

# CHAPTER I

## INTRODUCTION AND DESIGN OF THE STUDY

### 1.1 INTRODUCTION

India lives in her 6,38,345 villages with 24 crore poor engaged in micro enterprises.<sup>1</sup> As per the Government of India's Ministry of Micro, Small and Medium Enterprises (MSES) Annual report of 2008-2009, there are 133.68 lakhs (in number) micro enterprises in India. Poverty in India is widespread with the nation estimated to have a third of the world's poor.<sup>2</sup> The credit needs and other financial services are provided to the rural masses in general and to the poor in particular through the rural financial markets comprising an unorganized sector consisting of commission agents, moneylenders, landlords and the like and an organized sector consisting of pyramid type cooperative credit institution – broadly classified into urban credit cooperatives and rural credit cooperatives. The urban credit cooperatives are also known as Urban Cooperative Banks. The urban cooperative banks aim at meeting the credit requirements of the people living in urban areas. The rural credit cooperatives may be further divided into short-term credit cooperatives and long term credit cooperatives. With regard to short term cooperatives, at the grass-root level there are Primary Agricultural Credit Societies (PACS) dealing directly with the individual borrowers. At the central level (district level) District Central Cooperative Banks (DCCB) function as a link between the primary societies and State Cooperative Apex Banks (SCB). As against the three tier structure of the short-term credit cooperatives, the long term cooperative credit structure has two tiers with many states with Primary Cooperative Agriculture and Rural Development Banks (PCARDB) at

the primary level and State Cooperative Agriculture and Rural Development Bank at the state level. At the National Level there is the NABARD to organize the Agricultural Cooperatives. Also there is National Cooperative Union of India, as an apex institution at National Level.

There is overlapping, duplication and dichotomy of functions within organized markets. The poor, however heavily depend on unorganized sector of credit like traders, landlords, moneylenders and the like.

The unorganized credit sector has a number of plus points such as prompt supply of credit, no formalities, no security or collaterals with excellent recovery results. The dark side of the unorganized credit sector is limited credit supply and exorbitant interest rates. The organized sector provides credit at a comparatively cheaper rate of interest but with a lot of hassle such as time consuming and cumbersome loaning procedures, unrealistic lending policy leading to a lot of paper work, inadequate and untimely finance, higher transaction costs both for borrowers and the lenders along with poor recovery result.

The inability of the organized sector in maximizing the outreach can be gauged from the fact that cultivators possessing assets less than Rs.5000/- still borrow 62 per cent of their total debt from informal markets.<sup>3</sup> Apparently this is mainly because of higher transaction costs involved in covering the large number of small sized loans on the one hand and the inability of the hard core poor to offer suitable / acceptable security or collaterals.

The poor recovery rate of formal rural financial markets has further aggravated the situation by impinging their already fragile viability. In order to enlarge the flow of credit to the hard-core poor, the NABARD launched a scheme of organizing them into self-help groups (SHGs) and linking the SHGs with banks, in 1992. The scheme is broadly on the

pattern devised by the Bangladesh Grameen Bank. Under the scheme, poor, preferably the women are organized in the SHGs and banks are financing these SHGs for lending money those poor who are eligible for concessional refinance from the NABARD.

There are three distinct modes to route the credit to micro enterprises. Under the first mode, banks lend directly to the SHGs for lending to micro entrepreneurs. Under the second mode, banks provide loans to the NGOs for lending to the SHGs and ultimately to the micro entrepreneurs. Under the third mode, banks extend credit to the SHGs with the NGO as the facilitator.

Keeping pace with the banks, the Government of India has taken a number of steps to alleviate the poverty of the villages. A number of programmes have been designed to augment the flow of credit to the poor with varying degrees of implicit and explicit subsidies. The main thrust of these credit programmes has been the provision of financial assistance to the poor at a concessional rate of interest coupled with capital subsidy to enable them to rise above the poverty line.

In pursuance of this policy, commercial banks are now required to provide 40 per cent of net bank credit to the priority sector, which includes agriculture and allied agricultural activities and village and cottage industries.

Certain operational issues like cumbersome procedures in sanctioning of loans and insistence on collateral securities restrict the flow of credit to the poor. The significant expansion in branch network does not appear to have taken into account the specific needs of the poor. Physical constraints and high transaction costs restrict their access to formal credit institutions.

At one stage, the co-operative credit institutions in the country were considered the only option to bridge the credit gap. However, the poor could not derive the intended benefits from the co-operatives mainly because the size of these societies was too large and people of diverse interests were grouped together. Economic and caste barriers were too strong for the people to work together as one cohesive unit.

Despite a wide network of rural bank branches in the country for implementing credit-linked poverty alleviation programmes, a large number of poor people continue to remain outside the fold of the formal banking system.

The public sector and private sector banks have not encouraged the extension of credit to the weaker sections because of inadequate securities and overdue problems. Micro-credit through self-help groups is a novel scheme introduced by the Reserve Bank of India to cater to the needs of small traders and those engaged in small business.

The micro-credit system provides for organisation of SHGs consisting of members with homogeneous economic interests. People with limited means join together as an informal group, approach the bank to raise loans individually and the security for the loans is given in the form of a collective guarantee. The banks are assured of getting back their principal amount with interest since the borrowed funds are being used for undertaking some small economic ventures. The borrowed money is never used extravagantly and so the repayment capacity of the borrowers increases. The success of such micro-credit depends largely on the confidence of the bankers on the borrowers and vice-versa.

The economic bondage between the banker and the SHGs provides an opportunity for both the bankers and the SHG members to increase the scale of borrowing. The magic of the success of micro-credit through the SHGs is the goodwill of the members. In the matter of borrowing of funds, utilisation of funds and repayment, all members have a joint accountability. Moreover, the members help one another in running their economic ventures successfully.

Though the SHGs were started in 1997 in Tamil Nadu, the concept penetrated down only in recent years. Now there is a greater amount of socio-economic emancipation among the members of the SHGs. Hence there is a need for evaluating the social and economic impact of the SHGs on their members.

Among the various districts of Tamil Nadu, Tirunelveli District occupies a predominant position in the starting of the SHGs. In Tirunelveli district the urban centers have more rural bias and the economic activities are more agro-based. Hence the SHGs have been formed for meeting the needs of industrial and agricultural activities. As on November 2008, there were 3.78 lakh of SHGs in Tamil Nadu with a membership of 60.63 lakh. In Tirunelveli District there were 16,773 SHGs with a membership of 2, 69,014<sup>4</sup>

The present study deals with the SHGs formed in Tirunelveli district. The empirical findings of this study would pave the way for taking certain policy decisions for strengthening the SHGs and hence the study has been undertaken in Tirunelveli district.

## 1.2 STATEMENT OF THE PROBLEM

Poverty and unemployment are the twin problems faced by the developing countries. According to the Planning Commission more than one third of India's total population i.e. 320 million live below the poverty line.<sup>5</sup> Policy makers in India have realized the need for generating employment opportunities at a large scale to bring the teeming millions of its population above the poverty line. While the labour force in India is increasing in number every year, the number of unemployed is swelling and takes the form of huge backlog. As majority of the population (about 70 percent) live in rural area and many of them suffer owing to seasonal unemployment, underemployment and disguised unemployment, the Government brought out a number of schemes which aimed at generating employment. They were the Integrated Rural Development Programme (IRDP), the Training of Rural Youth for Self-employment (TRYSEM) and Development of Women and Children in Rural Areas (DWCRA), the Supply of Improved Tool Kits to Rural Artisans (SITRA), the Jawahar Rozgar Yojana (JRY) and so on. These programmes in general were aimed at providing supplementary employment opportunities, imparting skills needed for self-employment and employment through social asset creation. In 1999, the Government of India launched a single self-employment programme known as "Swarnajayanti Gram Swarozgar Yojana" (SGSY) that replaced the earlier self-employment and allied programmes. This scheme is definitely an improvement over the earlier programmes in its emphasis on decentralization and people's participation. It seeks to decentralize powers to the elected representatives of Panchayats and Gramsabha in identifying the beneficiaries and short-listing the micro enterprise activities. It encourages group approach and plans to involve the NGOs, the Banks and the other developmental sectors.

Looking at the poverty alleviation programmes over the years a clear shift is visible in the thinking of the development planners in the nature of employment to be generated. They realize the need for transition from income generation to self-employment and from self-employment to entrepreneurship development. A large number of employments can be generated only through making many people as entrepreneurs who would in turn generate employment opportunities not only for themselves but also for others.

Credit is a crucial input process of development. For historical reasons, Indian farming community failed to make huge investments in agriculture. There is an adage which says that “Indian farmer is born in debt, lives in debt and dies in debt”. In order to mitigate the problems of the farming community, the Co-operative Credit Societies Act was passed in 1904, which permitted the formation of credit societies. They provided institutional support to farmers for short, medium and long term purposes.

Subsequently, tiers at state and district levels were too conceived to strength these credit co-operatives. Apart from these cooperative institutions, nationalization of commercial banks and introduction of regional rural banks also helped in increasing credit supply to farmers. As mentioned before, by now the Indian credit cooperatives have a century long history. During this period these institutional financing agencies failed to a large extend, to meet the requirements (consumption and production) of the farmers. Some of the factors responsible for their failure are inadequate supply of credit, poor recovery, demand-supply gaps, interference by politicians, lack of monitoring, mis-utilisation of credit, problems in identification of target groups, high transaction costs, and lags in time, natural calamities and competition from informal credit agencies. A number of committees such as the Rural Banking Inquiry Committee (1949), the All India Rural Credit Survey Committee (1954), the

Committee on Co-operative Credit (1960), the All India Rural Debt and Investment Survey (1962), the All India Rural Credit Review Committee (1969), the Working Group on Rural Banks (1975), the Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development (1981), the Agricultural Review Committee (1989) and the Narasimhan Committee (1991 and 1998) were constituted by the Government of India to look into their working and made several recommendations to improve their health and functioning. Of the total credit provided by these institutions 44 per cent was met by the co-operative banks and 48 per cent by the commercial banks leaving a paltry amount by the regional rural banks.

Further, a review of the genesis and development of the SHGs in India reveals that the existing formal financial institutions have failed to provide finances to landless marginalized and disadvantaged groups. The origin of the SHGs could be traced to mutual aid in Indian village community. The Co-operatives are formal bodies whereas the SHGs are informal. The SHGs encourage savings and promote income-generating activities through small loans. The SHGs have reliability, stimulate savings and in the process help borrowers to come out of vicious circle of poverty.

In India, the financial institutions have not been able to reach the poor households particularly women in the unorganised sector. Structural rigidities and overheads led to high cost in advancing small loans.

Experience in implementing different anti-poverty and other welfare programmes has shown that the key to success lies in starting appropriate community-based organisations with participation at the grass-root level. Moreover, the group approach may be one of the

effective ways to reduce the difficulties of small businessmen and agriculturists. Motivating individual farmers, artisans and entrepreneurs to form small groups to pool their resources to handle selected operations may lead to a great success.

Participation of people in credit delivery and recovery and linking of the formal credit institutions to borrowers through the SHGs have been recognised as a supplementary mechanism for providing credit support to the rural poor. The SHGs are informal groups formed on a voluntary basis, for providing the necessary support to their members for their social and economic emancipation. These groups are distinct from the co-operative societies, mainly in terms of their size, homogeneity and functions. The Non-Governmental Organisations play an important role in preparing the members by changing their attitude to participate in-group activities.

The NABARD is a pioneer in conceptualising and implementing the concept of the SHGs through the pilot project of linking the SHGs with the banks. In 1992 the project was commenced throughout the country through a set of well-defined guidelines with special reference to the objectives, criteria for selection of SHGs, size of group, assessment of credit needs, rate of interest, repayment period and security. Efforts were also made by the NABARD to popularise the project among bankers and the NGOs by organising a series of workshops and seminars at different levels. The response from banks and the NGOs was encouraging and positive.

The distinguishing feature of the SHGs is creating social and economic awareness among the members. The social awareness enables the members to lead their lives in a sound hygienic environment and pursue a better living. The woman members involve

themselves more in taking decisions regarding the education of their children, the investment of the family, managing the economic assets of the family and bringing up cohesion among the members of the family and others for a better living.

From the economic point of view both men and women work shoulder to shoulder to increase the income of the family. Every member of the SHGs has felt the need for more involvement in economic activities. The spirit for social and economic upliftment of members is the significant contribution of each and every SHG.

There is a general tendency to consider the SHGs as a panacea for all the ills of the rural community. This is evident from the mushroom growth of self help groups in the states and also in Tirunelveli District. In Tirunelveli District, in the year 1998, the number of SHGs formed was 821. But in the year 2008 it was 16,773. In many cases it has been a blind replication of success models without considering the intricacies involved in group formation and sustainability. Hence the present study is undertaken to study the performance of SHG in Tirunelveli district. Further an attempt is also made to evaluate the social and economic benefits accruing to the members of the SHGs.

### **1.3 OBJECTIVES OF THE STUDY**

The objectives of the present study are as follows:

- i. To trace the genesis and development of SHGs in Tirunelveli District.
- ii. To evaluate the performance of the sample SHGs in Tirunelveli District selected for the study
- iii. To analyse the changes in the social conditions of the members of the self-help groups
- iv. To measure the impact of the SHGs on the economic condition of the members
- v. To analyse the attitude of the members of the SHGs towards economic impact, social impact, psychological impact and political impact and
- vi. To offer suggestions to improve the working of the SHGs.

### **1.4 REVIEW OF PREVIOUS STUDIES**

In order to understand the concept of self help groups and also to identify the areas already investigated, some of the important studies already undertaken and related to the objectives of the present study are mentioned.

Other developing countries also face similar problems in helping the poor to fight their poverty. They have also experimented with many strategies. Some of them have adopted the micro-credit strategy. Their experiences may be of relevance to us. Therefore, studies on these experiments of such countries are also discussed in this section. For better understanding, the studies undertaken have been grouped under two headings viz. studies related to foreign countries and studies related to India.

### **Studies Related to Foreign Countries**

Churchill<sup>6</sup> (1995) undertook a study entitled “Get Ahead Foundation Programme” to assess the impact of micro-enterprise credit on the small scale enterprises, on the living conditions of entrepreneurs and their families and on the benefits to the next generation in the programmes of the Get Ahead Foundation in South Africa. He points out that micro-credit has a positive impact on the monthly profit but little impact on job creation.

Pitt and Khandkar<sup>7</sup> (1995) analysed the impact of a group-based lending programme for the poor on the household behaviour in Bangladesh in their study “Gramma Bank, Bangladesh Rural Advancement Committee RD12”. They find that credit has a significant impact on boys’ schooling but not on girls’ schooling. They also note that credit to women increases woman labour supply and that credit increases women’s non-land assets and it increases expenditure on food and non-food items. The study highlights the impact of credit on boys’ schooling and expenditure on food and non-food items.

In the study entitled “The Guinea Rural Enterprise Development Project”, Creve, Ndour and Thiam<sup>8</sup> (1995) analyse the impact of enterprise providing micro-credit on participants, enterprise performance, individual income and family well-being. They have come to the following conclusions:

i) Micro-credit has a positive impact on enterprise income for repeat borrowers but no impact on assets and employment.

ii) At the household level, there is no overall impact on the household assets except on running water in houses and no impact on children's education. This study has established that micro-credit has created a positive impact on enterprise income.

Montgomery, Bhattacharya and Hulme <sup>9</sup> (1996) in their study "Government Thana Resource Development and Employment Programme (TRDEP)" analyse the impact of the credit programme on income, productivity and poverty in Bangladesh. They find that significant change in household income has led to a decrease in the percentage of expenditure on food, and that the better off among the poor benefit more from credit. To use credit effectively, the household has to reach a minimum economic level.

The study conducted by Brenda Sennott <sup>10</sup> (1996) entitled "The Success or Otherwise of Rural Financial Mobilisation in Less Developed Countries: Effectiveness of Savings club Zimbabwe in Addressing the Development Needs of the Poor" establish that an effective method of mobilisation of savings in rural areas in less developed countries is through small self-sustaining groups based at the grass-root level.

In his dissertation "Borrower Transaction Cost Credit Rationing and Segmented Market: A Study in the Rural Credit Market in Vietnam", Dat Tran <sup>11</sup> (1998) has analysed the role of borrower transaction costs in a credit rationing mechanism, and in the segmentation of the rural credit market. He concludes that the two factors, that is, regulated lending interest rate and the asymmetric information problem, are the causes of high borrower transaction costs of formal credit rationing and segmentation of rural credit market.

A study entitled “The Impact of Zaimbuko’s Micro-Enterprise Programme in Zimbabwe: Baseline Findings”, conducted by Carolyn Barnes and Ericak Cog <sup>12</sup> (1999) identifies the impact of participation in the Zaimbuko programme upon clients and their households highlight that there is great scope for ‘capturing’ the clients’ ability to save if the legal issues can be resolved. The reality of hungry seasons and periodic shortages of working capital are responsible for their poverty, which can be improved with savings and/or insurance products. Easier access to group funds could help women overcome periodic crisis and might prevent some exits.

Rein Dekker <sup>13</sup> (2001) in his study “Transaction for the Cash Economy: the Design, Description and Analysis of a Micro Finance Programme in Indigenous San Communities in Western Botswana” explores whether a culturally sensitive and participatory development programme in the form of micro credit and savings could contribute to the increase of individual and community assets as well as to improve the ability of San participants to handle the demand of cash economy, thereby increasing their social and economic self-sufficiency.

M.B. Pierre Chue, Ruth Dickson, M.D. Michael Sanderson, and Austin Mardon <sup>14</sup> (2004) in their study, “The Impact of Self Help Groups on People with Schizophrenic”, analyse that Consumer initiated and controlled Self’ Help Groups could be an effective community support to people with schizophrenia. Despite the fact it is widely acknowledged that consumer initiatives should be part of any modern health-care reform strategy, there have been a few systematic assessments of the impact of Self Help Groups and certainly no

evaluation of Self Help Groups for people with schizophrenia. Without professional involvement, most Self Help Groups collapse soon after starting.

Gupta and Davados<sup>15</sup> (1993) in their study “Micro-enterprise Development Project” attempt to evaluate the impact of micro-enterprise loans on enterprises and poverty alleviation in Jamaica. In this study they surveyed 25 assisted firms, those concentrated more on economic issues.

### **Studies Related to India**

A study by V. Puhazendhi<sup>16</sup> (1995) entitled “Transaction Costs of Lending to the Rural Poor- Non-Governmental Organisation and Self-help Groups of the Poor as Intermediaries for Banks in India” estimate the average transaction cost of lending for the banks per account at 3.68 per cent of the loan amount, if the loan is given directly to the borrower. The inter-mediation of the NGOs and the SHGs help the banks to reduce this transaction cost to an extent ranging between 21 and 41 per cent. The dynamic nature of reduction in transaction costs, because of inter-mediation, affect a downward shift of the marginal cost curve. This is possible due to the active role played by the NGOs and the SHGs in the identification of borrowers, the follow up for ensuring the end use of the loans and its recovery. This result in significant reduction in time spent by the bank staff on these functions. Among the different models of linkage, the most cost-effective transaction is the instance where banks use the SHGs as financial intermediaries. Similarly, the intermediation of the NGOs and the SHGs contribute to reducing the transaction cost of borrowers by about 85 per cent mainly due to the elimination of expenditure on documentation procedures. Such procedures are not only cumbersome but also time-consuming and costly. The

intermediation by the NGOs result in a reduction in opportunity cost to the borrowers in terms of the number of visits and the time spent on the bank premises in negotiating the loans. The intermediation of the NGOs and the SHGs also prove useful in recovery rates.

C.K.Mehrotra<sup>17</sup> (1997) has made a comparative study of the State Bank's Performance with Self-help Groups. In his view, the State Bank of India's financing scheme for Self-Help Groups has been quite encouraging. The branch officials themselves encourage the poor to form Self-Help Groups in a number of centres. They also utilise the services of the Non-Governmental Organisations for the very same purpose. He points out that with the help of the reputed Non-Governmental Organisations in states like Tamil Nadu, Kerala, Karnataka and Andhra Pradesh, good progress has been made possible by the State Bank in the Self-Help Groups schemes. He states that the Self-Help Groups have promptly repaid 80 per cent to 90 per cent of the finance given to small-scale units by the branches. To sum up, the author stresses that the self-help group is a good concept and every effort should be made to ensure its success. He also states that the self-help groups may eventually be the only viable units of source on account of low transaction cost, high percentage of recovery and mobilisation of rural savings through the informal system.

K.G. Karmakar<sup>18</sup> (1997) in his study "SHGs in Orissa: Some Conceptual Issues," studied the performance of the credit linkage of all the Self-Help Groups, the Non-Governmental Organisations and the Banks in Orissa up to March 1995. Eight Non-Governmental Organisations, 11 banks and 14 self-help groups were taken as sample for the study from the entire state in the year 1996. Structured questionnaires were used to collect data besides a field study consisting of interviews and through non-participated observations

at all self-help group levels. One of the findings showed that a few Non-Governmental Organisations started 'savings and credit programmes' to the marine fishing folk through the Self-Help Groups. For lending, they relied mostly on mobilisation of savings. Since the amount of saving is very small, the credit from the savings to the community was inadequate to meet their requirements. Loans were provided for growing crops, blacksmith's work, making of hill brooms, trading and business. Repayment was 100 per cent among the woman self-help groups. The choice of the members of the Self-Help Group was limited to a few activities only because the amount of micro-credit available was small in the initial years of the linkage programme.

Moin Qasi<sup>19</sup> (1997) in his work "Self Help Groups – A Novel Approach to Rural Development," makes an attempt to study the reasons for the linkage of members of Self-Help Groups in rural development. According to his findings, a common bond like caste, sub-caste, blood, community, and place of origin or activity linked the members of Self-Help Groups. He stated that woman Self-Help Groups are more effective than those of others and they have more chances for survival. Although social homogeneity is used in establishing these groups, the real objective is for economic factors, the author stated. The author further insisted that while providing support to self-help groups it is necessary to keep in mind the sentiments and emotional values of rural women. The support provided must be sensitive to their feelings, appropriate and timely.

Nilanjan Sengupta<sup>20</sup> (1998) in his study "Empowerment: A Socio- Psychological Approach to Self Help Groups Formation," identifies the different forms of community organisations, which involve people's participation and the role played by them for the

empowerment of these organisations. He also discusses social leaning as an empowerment strategy for increasing the participation of people at the grass-root level. Further, he gives the project design for people's participation at the grass-root level. According to him, social awareness among the group members has to be created first and then they could move towards economic empowerment. The researcher feels that to ensure the development of skills and consciousness for sustainability of any activity in the long run social and psychological empowerment is a must.

V.Puhazhendhi, and B. Jayaraman<sup>21</sup> (1999) in their work, "Increasing Women's Participation and Employment Generation among Rural Poor: An Approach Through Informal Groups" undertook a study on women's participation and employment among the rural poor through informal groups in MYRADA. (Mysore Resettlement and Development Agency). The Primary data were collected from 25 randomly selected credit management groups promoted by the Mysore Resettlement and Area Development Agency. The project areas were Chittradma District in Karnataka and Periyar District in Tamil Nadu. The analysis of the groups in different stages of development show that the share of loan for 'non-productive' purposes is reduced from 76 per cent in new groups to 43 per cent in the stabilized groups. But the share of loan for 'productive' purposes has increased from 24 per cent in new groups to 57 per cent in stabilized groups. Forty three per cent of the households state an increase in the net income of about 0.57 times during the post formation stage of the groups. The additional employment generated through informal group lending worked out to 172 days per member. The negative factors, which deterred the performance of the groups, are found to be lack of effective leadership, less involvement of non-governmental organisations and consumption-oriented loans.

Y.C. Nanda<sup>22</sup> (1999) in his study, “Linking Banks and Self-Help Groups in India and the Role of NGOs: Lessons Learned and Future Perspectives”, studied the role of linking banks, self-help groups and non-governmental organisations in India. He observes that the model non-governmental organisations which act as facilitators continue to be the most popular, since 42 per cent of the self-help groups are linked with banks by these non-governmental organisations. The analysis insists further on the need for adopting different strategies and approaches in different regions in India. The strategy for the southern regions should be the consolidation and deepening of the programme and nurturing of emerging Self-Help Group federations. For Eastern, Western and Northern regions it should be the expansion of the SHG programme through identifying and supporting new non-governmental organisations.

S. Mohanan<sup>23</sup> (2000) in his paper “Micro-Credit and Empowerment of Women: Role of NGOs,” discuss the relevance of micro-credit to women and their empowerment, considering the historical perspective of the involvement of women in the thrift and credit activity and the role of NGOs in the sphere of micro-credit. The rich experience of NGOs in the sphere of credit union and their grass-root level involvement with the poor and their problems is a potential factor that affirms their elevated role in the sphere of micro-credit. The specific task and role of the NGOs in the sphere of micro-credit can be summarised as the formation of self-help groups, nurturing of Self-Help Groups, facilitation role, mobilising resources and formation of people’s organisations.

D.Nagayya<sup>24</sup> (2000) in his paper “Micro Finance for Self-Help Groups”, has reviewed the initiatives taken at the national level with a few institutional arrangements to

support this programme for alleviation of poverty among the poor, with special focus on women.

Jay Anand<sup>25</sup> (2000) in his study entitled “Micro Finance in Kerala” studied the Community Development Society model in 1993 for the emancipation of the poor women of Alappuzha in Kerala State. It is evident from this survey that those members who have some unit activity earlier could use the micro-credit effectively for expansion/modification and they reaped the maximum benefit. In some cases, the failure of group activity has led to a financial crisis and imbalance for all the members, while it is not complex in individual activities. It is observed that a few women dominated the group.

K.G. Karmakar<sup>26</sup> (2000) in his study “Rural Credit and Self Help Groups: Micro Finance Needs and Concepts in India”, examines the existing credit delivery system in India with special reference to the credit needs of the rural poor. He studies the importance of the micro-credit needs for tribal women in rural areas and the micro-enterprises in the non-farm sector in Orissa. The study focuses on the availability, credit requirements and the problems faced by the tribal people in availing of it. It is felt that the setting up of micro-enterprises particularly in the non-farm sector would go a long way in reducing poverty in rural areas. According to him, the micro-credit approach through self-help group would be the only best mechanism to deliver credit to the rural poor.

N.P.Y. Raman<sup>27</sup> (2000) in his work “Self-Help Groups – The Kerala Experiment”, shares his research experience of the Primary Agricultural Co- operative Society of Kerala with Self Help Groups. His study shows that though both the groups avail themselves of the loan for the same purpose, the recovery of loans from the self-help groups is 95 per cent to

100 per cent while it is 60 per cent to 70 per cent from the members of the Primary Agricultural Co-operative Society. The reason cited is that the members of the self-help group are to pay only a 4.5 per cent rate of interest against the usual 9.5 per cent interest after deducting the State Government incentive of 5 per cent. The low rate of interest and the government incentive make a large difference between the income and profitability of members covered under self-help groups and the others not covered by the self-help groups. The sample study shows that only 10 per cent of the members of the Primary Agricultural Co-operative Society have been brought under the concept of self-help groups. Even among these, only 60-70 per cent is actually benefited by the scheme and the rest are cultivators of crops other than food-grains, fruits and vegetables. He proves in his study that the self-help group concept has not only apparently reduced the poverty but also yields encouraging results. The self-help group concept has created further a positive impact on the functional efficiency of the Primary Agricultural Co-operative Society as well.

H.C. Sharma<sup>28</sup> (2000) in his study “Forest Policy – Role of SHGs”, studied the role of self-help groups in the development of the tribal people. According to him, self-help groups have a flexibility of approach and working but they have failed to develop a work culture, which is acknowledged by the tribal themselves. He is of the opinion that better coordination is required from the voluntary agencies and the government departments for its better performance.

K. R. Lakshmikandan<sup>29</sup> (2000) in his study titled “Self Help Groups in the Life of Rural Poor – A Philibhit Case Study,” stated that most of the membership of the Self-Help Groups consisted of small landholders and agricultural labourers. Out of the 74 Self-Help

Groups studied, 57 were women groups and 17 were men groups. The strength varied from ten to twenty and weighed heavily towards the larger figure. The SRESOC organised Self-Help Groups in that district. Among all the Self-Help Groups, only 11 were sanctioned loans successfully from the lead bank of the district, the Bank of Baroda and the amount varied from Rs.20,000/- to Rs.30,000/-. He is of the opinion that facilities for entrepreneurial development are available within the group only at the micro level when compared to the large basic functions like market study, providing resources, general production management and marketing management. The literacy rate of the members of some self-help groups has improved from five per cent to 90 per cent he stated.

N. Manimekalai and G. Rajeswari<sup>30</sup> (2000) in their work “Empowerment of Women Through Self Help Groups,” analysed the women self help groups formed by the Non-Governmental Organisations in the rural areas of Tiruchirappalli District for the purpose of promoting rural women through self-employment. The Non-Governmental Organisation namely, Society for Education and Village Action and Empowerment (SEVAE) has been working in 362 villages and helping a total of one-lakh women beneficiaries consisting of different avenues of self-employment like petty businesses, processing, production and service units.

A. Suriakanthi<sup>31</sup> (2000) in her study “Literacy – Essential for SHGs” analyses the need for literacy of the self-help group members. A random survey of 120 groups shows nearly 95 per cent of the members and 75 per cent of the office bearers are illiterate. The female office-bearers manage to carry on the activities with the help of their husbands and educated wards. They use to narrate the incidents that happen in the meetings to their

husband/ward and they prepare the report. Fifty per cent of the groups survey show that only literate members prepare the minutes and accounts on behalf of the office-bearers who are illiterate. It is found that ten per cent of the illiterate members do not even know the amount saved by them. She strongly insists on the necessity of imparting basic education to all Self-Help Groups.

S. Sundari, and N. Geetha<sup>32</sup> (2000) in their work “Poverty Credit and Micro Enterprises”, examine the gender disparity in access to institutional credit. In their opinion, the disparity is gradually narrowing down over a period of time. Hence the empowerment of poor rural women will be possible only if they are trained and imparted skills for a certain employment. According to them, skill training include enterprise development, increased access to credit, new approach to markets and social, economic and political strategies and the like.

In the study entitled “A Study on Women Self-Help Groups in Andhra Pradesh”, by Mohana Rao R.M<sup>33</sup> (2000) concluded that SHGs showed a positive impact on the households of the members in respect of building of self-confidence and social development skill and formation and social empowerment of members.

T.R. Gurumoorthy<sup>34</sup> (2002) in his work, “SHGs- Economic Empowerment Through Self – Reliance”, studied the micro-credit funding agencies and the amount sanctioned by them. Out of the 27,000 self-help groups in Tamil Nadu, 5,400 are linked with banks and the banks advance credit to them to the extent of Rs.9 crores. In his view, Self-help groups have the power to create a socio-economic revolution in the rural areas of the country. In his

opinion, members of self-help groups must be prepared to undertake entrepreneurial activities at a smaller level with minimum capital requirements.

A.P. Sebastian Titus<sup>35</sup> (2002) in his study, “Promotion of Women Entrepreneurs Through Self Help Groups”, examine the promotion of women entrepreneurs through self-help groups. According to him the women entrepreneurs who have started small enterprises expand them into large-scale units. Self-help groups have made readymade garments and export them. A woman self-help group in Dindigul District runs a unit providing agro-services with a total turnover of Rs.12 lakhs or more per annum. But most of the other Self-Help Groups are not able to reach up to the expectations. Some of the reasons cited were non-availability of funds for investment, dearth of technical and managerial skills, inability to manage the labour force, dual role burden, lack of professionalism, gender bias and the like.

T. Chiranjeevulu<sup>36</sup> (2003) in his study, “Empowering Women Through Self Help Groups”, studied the micro enterprises started by self-help groups in Warangal district (Andhra Pradesh). The micro-enterprises belong to chilly processing units. Srujana Mahilabhivridhi Upadi Mutually Aided co-operative Society was formed with a membership of 514 women. Each group raised a share capital of Rs.15, 000. The group members belonged to backward classes, scheduled castes and scheduled tribes. The researcher states that the conversion of consumption based self-help groups into entrepreneurship-oriented self-help groups led to employment generation and empowerment of women.

J. Ritu, R.K.Kushawaha, and A.K. Srivastava<sup>37</sup> (2003) in their work, “Socio-Economic Impact Through Self Help Groups”, examined the functioning of Self-Help

Groups in Kanpur Dehat District. Twenty five women from Self-Help Groups were selected as sample for the study. Ten woman members from each self-help group and ten non-members from the same village were selected as respondents, to study the impact of the self-help groups on their socio-economic status. The results show that there is relationship between the self-help groups and the socio-economic status of women.

Stephanie Janet <sup>38</sup> (2003) in her study, “ Micro Finance: Its Impact on Children and Women”, explored the type of impact that micro finance has on women and children, more specifically on women empowerment, health, nutrition, children’s education, child labour and additional income spent on children’s food, education and health.

C.K.Gariyali and S.K.Vettivel <sup>39</sup> (2004) in their study, “Women’s Own the Self Help”, found that the SHGs are not just a conduit for the loans, although loans are a critical milestone on the road map of the SHG's healthy growth and empowerment. The women often complain that they are very active initially hut due to delays in obtaining credit they become lazy. Although an alternative way of enhancing the lending channels need to be explored, the rural cooperative banking network needs to be encouraged to lend to the SHGs, which can make credit available to them at their doorsteps.

A.Venkatachalam and A.Jeyapragash<sup>40</sup> (2004) in their work, “Self Help Groups in Dindigul Distirct,” found that the total savings of the SHG members in Dindigul District amount to Rs.622.99 lakhs. The Sangha Loan sanctioned to its members is in tune of 4.3 times of savings. In words, the total amount of Sangha loan sanctioned is Rs.27.20 lakhs. The SHGs in Dindigul District have made a silent revolution for the economic empowerment of poor rural women.

C.S.Reddy <sup>41</sup> (2005) in his work, “Self Help Groups: A Key Stone of Micro Finance in India”, analyse that micro finance has evolved over the past quarter century across India into various operating forms and to varying degree of success. One such form of micro finance has been the development of the Self-Help movement. Based on the concept of "Self-Help," small groups of women have formed into groups and operate a savings-first business model whereby the members' savings are used to fund loans. The results from these Sell-Help Groups (SHGs) are promising and have become a focus of intense examinations as it is proving to be an effective method of poverty reduction.

J.M.Arul Kamaraj <sup>42</sup> (2005) in his study titled, “Self Help Groups – New Mantra for Empowerment”, says that the self help groups undertake entrepreneurial activities at smaller level with minimum capital requirements. In future, the inbuilt strength of the Self-Help Groups will pave the way to undertake mega projects, like projects performed by joint stock companies, public sector enterprise and the like the SHGs have power to create a socio-economic revolution in the rural areas India.

Smita G.Sabhlok <sup>43</sup> (2006) in her study entitled, “Self Help as a Strategy for Women’s Development in India”, says that the SHGs can make women contribute to economy. It has changed the lives of many in India. Group power has been found to be patent force in giving collective empowerment and voice to the poor women in rural areas, but has not necessarily empowered them beyond the confines of patriarchy. There is a long way to go before reorientation of power relationships, both in the household and at the societal level.

P. Loganathan and R.Asokan<sup>44</sup> (2006) in their study “Inter Regional Development of Self – Help Group in India”, found that in India, a number of SHGs were created in the 1980s for providing credit facilities to the poor, especially women, in both urban and rural areas.

M. Soundarapandian <sup>45</sup> (2006) in his study “Micro Finance for Rural Entrepreneurs Issues and Strategies”, made an attempt to analyse the growth of the SHGs and the role of microfinance in developing the rural entrepreneurship. The study suggests that though there is a positive growth rate of the SHGs in states get in terms of growth of the SHGs there is wide variation among states. Linkages of banks with the SHGs are found impossible for this variation.

Subah Singh Yadav <sup>46</sup> (2006) in his study “Self Help Group Movement in Rajasthan Bright Prospects” found that till February 2006 about 13 lakh rural poor families had access to financial services throughout the 98,500 SHGs in Rajasthan. During the last four years the SHG-Bank Linkage Programme witnessed significant progress in Rajasthan. The performance of the Government Development Department, the NGOs and the banks under the programme has been commendable.

## **1.5 SCOPE OF THE STUDY**

The present study attempts to examine the socio-economic impact of the SHGs on the beneficiaries. It examines how far the programme has helped in raising the incomes and levels of living of the rural poor women and in enabling them to cross the poverty line. The present study is from the standpoint of the SHGs and their members.

## **1.6 HYPOTHESES**

With a view to analysing the relationship between factors like tenure of existence, literacy level of the leader, size of membership of the groups and performance of the SHGs, the following null hypotheses were framed.

1. There is no significant difference in the performance of the SHGs and tenure of existence of the SHGs.
2. There is no significant difference in the performance of the SHGs and the literacy level of the leaders of the SHGs.
3. There is no significant difference in the performance of the SHGs and the size of the membership of the SHGs.

In order to analyse whether there is any significant difference in the social and the economic conditions of the members before joining the SHGs and afterwards, the following null hypotheses were framed.

1. There is no significant difference in the self-worth of the sample members before and after joining the SHGs
2. There is no significant difference in the communication skill among the sample members before and after joining the SHGs.
3. There is no significant difference in the reaction to the social evils among the sample members before and after joining the SHGs.
4. There is no significant difference in the behavioral changes of the sample members before and after joining the SHGs
5. There is no significant difference in the literacy level of the sample members before and after joining the SHGs.
6. There is no significant difference in the availing of amenities before and after joining the SHGs
7. There is no significant difference in the political impact before and after joining the SHGs.

8. There is no significant difference in the economic conditions before and after joining the SHGs.

With a view to analysing the relationship between the social factors and the attitude of the members towards economic, social, psychological and political impact the following null hypotheses have been framed.

1. There is no significant difference in the perception scores of the different groups of members classified according to their age.
2. There is no significant difference in the perception scores of the different groups of members classified according to their occupational patterns.
3. There is no significant difference in the perception scores of the different groups of members classified according to their community.
4. There is no significant difference in the perception scores of the different groups of members classified according to their marital status.
5. There is no significant difference in the perception scores of the different groups classified according to their literacy level.

## **1.7 METHODOLOGY**

### **1.7.1. COLLECTION OF DATA**

The present study is empirical in character based on the survey method. The primary data were collected from the selected SHGs with regard to their homogeneity, regularity in conducting meetings, level of attendance, participation in meetings of NGOs repayment performance, decision on financial transactions, proportion of production loan to total loan, utilisation of common fund, rate of savings and level of training with the help of a structured interview schedule vide (Appendix A). Data were also collected from members covering

various aspects such as extent of savings, level of income generation, pattern of lending, repayment performance and other details related to socio-economic development using another interview schedule (Appendix B). The secondary data were collected from the books, journals, magazines and from the records of Mahalir Thittam Office, Tirunelveli.

### **1.7.2. CONSTRUCTION OF TOOLS AND PRE-TEST**

The variables used in the study have been identified during the discussions with the officials of the NABARD, the NGOs and a preliminary interview with the selected Self-Help Groups.

The variables thus identified by the researcher were operationalised. Based on the variables identified for the study two schedules, one for the SHGs and another for the members, were drafted. The schedules so drafted were circulated among a few research scholars for a critical review with regard to wording, format and sequences. The schedules were suitably redrafted in the light of their comments. The schedule for the SHGs was pre-tested with the help of the office bearers of the SHGs. The schedule for the members of the SHGs was pre-tested with the help of 25 members. In the light of their comments the interview schedules were further modified.

### **1.7.3 SAMPLING DESIGN**

For the selection of the sample respondents, the researcher approached the NGOs functioning under the Mahalir Thittam (Plan for Women), a Government sponsored programme. Under Mahalir Thittam in Tirunelveli District, 21 NGOs have developed women self-help groups in 19 blocks. Table 1.1 shows the name of the blocks covered by the NGOs in Tirunelveli District, the number of SHGs working under each block, the number of sample SHGs selected for the study and the number of sample members selected for the study.

**TABLE 1.1**  
**Sampling Design of the Study**

Sl.No.	Name of the Block	No. of SHGs	No. of Sample SHGs Selected	No. of Members Selected	Total No. of Members Selected
1	Alangulam	801	10	3	30
2	Ambasamudram	1511	10	3	30
3	Cheranmahadevi	944	10	3	30
4	Kadayanallur	698	10	3	30
5	Kadayam	715	10	3	30
6	Kalakad	734	10	3	30
7	Keezapavoor	719	10	3	30
8	Kuruvikulam	441	10	3	30
9	Melaneelithanallur	371	10	3	30
10	Manur	833	10	3	30
11	Nanguneri	552	10	3	30
12	Palayamkottai	2310	10	3	30
13	Pappakudi	966	10	3	30
14	Radhapuram	1101	10	3	30
15	Shencottai	680	10	3	30
16	Sankarankovil	705	10	3	30
17	Tenkasi	793	10	3	30
18	Vallioor	1185	10	3	30
19	Vasudevanallur	714	10	3	30
	<b>Total</b>	<b>16773</b>	<b>190</b>		<b>570</b>

Source: Unpublished Records of Mahalir Thittam Office, Tirunelveli -2008.

From the above list of SHGs, 10 SHGs have been selected from each of the 19 blocks and from each SHGs, 3 members have been selected by adopting simple random sampling with the help of lottery method. Thus 19 blocks, 190 SHGs and 570 members were selected for the study.

#### **1.7.4. FIELDWORK AND COLLECTION OF DATA**

The researcher himself with the help of the NGOs carried out fieldwork for this study. It was undertaken for a period of six months from July 2008 to December 2008.

As stated earlier, the researcher used two interview schedules, one for the collection of data from the SHGs and the other for the collection of data from their members. The completed schedules were checked and the omissions and commissions were rectified on the spot.

#### **1.7.5. FRAMEWORK OF ANALYSIS**

The performance of the sample SHGs has been analysed with the help of 12 indicators. The responses of the office bearers of the sample SHGs for every indicator have been quantified by computing mean and standard deviation and assign the rank. For assessing the impact of the SHGs, the comparison of the position before and after joining the SHGs was made. The year 2007 – 2008 were taken as the reference year.

In order to test the significant difference in the performance scores of different groups, based on tenure of existence, literacy level of the leader of the group and the size of the membership, the Kruskal-Wallis Test has been used.

$$H = \frac{12}{N(N+1)} \left( \frac{R_1^2}{n_1} + \frac{R_2^2}{n_2} + \dots + \frac{R_k^2}{n_k} \right) - 3(N+1)$$

Where

$n_1, n_2, \dots, n_k$  are the number in each of  $k$  samples

$N = n_1 + n_2 + \dots + n_k$  and  $R_1, R_2, \dots, R_k$  are rank sums of each sample.

To study the social impact of the SHGs on their members, factors like the level of self-confidence, the behavioural changes and the participation in social life have been taken into account.

With a view to finding out whether there is any significant difference in social conditions of members between the period before and the period after joining the SHGs, the MC Nemar Test and the Sign Test were used.

#### MC Nemar Test

<i>Before Membership</i>	<i>After Membership</i>	
	<b>Do not Favour</b>	<b>Favour</b>
Favour	A	B
Do not Favour	C	D

$$\chi^2 = \frac{(|A - D| - 1)^2}{(A + D)} \text{ with d.f.} = 1$$

Sign Test

$$K = \frac{n - 1}{2} - 0.98 n$$

To study the economic impact of the SHGs on their members and factors like value of assets possessed, level of income earned by members, expenditure pattern of members and level of savings by members before and after becoming members of the SHGs have been considered.

The proportion of member households that crossed the poverty line due to their association with the SHGs was estimated. The income of Rs.23000/- was taken as the cut-off level for the reference period 2007-2008.

In order to evaluate the impact of poverty among the target group, Sens Index of poverty was used.<sup>33</sup> This helps to measure the poverty index on the income of members before and after becoming members of the SHGs.

$$P = H (I + [1 - I] G)$$

H = Head Count Ratio

I = Income Gap Ratio

G = Gini Concentration Ratio for income below poverty line.

$$H = \frac{q}{n}$$

q = refers to number of people below poverty line

n = refers to total number of members.

$$I = 1 - \frac{\bar{Y}}{Z}$$

Z = refers poverty cut-off line income below which poverty begins.

$\bar{Y}$  = Average income of people below the poverty line.

$$G^{20} = 1 + \frac{1}{n} - \frac{2}{n^2 \bar{y}} (n \cdot y_1 + (n-1) y_2 + \dots + 2 y_{n-1} + 1 y_n)$$

$\bar{y}$  = refers to mean income

$$y_1 < y_2 < y_3 \dots < y_n$$

(This formula was used after arranging the investment of the sample households in the ascending order of their income).

In order to find whether there is any significant difference in the economic conditions before and after joining the SHGs, the Sign Test was used.

In order to analyse the perception of members on the impact from the SHGs, they were asked to respond to 20 statements using Kolmogorov – Smirnov Test starting from “Strongly Agree” (5) to “Strongly Disagree”(1). These 20 statements were grouped under the following four categories:

- i. Economic Impact
- ii. Social Impact
- iii. Psychological Impact and
- iv. Political Impact

The perception scores were classified into three groups:

- i. High Perception: Scores Above (Arithmetic Mean + Standard Deviation).
- ii. Moderate Perception: Scores Ranging From (Arithmetic Mean -- Standard Deviation) to (Arithmetic Mean + Standard Deviation); and
- iii. Low Perception: Scores Less Than (Arithmetic Mean – Standard Deviation).

The sample respondents were categorized into four ranks that is to say 1, 2, 3 and 4. The ranking was done on the basis of scores of each respondent for each impact. Altogether there are four categories of impact and hence there are four ranks. The number of

respondents for each impact with ranks 1, 2, 3 and 4 is arranged in rows and the D value is applied by using the Kolmogorov – Smirnov Test.

## **1.8. PERIOD OF THE STUDY**

For collection of the secondary data on the functioning of the SHGs, ten years i.e. from 1998-99 to 2007-2008 were taken as the reference period. The required primary data were collected from the members during the year 2007-2008.

## **1.9. SCHEME OF THE REPORT**

The first chapter, “Introduction and Design of the Study”, presents the introduction, statement of the problem, review of previous studies, objectives of the study, hypotheses, scope of the study, methodology, period of the study, framework of analysis, limitations of the study and scheme of the report.

The second chapter, “Genesis and Development of the Self Help Groups in Tirunelveli District”, traces the historical background of the concept of micro-credit and the development of the SHGs. This chapter also explains the concept of SHG, characteristics of SHGs, formation and development of SHGs, role of the NABARD, role of the NGOs and the progress of the SHGs in International, in India, in Tamil Nadu and in the study area.

The third chapter, “Performance of the SHGs in Tirunelveli District”, furnishes the profile of the sample SHGs and the factors influencing their performance in Tirunelveli District. It also contains a comparison of social factors with performance indicators of the SHGs.

The fourth chapter, “Social Impact on Members of SHG”, highlights the impact of the SHGs on the social conditions of the members. It elucidates the self-confidence, behavioural changes, access to facilities and political participation.

The fifth chapter, “The Economic Impact on the Members of the SHGs”, deals with the impact of the SHGs on the economic conditions of the members. It highlights the economic impact in terms of changes in asset value, savings, borrowings, impact on income generation, poverty alleviation and employment generation.

The sixth chapter, “Perception of Members on the Impact of the SHGs”, gives the opinions of the members on the impact of the SHGs. The details such as measures of perception, extent of perception, ranking of various impact and relationship between personal variables and various impacts are given in this chapter.

The final chapter presents the summary of the findings, problems faced by the Self-Help Groups and offer various suggestions for the successful implementation of the SHG concept.

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