Findings and Suggestions
Poverty and unemployment are the major problems of underdeveloped countries, to which India is no exception. 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 the instrument that can be considered as the golden stick for poverty alleviation.

Micro-finance means small credit facilities or financial services provided to the needy and poor. 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 members. From this platform, poor become active in village affairs, stand for local elections or take action to address social or community issues. Against this background, a need was felt to examine the role of micro-finance through SHGs and to evaluate impact of micro-finance on socio-economic and political conditions of the members of the SHGs. For this purpose, Dharwad district in Karnataka state was selected, from which, 40 SHGs and 200 members of the SHG were surveyed so as to fulfill the following research objectives.

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.

The findings of the survey are presented into four core chapters covering the following issues:
I. Analysis of group formation and functioning

II. Mobilization of financial resources by SHGs

III. Credit management in SHGs

IV. Impact of micro-finance on socio-economic conditions of members

FINDINGS

The major findings of the study are presented hereunder.

I. Analysis of group formation and functioning

1) Agency-wise formation of SHGs

- The majority of SHGs (92.50%) are promoted by NGOs and the remaining (7.5%) are promoted by banks.

2) Size of the groups

- More than 50% (53.50) groups covered under the study have the total number of members up to 15. In the very rare cases (47.50%), the number of members in each group exceeds 15. In about 25% cases, the total size of the group is 20 members.

3) Distribution of members

- About 97.50% of the groups are female groups and the remaining (2.5%) are male groups.

- About 70% of SHGs are having members with an age of 30 years and below.
• More than 50% of the members have obtained primary and high school education and 12% have got even the college education.

• About 95% of members are daily wage earners and the remaining are engaged in agriculture and petty business.

• About 65% of members belong to an income group of Rs. 1000 per month. About 25% belong to monthly income group of Rs. 1000 to 2000.

• About 52% of members are Hindus, 28% Muslims and the remaining 20% are Christians.

• About 68% of the group members join the group with an intention of improving their economic conditions. About 20% opine that they join the SHGs to save the money and the remaining 12% join group to make use of their leisure time.

4) Difficulties faced by members

• The major difficulty faced by the members (as responded by the group leaders) is the shy nature of woman members (33%). Other difficulties include lack of technical knowledge (29%), financial difficulties (21%) and infrastructural problems (17%).

• The modus operandi adopted for solving the problems include seeking the experts’ assistance (40%), making arrangements for conducting the group meetings in the houses of the members (29%) and borrowing money from internal sources (30%).
5) **Selection of group leaders**

- Educational background of the members is a major consideration for selecting him/her as the leader of the group (55%). The second criterion is the knowledge of members about the micro-finance (37%). In few cases, age is considered as a criterion.

6) **Quality of members' participation**

A great majority of members (97.5%) have rated that their participation is good in group activities and the remaining have noted it to be excellent.

7) **Rules and regulations of SHGs**

- In majority cases (87.50%), the rules and regulations are in the written form and the remaining cases (12.5%), they are in unwritten form. In majority cases, (58%) the leaders of group and members together frame the rules and regulations of the group. In about 20% cases, NGOs are involved in framing rules and regulations. In few cases (5%) banks also contribute to the framing of rules and regulations.

- In all the cases, there have been changes in the rules and regulations in due course of time.

- There are no specific regulations, provisions on how frequently rules and regulations of SHGs are changed. These changes are initiated whenever problems arise in the day today operations of the groups.
• In almost all cases (95%) barring a few exceptions, the rules and regulations of groups are observed.

• In most cases (77%), the admission of new member is decided by all members and in some cases it is decided by group leaders (19%). Rarely, the decision is made on the basis of the opinion of the NGOs and banks.

• The initial contribution from the new members is decided by all the members (93%). In some cases (11%), the group leaders take decision.

• In 95% of the cases, the members leave their group if they are not satisfied with the functioning of the groups. In few cases (5%), they leave the group for their personal problems.

• The accumulated savings of members are settled in the form of paying him/her the entire amount. In some cases, the initial share contribution is deducted which is subsequently paid to him/her after a new member joins the group.

8) Training of members

• All the SHGs covered under the study have recommended for training to the members.

• NGOs and banks together conducted training for the members of the group in a majority cases (80%).
• The major contents of the training include the topics such as maintenance of books of accounts (36%), income generating activities (30%), formation of groups (28%) and rules and regulations of the group (2%).

• All the SHGs have opined that, the training was useful for them in the functioning and management of their respective groups.

9) Group meetings

• Banks often take initiation in conducting group meetings (46%). Similarly, group leaders (26%), NGOs (16%) and members (10%) also take initiative in this regard.

• The group meetings are conducted on weekly basis.

• It is compulsory to all the members attend the meeting convened by their groups.

• In majority cases, the meetings are held in the evening time (97.5%). Very rarely they are held in the afternoon.

• In all the cases of meetings conducted, group members' attendance register is maintained and the signature of the members attending to the meeting is taken.

• 70% of the SHGs have 90% attendance of their members to the meetings and 30% of the groups have 100% attendance to the meetings.

• All the SHGs have opined that, the audit report is placed before the meeting.
10) Contents of books of accounts

- All the SHGs have opined that, the individual passbook is compulsorily issued to all members (100%).
- All the SHGs covered under the study are given passbook by the respective banks.
- Cashbook is compulsorily maintained in all the SHGs and the main object is to know the inflows and outflows during the given period.

II. Mobilization of financial resources by SHGs

A. Internal Financial resources

1) Membership fees

- The average membership fees of SHGs amounts to Rs. 400, Rs. 193, Rs. 300, Rs. 363 and Rs. 298 in Dharwad, Hubli, Kalaghatgi, Kundagol and Navalgun taluks, respectively.
- The number of groups covered in each taluk are 9, 10, 7, 12 and 4 in Dharwad, Hubli, Kalaghatgi, Kundagol and Navalgun taluks, respectively. Accordingly, the total membership fees in each taluk amounts to Rs. 3600, Rs. 1930, Rs. 2100, Rs. 3430 and Rs. 1192 in Dharwad, Hubli, Kalaghatgi, Kundagol and Navalgun taluks.
- The average amount of the membership fees and number of groups (taluk-wise) remains fixed throughout the study period, and the total annual membership fees also remains fixed at Rs. 12252.
2) Savings

- The average annual savings amounts to Rs. 4473, Rs. 11133, Rs. 10554, Rs. 6060, Rs. 15361 in Dharwad, Hubli, Kalaghatgi, Kundagol and Navalgund taluks respectively.

- During 2003, group members of Hubli taluk mobilized maximum savings from 2004 to 2007. Kundagol taluk has mobilized maximum amount of savings. It is followed by Hubli and Dharwad taluks.

- The total savings has increased from Rs. 240919 (2003) to Rs. 1011156 (2008). There has been an increase by 72.27% during 2004, which has subsequently come down to 52.16%. During 2006, it is in negative. It is further increased to 34.37 (2007) and 41.50% (2008).

3) Fine on default of savings

- The amount of fine money was Rs. 300 during the first year of study (2003). However, it has gradually increased and reached to Rs. 2959 during 2008. During 2005 and 2006, there has been no additional increase in the fine money collected on default of savings.

- The default during the first year was only from the members of Kalaghatgi taluk. Similarly, during second year, it was from Hubli and Kalaghatgi taluks. In the subsequent years, default was found in other taluks also.
• Only one SHG in each taluk could not pay their savings during 2004 to 2006. However, the number of groups which could not pay the savings increased during 2007 and 2008.

4) Group fund

• The amount of groups fund mobilized by the groups shows an increasing trend throughout the study period. From Rs. 5261 (2003), it has reached to Rs. 107664 (2008).

• Hubli taluk has mobilized maximum amount of group fund during the entire study period. It is followed by Dharwad and Kundagol taluks. However, Kalaghatgi and Kundagol taluks have not maintained any improvements in their growth rates during the study period.

• The number of groups creating group funds has increased from 4 to 10 in Dharwad taluk, 3 to 9 in Hubli, 4 to 12 in Kalaghatgi, 3 to 12 in Kundagol and 3 to 15 in Navalund taluk.

• Hubli taluk has shown maximum improvements in the sphere of group fund. From Rs. 420 in 2003, it has reached to Rs. 4077 (2008), Dharwad taluk is next to Hubli taluk.

5) Interest on internal lending

• The interest on internal lending has increased from Rs. 12900 (2003) to Rs. 253077 (2008). There has been a consistent growth during the first two years i.e., 82.17 (2004) and 107.66 (2005).
But, there has been a marginal decline in 2006 (101.02). Growth rate further came down to 71.99 (2007) and 50% (2008).

- From 2003 to 2005, the groups of Navalgund taluk paid the highest interest on internal lending. During 2006 to 2008, the groups of Kundagol taluk paid more interest. It is followed by SHGs of Hubli, Dharwad and Kalaghatgi taluks.

- Average amount of interest on internal lending is the highest in Navalgund taluk, it is followed by Kundagol, Dharwad, Hubli and Kalaghatgi taluks.

B. External financial resources

1) Loan from banks

- The borrowing from banks by SHGs has increased from Rs. 52000 (2003) to Rs. 486782 (2008).

- Kundagol taluk has obtained more amounts during the study period. It is followed by Hubli, Dharwad, Kalaghatgi and Navalgund taluks.

- The average loan obtained is the highest in case of Kalaghatgi, followed by Navalgund, Kundagol, Dharwad and Hubli taluks.

- The number of SHGs borrowing in each taluk is not consistent. In case of Kundagol and Hubli taluks, the number of SHGs borrowings from banks is increasing in Dharwad taluk. This number is consistent except during 2006. Similarly in other taluks, borrowing from banks has remained constant.
2) Loans from NGOs

- The role of NGOs in extending financial support is not as significant as that of commercial banks. During the entire study period, SHGs have obtained loans from NGOs only for three times.

- Kalaghatgi and Navalgund taluks have obtained loan from NGOs for two times. The SHGs of Dharwad, Hubli and Kundagol taluks have borrowed funds from NGOs only once during the study period.

- The number of SHGs, which have borrowed from NGOs is only 1 in Kundagol taluk, followed by 2 and 3 in case of Kalaghatgi taluk. In other taluks, the number of groups borrowings from NGOs ranges between 4 and 5.

- The average loan obtained by SHGs of Kundagol taluk is the highest (Rs. 10000). This amount ranges between Rs. 8000 to 9000 in Navalgund taluk, Rs. 5000 to Rs. 7000 in Kalaghatgi, and Rs. 6000 to Rs. 7500 in Hubli and Dharwad taluks,

3) Revolving fund

- During of first three years, no SHGs in any of the taluks could seek assistance under the revolving fund. In 2006, an assistance of Rs. 50000 was sought which was further reduced to Rs. 37000 in the following year.
• During 2006, Kundagol and Navalgund taluks utilized assistance of revolving fund. In the subsequent year (2007), Hubli, Kalaghatgi and Kundagol taluks have utilized the assistance.

• During 2006, 10 SHGs of Kundagol and 4 SHGs of Navalgund taluk have utilized revolving fund. In the subsequent years, 3 SHGs in Hubli and 1 each in Kalaghatgi and Kundagol taluks have utilized revolving fund.

4) Grants, donations from Govt. departments

• SHGs have received grants/donations during three years (2005-2007). This amounts to Rs. 20000 in 2005, Rs. 39000 in 2006. Further, the receipts of grants and donations decreased to Rs. 10000 in 2007.

• SHGs of Hubli taluk alone received grants/donations from Govt. during 2005. Similarly, the SHGs of Dharwad, Kundagol and Navalgund taluks got this assistance during 2006.

• The average assistance amounts to Rs. 1000 during 2005. In the next year (2006), two SHGs each in Dharwad and Kundagol and one SHG in Navalgund taluk got the grants and donations.

III. Credit management in SHGs

1) Distance between banks and SHG place.

About 85% of the SHGs covered under the study are spread within distance of 3 kms to the banks. Remaining 15% cases, the SHGs are away from banks for about 4 kms.
2) **Frequency of visits to banks for availing loans**

About 42% of SHGs visited banks for 2 times and about 27.50% of groups visited the banks for 3 times for obtaining the loans from banks.

3) **Expenses incurred**

About 85% of the responses of the SHGs regarding the expenses incurred are attributed to application fees and transport expenses. Remaining 15% of responses relates to tea, meals and other expenses.

4) **Purpose of loan sanction**

In case of Dharwad and Kundagol taluks, about 75% of the loans is for consumption purposes and the remaining 25% is for production purposes. In case of Hubli and Kalaghatgi taluks, SHGs have obtained credit for production purposes. In Navalgund taluk, the distribution is 62.50% for production and 37.50% for consumption purposes.

5) **Basis of loan sanction**

All the SHGs leaders covered under the study (100%) opined that, the banks provide loans to the groups only on group basis and not on individual basis.

6) **Difficulty in getting loans**

Delay in sanctioning the loans (42.98%) was one of the major difficulties which the groups faced while obtaining loans from banks. Second difficulty is the inadequacy of loans (26.32%) received from banks.
7) **Collateral security in sanctioning loans**

Great majority of the groups (92.50%) opined that banks provide collateral free loans to SHGs. Only few groups (7.50%) opined that banks provide loans with collateral security.

8) **Amount of credit provided at the initial stage**

About 30% of SHGs have got minimum credit amount within the range of Rs. 200 to 500. An equal number of SHGs have obtained minimum credit within the range of Rs. 800 to 1000. A very few (5%) have got a credit below Rs. 200 and about 10% have got credit exceeding Rs. 1200.

9) **Amount of credit provided at present**

- About 35% of SHGs are currently getting a minimum credit within the range of Rs. 1200 to 1500. This is followed by a credit range of Rs. 500 to 1000 and Rs. 1000 to 2000 by about 5% of the SHGs covered under the study.

IV. Impact of micro-finance on the socio-economic conditions of members

A. Economic impact of micro-finance

1) **Domestic utilities owned by the members**

About 28% of members had owned the domestic utilities such as TV, radio, tape recorder etc. before becoming the members of SHGs. After becoming the members of SHGs, about 72% of the numbers owned such domestic utilities.
2) Live assets owned by the members

There were only about 4% of members who had owned the live assets such as bullocks, cows, buffaloes, goats etc. before becoming the members of SHGs. After becoming the members of SHGs, about 96% of members owned such live assets.

3) Agricultural assets owned by the members

Before becoming the members of SHGs only 5% of members had owned the agricultural assets such as bullocks, cows, spray machines etc. After becoming members of SHGs, about 95% of members owned such agricultural assets.

4) Financial assets owned by the members

During pre-formation period, the percentage of financial assets owned by members is nil. During the post-formation period, 100% of members owned such financial assets. The percentage of investment made in company shares by the sample households in pre-formation and post-formation stage is nil in all taluks.

B. Social impact of micro-finance

1) Impact on change in social activities

There were only 14% of members who used to go to market, Govt. Offices, NGOs etc. before becoming members of the SHG. After becoming members of SHG, about 86% of members are going to market, schools, Govt. Offices etc.
2) Impact on the ability to take important decisions

There were only about 5% of members who had involved themselves in taking important decisions such as major repairs, purchase of cows, purchase of land, children's education etc. before becoming members of SHG. After becoming members of SHG, about 95% of members have taken active part in decision making process.

C. Political impact of micro-finance

There were only about 15.17% of members who were involved in political affairs in pre-formation of groups. After becoming members of SHGs, about 84.83% of members have actively involved in political affairs. The percentage of members who participated in community development programmes, protesting against their husband, protesting against child-marriage, divorce etc. in pre-formation is nil in Dharwad, Hubli and Navalgund taluks.

SUGGESTIONS

The following are the major suggestions recommended for improving the performance of SHGs in their chosen area of operations as well as uplifting the socio-economic and political status of the members of these SHGs.

1. Promotion of literacy among members

In order to make SHG effective in functioning, there is a need for all members to understand the basics of finance and working of SHGs. But, illiteracy among members stands in the way of members to give
their fullest to group functioning and taking up the responsibility relating to working of SHGs. Thus, there is a need for linkages at the national and state level to make literacy as an integral part of SHGs. The groups could be linked to literacy programmes run by government and NGOs in villages.

2. Selection of group leaders

The role of leaders is very important in informal groups. The SHG leaders are responsible for convening meetings, collecting regular savings amount of members, deciding and sanctioning loan etc. The leaders also maintain savings and repayment accounts of each member. For smooth functioning of SHG and maintaining accounts qualification/ knowledge, but not on the basis of any political or economic criteria.

3. Compulsory training to leaders and members

The great majority of members of SHGs are illiterate. Hence, training to members and group leaders is equally important for groups' sustainability. The training for leaders should be focused on the role and responsibilities of leaders with regard to group functioning. Similarly, all the SHG members need a thorough training on how a group functions and particular emphasis need to be given on financial management of the group. Utilization of micro-credit through SHGs can be successful, if the members are provided training on micro-enterprises like pickle making, jam preparation and dry food making etc.
4. Mandatory attendance to meetings

In order to inculcate a regular habit of attending the meetings, some incentives may be offered in the form of annual rewards, and gifts. Further, such of these members who are regularly attending in the groups' meeting may also be offered additional amount in the internal lending.

5. Transparency in maintenance of records

In order to ensure sustainability of the SHGs, and to promote effective functioning and their linkages, there should be a complete transparency in the books of accounts maintained at the group level. These books should reflect the position of deposits in members accounts, interest paid on savings, ever greening of loan accounts etc.

6) Mobilization of savings

The amount of savings mobilized by SHGs on weekly/monthly basis is very meager. Hence, members of SHGs should be more active, enthusiastic and dynamic to mobilize more savings by group actions. In this process, NGOs and banks should act as facilitators and motivators. Mobilization of enhanced savings helps the groups to minimize their borrowings from external sources such as banks, money lenders etc.

7) Creation of group and common fund

Apart from mobilizing savings on weekly/monthly basis, SHGs need to generate a group fund and common fund out of small savings
by curtailing the unproductive expenditures such as medical expenditure, educational expenditure etc. The funds so created are used for meeting small and emergency needs such as medical expenses, marriage expenses etc. The funds so created definitely helps the SHGs by capacitating them investing in productive purposes such as petty business, poultry, dairy, pickle industries etc.

8) Reduction in rate of interest

Huge amount of money is required for investing in income generating activities such as purchase of land, dairy, poultry etc. For this purpose, groups borrow loans from banks. But, banks charge high rate of interest. This is the burden to the members of groups. Hence, banks should reduce rate of interest on loans.

9) Proper credit management

Before sanctioning loan to a particular member, group leaders should make a proper plan regarding necessity of credit, purpose of credit and proper utilization of credit etc.

10) Collateral free assistance

If size of the business is large, banks insist on collateral securities. But, irrespective of size of the business, banks should provide loans without any collateral security. If banks start asking for collateral it will defeat the very purpose of philosophy of micro-finance.
11) Adequate, timely and hassle-free finance by banks/MFIs to SHGs

The SHGs face many difficulties while getting credit from banks. These difficulties include delay in getting loan, inadequacy of loan, complicated procedures etc. Therefore the banks/MFIs should adopt a liberal and flexible approach that would minimize the time taken for documentation and other formalities. Similarly, the banks/MFIs should provide adequate and timely credit which would enable the group members to invest in income generating activities at the required time and improve the economic conditions. Further, SHGs are expected to incur various expenses such as application fees, traveling expenses etc. for obtaining loans. As far as possible, the expenses incurred for obtaining loan from banks should be few and reasonable.

12. Improving the economic conditions of members

The enquiry on impact of micro-finance on socio-economic and political conditions has shown a positive transformation. In other words, the micro-finance has directly contributed for the increasing economic, social and political conditions of the members. However, following are the areas which further require attention of the micro-finance institutions in general and SHGs in particular, so as to promote the economic, social and political conditions of the members:

- Assistance for domestic utilities such as scooters, sewing machines, and electric gas.

- Assistance for live assets such as sheep, goats, poultry etc.
• Assistance for agricultural assets such as pump sets and spray machines.

• Assistance for building the financial assets such as bank deposits and company shares.

13. Improving the social conditions of the members

The following are the areas which require the attention of SHGs in promoting the social conditions of members:

• Active part in AIR programmes

• Participation in public functions.

• Undertaking social campaigns.

• Discouraging child marriages.

14. Improving the political conditions of members

SHGs need to take care of the following aspects so as to enhance the political conditions of their members:

• Participation in elections

• Banning the usage of alcohol

15. Concerted action

The success of micro-finance system in eradicating poverty is possible only when the banks, micro-finance institutions, NGOs and SHGs work in a mutually supporting and co-ordinated manner. Above all the regulatory machinery should also be positively geared to this noble cause.
Other suggestions

While conducting the survey on SHGs some of the interesting issues were noticed (These issues were, however, not covered in the questionnaires). For the overall strengthening of the microfinance system, the following other suggestions are recommended:

• The SHGs should lend only to its members and not to the outsiders.

• SHGs should not be formed just for the purpose of availing of subsidy from the government.

• SHGs should keep themselves away from political interference

All these suggestions would go a long way in strengthening the microfinance system in general and help groups in mobilization of resources, management of credit and promote the socio-economic wellbeing of their members in particular.

Directions for future research

After having conducted this research with an emphasis on the group formation and its functioning, mobilization of financial resources, credit management, impact of micro-finance on socio-economic conditions of members of groups, the researcher found out that the following issues can be considered by the future researchers in the area of finance:
1. Sustainability of SHGs
2. Diagnostic studies on Failure of SHGs
3. Financial literacy among SHG members
4. Comparative studies on lending models
5. Multiple lending by banks and MFIs
6. Accessibility of financial and non-financial services by groups
7. Studies on insurance services to members through SHGs
8. Labour sharing models in agro-based SHGs
9. An enquiry into interest rate differentials between banks/MFIs–SHGs, SHGs-SHGs, SHGs-Members
10. Training on credit management to leaders of SHGs

Further studies on the aforesaid issues would make the micro-finance system more vibrant and stronger that would help transform the socio-economic and political conditions of the members.