A CRITICAL STUDY OF SELF-HELP GROUPS AND THEIR MICROFINANCE ACTIVITY IN THANE CITY

SYNOPSIS OF THE THESIS

TO BE SUBMITTED FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ECONOMICS

BY

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1. INTRODUCTION

Poverty is an all-encompassing problem and has existed in various degrees and dimensions not only in the third world countries but also in the advanced western economies such as North America and Europe. Microfinance, which was experimented as a tool to alleviate poverty in Bangladesh in the mid-seventies, is being tried in many countries of the world as a policy tool to alleviate poverty and to achieve other millennium development goals.

In India, the formal microfinance movement started with the Self Employed Women’s Association’s (SEWA) foray into micro banking services in 1974. It was followed by the experiments in group lending by the National Bank for Agriculture and Rural Development (NABARD) and the Mysore Resettlement and Development Authority (MYRADA) in 1986-87 with their Self-Help Groups Bank Linkage Programme (SBLP). Since then it has spread all over India emerging in the shape of different models such as the Non-government organisation-Microfinance institutions (NGO-MFI) model, SBLP model, Individual Banking model and the Bank Partnership model. In Andhra Pradesh, the leading state in microfinance activity in India, with concentration of one third of the country’s microfinance institutions (MFIs), there were 20 million microfinance clients in 2008-09 having been financed to the tune of Rs.123 billion (Srinivasan, 2009). The other states having a large number of microfinance clients are Karnataka and Tamil Nadu. In
Eastern states of India microfinance activity has yet to pick up. For conceptual clarity it will be pertinent to define the term microfinance.

Robinson (2001) defines microfinance as:

Micro finance refers to small scale financial services- primarily credit and savings- provided to people who farm or fish or herd; who operate small or micro enterprises or micro enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban.

The National Bank for Agriculture and Rural Development (NABARD, 1999) defines microfinance as:

The provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban and urban areas for enabling them to raise their income levels and improve their living standards.

On the basis of definitions, we can infer that micro finance has the following important features:

- Very small loans to poor people in rural and urban areas
- Loans are given without any collateral
- Formation of borrowers’ groups such as Self-Help groups
- Loans for income generating activities to mitigate poverty
- Encouraging thrift
- Privatization through mechanism of NGOs over disbursement, terms and conditions attached to loans.
Micro credit and microfinance are often used interchangeably but they are different from each other with respect to their scope. While micro credit means provision of small loans, microfinance encompasses provision of credit, savings, money transfers and insurance at a micro level. Initially, microfinance emerged in the form of micro credit in Bangladesh with the establishment of the Grameen Bank in 1976. The credit delivery was through the joint liability groups of five people (JLGs). In India, the NABARD-MYRADA (Mysore Resettlement and Development Authority) experiment used self-help groups (SHGs) for delivery of micro credit for the SHG Bank Linage Project (SLBP) in 1986-87.

Savings help the savers to meet their life cycle needs and to meet the lumpy expenditures in short, medium or long term (Morduch, Armendariz, 2005). Inclusive growth requires that everyone should have access to reliable and safe methods of savings. In spite of the RBI’s mandatory priority sector directions, the commercial banks in India kept the small savers away from opening their savings accounts by keeping minimum balance requirements citing high transaction costs of such accounts as a reason. Due to the recent policy changes introduced by the RBI, the commercial banks are required to provide for opening of zero-balance accounts to the financially excluded. Self-help groups (SHGs) inculcate habit of savings and indirectly provide them access to formal banking services as the regular contributions of SHGs are deposited in SHG accounts in banks.

Micro insurance provides protection to the poor households against future contingencies such as accidents, sickness in the family or death of the bread winner or loss of assets due to natural calamities. Micro insurance is still in a nascent stage in India and 90% of the population is excluded from insurance (Rajivan, 2008). It still remains ‘to be sold’ rather
than ‘to be bought’ product. Micro finance organisations such as SEWA, Mann Deshi Mahila Sahakari Bank in Satara district of Maharashtra, Basix, Ujjivan, ICICI Lombard, IFFCO-Tokyo, United India Assurance, Life Insurance Corporation of India (LIC), Dhan foundation (MFI) and Agricultural Insurance Corporation of India (AICI) provide various micro insurance products charging a small premium from SHG households. The Micro Finance Bill 2007, recently approved by the Union Cabinet includes various provisions for pension and insurance services which will give a boost to this sector.

In India, a large number of migrants criss-cross the country for livelihood and need reliable, cheap and fast money transfer services. The traditional money transfer services such as a money order (MO) is expensive and slow in transferring money. Adhikar, an MFI in Orissa provides micro remittance services in three districts of Orissa, Surat and Gandhidham for speedy remittances of migrants to their native towns (www.adhikarindia.org).

2. STATEMENT OF THE PROBLEM

There are certain key characteristics of the urban poor with regard to their credit needs. Majority of them work as casual labour in the informal sector as hawkers, home-based producers and manual labour such as housemaids. Their credit needs often arise out of uncertain earnings and consequent disruptions in their cash flow, medical emergencies, household needs and extortions by lawful or unlawful actors (Gaiha, 2005). Lack of documented data about the socio-economic profile of urban SHGs in Thane city and the factors that have revolutionised SHG activity in the city make an interesting case to study them at length. Thus the study taken up to explore the SHGs in Thane city can be stated as:
“A Critical Study of Self-Help Groups and Their Microfinance Activity in Thane City”

3. OBJECTIVES

The present study is conducted to achieve the following objectives:

1. To examine the organisational structure, functioning and performance of the Self Help Groups (SHGs) promoted by the government or non-government entities and analyse the socio-economic profile of SHG members, their contribution to thrift and use of micro credit for income generation or other household needs.

2. To study the socio-economic impact of activities of SHGs on their members and a comparative study of impact of activities of the SHG Promoting Institutions (SHPIs) on perceived socio economic empowerment of the SHG members.

3. To study the extent of use of other micro products like micro insurance and micro remittances by the SHGs.

4. To suggest appropriate policy interventions to the stakeholders such as government, SHPIs, local bodies and banks on the basis of this study.

4. HYPOTHESES

The guiding hypotheses for the study are:

1. There is no significant difference in the socio economic profile of SHG members affiliated to various SHPIs.
2. There is no significant difference in the functioning of SHGs promoted by various SHPIs.

3. There is no significant difference in the socio economic impact of SHG membership on the members across various SHPIs.

4. There is no significant difference in the use of other microproducts such as micro insurance and micro remittances by the SHG members across various SHPIs.

These hypotheses are tested with empirical data in the present study.

5. RESEARCH METHODOLOGY

The research methodology used in the present study conforms to the objectives and the underlying hypotheses of the study. Microfinance and self-help groups have been associated to the rural milieu and a plethora of studies have been conducted to examine them from various angles. In urban areas, rotating savings and credit associations (ROSCAS) are characteristically quite close to SHGs. There is little clarity about the origin of SHGs in Thane city, but one can say groups in the form of ROSCAS or Bishis, that are similar to SHGs, have existed here since many years. Apparently, SHGs came into existence in Thane city in their present form from 1998-99 onwards when the Thane Municipal Corporation (TMC) motivated poor women both from below poverty line (BPL) and above poverty line (APL) households to form groups to implement the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) scheme of the central government. The TMC’s records indicate that the SHG movement started in 1998-99 and gained momentum from 2000 onwards. While there are a few studies on SHGs in urban areas in South India, the Mecca of Micro finance institutions (MFIs) and Northern India and a few studies on
SHGs in rural Maharashtra by Appadurai (2001), Thyagarajan et al. (2005), Gaiha (2007), Poonacha (2008), Sunny et al. (2010) and Kamdar (2005) in Mumbai, there is little documented data on SHGs operational in Thane city. This lacuna in the availability of data pertaining to SHGs in Thane city was the main motivation for undertaking thorough primary data collection.

To describe the socio-economic profile of SHGs, structured questionnaire containing open-ended and close-ended questions was used along with personal interviews and focus group discussions with the SHG members under the aegis of different self-help groups promoting institutions (SHPIs) to collect relevant data. Meetings held with the SHPI representatives and government officials who have been instrumental in promoting these SHGs have been a good source of information and related data about these SHGs.

The research design adopted in the study is exploratory, descriptive and quasi experimental (Casly and Lury, 1982) with some element of snowball sampling. The absence of relevant documented literature about the SHGs of Thane city and the awareness about SHG activity in the Thane city provided motivation to explore the factors that have led to the formation of these SHGs, the socio-economic profile of the SHG members, the institutions promoting them and the impact of SHG membership on its members. A pilot survey was conducted to assess the magnitude of the SHG activity in Thane city.

Since the list of SHGs prepared by the Community Welfare Department (department for registration of SHGs) of TMC was incomplete, respondents from various SHGs helped in
contacting other SHGs from their area due to which the sampling design has a streak of snowball sampling.

The pilot survey helped in widening the scope of the study as it not only facilitated preliminary study of SHGs and data collection, but also provided insightful information about SHGs’ network in the city. Stratified random sampling is used to select a sample of 340 respondents and the strata were based on geographical and SHPI considerations. The sample contains SHGs which were promoted with the guidance of some social workers but are not affiliated to any SHPI, SHGs promoted by NGOs such as Community Outreach Programme (CORP), Shivai Mahila Mandal and Reach Education for All Programme (REAP). These SHGs are spread across the Thane city i.e. from the Thane city check post to the southern part of the city where it joins the western suburbs via Ghodbunder road. While selecting the sample care is taken to cover maximum geographical area, inclusion of various strata on the basis of socio-economic factors and inclusion of SHGs promoted by various SHPIs.

**TABLE 5.1: DETAILS OF THE SAMPLE SURVEY**

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Respondents</th>
<th>No. of SHGs</th>
<th>No. of SHPIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-affiliated</td>
<td>200</td>
<td>33</td>
<td>-</td>
</tr>
<tr>
<td>REAP</td>
<td>97</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Shivai &amp; CORP</td>
<td>9</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>TMC SJSRY</td>
<td>34</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>340</strong></td>
<td><strong>51</strong></td>
<td><strong>3</strong></td>
</tr>
</tbody>
</table>

Source: Sample data

There are certain limitations of the study. Majority of the respondents are employed as housemaids who had little time and energy left after grueling manual work of the day,
were hesitant to provide correct answers to personal queries such as details about their monthly income and expenditure incurred on various heads. Often income from house rent, tailoring business or other income generating activity run from home was not revealed. Thus reliability of data presented in the study is subject to accuracy of information provided by the respondents. However, excepting some estimation, efforts were made to extract information as far as possible through cross-questioning the respondents.

The choice of statistical tools for data analysis depends on the objectives of the study. Most of the variables used for analysing socio-economic profile across various SHPIs are nominal (categorical) variables. Hence the Chi square test of independence is considered the most suitable statistical technique for examining the difference in socio-economic profile of members of SHGs across various SHPIs. To examine the difference in the mean scores of income, expenditure, savings, age and education level (continuous variables) of SHG households across SHPIs one way analysis of variance (ANOVA) has been used. ANOVA is a technique for testing the hypothesis that sample means of several groups are derived from the same population and the computation compares the variances among the means to the variances within the samples.

To study the inter-relationship of variables such as education and the level of income, economic empowerment and social empowerment, age and empowerment, income and savings, Pearson’s correlation technique has been used. To examine the impact of age and education on empowerment of the members of SHGs, multivariate regression analysis has been used. To assess the socio economic impact of SHG membership on members Poisson regression analysis is used. It is sometimes also known as a log-linear
model, especially when used to model contingency tables. The impact determining variables are binary variables and the response variable is a count variable in the study. When the response variable is in the form of a count another constraint is faced. Counts are all positive integers and for rare events the Poisson distribution is more appropriate since the Poisson mean > 0. The logarithm of the response variable is linked to a linear function of explanatory variables such that:

$$\log e(Y) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \ldots + \beta_n X_n.$$  

In other words the typical Poisson regression model expresses the log outcome rate as a linear function of a set of predictors.

Thus while espousing the research methods used in the data analysis utmost care has been taken to select such statistical techniques which eliminate researcher’s bias and provide a fair synopsis of the problem under study.

6. CHAPTER SCHEME

Following the logical flow of thought and the objectives the present study is presented in seven chapters.
6.1 CHAPTER ONE: INTRODUCTION

The first chapter introduces the subject of research undertaken, providing an overview of the whole study. It contains the background of the study and definitions of the terminology used. The statement and objectives of the study clearly explain the purpose of the research project undertaken. It briefs the reader about the area of research, hypotheses to be tested, the research methodology used and the chapter plan.

6.2 CHAPTER TWO: HISTORICAL PERSPECTIVE

Any research project has backward and forward linkages and the backward linkages are best explained by the history throwing light on its evolution. Second chapter in the present study discusses in detail evolution of microfinance in various continents of the world. The historical perspective prepares the backdrop of the study and is justified.

Microfinance has evolved from an informal beginning in the eighteenth and nineteenth century as a type of banking for the poor juxtaposed to the commercial and private banking sector all over the world. In India it existed in the form of “chit funds”, in South Africa in the form of savings and credit groups known as “susus”, “tandas” in Mexico, “arisan” in Indonesia, “cheetu” in Sri Lanka, “tontines” in West Africa, “hui” in China, “paluwagan” in the Philippines and “pasanaku” in Bolivia, as well as numerous saving clubs and burial societies found all over the world (Seibel, 2005).

History of microfinance in Ireland and Germany is unique amongst all European countries. In Ireland, it evolved over a century from 1720 to 1820 as a case of self-help financial innovation, rapid growth backed by conducive legal backing in 1823 and
decline due to adverse regulation instigated by competing commercial banks in 1843 (Seibel, 2005). In Germany, it evolved in the later part of the eighteenth century. Initially thrift societies were established in 1778 in Hamburg followed by the establishment of savings fund in 1801 (Seibel, 2005). As the savings swelled it was used for lending to the farmers. In 1884 these saving banks formed the German Savings Bank Association. The second microfinance movement started in the hunger year of 1846-47 due to famine and wide spread starvation among the farmers. Two altruistic men, Friedrich Wilhelm Raiffeisen and Schulze Delitzsch contributed in this situation in rural and urban areas respectively. Raiffeisen established a rural charity association with the help of some wealthy people in 1847 in rural areas and Schulze Delitzsch established savings and credit cooperatives in urban areas without any charity and insisted on self-help to assist famine affected people in 1850. In 1889 credit associations in rural and urban areas were brought under legislation by passing the first cooperative law, the Cooperative Act of the German Reich.

In rest of the western European countries such as United Kingdom, Austria, Italy, Denmark, Sweden, Norway, Portugal, Luxemburg and the Netherlands, microfinance has evolved recently. Microfinance in Africa dates back to sixteenth century (Bascom, 1952) when it existed in the form of ‘esusu’ or ‘susu’ which was a rotating savings and credit association (ROSCA). In South Africa it began in 1980s with a variety of institutions such as for-profit companies, NGOs and the government playing an important role.

In Latin America pioneers of microfinance launched their innovative programmes in the 1970s and 1980s. In Southeast Asia formal microfinance began with the establishment of a private bank, Bank Dagang Bali (BDB) in Bali, Indonesia, in 1970 and attained
nationwide coverage with the restructuring of the unit desa in 1984, and local banking system of the state owned Bank Rakyat Indonesia (BRI). In Thailand the government agencies operate three microfinance programmes - The Community Development Department (CDD), The Government Saving Bank (GSB) and the Urban Community Development Office (UCDO). The Bank of Agriculture and Agricultural Credit (BAAC) receives subsidies and soft loans from donors and the government agencies and lends them to the rural poor. In Philippines microfinance is provided by NGOs, MFIs and commercial banks.

In South Asia, (Bangladesh, Pakistan, India, Sri Lanka and Nepal) informal sector financing can be traced back to the era of Kautilya (Rangarajan, 1987). In Bangladesh, it dates back to 1976 when Dr. Mohammed Yunus established the Grameen Bank. According to a study by the World Bank (2005), 86% of the 14.3 million active borrowers are served by NGO-MFIs including pioneers like the Grameen Bank and the Bangladesh Rural Agricultural Cooperatives (BRAC). In Sri Lanka 65% of micro credit is provided by the government with the Samurdhi Development Programme. In Nepal, Micro Finance Development Banks (MFDBs) provide microfinance directly (Bedson, 2009). In Pakistan, microfinance banks, rural support programmes and specialized MFIs are the key players in the microfinance sector. In China, there is a multi-layered rural finance system with Rural Credit Cooperatives (RCCs) as the major providers of micro credit.

In India, the origin of microfinance predates to two to three millenniums. It existed in the form of financial intermediation comprising lending, deposit taking and other financial services known as merchant banking during the first millennium B.C. and even beyond it.
The other forms of informal lending are - the finance provided by money lenders, traders, chit fund companies and ROSCAs which existed in India centuries earlier and even now. There is detailed review of the formal microfinance movement in India in the study.

There are various microfinance models that have evolved in India. A couple of microfinance institutions (MFIs) such as SHARE, SKS, BASIX and Ujjivan in Andhra Pradesh, Tamil Nadu and Karnataka in South India and CASHPOR in Uttar Pradesh follow the Grameen model using joint liability groups (JLGs) of around five members to provide micro credit. Some MFIs use SHGs (a group of 10 to 20 women) as their credit delivery channel. The NABARD follows three different models for delivery of credit to the rural poor. They have been discussed in detail in the study.

The government also provides micro credit through formal institutional channels such as the Regional Rural Banks (RRBs) and the Cooperative Credit Societies. It is also using SHGs as credit delivery channels for its poverty alleviation programmes such as the Swarna Jayanti Gram Swarozgar Yojana (SGSY) and the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) launched in 1997.

Microfinance plays a modest role in India with less than 5% of the poor rural households having access to microfinance as compared to 65% in Bangladesh. In 2008-09 the outreach of MFIs was 22.6 million clients with a growth of 60% over the previous year (Sriram, 2009). A crisis in Andhra Pradesh in 2006 dampened the growth of MFIs in the state when it closed down 57 branches of two of the largest MFIs in the state and the borrowers were given the impression that they need not repay MFI loans (Ghate, 2007). To further worsen the matter the Andhra Pradesh government promulgated an Ordinance
in October 2010 to regulate microfinance companies. It has curtailed the growth of MFIs and they are finding it difficult to run their business in the state due to heavy losses. Due to adverse policies of the Andhra Pradesh government many MFIs are shifting their base out of Andhra Pradesh.

The Reserve Bank of India (RBI) set up the Malegam Committee on microfinance regulation and the Microfinance Development and Regulation Bill (2007) already approved by the Union Cabinet is expected to be passed soon in the Parliament. The Malegam Committee has recommended several measures to deal with issues related to over borrowing, multiple lending, ghost borrowers and forceful recovery methods used by the MFI agents (The Economic Times, March 4, 2011). A suitable regulatory framework, innovative products, self-regulation by MFIs, appropriate governance, technology to reduce transaction costs are the key factor that can contribute to the growth of the microfinance sector.

6.3 CHAPTER THREE: REVIEW OF LITERATURE

Microfinance emerged as a parallel to the formal finance especially for the financially excluded poor households. Access to financial services such as savings and credit facilitated poor households to bridge their income and expenditure gaps. A comprehensive review of literature provides insights about the research undertaken by other researchers on the subject elucidating their opinion. Microfinance is not only about provision of small loans to the financially excluded poor households, but it also creates externalities which have become the subject matter of various impact studies undertaken by researchers all over the world. On one hand, there are studies revealing the positive
impact of microfinance such as mitigation of poverty, increase in income, expenditure and savings, betterment of health, nutrition, education, housing and above all empowerment of women. And on the other, there are studies highlighting the negative impact of microfinance such as indebtedness, increased workload of women borrowers and domestic violence. This chapter explores all these issues presented by other researchers.

6.3.1 IMPACT ON POVERTY

Microfinance evolved as a tool to provide financial services to the financially excluded poor households to meet their life cycle needs and take up income generating activities to break the vicious cycle of poverty. There are studies indicating positive as well as negative impact of microfinance on poverty alleviation which are reviewed in this section.

While studying the impact of microfinance on poverty alleviation, Rehman (1986) states that around 40% of the clients of MFIs are non-poor. Hossain (1988) finds that microfinance has a positive impact on poverty. He stresses that the Grameen Bank members had incomes about 43% higher than the target group in the control group village and about 28% higher than the target non-participants in the project villages.

Bolnick and Nelson (1990) found that microfinance participation had a positive impact on small enterprises which were labour intensive and growing but it was not uniform across sectors and target variables.
Hulme and Mosley (1996) observed positive impact of microfinance on incomes of the poor between 1988 and 1992 with an average increase of 10-12% of borrowers in Indonesia and around 30% in Bangladesh and India over the control group. Barbara MkNelly and Kathleen Stack (1996) and Coleman (1999) have found no evidence of microfinance provided by village banks in Thailand on income and assets of members.

Pitt and Khandker (1998) point out that microfinance programmes have a significant impact on the well-being of poor households and this impact is greater when credit is targeted to women. However, Morduch (1998) has criticised Khandker’s study stating that there are flaws in the data set, particularly in relation to the representative nature of the control group. Khandker (2003) finds that there is strong evidence of reduction in poverty of microfinance programme participants. He estimated that due to participation in microfinance programmes, moderate poverty among programme participants decreased by 8.5 per cent over the period of seven years and extreme poverty dropped about 18% over the same period.

Hulme and Mosley (1998) suggest that providing credit for micro enterprises is unlikely to help the poorest people to increase their incomes. However, detailed research with users has found that some design features of savings and credit schemes are able to meet the needs of very poor people. For example it was found that easy access to savings and the provision of emergency loans by SANASA Development Bank (SDB) in Sri Lanka enabled people to cope better with seasonal income fluctuations (Montgomery, 1996).
Mosley’s study (2001) in Bolivia shows that assets and income increased commensurate with initial levels of poverty, but over-leveraging may lead to vulnerability of microfinance borrowers.

Kamal Vatta (2001) noted higher rates of per capita income among micro credit programme borrowers as compared to those who did not borrow.

Dunn and Arbuckle (2001) report positive poverty reduction impact of microfinance. Chen and Snodgrass (2001) while studying the impact of microfinancial operations of Self Employed Women’s Association (SEWA) in Ahmedabad, India, report that there was significant movement in above poverty line and below poverty line clients. Burgess and Pande (2003) also remark that branch expansion programme between 1961 and 2000 in India lead to reduction in poverty through supporting activities of trade and services in the informal sector.

Arun, Imai and Annim (2006) find that microfinance by MFIs plays an important role in poverty reduction. In rural areas, households that are accessing loans for productive purposes are able to come out of poverty. In urban areas, however, microfinance helps in reducing poverty of households that are accessing loans for productive purpose or even for consumption smoothing.

V. Puhazendi and K. C. Badatya’s (2002) study in Chattisgarh, Jharkhand and Orissa points at reduction in poverty ratios. They found that in pre-SHG situation 87.8% members were below poverty line while in post-SHG situation 74.8% members were below poverty line.
Ranjula B. Swain (2011) points out that SHG membership has a positive impact on asset accumulation (a long term impact) but has potentially negative effect on current income generation.

Hulme and Arun (2011) have refuted the common belief that microfinance reaches ‘poorest of the poor’ and that all loans are taken for investment in micro enterprises. The Government of India has taken microfinance initiatives in the late nineties in the form of schemes such as the Swarna Jayanti Gram Swarojgar Yojana (SGSY) and the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) to alleviate poverty in the rural and urban areas. Oommen (1999) studied Kudumbashree programme, a Kerala government’s initiative to alleviate poverty and finds that about 51% of the households investigated became non-poor due to the programme; there is improvement in housing and awareness of various communicable and non-communicable diseases.

A study by Ranvinder Singh and Gurwinder Singh (2002) in the North Indian city of Amritsar points to poor implementation of the SJSRY scheme. Their study shows that the scheme meant for the urban poor has not helped them in becoming self-reliant and is an utter failure due to its improper implementation by the local government authorities.

A study by Priya Basu and Pradeep Srivastava (2005) on the SHG-Bank Linkage Programme (SBLP) in India holds that microfinance has a positive impact on income, employment, consumption expenditure and poverty reduction. There is positive social impact in the form of SHG women meeting bank officials. She believes that the SBLP is most suited to India as it capitalizes on the country’s vast network of rural banks.
Veena Poonacha (2008) investigated the SGSY programme in a village in Thane district of Maharashtra. She found that due to poor implementation of the SGSY it has insignificant effect on reducing poverty. However, she acknowledges the role played by the NGO Mahila Arthik Vikas Mahamandal (MAVIM) in empowering the poor village women.

Pathak and Pant (2008) have found that there is no significant difference in income of the beneficiaries of the SGSY scheme. They conducted their study in Jaunpur district of Uttar Pradesh to study the impact of the SGSY on alleviation of poverty. Ghosh et al. (2010) has similar findings in context of impact of microfinance on poverty. They believe that group participation has helped in removing poverty, improved consumption level of the families of group members, improved rate of asset creation of the families and improved women’s empowerment.

6.3.2 IMPACT ON WOMEN’S EMPOWERMENT

The concept of empowerment is topical and has undergone a perceptible change over the time. Though the term is used often in development work, but has not been defined in exact terms. The concept varies in meaning due to its use in different contexts from sociology, education and politics to community development organisations and international development organisations. Now-a-days it has become an elusive concept that escapes any attempt to define and measure it objectively (Carr et. al 1996, Brohman, 1996 and Panda 2000).

Authors such as Hashemi et al. (1996); Goetz and Gupta (1994), Hashemi and Riley (1996), Schular et al. (1997), Schular et al. (1998), Steel et al. (2001) have attempted to
study impact of microfinance on women’s empowerment in Bangladesh. All but one study have found that microfinance programme participation exerts a statistically significant impact on one or more aspects of female empowerment, such as the use of contraceptives and intra-household decision making. The only study by Goetz and Gupta (1994) shows that when the loans are controlled by male relatives, women’s ability to take decisions on investments get limited.

Montgomery et al. (1996) found that out of the first-time female borrowers, only 9% women were primary managers of their loan funded activity, while 87% played the role of ‘family partnership’. On the other hand, out of the first-time male borrowers, 33% had sole authority over the loan-funded activity, while 56% described it as a family partnership. Their findings show that access to loans did little to their management of cash within the household.

Pitt and Khandker (1995) assert that households receiving loans are better off than those not receiving any loans. Hashemi, Syed, Schuler and Riley (1996) have explored the impact of credit on a number of empowerment indicators and have found that women’s access to credit was a significant determinant of the magnitude of economic contributions reported by women.

Amin et al. (1998) using quantitative and qualitative evidence in Bangladesh show that participation in microfinance programmes among other factors is positively related to women’s empowerment.
Cheston and Kuhn (2002) point out that the ability of a woman to be empowered through access to financial services depends upon many factors - some linked to her individual situation and abilities and others depend upon her environment and the status of women as a group. They argue that increased self-confidence does not automatically lead to empowerment; it may contribute decisively to a woman’s ability and willingness to challenge the social injustices and discriminatory systems that they face. As women become financially better off their confidence and bargaining power within the household improves which indirectly leads to their empowerment.

Mallick (2002) avers that microfinance services can result in gender conflicts in Bangladesh. But Hossain (2002) rebutting Mallick’s argument says that Mallick’s assertions are immature.

Patel (2002) maintains that women’s development can be attained by improving her status and bargaining power in the economy. Gender budgeting can bring out the nature, character and content of share of development cake for them.

Holvoet (2005) finds that in a direct bank-borrower minimal credit, women do not gain much in terms of decision making power within the household. However, when the loans are channelled through women’s groups and are combined with more investment in social intermediation, substantial shift in decision making patterns is observed.

The Massachusetts Institute of Technology (MIT) study by Banerjee, Duflo, Glennerster and Kinnan (2009) found no impact of microfinance on measures of health, education or women’s decision making among the slum dwellers of Hyderabad, India.
Sinha (2010) points out that microfinance does not attract only the poor. He states that women’s empowerment manifested through their taking initiative to start a home-run enterprise and participation in village Panchayat system reflects improvement in their status but these impacts are not long lasting and significant.

6.3.3 IMPACT ON INCOME AND SAVINGS

Savings and insurance provide protection against shocks arising out of death, accidents and loss of assets due to natural calamities. Participants in microfinance programmes get an opportunity to save small amounts of money and keep it safely with their SHG.

Otero and Rhyne (1994) maintain that there is considerable evidence that poor people greatly value flexible saving services, where they can save unrestricted and often very small amounts at convenient intervals and which they can access rapidly.

Hulme and Mosley (1997) maintain that the main demand for financial services from low income Indonesians is for safe saving facilities. Similarly, in Sri Lanka, SANASA’s experience illustrates that the highest priority of poorer households for financial services is for easy withdrawal saving programmes.

The National Institute of Bank Management (NIBM, 2001) conducted a study on SHGs promoted by Maharashtra Rural Credit Project (MRCP) in four districts of Maharashtra. It found out that SHG membership has led to increase in savings of members and access to credit for various needs.
6.3.4 IMPACT ON FINANCIAL INCLUSION

Banks earlier upheld that serving the poor was not a profitable proposition for them due to which a large segment of the poor households remained financially excluded. Various studies have proved that this notion held by the banks is ill founded.

Puhazhendi (1995) studied SHGs in Karnataka and Tamil Nadu and found that the intermediation by SHGs reduced the time spent by bank personnel in identification of borrowers, documentation, follow up and recoveries thereby reducing the transaction costs of the banks by 40 per cent and of borrowers by 85 per cent.

M S Sriram (2005) mentions that many banks have found that micro finance can be a profitable business proposition. ICICI Bank has avoided entering into micro finance market directly but it has tried various partnership models with MFIs to provide microfinance in some South Indian states and Uttar Pradesh.

A study by Srinivasan (2010) on SHGs financed by the Canara Bank in 1993 in Madurai district of Tamil Nadu shows that it was a profitable business for the bank to lend to SHGs as the repayment rate was 100%.

Ravinder Yadav’s study (2010) in eight villages of Dehradun district in Uttarakhal and by the Oriental Bank of Commerce (OBC) in Hanumangarh district in Rajasthan shows that microfinance for commercial banks is profitable even under regulated interest rates. Nair et al. (2010) observe that various models of microfinance such as portfolio buy-out, partnership and on-tap securitization have worked out to be profitable for the ICICI bank. The partnership model is worked out with CASHPOR in Uttar Pradesh. The bank is
working on this model with 25 MFIs, all partners of CARE, India’s largest microfinance programme. At present the microfinance business of the ICICI bank is US$ 63 million (from 2002 to 2004) which is a small amount of its total portfolio.

Harper (2010) advocates that group based financing is more useful to MFIs and bankers as they offer economies of scale. Self-help groups serve banks as unremunerated retailers. They bridge the gap between members of their group and staff of an MFI or a bank. In case of a loan default or an overdue loan recovery due to illness of a member or other misfortune, they have to perform the role of a recovery agent, most difficult for an MFI or a bank.

It is difficult to draw comparisons among various impact studies due to heterogeneity of programmes assessed and diversity of empirical methodologies used (Brau; Woller, 2004). On the basis of methodological options, Hulme (2000) identifies three broad approaches of impact studies:

- The scientific method (principally control-group surveys)
- The humanities tradition (ethnography and other qualitative methods)
- Participatory learning and action (participatory qualitative tools that include, for example, participatory rural appraisal, rapid appraisal and farming system research).

Impact studies are highly context specific and differ due to use of different methodologies by the researchers. The fact is that microfinance movement has stirred up the conscience of thinkers and policy makers all over the world. They experimented with
it to achieve the most important objective of poverty alleviation and the rest of it accrued as bonus points in the form of empowerment, development and financial inclusion.

6.4 CHAPTER FOUR: RESEARCH METHODOLOGY

This chapter highlights the need for exploring microfinancial activities of SHGs, the choice of area under study, characteristics of the population and selection of the sample. It explains the whole process and manner in which the study is undertaken such as details about the questionnaire and other methods used for collection of primary and secondary data, the pilot survey undertaken, the parameters and sampling techniques used, choice of appropriate statistical tests applied to arrive at correct outcomes.

6.5 CHAPTER FIVE: DATA ANALYSIS AND FINDINGS

This chapter includes the survey results that form the nucleus of the research study and highlights the value added to the existing knowledge on the subject. It is divided into four parts. The first part deals with analysis of the socio economic profile of SHG households. The social profile is examined using parameters such as caste, religious affiliations, the language spoken, migration status and the number of years of stay in the city of the SHG households. Other parameters determining the social profile such as occupation status, education and literacy levels of SHG households, size of the family, number of males and females in the household, age of members of the households, number of dependents in the households, number of school going children in the household, marital status of the family members, type of family structure and their employment status have been examined to study the social profile. Social profile is important as it is an important determinant of the economic profile of the SHG households. One could observe from the
social profile of the SHG members that caste, religion and language spoken are not the important determinants in formation of groups in the urban milieu, rather the neighbourhood ties, proximity, familiarity with each other and similarity of economic status which are important determinants in formation of groups.

The economic profile is based on three primary indicators of economic status - monthly income, expenditure and savings of the SHG households. Survey results include data on other parameters to determine economic profile such as the ownership of house, type of house, house finance mechanism, availability of public utilities such as water, electricity etc.; possession of a PAN card, ration card, voter’s identity card and personal bank account indicating their financial inclusion status. Data pertaining to the SHG household members’ assets such as land at native place, possession of various assets such as cycles, motor cycles, refrigerators, mobile phones etc. necessary for urban life style has been collected for analysing economic profile of SHG households. Analysis of the socio economic profile of SHG households in the urban milieu can distinguish urban SHGs from their rural counterparts.

The second part of this chapter deals with analysis of the functioning of SHGs which is divided into five sections for a detailed examination. The first section includes analysis of survey results on the basis of parameters pertaining to their organisational structure such as year of establishment of the SHG, linkage with an SHPI, monthly contribution of SHG members towards common pool of savings, loyalty of members, caste, religion and neighbourhood factors and linkage with banks. Analysis of data on other parameters of functioning of SHGs includes the role of SHPI in formation of an SHG, method of selection of group leaders, members authorised to operate SHG account in the bank,
frequency and place of SHG meetings. The second section on analysis of the functioning of SHGs includes examination of their credit activities and is conducted on the basis of parameters such as who receives first SHG loan, the rate of interest charged, maximum amount of loan given by the SHG, duration of repayment period, number of loan cycles completed by the SHG, number of members who obtained SHG loans and the number of loan defaulters etc.

The third section on functioning of SHGs highlights the developmental role played by an SHPI for SHGs promoted and supported by them. It includes analysis of parameters such as training received by the SHG members from their SHPI for starting an income generating activity, type of productive activity started by them, financial and marketing problems faced by them and discontinuation of productive activity due to marketing problems. Data on all these variables has been collected for analysis. The fourth section of functioning of SHGs includes information on financial assistance received in the form of revolving fund by the SHG from local government bodies such as the TMC. Data regarding the receipt, amount and type of grant (cash or kind) by the SHG has been collected and analysed. The fifth section delves into an important aspect of SHGs i.e. the loans granted by them to the members for various purposes. Data related to the purpose of loan taken by the SHG members, purpose for which various cycles of loans are used and the loan cycles completed by SHGs is analysed in this section. The analysis provides useful insights into functioning of SHGs which can have policy implications.

Third part of this chapter expounds socio economic impact of SHGs on members. The economic impact is primarily manifested through increase in income, expenditure on various heads and savings of SHG households. Other parameters depicting economic
impact are purchase of assets, betterment of health and nutrition and betterment in living conditions of SHG households. Data pertaining to all these parameters has been collected and analysed to examine the economic impact of SHG membership on members.

The social impact of SHGs on members is manifested through the multi-dimensional changes brought by SHGs in the lives of SHG members empowering them to make their choices which they were not able to do earlier. Improved confidence levels, freedom to attend meetings, seminars, participate in exhibitions, civil society movements, meeting government officials, commanding respect from neighbours and in-laws, control over spouse’s addiction, decision to take loans for various life cycle needs such as education of children, sickness in the family, house improvement and starting an enterprise etc. are parameters manifesting social empowerment indicating social impact of SHG membership. Analysis of data pertaining to these parameters is included in this part of the chapter.

The **Fourth** part of this chapter elucidates use of other microfinancial services such as micro insurance and micro remittances by the SHG households. Due to lack of awareness about the availability of these products among the respondents, data on the use these services could not be collected. However, the survey results include data on monthly expenditure incurred by the SHG households on health related issues and the insurance coverage obtained by them. This analysis provides useful insights on the appetite for various insurance products which can be designed to cater to this segment of the society.
6.6 CHAPTER SIX: COMPARATIVE ANALYSIS OF SHGs

The present study attempts to comparatively analyse the self-help groups promoted and supported by different organisations and examine the developmental role, if any, played by them. This chapter is also divided into four parts following the pattern of analyses in chapter five. Survey results revealed in the first part of chapter five illustrate the socio-economic profile of SHG members and their households. In the first part of chapter six the socio-economic profile of non-affiliated SHGs and SHGs affiliated to different SHPIs is comparatively analysed using the Chi square test of significance. Since the variables used to examine the social profile of SHG members are categorical variables Chi square test of significance is considered the most suitable statistical technique. The null hypothesis that there is no significant difference in the socio-economic profile of the SHG members is tested at 95% significance level. To examine the difference in the economic profile of the SHG members, statistical technique ANOVA has been used as the variables pertaining to economic profile are continuous variables. This section also includes analysis of the health profile of SHG members across SHPIs. It comparatively illustrates the monthly expenditure incurred on health related issues, type of health services used, location of the health post, adequacy of public health services, state of the insurance coverage and the frequency of insurance premia paid by the SHG households across SHPIs.

The second part of this chapter deals with comparative analysis of the functioning of non-affiliated SHGs and SHGs affiliated to SHPI. It highlights the administrative skills of an SHPI in improving efficiency and transparency of SHGs under its aegis. The comparative analysis of functioning is based on parameters such as organisation of SHGs, frequency of holding SHG meetings, caste, religious affiliation of SHG members,
amount of monthly contribution of members, the amount of loans given to the members, 
the rate of interest charged by the SHG, purpose of loans taken by the SHG members, 
number of loan cycles completed etc. by non-affiliated SHGs or SHGs affiliated to 
SHPIs.

The third part comparatively examines socio economic impact of SHG membership on 
respondents and their households across various SHPIs. The socio economic impact 
(already analysed in chapter five on the basis of certain parameters) is exhibited through 
socio economic empowerment experienced by the SHG members explicitly or implicitly 
after joining an SHG. Statistical technique ANOVA has been used to examine whether 
there is significant difference in socio economic empowerment of SHG members across 
SHPIs. The relationship between economic and social empowerment is also examined in 
this section.

The fourth part of this chapter focuses on analysis of SHGs promoted by the Thane 
Municipal Corporation (TMC) for implementation of the SJSRY scheme of the central 
government to alleviate urban poverty and its impact on BPL households. The data 
obtained from the Department of Community Welfare of the TMC has been analysed to 
highlight the achievements/failures and lacunae in the implementation of this scheme.

6.7 CHAPTER SEVEN: MAJOR FINDINGS, POLICY IMPLICATIONS, 
RECOMMENDATIONS AND CONCLUSION

Chapter seven highlights the major findings of the study and suggests appropriate policy 
interventions for the stakeholders. It is observed that SHGs in Thane city are operating 
more like ROSCAs with the exception of a few which are based on the MFI or SHG-
Bank Linkage Model. Except SHGs promoted by the TMC for the implementation of SJSRY scheme, there are no known SHGs affiliated/non-affiliated to an SHPI in the sample which are linked to banks/MFIs for seeking financial assistance to start income generating activities. Banks are apprehensive about lending to SHGs on the pretext that in the absence of organised facilities for grading and marketing of products manufactured by SHGs, their business may not be profitable, making it difficult for banks to recover their capital.

Analysis of the socio economic profile of SHGs reveals that though majority (82%) of the SHG members are Hindus, formation of an SHG is based on neighbourhood and social ties than caste or religion of members. Less than two per cent SHGs are same caste SHGs. Majority of the SHG households across all SHPIs has been residing in the city since 20 to 30 years.

The survey results reveal that out of 31% SHGs belonging to scheduled castes (SC) category, 53% are from BPL households. One can infer from these results that poverty in India is still caste specific and in spite of a slew of measures by the government for the upliftment of the less-advantaged, there is little improvement in their status.

The socio economic profile of SHGs is statistically different across the SHPIs. On the basis of socio economic parameters such as monthly income, expenditure, living conditions etc. and empowerment, it is found that the average scores of SHGs under the aegis of NGO REAP are higher than other SHGs. On the basis of functioning of SHGs, NGO-REAP supported SHGs perform better than other SHGs which is clearly due to the proactive role played by the NGO.
The study reveals some key characteristics of the urban poor. Their credit needs arise often due to their employment in informal sector and frequent disruptions in their income stream. Another important fact about urban SHGs is that micro credit is not only sought by the BPL households but also by the APL households for various compelling needs.

The membership of an SHG is often influenced by benefits that accrue to members in the form of cash grants, opportunities to save small amount especially for those who are financially excluded, ability to seek small loans without any hassles for life cycle needs at reasonable rate of interest and not the least, getting an opportunity to socialise in the group.

It is heartening to find that the loan repayment rate among the SHG members is almost 100% and the drop-out rate of SHG members is very low especially in case of non-affiliated SHGs and SHGs from NGO REAP. However, the dropout rate among the SHGs from SJSRY scheme is 41.2% which is quite higher than other groups.

The highest percentage (86%) of SHG loans are taken for educational purpose such as payment of children’s tuition fee or capitation fee in a school. It has been observed that there is a gender dimension of these educational loans. Often the loan is taken by the members to pay male child’s tuition fee who studies in a private English medium school while the girl child is sent to a Marathi medium municipal school where girl child’s education is free.

The survey results reveal that some of the SHGs do not follow transparency norms in keeping SHG accounts. They do not provide SHG passbooks to their members and as a
result members have no idea how much amount they have saved. These SHGs have not started loan cycles in spite of completing more than one year of their functioning. It has been found that often these SHGs are promoted by women with political affiliations and members are afraid to ask their leaders about financial matters.

It is observed that SHGs face financial, infrastructural and marketing constraints in taking up and scaling up their entrepreneurial activities. They lack business acumen and in the absence of these facilities, guidance and support from an institution they become risk averse and are not able to get out of vicious cycle of poverty. Small amounts of SHG loans fulfil only their life cycle needs and are not sufficient to start an enterprise in the urban set up.

The study found that the economic impact of SHG membership is almost insignificant as except increase in small savings of members there is negligible increase in the monthly income and expenditure level of the SHG households. The social impact measured in terms of social empowerment is discernible as the members report higher levels of confidence and ability to take decisions.

The study finds various lacunae in the implementation of the central government’s poverty alleviation scheme, SJSRY by the TMC. Lack of permanent staff, facilities to conduct field surveys, motivation and dedication of the TMC staff, the scheme has not been able to achieve desired results. Often funds allocated remained unutilised or utilised on such activities which had no use for SHGs from BPL households. Other problems related to the scheme have been discussed in detail in the study.
The study finds that there is lack of awareness about other micro financial products such as micro insurance and micro remittance services among the SHG households. It is observed that neither the government bodies nor NGOs have made enough efforts to popularise these products so that they could benefit the BPL households.

On the basis of major findings of the study, policy measures to improve the functioning of SHGs have been suggested, the most important ones are briefly mentioned below:

- SHGs should be organised into federations to gain marketing capabilities for their products and have access to quality training for their members for skill development.
- The federations can have tie-ups with business houses to market their products and training institutions for capacity building.
- SHPIs should hold awareness campaigns to spread awareness about micro financial products such as micro insurance and remittances. Subscription to micro insurance can provide SHG members protection against shocks such as accidents, death and natural calamities.
- SHPIs should take necessary steps to improve transparency in the functioning of SHGs such as mandatory rotation of group leaders to avoid erosion of trust of members.
- The government organisations i.e. the TMC in this case should hold periodic vigilance checks to oversee the functioning of SHGs so that unscrupulous group leaders do not fleece innocent SHG members and wipe out their small savings.
7. CONCLUSION

Self-help groups in Thane city represent a slice of the urban poor. Promoted by different agencies (SHPIs) these SHGs display distinct socio economic profile of the urban poor. The present study is undertaken with the main objective of examining the microfinance activities of self-help groups, affiliated or non-affiliated to an SHPI in Thane city. It has been found that these SHGs operate more or less like ROSCAs except for the fact that they are registered with a government body (TMC). Unlike their counterpart in the South Indian states, they are not organised into larger federations, have limited linkage with the financial institutions such as banks or MFIs. Except for SHGs promoted by the TMC for implementation of SJSRY, the SHG-bank linkage of the majority of SHGs is limited only to depositing the thrift of SHGs in the bank. In the absence of standardised products manufactured by SHGs and assured markets for their products, survival of their business is doubtful. This is one of the main reasons that banks are shy of providing finance to them. Though some of the SHGs were established five to six years back but they have not reached a take off stage yet due to various factors coming in the way of their scaling up.

All SHGs, irrespective of their BPL or APL status, can scale up their activities if they get organised into federations, have tie-ups with financial institutions, technical institutions providing training to set up micro enterprises and business houses to gain from their business acumen in production and marketing of products. For this to happen, the government bodies, NGOs and business houses committed to corporate social responsibility have to come forward to be the torch bearers and lend their support to SHGs to break vicious cycle of poverty.
REFERENCES


