Chapter 1

Introduction and Methodology
INTRODUCTION

Micro finance existed in each and every society in one form or other. The origin of micro finance could be traced to the development of cooperative credit movement in Germany in the middle of 19th century. The micro finance movement is born of an idea to make poor people to be self-sufficient and create an institution to take care of themselves through their own ownership and management. Micro finance is an economic development approach that involves providing financial services through institutions to low-income households. Micro finance is providing small loans and savings facilities to those who are excluded from formal commercial financial services, and has been as a key strategy in reducing poverty in all forms all over the world. Micro finance is one of the accepted financial systems to facilitate marginalized sections of the society to strive for their wellbeing.

Micro finance (MF) in simplistic way can be termed as “banking for the poor.” Most transactions under MF involve small amount of money. MF has been claimed to be a powerful tool that can effectively address poverty, empower the socially marginalized poor and strengthen social fabric. The concept of MF essentially rests on the following three principles: self-employment is a viable alternative means of alleviating poverty; lack of access to capital assets acts as a constraint to the existing micro enterprises; and the poor are able to save despite low level of income. The concepts of micro finance and micro credit are used interchangeably, but micro credit does not include savings; hence micro finance is a more appropriate term (Manimakkalai, 2004).
Micro finance includes the entire spectrum of financial services for broad sectors of the population, but particularly for the poor. It refers not only to small and micro loans but also to savings products, insurance and money transfer. In short, MF means specialist financial institutions offering financial services to disadvantaged people at market conditions. MF refers to the entire range of financial services and non-financial services including skill upgradation and entrepreneurship development, rendered to the poor for enabling them to overcome poverty. MF is called micro but its impact on people is macro. It is a compromise between social and financial objectives. More emphasis has been on financial and institutional performance. Social performance management has been advocated for effectiveness of MF in reducing financial exclusion and poverty.

Internationally, several varieties of microfinance technologies have evolved as also a wide range of institutions. Basically, micro finance refers to small-scale financial services for both credit and deposits that are provided to people who farm, fish or operate small or micro enterprises where goods are produced, repaired, or recycled or traded; provide services; work for wages or commissions; gaining income from renting out small size of land, vehicles, draught animals or machinery and tools; and to other individuals and local groups in developing countries in both urban and rural areas (Robinson, 1998).²

Two different approaches have been identified in the evolution of MF all over the world. The Latin American model, which may be called as commercial model, emphasised the significance of allying with the formal financial systems, without a focus on social and economic development of the poor. The South
Asian model was largely drawn on the strategic and organizational features of the Grameen model in Bangladesh, with a focus on women and poverty (Christen and Drake, 2002). In Bangladesh, the innovative micro credit programmes to low-income households emerged as an anti-poverty instrument among poor rural women during 1980s. A large number of academic studies contributed to the spread of the concept of micro finance all over the world. Micro finance reached its zenith with the micro credit summit held at Washington DC in 1997.

Mayoux (1998) noted three types of approaches / paradigms to micro finance followed across countries, viz., the feminist empowerment approach, financial self-sustainability approach, and the poverty alleviation approach. The feminist empowerment approach underline concerns of gender equality and women’s human rights, and envisages promotion of micro finance as an entry point in the context of a wider strategy for women empowerment, focusing on gender awareness and feminist organization. The financial self-sustainability approach assumes that women’s access to micro finance will lead to individual economic empowerment through enabling women's role in decisions about savings and credit use, setting up micro enterprises and increasing incomes under their control. This, in turn, will lead to increased wellbeing of women and their social and political empowerment (Rhyne and Otero, 1994). The poverty alleviation approach focuses on developing sustainable livelihoods, community development and social service provisions like literacy, health care and infrastructure development (Johnson and Rogalay, 1997). Poverty alleviation and women empowerment are seen as the two sides of the same coin.
The micro finance programmes in India largely drew their inspiration from the Grameen model of Bangladesh, though there are certain differences in the structure and functions of the micro finance organizations promoted. Micro finance programmes are aimed at creating pro-poor institutions in order to exclusively deliver financial services to the poor (Fernandez, 2001 and Yunus, 1996). The effort was to create an alternative mechanism where poor could access savings, credit, insurance and other services for overcoming their vulnerability and poverty (Sylendra, 2005). The hope was that much poverty can be alleviated, fundamentally by providing financial services to low-income households.

POVERTY AND GENDER DIMENSIONS OF MICRO FINANCE

It becomes clear from the above discussion that micro finance has both poverty and gender dimensions. In the Indian context, the low status of women brings to the fore the gender dimension of poverty. The status of women continues to be low in India despite improvements in terms of increased life expectation at birth, increased age at marriage, gross enrolment ratio at all levels of education, work participation rate and organised employment, and less gap between infant mortality rate for girls and boys. With higher maternal and infant mortality rates, lower age at marriage, widespread illiteracy, higher dropout rate from schools and lower work participation rates, Indian women are one of the most disadvantaged groups in the society (Rajasekhar, 2004c). The indicators such as higher death rate up to age 34 among women than men, higher infant mortality rate among girls than boys, higher drop out rate among girls than boys in primary education, and lower literacy rate among women than men serve as a pointer to the low status of women.
The gender disparities are significant in the employment front, as evident from lower levels of skills, lower wages and lower share in organised sector among women than men. As the women shoulder the entire burden of household and child care responsibilities, most of them have little time to take up income generating activities (IGAs). Female casual labourers in rural India show the highest incidence of poverty than any other occupational category. The burden of poverty is disproportionately high among women headed households. The structures to deliver services like credit, technical advice, etc., do not reach them because of their gender bias.

**Shift in Policies and Programmes for Women Development**

There has been a gradual shift in emphasis of the government policies and programmes aimed at women development and empowerment from ‘welfare-oriented’ approach during 1960s to ‘development-oriented’ approach during 1970s. There was a multi-disciplinary approach during 1980s focusing on three core sectors of health, education and employment for the development of women. A beginning has been made during 1990s to focus on training-cum-income generation programmes for women with the ultimate objective of making them economically independent and self-reliant (GOI, 2002).\(^{11}\) The stipulation that women should form 40% of the beneficiaries under the Integrated Rural Development Programme (IRDP), currently known as Swarnajayanthi Gram Swarojgar Yojana (SGSY), gave a fillip to the focus on women in poverty alleviation programmes.

The launching of Development of Women and Children in Rural Areas (DWCRA) programme exclusively for women as a sub-programme of IRDP can be considered as an important landmark in the history of women development.
in India. The DWCRA programme envisaged the formation of 15-member women groups, which were encouraged to save Rs.30 per head per month and were provided with a loan from a local formal bank after six months to take up IGAs. Each successful repayment made the groups eligible to borrow higher amounts. The commercial banks were particularly attracted to this programme because the lending was based on the savings of women members, and larger loans were given only after the group proved itself through repayment.

The initial success of DWCRA programme together with the fact that the groups tended to function well where the NGOs were involved prompted some state governments to take up similar programmes (e.g., Stree-Shakthi in Karnataka and Kutumbasri in Kerala) with the aid of external donors, which sought to overcome certain deficiencies noticed in the implementation of DWCRA programme such as lack of orientation of project staff, inadequate staffing, poor follow-up, and insufficient linkages.

Another important development during 1990s is assigning an increasing role to the NGOs both by the government and the external donors in service provision and poverty alleviation. One of the poverty alleviation strategies popularised by the NGOs has been the delivery of micro finance services through a group-based approach. The NGOs formed Self-help Groups (SHGs) consisting of women and facilitated them to take up savings and credit activities. All these efforts influenced the government, promotional agencies such as NABARD and SIDBI and external donors to start similar programmes on a wider scale.

The NABARD has been linking the SHGs formed by NGOs and government to formal banking institutions with the assistance of multi-lateral
and bilateral agencies under the SHG-Bank Linkage programme since 1992-93. Under this programme, the banks provide financial support to the SHGs for re-lending to members either directly or through mediation of NGOs. The SIDBI started similar programme since 2001. The Department of Women and Child Development of the GOI set up Rashtriya Mahila Kosh in 1993 to provide credit facility to NGOs working with micro-finance groups. Commercial Banks, Regional Rural Banks and Cooperatives also started forming the SHGs consisting mostly of women and channel the credit under priority sector lending to the members of these groups. The GOI launched Indira Mahila Yojana (IMY) in 1995 for holistic empowerment of women through awareness and low-income generating activities. The IMY chose the SHG approach as a vehicle for achieving the objective by covering all women through Anganwadis working in the rural areas.

Similarly, the World Bank and International Fund for Agriculture and Development (IFAD) launched a five-year national project called Rural Women Development and Empowerment Programme (RWDEP) in 1999. The programme was implemented by the DWCD, GOI under the name of Swa-Shakthi in seven states, viz., Karnataka, Gujarat, Haryana, Uttar Pradesh, Bihar, Madhya Pradesh and Jharkhand. Under this programme, SHGs of women were formed, micro finance activities were initiated and efforts were made to link the SHGs with banks, line departments and Panchayati Raj Institutions (PRIs). Similar approach was adopted by the Government of Andhra Pradesh, which implemented the South Asian Poverty Alleviation Programme (SAPAP) with the aid of the UNDP in 1990s, followed by Andhra Pradesh District Poverty Initiatives Programme (APDPIP) and Andhra Pradesh
Rural Poverty Reduction Programme (APRPRP) with the aid of the World Bank. The latter two programmes were popularly known as Velugu, now renamed as Indira Kranthi Patham (IKP), currently under implementation in all districts of the state. The SHG approach was promoted in the watershed development programme launched under GOI scheme and in the Andhra Pradesh Rural Livelihoods Programme (APRLP) with the aid of the DFID.

**Significance of Micro Finance for Poverty Reduction and Women Empowerment**

Micro finance programmes assume significance in India in part because of belief that they will lead to poverty reduction and empowerment of women to save, to borrow for consumption/ production purpose/ income generation activities, thus increased mobility for women and their interactions with the markets, i.e., buying and selling (Basley, 1995). This process enables women to play an active role in social/ economic/political spheres, thus contributing to an improvement in their self-esteem and their place in household and community. Repayments are considerably high because of dynamic incentives that successful repayments lead to higher loans. Lending to the SHGs was considered less risky because of peer selection, absence of problems of adverse selection, savings linkage to credit, and social pressure, which can improve the access of the poor to credit (Rajasekhar, 2004a). Hulme (2000) and Rehman (1999) observed that there is much evidence to indicate that the SHGs help the poor and lead to better monitoring of financial and non-financial needs of the poor by formal and informal financial systems.

But, some writers argue that micro finance programmes for women are expanded due to financial viability of the institutions providing small finance to women. Donors have 'discovered' women as more reliable and credit worthy
and encouraged recipient agencies to provide women with finance (Hulme and Mosley, 1997). Preference to women has been due to the fact that women are generally docile, they lack mobility and there is lesser likelihood of women joining organized labour protest (Mullen, 1999). With regard to empowering approach of different development organizations, some scholars are skeptic that women are only 'instrumental' in achieving programme goal, where policy makers synergistically tackle gender and poverty issues without making women to understand the problems of women's subordination (Goetz, 1994; Jackson, 1996).

Some scholars, however, claim that "channelling resources particularly through women in poverty alleviation programmes serves a range of goals: basic needs, welfare, equity and empowerment" (Kabeer, 1997). It is argued that micro finance programmes can play two possible roles - protectional and promotional - in helping the poor households. While many risks and fluctuations push the poor households down the poverty line, savings, credit and the insurance can help them to move upwards to cross the poverty line by creating opportunities for self-employment and asset creation. Hussain (1988), Khandker (1998) and Wright (2000) observed that micro finance interventions not only contributed significantly towards direct poverty alleviation of the participating members but even contributed indirectly in reducing overall poverty in villages where they were implemented, and to increased consumption, education, clothing and housing, and many other qualitative changes. Fernandez (2001) observed that women’s access to and control over financial and physical resources increased leading to reduction of poverty among them.
Morduch (1999)\textsuperscript{25} argued that the evidence is not enough to clearly establish the claims about the poverty eradication and empowering role of micro finance as a developmental tool. Hulme and Mosley (1996)\textsuperscript{26} stated that micro finance has many limitations and hence, cannot be a cure for poverty. CGAP (2002)\textsuperscript{27} reported that it could be at best one of the many interventions needed for tackling poverty. Khandker (1998)\textsuperscript{28} stated that any increased allocation of resources to micro finance needs to be evaluated based on the cost effectiveness of alternative investments.

Madheswaran and Dharmadhikari (2001)\textsuperscript{29} observed that poor households are excluded from formal credit due to lack of collateral. Micro finance movement through SHGs achieved a great momentum. It is regarded as a better mechanism to reduce poverty as against one time loan. The programme has made significant contribution to social and economic improvement of member households of SHGs. The micro credit has reduced the incidence of poverty through increase in income, enabled the poor to build assets and thereby reduced their vulnerability.

MF programmes are expected to contribute significantly to poverty alleviation and empowerment of members in economic, social and political spheres (Rajasekhar, 2002;\textsuperscript{30} Mayoux, 1998).\textsuperscript{31} However, these programmes are considered potentially supportive as an effective means to reduce poverty but not of extreme poverty (Hulme and Mosley, 1996;\textsuperscript{32} Mosley and Hulme, 1998;\textsuperscript{33} Hulme, 2000;\textsuperscript{34} Nevajas et al, 2000;\textsuperscript{35} Fujitha, 2000;\textsuperscript{36} Meyer et al, 2000).\textsuperscript{37} It is argued that micro finance programmes do not support the poorest, thus questioning the ability of the programmes in targeting the poor and
sustainability of the services and the ability of the programmes to reduce poverty.

Some studies argue that MF has very beneficial economic and social impact (Hussain, 1988; Romeny, 1991; Otero and Rhyne, 1994; Schuler et al, 1997; Khaodker, 1998). The studies of Hashemi, Schuler and Riley (1996) and Puhajhendi and Badatya (2002) also came to similar conclusion. On the contrary, some writers caution against such optimism and point out to the negative impact the micro finance can have (Montgemory et al, 1996; Rogaly, 1996; Adams and Von Pischke, 1992). Thus, it appears that micro finance programmes have not always succeeded in their objectives of sustainable poverty alleviation and empowerment (Rajasekhar, 2004c).

GROWTH OF MICRO FINANCE THROUGH SHGs IN INDIA

Micro finance has grown under two different systems of patronage in India. The SHG-Bank linkage programme anchored by NABARD has the patronage of state and formal banking system. A parallel system promoted by NGOs has been depending exclusively on subsidized, external agents to finance social mobilization and on-lending. Both target the poor and women.

It is important to distinguish the SHGs from the Micro Finance Institutions (MFIs). While the SHGs are formed and nurtured by the government or banks or NGOs and facilitated to operate on their own in accordance with the principles of self-help (viz., self-management, self-reliance and sustainability), the MFIs are formed and operated by private agencies including NGOs to pursue commercial interests and not governed by self-help philosophy. The SHGs vary in size (from small to large), operate at different levels (group of members to village, block/mandal, district, state), and are
basically concerned with helping the poor to access the bank credit and other services from the government in order to come out of poverty. On the other hand, some of the privately run MFIs act as non-banking finance companies (NBFCs), e.g., SHARE, SPANDANA, etc., which are purely commercial and charge market rates of interest from their borrowers in order to earn high profits. For the purpose of this study, micro finance programmes mean those implemented exclusively through the SHGs and not MFIs because of the concern for poverty reduction, especially among women, in respect of the former as against the latter.

The concept of SHG focuses on providing the poor with alternative means for obtaining economic and social entitlements to resources through their active participation. The SHG concept is built around the belief that human beings have an intrinsic propensity to form and work in groups. Sociologists are of the opinion that the tasks are best carried out by small groups as they allow active participation, contribution and interaction to take place face to face. According to group behaviour theory, people come together and function as a group, if they are organized for a purpose, which further their common interest.

According to Planning Commission of India, SHG is a self-governed, peer-controlled, small and informal association of the poor usually from socio-economically homogenous families who are organized around savings and credit activities. A SHG is an unregistered affinity group of maximum 20 poor people from a homogenous class, who come together for addressing their socio-economic problems. A SHG is defined as "a democratic and viable entity at the grassroots level, which involved all the members in the formation,
implementation and monitoring of the programme, meant for their own development and empowerment”. The implicit characteristics of SHGs are self-management, self-reliance and self-sustainability (Bhat and Rajasekhar, 1996).49

The basic philosophy of the SHG-Bank linkage model of NABARD is to establish synergy between the banks and NGOs to build up their capacity to avail loans from banks. Three broad models of SHG-Bank linkage in India can be distinguished:

Model 1: The government (in a few cases, bank) itself acts as self-help promoting institution (SHPI) and forms and nurtures the SHGs

Model II: The NGOs act as SHPIs and banks lend the SHGs

Model III: The NGOs act as SHPIs and lend the SHGs directly

Three types of financial institutions – Commercial Banks, Regional Rural Banks and Cooperative Banks – are involved in extending financial assistance in all these models. The basic concern in SHG-Bank Linkage Programme is, however, the skewed growth of SHGs across different regions in the country; it is mostly concentrated in southern region, especially Andhra Pradesh. This is mainly because of presence of large number of NGOs and the existing banking infrastructure in the southern region of the country and also the early support of state governments to the programme.

As of March 2007, over 41,60,584 SHGs were maintaining savings bank account with the formal rural banking system with an outstanding balance of Rs.3,512.91 crores, covering about 5.8 crore poor households under SHG-Bank linkage programme in the country. The share of commercial banks is 55.1
per cent of the groups bank-linked and 53.9 per cent of the savings amount, followed by RRBs with 28.40 per cent of the groups and 32.90 per cent of the savings amount. The cooperative banks accounted for the rest. The average savings per SHG with banks was Rs.8469, which varied from Rs.9791 in the case of RRBs to Rs.6914 in the case of cooperative banks. The average bank loan outstanding was Rs.42,724 per SHG, which varied from Rs.46,277 in respect of commercial banks to Rs.29,556 in respect of cooperative banks. As per the data on recovery performance furnished by 290 banks, 73% banks have more than 80% of recovery of loans (NABARD, 2007b).

SUSTAINABILITY OF MICRO FINANCE THROUGH SHGs

In the context of micro finance programmes through SHGs, sustainability can be defined as the ability of the programme to meet the growing needs (credit and other) of members through resources raised on its own strength or resources available at its command. Sustainability has two components - Institutional or operational sustainability and financial sustainability.

Institutional or Operational Sustainability

Institutional or operational sustainability refers to the ability of the institutions to generate enough revenue to cover operating costs but not necessarily the full cost of capital. If unable to do this, capital holdings are depleted over time. It involves creating, nurturing and sustaining people's institutions at various levels, i.e., village, cluster (mandal / project) and district. Institutional sustainability requires building the capacity of members for self-management and self-reliance, programme transparency, accountability, and ability to monitor, evaluate programme strategies and impacts (Edward and Hulme, 1995).
Financial Sustainability

Financial sustainability implies the ability at the programme level to meet the operating cost, cost of borrowings or cost of raising funds, make provision for inflation and continue the existing operations at the same or increased scale. For this, resource mobilization in the form of regular savings from members is essential and internal resources from the banks / government or other sources are needed. The institution requires the subsidized inputs in order to operate if it is not financially sustainable. It cannot survive if it has to obtain all inputs (essential capital) at market, rather than concessional rate. The programme should also raise the income of individual members, so that increased contribution towards savings and operating cost of the programme is possible.

The SHGs have several categories of cost and income. The difference between income and cost tell us the amount of profit or loss. A minimum amount of surplus is essential for a SHG to progress towards its sustainability. Efficiency levels of a SHG depend on many factors including its age, operating methodology, target groups, geographical area, and proper analysis of resources, costs and their internal relationships. A SHG, which maintains focus on its mission and vision, can service to achieve sustainability.

The operational expenses of a SHG gradually reduce with the increase in business volume. If the rate of operating expenses decreases, the SHG is said to be more efficient. Many SHGs have achieved rapid growth in their outreach as well as portfolio, because of the focus on thrift among the target group, low levels of economic activities and higher degree of variation in
income; this requires the target group to be economically more active and less vulnerable.

**Operating Methodology**

SHG methodology involves high costs for group formation, training, internal rotation of funds, etc. It takes time to absorb credit and to comply with the norms for accessing credit. If the operations enlarge, operational expenses come down significantly. Consequently, the operational expenses ratio to total outstanding loans declines sharply.

**Sustainability at the Individual level to Group and Programme**

Sustainability can be examined at three levels – individual, group and programme. Individual sustainability implies a rise in a member's household income, occupational skills, and knowledge relating to accounts, marketing, credit use, group management, and leadership skills. It also implies the increased ability of the members to deal with socio-economic or political problems within the community at local levels and contact with wider supportive network.

Group sustainability implies acquisition of skills and knowledge to ensure that the group is financially end institutionally sustainable. The group needs to independently manage its own affairs, i.e., accounts, maintenance of records, resolve the conflicts, conduct impact assessments, develop skills, confidence to approach service agencies, mobilizing resources, capability to participate in the affairs of local political bodies and question the existing social structure, and analyze local markets and identify the income generation activities. The group should be in a position to meet costs related to the programme including staff
costs, office and meeting expenses and mobilize resources from the members and other agencies in order to become sustainable.

Programme sustainability implies the ability of the programme to meet operational expenses and costs for raising necessary funds, to make provision for implementation, and so on. The programme needs to provide support to the members to deal with problems in the market and community, and plan to achieve results in tune with its stated goals/objectives.

REVIEW OF LITERATURE

It is hard to find studies that exclusively focused on the sustainability of micro finance programmes through SHGs in a comprehensive manner both at the macro and micro level. However, there are several studies that focussed on different individual issues in isolation that have implications for the sustainability of micro finance programmes through SHGs in different states. For instance, the studies concerning the functioning of micro finance programmes at different levels deal with various issues such as the characteristics of SHGs, mechanisms for operation, leadership, involvement/participation of members in decision-making, ability to access resources and effectively utilize the same, and operational efficiency in terms of savings and loans operations, recovery performance and the financial viability (ability to earn profits) – which have implications for sustainability. Similarly, studies focusing on the positive or negative impact of micro finance programmes on bringing about improvement in the livelihoods of the target group also have implications for their sustainability. As such, an attempt is made here to present a brief review of the studies on micro finance programmes through SHGs focusing on three aspects, viz., functioning, impact and sustainability.
Functioning of SHGs

Narayana Swamy et al (2005)\textsuperscript{52} focused on the role of facilitators and the ability of SHG members to set up micro enterprises, based on a study covering 166 members from 100 SHGs in one district of Tamil Nadu. It was found that the assistance reached the intending poor members. The role of NGOs / Federations was appreciable in forming and facilitating the groups and mobilizing savings and lending operations. But, the members failed to set up micro enterprises, as they were risk-averse. Imparting of skills and disbursing of the credit alone could not lead to promotion of entrepreneurship among the members.

Nirmala et al (2004)\textsuperscript{53} focused on the participation of members and problems experienced by them in a study of 134 SHGs in Pondichery and observed that majority were engaged in traditional non-farm and less remunerative activities. Members’ increased participation benefited in organized action, and in receiving skill training and better access to credit. Yet members experienced problems in getting need based skills, timely availability of production resources, marketing, etc. The regression results revealed that nature of occupation, high asset position and larger credit amount significantly reduced monthly income.

Srinivasan (2005)\textsuperscript{54} focused on the access to and use of credit in respect of 240 SHGs spread over Tamil Nadu, Karnataka and Andhra Pradesh, and noted that all the groups had access to formal credit system and used credit for productive and debt redemption purposes; the credit use increased with the membership association of their members.
Soorya Murthy (2007)\textsuperscript{55} studied loan utilization in respect of 1116 members of 60 women SHGs of Kerala and found that majority of them used loans for their immediate needs rather than for self-employed micro enterprises.

Debnarayan Sarkar (2008)\textsuperscript{56} focused on the access of SHG members to credit, and observed that despite prompt repayment, members failed to receive additional credit. It was argued the micro credit is out of reach to the poorest, as the ability to repay the first few instalments depended on initial resource-base of the borrowers.

Rajasekhar (2004b)\textsuperscript{57} focused on the performance of three different NGOs of AP and Kerala, and noted that savings stagnated, percentage of members receiving loans was low, default rate was high, skill and capacity building was minimal. It was observed that the experience of progress was different both quantitatively and qualitatively and self-reported increased knowledge, confidence, and mobility were common.

Karmakar (2009)\textsuperscript{58} focused on the performance of SHGs and observed that, upon withdrawal of promoting agencies, there was a slip in the performance of SHGs. It was noted that the average size of the loan per SHG was low at Rs.7,000.

Reddy (2007)\textsuperscript{59} examined the performance of 11 SHGs and its members of Kalva village in Orvakal mandal of Kurnool district in AP. It was noted that although the groups were meeting regularly, yet the members' participation was less, there was no rotation in the leadership, there was decline in savings after 1999, and no variation was there in size of the loan and purpose. Despite the
use of 75% of sanctioned loan for income generating activities, repayment rates were low, which affected the group functioning.

Ramchandran (2008)\textsuperscript{60} studied the performance of 7 SHGs in Tiruvanveli district of Tamil Nadu, and noted that the economic participation of members in terms of savings, repayment of loan/interest was regular, while their social participation was less in terms of attendance at the meetings.

Kumaran (1997)\textsuperscript{61} focused on the factors contributing to the success of SHGs across three types of SHGs (active, passive, and dissolved) in Tirupati area of AP. It was found that the main factors responsible for active functioning of SHGs were solidarity and cohesiveness. Irregularity in savings, repayment of loans and lack of trust and confidence among the members were the main characteristics of the passive SHGs. Regular defaulting by some members and irregularity in loan repayment influenced the dissolution of certain SHGs.

Datta and Raman (2004)\textsuperscript{62} focused on the factors contributing to the success of SHGs, on the basis of study of 30 SHGs in Tirupati area in AP, and noted that the success of SHG was mostly related to social cohesion found among the members from diverse backgrounds, knowledge-based skills, occupation, income levels and timely repayment of loans.

Baland et al (2007)\textsuperscript{63} focused on the factors contributing to the success of SHGs and observed that the group survival was strongly associated with the presence of educated members, facilitators and interactions with banks and book keeping and presence of SHG Federations thus enhancing the quality and sustainability of SHGs.

The Center for Microfinance, Jaipur and APMAS (2006)\textsuperscript{64} focused on the quality of SHGs in 5 districts of Rajasthan covering 202 SHGs and found that
the overall quality of the groups was low and there were startling inter-district and inter-promoter variations across the groups.

Prakash et al (2005)\textsuperscript{65} examined the basic financial health indicators of 150 SHGs in five states and observed that there was a mixed verdict in respect of equity in distribution of loans within the group, dropout rate was 15\% in 5 year age group, replacement of 9\% members with new ones, longevity lower for government formed group, and deterioration in portfolio quality with age.

EDA Rural Systems and APMAS (2006)\textsuperscript{66} focused on the positive and negative features of SHGs in a study of 214 SHGs in 108 villages spread over 9 districts of 4 states. The study pointed out certain positive features such as 51\% of members being poor, groups homogenous, cohesive, and less dropout rate, and negative features such as SHPIs taking little care of the groups, exclusion of the poor due to apprehension of default in thrift and loan repayment, rigid norms, lack of confidence in the group process, difficulties in attending meetings, uncertainty of income, absence of transparency within the group and lack of accountability of overdues, portfolio at risk, equal distribution of loan amount, limited credit absorption capacity, difficulty in availing repeat loans, etc.

NABARD (2002)\textsuperscript{67} focused on the deficiencies in SHG-Bank linkage programme in East Godavari district of AP and noted that the deficiencies in group formation, capacity building, record keeping, etc., were more on account of lack of proper understanding rather than indifference on the part of facilitating agency and groups.

NABARD (2007a)\textsuperscript{68} examined the strengths and weaknesses in the functioning of credit linkage promotions and issues in credit flow, based on a
study of 2485 SHGs in 13 districts of AP. It was found that regular meetings were held in 77% groups with members' attendance of 90%, decisions were taken in meetings in 67% groups, regular contribution of thrift in 95% groups and 97% repayment of bank loans in 97% groups, and over 50% of the members taken up income generating activities. The negative features noted include no change in leadership in 91% groups and 17% of SHG members withdrew.

CGAP (2000)\textsuperscript{69} examined the coverage of poorest sections in micro finance organizations and the benefits of collective action. It was reported, based on the observation of recent studies in a number of countries, that a sizeable percentage of households that had newly joined micro finance organizations were not drawn from the poorest 30% of the population in the context in which the organization worked. It was noted that people's actions together were often able to achieve what they could not achieve individually.

RBI (2002)\textsuperscript{70} focused on various issues relating to the micro finance programmes and issued guidelines for improving the functioning of SHGs. It was noted that banks should provide adequate incentives to their branches for financing SHGs ensuring simple procedures, the group dynamics of working of SHGs should be left to themselves and neither be regulated nor formal structure imposed or insisted upon, and the approach to MF should be hassle-free and include consumption expenses.

**Impact of SHGs**

Hulme and Mosley (1996)\textsuperscript{71} focussed on the requisites for positive impact of micro finance on poverty. They opined that appropriate institutional reforms are to be in place to improve the effectiveness of institutions and
practicing the accepted best practices (cost recovery, interest rates, savings and interest facilities, intensive collection of loan instalment and incentive to repay), which make it possible to increase impact on poverty and to increase financial viability at the same time.

Wright et al (2000) examined the potential of micro finance to benefit the poorest sections. It was noted that empirical findings were supportive of the point that the poorest can benefit from micro finance in the form of both economic and social wellbeing, and that this could be done without jeopardizing the sustainability of the financial institutions. In a similar study, Robinson (2001) concluded that micro finance services helped low-income people to improve household and enterprise management, increase productivity, smooth income flow and consumption cost, and enlarge and diversify the micro business and increase their incomes.

Zaman (1998) examined the extent to which micro trade reduces poverty and vulnerability through a case study of Bangladesh Rural Advancement Committee (BRAC), and concluded that membership in the programme reduces vulnerability by way of smoothening consumption, building assets, providing emergency assistance during natural disasters and contributing to female empowerment.

Cohen (1999) examined the role of micro finance in reducing the vulnerabilities of the rural poor, especially its role in enhancing their risk-coping capabilities, based on data from micro finance programmes in Latin America, and noted that the programme outreach played more of a role in helping clients protect against risks ahead of time than coping with shocks after they occur.
Vershuvysen (1999) focused on the impact of micro finance programmes on the living conditions of poor in a cross-country study. It was concluded that poor households that have had micro finance services showed significant increases in asset accumulation, which provided them with both the safety-net against misadventure and resources for self-help investments. The programme contributed to increased household income, improved nutrition and improved probability of poor children from poor families going to schools.

Morduch and Haley (2002) and Hulme and Mosley (1996) examined the impact of micro finance on poverty, based on a review of micro finance from various parts of the world. It was observed that, by and large, access to micro finance has had a positive economic impact. This impact has been often larger for those close to poverty line than those further away and they increase with duration of membership or intensity of loans as members begin to invest in assets than consumption.

Niels Hermes and Robert Lensink (2007) observed that it is unclear whether micro finance contributes to a reduction in poverty without additional measures in areas such as education, health and infra structure. The entry of commercial banks into micro finance may increase the competition with traditional institutions and reduce lending to the core poor, even if it improves financial sustainability.

Mehar Shibalal (2007) examined the impact of SHGs on the empowerment of poor, based on a study of 77 members of 5 SHG of Koraput district of Orissa. It was concluded that the net impact of borrowing of income was positive, even in the case of poorest borrower, showing a better outreach of programme, yet the process of empowerment was poor.
Raju et al (2009) examined the changes in the perspective of the poor, based on a study on SERP initiative in AP. It was noted that the perspective of poor had changed from next day survival to long-term planning with regard to livelihoods, health, food security, shelter, risk and belief in government machinery. Similarly, Kalpana (2009) observed that micro finance proved to be an effective tool in achieving the millennium development goals to reduce the number of poor people by half as of 2115. But, Greelay (2005) remarked that in the absence of specific poverty targeting and mainstreaming of impact assessment, the claim about the impact of micro finance lacks credibility.

Rajasekhar (2000), Kumaran (1997), Latif (2001) measured the impact of micro finance on household savings and borrowings of SHGs and concluded the association between the SHGs operations and formal banking habits among women significantly increased.

Rajasekhar (2004b) examined the impact of micro finance and poverty alleviation programmes of NGOs through SHGs, based on a study of 19 NGOs located in AP, Karnataka and Kerala. It was observed that the micro finance programmes often benefited the non-poor, savings amounts were not high enough to reduce vulnerability within member households and loan amounts were not large enough to make a dent on poverty. Many member households did not have significant access to credit. The claim that micro finance programmes are an answer to poverty alleviation is not therefore empirically substantiated. In a similar study of three different NGOs of AP and Kerala, it was concluded that micro finance contribution to poverty reduction, improvement of women’s status and empowerment is questionable.
Bibhudutt Padhi (2003)\textsuperscript{88} also focused on the impact of NGO micro finance programmes on poverty reduction. It was noted that while NGOs as micro finance institutions have had some success in facilitation and social mobilization, there is little evidence of the fact that have had much success in poverty reduction.

Kabeer and Noponen (2004)\textsuperscript{89} examined the impact of NGO promoted SHGs on ownership of assets and dependence on moneylenders, based on a study in Jharkhand. It was observed that SHG members experienced increased ownership of livestock and level of savings and reduced reliance on moneylenders. They reported higher rate of adoption of improved livelihood patterns.

Rajasekhar and Madheswaran (2005)\textsuperscript{90} examined the economic benefits of micro finance programme. It was found that economic benefits of the programme were region-specific and concluded that the microfinance programme provided access to credit for the poor and enabled them to undertake income generation programmes.

Vasanth Kannabiran (2005)\textsuperscript{91} examined the impact of SHGs on access to credit. It was noted that the increasing participation of women in micro credit and formation of women's self-help groups had done little more than assuring short-term relief to ease immediate needs.

Sylendra (2008)\textsuperscript{92} examined the impact of SHGs on generation of income and dependency on moneylenders in respect of their members. It was observed that there was reduced dependency on moneylenders in the case of SHG members from 66% to 15%, 51% were able to repay old debts and generate substantial income.
Subodh Kumar et al (2006)\textsuperscript{93} examined the impact of SHGs on employment and income through dairying, based on a study of SHGs in two blocks of Bareilly district of UP. It was noted that more employment and income opportunities were created for landless families, when dairying was integrated with other enterprises; a positive and highly significant relationship between herd size and sustainability of SHGs was observed.

Bhanu Murthy (2005)\textsuperscript{94} examined the impact of SHGs on benefits to the members and the community at large through collective action and development. Their linkages with banks and NGOs helped them to get finance for development and facilitated country's economic growth through proper use of resources and built awareness among the rural poor. SHGs not only solved the personal and community problems, but also developed leadership qualities, self-confidence and self-reliance.

Mahapatra and Sahoo (2007)\textsuperscript{95} examined the impact of SHGs on benefits to the underprivileged sections, based on a study of 150 members of SHGs of 4 years age and 90 non-SHG household members in Bhadrak and Angul districts of Orissa. It was concluded that underprivileged population in the programme was limited and those joined also received little benefits from the programme.

Goetz and Sen Gupta (1996)\textsuperscript{96} examined the impact of micro finance programmes on use of loan and women's say in household decision-making in the context of Bangladesh. It was found that 68\% of women loan holders surveyed had partial or very limited or no control in relation to loan use and very little voice in household decision-making. There was no indication to
determine whether women's say in the household decision-making had increased / declined with access to loans.

NABARD (2002)\textsuperscript{97} examined the impact of SHGs on improving the living standards of their members, on the basis of study of 560 SHG member households covering 223 SHGs across 11 states. It was found that there was a significant change in the living standards of SHG members in terms of ownership of assets, borrowing capacity, income generating activities, income levels and increase in savings, but the study could not measure change in quantitative terms.

NABARD (2007a)\textsuperscript{98} examined the impact of SHGs on living conditions of their members. It was observed that the SHGs contributed to increased incomes, building of assets, and reduced vulnerability in the SHG members in AP due to reduction in incidence of poverty. Increased members' participation had a positive impact on household decisions, children's school attendance, better maternal health, nutrition and reduced child mortality, reduced dependency on non-institutional credit for financial resources.

NABARD (2008)\textsuperscript{99} examined the impact of SHGs on living standards of their members, by drawing a comparison between the post-SHG and pre-SHG situations. It was found that increased income was registered in 40% of households, 30% increase in assets, two-fold increase in savings, 123% increase in loan size, 23% increase in net income per sample household, 31% reduction in interest paid by the members on loans, consumption credit replaced by production credit and 34% increase in employment.

Pathak and Pant (2008)\textsuperscript{100} examined the impact of SHGs on the living conditions of their members, based on an analytical study of 50 SHG and 50
non-SHG members in Jaunpur district of Eastern UP. It was noted that assets were not created, but positive impact was observed in respect of non-income indicators.

Sudalai Muthu and Senthil Kumar (2008) examined the impact of SHGs on the living conditions of their members, based on a study of 150 respondents. It was noted that SHGs registered a good record in the savings habits, income generation, social status and status of living of their members, and problems were tackled through social awakening. It was revealed that poor could excel in managing their own affairs and assume control over their own financial resources and help them solve their own social economic and political development problems if given professional encouragement.

Ranjani Murthy et al (2002) examined the impact of SHGs on access to basic needs and improving women’s status, based on a study of 2785 SHGs in Anantapur, Mahaboobnagar and Kurnool districts of AP covered under SAPAP. It was found that the project enabled poor households better access to basic needs and declined mortality among the infants and adults. The study also revealed significant impact on all the 3 levels of empowerment of women, i.e., power to (individual), power with (collective) and power within (conscience).

Rangarajan (2005) examined the impact of SHGs on women’s status, based on a survey of 70000 women of 4500 SHGs of Kurnool district of AP. It was noted that over 79% of women had undergone family planning operations, 60% of their children availed Anganwadi facilities, 100% of their children immunized in Polio programme, and 10% of women could approach a bank on their own.
Malabika Deo and Shashikanta Jane (2008) examined the role of SHGs on income generation and empowerment of women, based on a study in Korei block of Jajpur district in Orissa, covering 100 respondents of 10 SHGs of 4 years old. It was concluded that SHGs had a positive impact on lifestyles of poor and increased income resulting in women empowerment.

Ramachandran (2008) examined the impact of SHGs on empowerment of women. It was noted that empowerment of women was reflected by ownership and control over household income, savings, debt, assets, etc., but the SHGs were unable to contribute to increase women’s share in income and assets; mostly men contributed to the household income.

Usha Revalle (2006) examined the impact of SHGs on living conditions of tribal women in A.P. It was noted that many rural and tribal women in AP experienced far-reaching changes in their economic, social and domestic situations. It was observed that the women of SHGs in Chenchu tribal areas of AP demonstrated their power of solidarity and collectiveness in market place, empowered with product and market knowledge and supported their own external financial resources and performed well.

**Sustainability of SHGs**

Robinson (2001) and Hulme and Mosley (1996) focused on the outreach and financial sustainability of micro finance programmes. It was observed that while the development scheme had higher outreach as its primary goal, the financial system scheme aimed at sustainability of micro finance interventions as its primary goal. Similarly, Otero and Rhyne (1994) noted that the monitoring indicators of the effectiveness and efficiency of the micro finance follow the criteria of outreach (coverage of target clients) at the
target group level, financial sustainability and degree of institutionalization at the financial intermediary level. Likewise, Zeller and Mayer (2002) observed that outreach and sustainability are not fully reconcilable and that there is need to focus on reviewing operational costs instead of all costs to attain full financial sustainability.

An analysis of 72 micro finance programmes indicates that only 34 of them had become fully sustainable; many of the programmes were still dependent on subsidy or grant from the donor agencies or concessional funds from second-tier agents (Micro finance Bulletin, 1998). Goodwin Grason (1998) estimated that less than 10% of the all the MFIs in the Asia Pacific region were financially self-sufficient. Leena Mehta (2007) observed that no more than one per cent of the world’s estimated 5000 – 7000 micro lenders are self-sustaining. The truth is that achieving financial self-sufficiency is a great difficulty, and there is need to focus on efficiency, cost cutting at bottom line.

Khandker (1998) focused on the sustainability of MFIs in the context of Bangladesh. It was noted that MFIs in Bangladesh could attain higher outreach, without being constrained too much by issue of sustainability through innovations, economies of scale and subsidies, and that they seem to have addressed some of the constraints of sustainability.

Puhazhendhi (1995) examined the transaction costs of micro finance programmes, on the basis of a study in South India. It was noted that, in the initial years of the programme, the transaction costs were estimated to have reduced to an extent of 41% as compared to normal individual banking.

CGAP (2002) focused on the transaction costs for the poor in accessing micro finance. It was noted that the price inelastic nature of demand
for loans carried certain transaction costs for the poor. Under such circumstances what becomes important for poor is not the cost of borrowing, but reliable access, which only sustainable MFIs can assure.

Basley (1995)\textsuperscript{117} focused on the repayment performance as a contributing factor for sustainability of micro finance groups. It was noted that high repayment in micro finance groups implied high potential for financial sustainability and ability to service the poor in the long run. Similarly, Islam (1997)\textsuperscript{118} noted that three factors are particularly relevant for the financial sustainability of micro finance interventions, viz., high loan repayment rates, appropriate interest rates, and low operating costs.

Rhyne (2001)\textsuperscript{119} observed that for a micro finance organization to survive in long run, it has to transform itself into a financial institution, i.e., financially accountable if one were to be sustainable and grow.

Arora and Leach (2005)\textsuperscript{120} based on the lessons from South Africa, focused on the profitability issues in financing the poor. It was observed that the Indian financial sector is transforming from supply oriented approach to a demand oriented one. But, unless the provision of financial services to the poor is profitable, it will be difficult to service this section of the society on a continuous basis, and as such, realization of cost recovery is required to strengthen the financial system.

Planning Commission (2007)\textsuperscript{121} observed that micro finance is seen mainly as poverty lending, and that their financial service, credit limit of less than 25000 in total direct accounts, declined from 97% in 1990 to 67.7% in 2005, while the share of direct credit declined from 0.66% to 0.23% in the same period. It was further noted that sustainability of most of MFIs is in question,
because of reluctance of MFIs to adopt professionalism and huge task of capacity building to improve practices.

Seibel and Dave (2002)\textsuperscript{122} stated that SHG-Bank linkage programme was found to be robust financial product, performing well in healthy and distressed financial institutions alike; the main performance indicators taken were a) non-performing loans, b) return on average assets, c) operational self-sufficiency, d) average cost analysis and marginal cost analysis of SBLP and e) rate of return under the programme. Similarly, Harper (2002)\textsuperscript{123} observed that the existing SBLP is more economical and thus sustainable, in spite of the fact that the members pay a lower price for their loans.

Siebel (2001)\textsuperscript{124} observed that SBLP is found to be robust financial product spreading thrift and credit culture among the rural people and brought vibrancy in the banking activities, coupled with innumerable, intangible social benefits.

Sinha (2003)\textsuperscript{125} in a study of 5 RRBs, revealed that all the inclusive costs of lending to SHGs (transaction costs, cost of group formation) translate into interest rates of 22-28 per cent per year.

Fernandez (2007)\textsuperscript{126} observed that the experience of Sanghamitra Financial Services shows that financial sustainability and social objectives co-exist, if there is enlightened management and constant monitoring.

Meera Lal (2008)\textsuperscript{127} stated that mere attainment of women empowerment without its sustainability had no meaning. It was recognized that no one solution or formula could universally be successful in attaining sustainability.
Chintala (2008) observed that extending backend subsidies had a destabilizing on group sustainability and indicated certain areas for healthy growth of this sector, bringing potential for operational self-sufficiency of SHGs with additional returns. It was noted that the management of SHGs in a sustainable manner is a challenging task, and linking the SHGs with networks of rural financial institutions (RFIs) is a potent way for evolution of sustainable SHGs.

RESEARCH GAPS

Based on the above discussion, it could be observed that the studies on the functioning of SHGs broadly focused on the characteristics of the members, coverage of the poor, participation of members, role of SHPIs, performance of SHGs in terms of mobilization of savings, access to credit, use of credit for setting up micro enterprises and repayment of loans, quality and financial health of SHGs, strengths and weaknesses of SBLP, and so on. While some of these studies focused on NGO initiatives, some others focused on government initiatives. Most of the studies were conducted at the micro level and only a few at the macro level. There were hardly any studies that focussed on the functioning of SHGs at different levels and their vertical integration or integration of SBLP with the ongoing programmes of the government.

It could also be observed that the studies on the impact of SHGs focused on the potential of micro finance to reduce poverty and contribute to women empowerment, requisites for the positive impact and the impact on role of women in household decision-making and on the living conditions of the members of SHGs. While there were quite a few empirical studies, there were an equally good number of studies that made use of secondary data. There
were divergent findings on the impact of SHGs on poverty reduction and women empowerment, which preclude definite conclusions.

Further, the studies on sustainability of SHGs largely focussed on issues and implications of micro finance, based on evidence across different countries. There are virtually no studies that examined the sustainability of SHGs at different levels. A few studies focused on the sustainability of the micro finance programme, but no in-depth studies were carried out on different dimensions of sustainability. There were no specific studies in the context of India, especially in A.P., which had taken the lead in SBLP.

Thus, it is clear that there were no comprehensive studies on the sustainability of micro finance through SHGs in Indian context. Further, there is no clear evidence to indicate that the SHG model of micro finance is sustainable from the institutional and financial angles in the country. Also, the available evidence precludes definite conclusions on the sustainability of micro finance either at the individual or at the group or programme level. Thus, there is need for comprehensive region-specific studies to examine the sustainability of SHG model of micro finance because there have been huge investments and a massive drive for promoting SHGs in different parts of the country as a key strategy for poverty reduction and women empowerment. The present study is a modest attempt in this direction.

NEED FOR THE STUDY

Andhra Pradesh is one of the leading states in the country with regard to SHG movement. The state alone accounts for over one-third of all the groups in the country and the amount of financial assistance provided to the SHGs under SHG-Bank linkage programme. The state had implemented three major poverty
reduction programmes, viz., SAPAP, APDPIP and APRPRP, which were essentially based on the SHG model. The state vigorously pursued the promotion of SHG model of micro finance aimed at poverty reduction. Therefore, it is very important to examine the sustainability of this model in a comprehensive and scientific manner. Since there are widespread variations across the state in terms of geographical and socio-economic characteristics, there is need for region-specific studies to have deeper insights into the various issues related to the sustainability of SHG model of micro finance. The present study is undertaken in the context of Guntur district of Andhra Pradesh.

OBJECTIVES OF THE STUDY

The study aims at examining the sustainability micro finance services through SHGs from the institutional and financial perspectives. It focuses on the sustainability of micro finance at all the three levels, viz., individual, group and programme. The specific objectives of the study are to:

- examine the provision of micro finance services through SHGs in the study area;
- analyse the functioning of SHGs and their federations in the study area;
- ascertain the role of members in the management of SHGs and their federations;
- assess the impact of SHGs on livelihoods of members; and
- suggest measures, in the light of the finding of the study, to strengthen the sustainability of micro finance services through SHGs in the study area.
METHODOLOGY

The methodological aspects of the study such as the area of study, the sampling framework, sources of data, tools of data collection and analysis and scheme of presentation are detailed below:

Area of Study

Being a study undertaken by an individual scholar, the present study is confined to only one district in the state. Guntur district is specifically chosen for the purpose of the study because it has certain unique features. It is centrally located and has borders with all the three regions of the state, viz., the Coastal Andhra, Rayalaseema and Telangana. The district is also known for its diversity in agriculture based livelihoods and has 42 km long coastline. The district is a forerunner in the state in the field of agricultural infrastructure for the storage and processing of agricultural commodities. The district also has a considerable number of educational institutions, having implications for human resource development.

The study was confined to the SHGs promoted by the Indira Kranti Patham (erstwhile Velugu) project/scheme administered by the District Rural Development Agency, Guntur as a part of the World Bank sponsored Andhra Pradesh Rural Poverty Reduction Programme (APRPRP), since it is a major initiative in the district to provide not only micro finance services but also to effect convergence with the ongoing rural development programmes of the government.

Sampling Framework

Multi-stage sampling method was adopted for the conduct of the study. At the first stage, two project mandals were chosen from each of the three
revenue divisions in the district on the basis of coverage of the programme, with a view to give adequate representation to different socio-economic and geographical situations. At the second stage, two villages were chosen from each project mandal selected on the basis of random sampling method. At the third stage, four SHGs that completed a minimum of two cycles of bank credit were selected from each sample village on the basis of random sampling method. At the last stage, five members were chosen from each sample SHG for an in-depth study on the basis of random sampling method. Thus, the sample for the study comprised 48 SHGs and 240 members spread over 12 villages in six project mandals from across all the three revenue divisions of the district.

In addition, the Executive Committee (EC) members and Office Bearers (OB) of the sample Zilla Samakhya (ZS), 6 Mandal Mahila Samakhyas (MMSs) and 12 Village Organizations (VOs) in the study area were interviewed through FGDs in order to understand the functioning of these institutions at different levels and their linkages with the sample members. Interviews were also held with the officials of IKP at the district, mandal and village levels to ascertain their views regarding the sustainability of micro finance activities through SHGs in the study district and the constraints faced in this regard. The reference period of the study is 2006-07.

Sources of Data

The sources of data for the present study constitute both primary and secondary sources. The primary sources of data include the sample households, EC members and OB of the sample VOs, MMSs and ZS. Besides, the officials of IKP in the study area, particularly those working in the sample
mandals and villages, also constitute another important primary source of data. The secondary sources of data include the records and books of accounts, minutes books, audit reports, etc., maintained by the sample SHGs and their federations, which were used to understand the nature and scale of their operations and triangulate the information collected from the sample members. The reports published by different agencies at the state level regarding the monitoring and evaluation of SERP initiated poverty reduction programmes based on SHG model were also studied to have an overall perspective on the potential for sustainability of the model. Besides, the published and unpublished studies on different aspects of SHGs and their federations available in the literature were thoroughly analysed.

**Tools of Data Collection and Analysis**

Household schedule was the main tool used for data collection from the sample members. The household schedule comprised questions largely in a pre-designed format and a few open-ended questions to elicit the views and opinions of the SHG members. The household schedule was pre-tested before its use. In addition, separate schedules were prepared for collecting the information from the sample SHGs, VOs and MMSs. Besides, checklists / FGD guides were prepared to conduct FGDs with the EC members/ OB of the sample VOs, MMSs and the ZS.

The data collected from various sources was processed and analysed with the help of computer, using SPSS. Appropriate statistical tools and techniques were employed to analyse the data to draw inferences. The analysis was made by caste category in order to distinguish between the performance of sample SHGs belonging to different caste categories such as
SCs, STs, BCs, Muslim Minorities and OCs. A similar attempt was made to draw a distinction between the performance of sample respondents belonging to different caste categories and economic categories in different aspects. In addition, the qualitative information collected from various sources was also analysed and reported where appropriate.

Multiple Regression analysis was used to examine the factors affecting the turnover of external funds accessed by the sample SHGs. The financial health of the sample SHGs was assessed in terms of indicators such as turnover of external funds accessed, built-up corpus, velocity of lending and recovery performance. Discriminant Function analysis was used to find whether there is a significant difference between the Poorest of the Poor (PoP) and other Poor as well as between the leaders and ordinary members among the SHG members (sample respondents) in respect of accessing financial benefits from the programme. Three indices were developed to examine the role of sample respondents in decision-making process concerning different aspects, viz., group decision-making, financial decision-making and household decision-making. A composite decision-making index was developed by combining the scores obtained in the above three indices, which will indicate the role of the sample respondents in decision-making process.

**Scheme of Presentation**

The study is presented in six chapters. The first chapter 'Introduction and Methodology' gives a broad overview of the topic chosen for the study, presents a detailed review of the available studies and explains the objectives of the study and methodology adopted. The second chapter 'Micro Finance through SHGs in Andhra Pradesh with special reference to Guntur District'
gives an account of the micro finance services provided through SHGs and their federations in Andhra Pradesh in general and the study area in particular. The third chapter ‘Functioning of the Sample SHGs’ examines the working of the sample SHGs at different levels with a view to assessing the potential of these institutions for sustainability. The fourth chapter ‘Role of Members in Managing the Sample SHGs’ examines the roles and responsibilities of the sample respondents in conducting the affairs of their own institutions to understand their capabilities and shortcomings, which is a crucial determinant of the sustainability of micro finance. The fifth chapter ‘Impact of the Sample SHGs on Livelihoods of Members’ attempts to assess the impact of the sample SHGs on the livelihoods of the sample respondents and their households, which is also another crucial determinant of the sustainability of micro finance. The sixth and the last chapter ‘Summary and Conclusions’ summarises the findings of the study and draws the conclusions, and examines their policy implications.

LIMITATIONS OF THE STUDY

In spite of the best efforts to make the study foolproof, the study has certain limitations. Firstly, recall method was used to elicit the information from the sample respondents regarding changes in the occupation, income and asset position of the household before they became members of SHGs, and hence the data on these aspects would only be approximate but not accurate. Secondly, the respondents might not have revealed correct information on different aspects because of several apprehensions, in spite of attempts to build good rapport with them. Thirdly, time value of money was not taken into account even though the data on income pertained to different points of time, in
view of the difficulties in eliciting the information and computation process, and hence the results on changes in income will only indicate the trends and the data may not be precise. Lastly, the findings of the study specifically pertain to Guntur district for the reference period, which preclude valid generalizations, as the situation could be different in other parts of the state and the country. These limitations need to be borne in mind while analysing the results of the study.

**SIGNIFICANCE OF THE STUDY**

In spite of the limitations mentioned above, the study assumes significance because of its topical importance in the recent times. In the absence of not many comprehensive studies on the sustainability of micro finance through SHGs, the study may serve the useful purpose of filling the research gap to some extent in this field. Further, since the study attempts to analyse the functioning of SHGs at different levels starting from grassroots level to the district level, the findings may throw light on the deficiencies in their functioning and the policy implications for improving their functioning. Similarly, the findings of the study may throw light on what needs to be done to ensure the sustainability of the micro finance activities through a network of institutions created at different levels. Besides, since the SHG approach has been adopted as a key strategy for poverty reduction in different parts of India, especially in Andhra Pradesh, the findings of the study may be useful in modifying this strategy for the benefit of the poorer sections in the society. The need for sustaining the micro finance activities through SHGs becomes especially important in the context of adverse consequences for the poorer sections as a result of the exploitative tendencies of the private MFIs virulently operating in the field of micro finance.
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