan from banks, such as application fees, transportation cost etc.</td>
</tr>
</tbody>
</table>
References


Bhatia and Bhatia (2002), Lending to groups is it worthwhile. Yojana, February 2002.

Bhatia and Naveen (2002), Lending to groups is it worthwhile. Yojana, February, pp. 20-22.


