Chapter 7

SUMMARY

AND RECOMMENDATIONS

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SUMMARY AND RECOMMENDATIONS

In this concluding chapter, an effort is made to present in brief the resume of the thesis. This includes the summary and findings of the study followed by the verification of hypothesis mentioned in the introductory chapter. Also, some relevant policy recommendations are made, which we presume can merit serious consideration for future policy framers.

For the sake of dexterity, this chapter has been divided into three sections. In the first section the summary and findings of the study are presented. The second section verifies the hypotheses of the study and the third section presents the recommendations about the SHG approach for sustainable rural development.

Section - I
Summary and Findings

Empirical experiences the world over have revealed that microfinance particularly in the form of Self Help Group approach is most suited for sustainable rural development through the participation of the stakeholders at all levels. Amidst several failures of rural development efforts by the government, Self Help Group approach in India is being used as a developmental intervention in order to address the problems of rural India such as rural indebtedness, under-employment, unemployment, lack of asset creation, low productivity levels, inadequate food security, low standards of living, socio-economic inequities, lack of hygiene and sanitation, illiteracy, blind beliefs, issues of gender inequality and others so as to attain economic development of the country through rural development. SHGs reduce
poverty and vulnerability of the poor by increasing capital / asset formation at the household level, improving household and enterprise incomes, enhancing the capacity of individuals and households to manage risk, increasing enterprise activity within households, expanding employment opportunities for the poor in non-farm enterprises, empowering women, and improving the accessibility of other financial services at the community level.

Of late, Self Help Group approach has been receiving greater attention by all the concerned like the government, the banks and the voluntary agencies for achieving rural development. SHG approach is leveraging the strength of the formal banking system and flexibility of informal group structure in providing adequate financial services to the rural poor. The SHG-bank linkage programme has stretched out like a social movement with high expansion rates in recent years. Fuelled by competence and zeal at all stakeholder levels, it is expanding rapidly throughout India, including tribal areas. It is probably the world’s largest and most successful microfinance programme for the rural poor-outstanding in its emphasis on self-reliance and local autonomy of the very poor.

It is widely felt that there have been perceptible changes in the living conditions of the rural poor mainly on economic side and relatively on social side. It is with this perceptual background that this study sought to unravel the economic impact of the Self-Help Groups on the development of rural economy.

The need for undertaking the study has been expounded under statement of the problem in the Introductory Chapter. Notwithstanding the considerable scale of government intervention towards rural development, rural India continues to revolve under poverty and related quandary. There obviously exists considerable scope to
improve the rural credit delivery system. Albeit the phenomenal progress noticed in the rural credit structure in terms of volume of credit extended, concessionality, coverage of weaker sections, including scheduled castes and tribes, almost all institutions constituting the formal part of the rural credit system, suffer from several shortcomings.

These shortcomings are felt to be filled by the microfinance activity in the form of SHG approach for rural development. SHG approach is promoted by all the major stakeholders namely the government, NGOs, the banks and the public. Of late, SHGs have emerged as one of notables among the microfinance activity in India and believed to reduce *transaction costs* of financial institutions that do business with the poor and that of the SHGs themselves. Further, these have been able to make an indelible impact both on the social and economic fronts. While the impact of SHGs on social empowerment have often been highlighted by the media and evaluated by various agencies, the impact on the economic empowerment has not been evaluated at the expected level to underscore the importance of SHG approach for sustainable rural development. On a review of available related literature it is found that there existed some research gaps which prompted a study of this nature. Accordingly, there was a need for undertaking a methodical study about the economic impact of SHGs on the development of rural economy in the backdrop of microfinance as an useful and effective approach for rural development.

Given this backdrop, hypotheses have been framed in order to evaluate and espouse the objectives of the study. Therefore, keeping in mind the significance of study, the study area and the reference period for the study have been identified. The study area–Shimoga district has all the features for evaluation of economic impact of SHGs and these features have been highlighted in this chapter.
The objectives of this study endeavour to analyse the economic impact of SHGs particularly with reference to income levels, capital formation, food security, employment generation, production levels, asset creation levels, standard of living at the individual level and interest rates, repayment performance and credit-savings ratio at the group level. Further, transaction costs for banks, transaction costs for borrowers, risk costs involved for lenders, participation of women and participation of social classes such as scheduled castes / scheduled tribes, other backward classes at the programme level are also evaluated. Thus, the prime objective of the study is to evaluate the economic impact of Self Help Groups on the development of rural economy.

In the Second Chapter, methodology and sampling plan of the study are presented in detail. A combination of both the analytical and descriptive design was employed for the study. Some of the approaches employed towards data collection aimed at maximising the accuracy of the study are elaborated. The data were obtained from primary as well as secondary sources. Some of the methods employed for data collections are; Observation method, Questionnaire method, Mailed Questionnaire method and Telephone Interview method.

For quantification of impacts, the following factors before and after SHG intervention at the individual level in case of member of SHG such as (1) Monthly income (2) Annual income (3) Savings (4) Credit (Loan) availment (5) Per Family Food Expenses (PFF Expenses) (6) Per Family Non Food Expenses (PFNF Expenses) (7) Production levels and (8) Asset Creation levels were considered for evaluation. Further, to evaluate impact at the SHG activity / programme level the variables such as; (1) Credit-Savings Ratio - before and after SHG intervention (2)
Interest Rates on credit availment - before and after SHG intervention (3) Repayment Performance - before and after SHG intervention (4) Transaction costs of lending for banks (5) Transaction costs of borrowing for the poor (6) Cost of co-ordination and management for promoters of SHGs (7) Risk costs involved for financial intermediaries (8) Participation of Women and Men and (9) Participation of Social Classes – SC/ST, OBC and GEN categories were identified.

Quantification of the impacts for before and after impact situations is attempted using the most popular statistical tool i.e. Paired-Samples T-Test. Accordingly, Paired-Samples T-Test has been used here to determine whether there is a statistically significant difference between the income levels, food and non-food expenses, production and asset creation levels, savings mobilisation and credit-off take levels, interest rates on their borrowings and credit-savings ratio levels of the members of the SHGs: before and after the intervention of SHG approach.

Proportionate Stratified Random Sampling technique has been employed keeping in view the purpose of the study, measurability, degree of precision, information about population, the nature of the population, geographical area of study, size of population, financial resources, time limitations and economy. Master Sample frame is developed according to Stratified Proportionate Random Sampling for SHGs—according to block wise, gender wise, size wise and category wise.

This research has limitations that are ought to be taken into consideration. First, similar to comparable previous studies about the impact evaluation of SHGs, it is very difficult to construct a statistically representative sample given the large size of the population (No. of SHGs in the area) and its geographic extension. However, in order to mitigate this limitation to an extent Proportionate Stratified Random
Sampling is employed involving a sample size of 555 SHGs, which accounts for about 12% of the population of the sample. Second, this study countenances the difficulties similar to previous researches regarding the exactness or accuracy of the data that are not systematically collected by the implementing agencies. For example, banks, government departments and most NGOs do not collect information about the longevity of SHGs, which is the best indicator for their sustainability. Third, this study believes that the obvious factors of economic impact on rural development such as the role of Government, the effect of inflation and the role of resource endowment in the study area are limited or the same when compared to the pre-SHG situation and the post-SHG situation. This assumption is prompted by the most popular understanding that SHGs have had a lasting impact on the economic living of the poor in the area and dominate the other variables of analysis for evaluation of economic development.

The conceptual and theoretical aspects of rural development, microfinance and thereby Self Help Groups, and the related empirical experiences in the Asian countries and also more particularly in the Indian context and the Structural and Organisational aspects of Self Help Groups in detail are explained in the Third Chapter. Rural Development in India was aimed at by employing various approaches that can broadly be classified into: community approach, growth-oriented approach, target group approach, area development approach, welfare approach and integrated rural development approach. With all these approaches to rural development, it is widely recognized that many of our development projects did not resolutely base their efforts on people's participation which was the main reason for their failure. Accordingly, in the context of development it is emphasized that people's participation is desirable because it can reduce implementation costs, promote
sustainability and enhance the absorption capacity of the people and involvement of community.

Experiences have revealed that when the resource poor people are organized into small thrift and credit management groups or Self-Help Groups (SHGs) they not only become bankable but also reveal an inner strength to fight the socio-economic injustice to which they have been subjected for decades. It is also analysed that banks, which were earlier, shy of dealing individually with the poor due to high transaction costs and risks involved are now enthusiastic to provide financial assistance to these groups of the same people.

Microfinance and more particularly the Self Help Groups system can effectively be used as a tool for rural development. The sustainability of Self-Help Groups system hinges on two main factors: Firstly, the mobilisation of internal resources and Secondly, the soundness of financial practices in dealing with these resources. Internal resource mobilisation makes SHGs as institutions independent of government and donor funding. It is the heart of Self-Help. Major resources include share capital, savings deposits and profits. Establishing an effective link between banks and Self-Help Groups of the rural poor seems quite a gigantic task. However, Empirical experiences of the South Asian countries indicate that, using NGOs and SHGs to develop and operate microfinance programmes has proved to be the best practice thus far devised to reach the poorest of the poor in our region.

A useful definition about SHGs has been framed for easier understanding. Accordingly, Self Help Group (SHG) is defined as a group of people having a common goal of socio-economic sustainable development, discussing their problems and resolving it through appropriate participatory decision making. Self-Help Group
is a tiny economically homogeneous affinity group of 10 to 20 rural resource-poor persons who have voluntarily come together; to save small amounts regularly as thrift, to mutually contribute to a common fund, to finance their emergent credit needs, to have collective decision making, to solve conflicts through collective leadership and mutual discussion, and to provide loans based on group decisions at market driven rates.

Self Help Group Approach in India uses the existing large network of banks to bring financial services to the resource poor particularly the women. This approach has indeed made considerable impact on the rural economy owing to its well accepted conceptual frame, flexibility in structure and organisation of Self Help Groups, availability of motivated support from organised institutional network of banks, co-operative institutions, dedicated NGOs / VAs / Government Organisations and favourable governments both at the states and at the Centre. The Self Help Group Approach has undeniably been successful in achieving rural development in view of the lasting impacts on poverty reduction, women empowerment, environment sustainability, employment generation, etc.

In the Fourth Chapter, an effort is made to bring about various facets of SHG approach towards rural development. SHGs in India under the guidance of NGOs and development banks have, apart from their economic activities, involved in many types of rural development activities such as agricultural extension and support, education, village industries, labour and rehabilitation, health and family welfare, environment protection, public activities, technology transfer, and non-conventional energy sources. SHGs have lead to a sustainable impact on the livelihood of the rural people.
Self Help Group approach indeed can contribute to poverty alleviation and food security. It represents a fairly quick way to expand development activities and reduce poverty levels in rural areas. SHGs have a significant impact on the poor in generating employment avenues besides providing the adequate capital for such activities. Also, in some cases, SHGs have been successful in creating community assets useful for the community as a whole thus developing a sense of togetherness. They are useful in creating possible rural infrastructure like potable water, hygiene, sanitation and medicare facilities. On the ecology front, SHGs play a silent role in encouraging ecology management, understanding the environmental roles and responsibilities of women in developing economies that is critical to resource conservation and sustainable use.

SHG approach is enabling, empowering, and this bottom-up approach for rural development has provided considerable economic and non-economic externalities to low-income households in developing countries. SHG approach is being hailed as a sustainable tool to combat poverty, combining a for-profit approach that is self-sustaining, and a poverty alleviation focus that empowers low-income households. It is increasingly becoming a tool to exercise developmental priorities for governments in developing countries.

In the Fifth Chapter a profile of growth and development of Self Help Groups in the context of study is presented. The last two decades have witnessed substantial work in developing and experimenting with SHG approach to reach financial services to the poor, thanks mainly to the initiatives of the NGOs and the Regional Rural Banks in various parts of the country. As of March 2005, there were 1,618,456 SHGs with total cumulative lending of Rs. 68.98 billion. 90% of these SHGs financed were exclusive women groups. 573 Banks (196 RRBs, 330 co-
operatives banks, all 27 public sector banks and 20 private banks) with a total of 41,082 branches participated in the SHG-bank linkage programme providing credit to about 24.25 million poor households in 572 districts. Average loan sizes are Rs. 42,621 per SHG and 3,044 per family.

The state-wise distribution of SHGs linked with banks shows considerable variation in the share of total SHGs. Andhra Pradesh has a large share of over 30% of all linked SHGs. Tamil Nadu and Karnataka follow with about 14% and 10% share respectively. The rest of country thus accounts for about a quarter of the total SHGs. From an all-India perspective therefore, the SHG-bank linkage experience has been very strongly biased towards the South and has not provided a balanced access to credit for the poor in India.

In terms of SHGs linked with bank credit Karnataka state has 163161 SHGs linked with Rs 5504 millions as on 31-03-2005. In terms of SHGs linked with bank credit among the districts in the state of Karnataka, Shimoga district with linkage of 5554 SHGs stands 13th with a share of 9%. There are about 8408 SHGs in the district as on 31.03.2005 and about 5554 of them have availed credit support from banks so far. As at March 2003 (the reference period), in Shimoga district there were in all 4621 SHGs of which 2755 SHGs were linked with bank loans. The percentage of SHGs linked with the bank loans to that of total SHGs in the district were about 60%.

It is against this background that it is interesting and also necessary to examine the impact of SHGs on rural development.

The results of the study have been analysed in the Sixth Chapter. The ensuing paragraphs provide summaries of the evaluation with reference to impact of Self Help Groups on the various facets of rural development.
Coverage of Weaker Sections

According to social classification, the coverage of weaker sections (Scheduled Castes / Scheduled Tribes and backward classes) worked out to 63 per cent. The coverage of these categories was more pronounced in NGO groups. According to size of the groups, the percentage of 10-15 size groups to the total groups constituted about 83% and the percentage of 16-20 size groups to the total groups constituted about 17%. According to gender of the groups, the women groups constituted about 90%, men groups 8% and the remaining mixed groups about 2%. According to age of the groups, 1 to 2 years old groups constituted about 30% and 3 to 5 years old groups constituted about 40%, 6 to 10 years old groups constituted about 20% and the groups of age above 10 years accounted for about 10%.

Ease of Adoption by All Stakeholders

The number of SHGs in study area-Shimoga district has grown exponentially because of the ease of adoption by all the stakeholders in the process. To involve more number of poor into this development process the movement of Self Help Groups has to multiply on its own. Accordingly, it is revealed that there is good scope for quick replicability due to some of the reasons such as “spiral effect”, “copycat effect”, ‘self-selection’ concept, simplicity of the concept, the proactive role of the banks and non-government organisations, exorbitant interest rates by the money lenders in the area, leverages in the constitution of the group and flexibility in the management systems of the group, and the focus on women. Further, region-specific features such as (a) progressive thinking mental make up of the Shimoga district people who have a history of coming together into groups for social causes makes them easily cluster together for common causes (b) entrepreneurial quality of the local people in some blocks of the district has also contributed for quick replicability (c)
risk aversion nature of the local people finds the group activity a tool for mitigation of the possible risks in individual ventures (d) similar experience of poverty (e) similar living conditions that are difficult to make a comfortable living (f) same kind of livelihood by most of the people engaged in daily wages (g) community or caste appeal in the study area in order to make an undisclosed competition with other communities or castes and (h) place of origin as another factor of son of the soil appeal for the poor to get together easily in groups in the study area.

**Smoothness of the Concept and Ease of Providing Credit**

Some of the factors observed during the study that have helped in smoothening the SHG activity and ensured the ease of providing credit to the poor and its repayment are: *savings first and credit later, intra-group appraisal systems and prioritization, credit rationing, shorter repayment terms, self-determined interest rates, progressive lending* (the practice of repeat loans and often-higher doses) and *multiple-eyed operation* in the SHG system.

**Impact on Capital Formation**

Savings constitute the main form of capital for availing loans by the poor. The mean value of cumulative savings per member has moved from Rs. 637 in pre-SHG situation to Rs. 4253 in post-SHG situation. Increase in savings in the pre and post SHG situations has been to the extent of 567.36%. The impact was 560% increase in case of women groups, 583% among SC / ST groups and 620% among the OBC groups.

**Impact on Credit – Savings Ratio**

Average credit-savings ratio after the SHG intervention has risen to an average of 250%. The mean credit level to a group on an average is to the extent of Rs. 84559
and the mean savings level of a group on an average is to the extent of Rs. 41078. Owing to the impact of SHGs the credit-savings level has moved to 206% in case of women groups, 226% in case of SC / ST groups and 172% among OBC groups.

**Impact on Interest Rates**

Interest rates have plunged from an average of 48% to 24% i.e., a decrease to the extent of 50%. The same is the impact in the case of women groups, SC /ST groups and OBC groups.

**Impact on Repayment Performance**

Repayment levels have increased from an average of 47.78% in pre-SHG situation to 98.65% in post-SHG situation i.e., a net increase to the extent of 50.87%. Among the women groups the repayment level has moved from 48.62% to 98.61% (an increase of 49.99%). In the case of SC / ST groups the repayment level has moved from 46.97% to 98.80% (an increase of 52.21%). In the case of OBC groups the repayment level has moved from 49.97% to 98.57% (an increase of 48.95%).

**Impact on Production Levels**

Mean production level of the member of SHG has increased from Rs. 9168 in pre-SHG situation to Rs. 17659 after SHG impact recording an increase to the extent of 92%. The impact has been to the extent of 91% in case of women groups, 96% in case of SC / ST groups and 93% among OBC groups.

**Impact on Poverty Levels**

Increase in mean annual income has been to the extent of 72%, i.e. from Rs. 8005 in pre-SHG situation to Rs. 13750 after the SHG impact. The impact was 73% among women groups, 69% among SC / ST groups and 78% among OBC groups.
**Impact on Asset Creation levels**

Asset creation levels have improved from an average of Rs. 5012 to Rs. 11133 i.e., an increase to the extent of 122%. The impact was to the extent of 120% among the women groups, 125% among the SC/ST groups and 118% among the OBC groups.

**Impact on Food Security (Per Family Food Expenses)**

The mean value of the per family food expenses has increased from Rs. 4849 in pre-SHG situation to Rs. 8216 after SHG impact registering an improvement to the extent of 69.41%. The impact on per family food expenses due to SHGs has been to the extent of 70% in case women groups, 65% in case of SC/ST groups and 75% among the OBC groups.

**Impact on standard of living (Per Family Non-Food Expenses)**

The mean value of the per family non-food expenses has increased from Rs. 3596 in pre-SHG situation to Rs. 6228 after SHG impact, thus registering an improvement to the extent of 73.24%. The impact on per family non-food expenses due to SHGs has been to the extent of 73% in case women groups, 73% in case of SC/ST groups and 74% among the OBC groups.

**Outreach of Impact of SHGs on Weaker Sections**

There is significant outreach of impact of SHGs in terms of physical as well as qualitative factors on the socially weaker sections of the society such as Women, SC/STs and OBC category of the poor. While the Women constitute a whopping 92% of the sample SHGs in the study area, the SC/STs constitute 23% and the OBCs constitute 28.30%. Even in terms of the impact parameters the impact of SHGs on weaker sections is significant.
Impact on Transaction Cost of Lending for Banks

Transaction cost of lending for banks per borrower for a loan of Rs. 10000 have been estimated for all the four different models of lending to the poor by banks viz., (1) Direct Loans to Individuals (2) Model-1: Direct loans to SHG (3) Model-2: Loans to SHG with NGO as facilitator and (4) Model-3: Bank to NGO to SHG. The transaction cost per individual loan of Rs. 10000 for banks under direct loans to individuals has been worked out as Rs. 1120 per borrower. Under Model-1: Direct loans to SHG the transaction cost worked out to Rs. 730.5 per borrower. Under Model-2: Loans to SHG with NGO as facilitator the transaction cost worked out to Rs. 297 per borrower. In the case of Model-3: Loans to NGO to SHG it worked to Rs. 21.9 per borrower. Accordingly, it is undeniably clear that SHG–bank linkage model offers cost effective method of lending to the poor. And more particularly, the banks stand to gain by lending under the Model-3: Loan to NGO to SHG as the transaction cost per individual under this model works out to a meager Rs. 22 as against the transaction cost of Rs. 1120 under Direct loan to Individuals. In terms of per borrower loan of Rs. 100 the transaction cost per borrower under the Model-3: Loan to NGO to SHG worked out to Rs. 0.22.

Impact on Transaction Cost of Borrowing for the Poor

Transaction cost of borrowing for the poor per individual loan of Rs. 10000 is estimated in case of (1) Direct individual loans and (2) In case of SHGs. In case of direct individual loans the transaction costs of borrowing for the poor worked out to Rs. 920 and in case of availing loans through SHGs it worked to Rs. 224. It is obviously clear that under the SHG Model the poor borrowers incur transaction costs lower than that under the Direct loans model. In view of this, it beneficial to
encourage financial provisions for the poor under the SHG model in order to bring down the transaction costs for the poor.

**Impact on Costs of Co-ordination and Management**

Cost of co-ordination and management in formation and nurturing of SHGs has been estimated under both situations (1) in case of banks and (2) in case of NGOs / VAs / Promoters. It is estimated that while in case of bank branches the cost worked out to Rs. 4850, it was Rs. 3315 in case of NGOs / VAs / Promoters. As such, it is beneficial to encourage the NGOs / VAs / Promoters for SHG promotion in order to save the transaction costs involved in the process.

**Impact on Risk Cost of Funds**

Risk cost of funds for different financial intermediaries in different models of lending have been calculated. Accordingly, for an average loan of Rs. 10000, the risk cost mentioned in weights for Rs. 100 for banks are Rs 60 under Direct loans model, Rs. 15 under Model-1, Rs. 10 under Model-2 and Rs. 5 under Model-3. In case of NGOs / VAs / Promoters the risk cost is Rs. 5 per loan of Rs. 100 and for SHGs it is Rs. 10 per loan of Rs. 100.

Indeed, SHGs have lead to a sustainable impact on the livelihood of the rural people. Thus, SHGs hold promise in securing rural prosperity in the years to come.
Section - II
Verification of Hypotheses

In this section an attempt has been made to verify the hypotheses.

The first hypothesis is that Self Help Group approach builds the capacity of individuals, households, and micro-enterprises to manage risks by increase in savings and its utilisation, increase in employment generation, improvement in asset holding, effective utilisations of credit, credit-savings ratio, interest rates, repayment of loans, etc. It also contributes to capital formation at the household level through improvements in household income. This hypothesis has been undeniably proved by this study. During the course of impact evaluation in the study, it has been established that capacity of individuals / households has significantly improved. The mean value of the per family food expenses has registered an increase to the extent of 69.41%. The mean value of the per family non-food expenses has increased to the extent of 73.24%. Capital formation at the individual level has been found to be increased in view of the increase in savings in the pre and post SHG situations to the extent of 5 to 6 times. Further, it has been observed in the study that asset holding levels have increased to the extent of 122%. Interest rates have plunged from 48% to 24% per annum. Repayment levels have increased from an average of 47.78% in pre-SHG situation to 98.65% in post-SHG situation (pages 186-217).

The second hypothesis is that Self Help Group approach contributes to increase in production levels and reduction in the incidence and severity of poverty among clients through improvements in household income. This hypothesis has been indisputably proved by this study. It is established during course of evaluation that
mean production level of the member of SHG has increased to the extent of 92% and increase in mean annual income has been to the extent of 72 % (pages 178-186).

*The third hypothesis* is that Self Help Group approach is an effective strategy for extending financial services to the poor and other disadvantaged groups not reached by formal sector finance, in terms of transactions cost both for the banks as well as the poor borrowers of SHGs. This hypothesis has been conclusively proved by this study. The results of the analysis in the study state that SHG approach is a cost effective approach for extending financial services to the resource poor. The Banks stand to gain the most by lending under the SHG-bank linkage *Model-3: Loan to NGO to SHG* as the transaction cost per loan of Rs. 100 per borrower worked out to Rs. 0.22 as against Rs. 11.20 under *Model: Direct loan to Individuals*. The borrowing poor also stand gain under this approach as they incur a transaction cost of Rs. 2.24 per borrower loan of Rs. 100 as against Rs. 9.20 under the direct individual loans (pages 217-250).

*The fourth hypothesis* states that Self Help Group approach contributes to empowerment of women by providing them access to economic resources and influence over their uses, participation in economic decision-making, opportunities for self development, skill development and thereby enabling them to participate in socio-political decision-making. This hypothesis is proved irrefutably by this study. It has been established during the study that participation of women in Self Help Groups has made a significant impact on their empowerment both in social and economic aspects. It is observed that more than 90% of the participants in SHG approach are women and hence the success of SHG approach heralds its positive contributions for the empowerment of women as explained in detail in the study (page 217: *Table 6.43*).
The fifth hypothesis is that Self Help Group approach combined with other supportive interventions (like non-financial services, social mobilisation, and other forms of social protection) has greater impacts in reaching the women, SC/ST, and other weaker sections of the society. This hypothesis is also conclusively proved by this study. The outcome of the study articulates that SHG approach benefits the women, SC/STs and the OBCs and has made impressive outreach. There is significant outreach of impact of SHGs in terms of physical as well as qualitative factors on the socially weaker sections of the society such as women, SC/STs and OBC category of the poor. While the women constitute a whopping 92% of the SHGs, the SC/STs constitute 23% and the OBCs constitute 28.30%. Furthermore, it is established by the study that economic impact of the SHG approach is appreciably pronounced in the case of weaker sections (page 217: Table 6.43).

The study has conclusively established that SHGs have provided access for credit for their members from formal financial institutions, enabled them to increase their savings and harness economic benefits. Further, they have contributed for reducing their dependence on moneylenders and made available timely credit at much lower rates to the individual members thus resulting in empowerment benefits to women. Accordingly, women through their changed economic situation and experience of collective self-management of the SHG have garnered visibility and voice in the household and in the community. To sum up, SHGs have made significant economic impact on the development of rural economy.
Section - III

Recommendations

On the basis of the findings and the observations made during the course of this study, the following recommendations have been made.

The Role of Banks

This research proves that banks have several financial motivations to invest in SHGs. Given that microfinance programmes differ so radically from traditional banking, banks need to recruit and retain specialized staff to manage these programs. Issues of recruitment, training, and performance incentives require special consideration. Further, Microfinance programs need to be imbibed into the larger bank structure so that they have relative independence and, at the same time, have the scale to handle thousands of small transactions efficiently.

Microfinance programs are costly because of the small size of their loans and because banks cannot operate them with their traditional mechanisms and overhead structures. Strategies must be devised to minimize processing costs, increase staff productivity, and rapidly expand the scale of micro enterprise portfolios. Incentives to staff for improving their performance in SHG-bank linkage banking need to devised in order to encourage linkage banking without compromising on the quality of linkage. Also, incentives to SHGs for encouraging them to maintain good group health need to be devised.

It can be surmised that SHG-bank linkage models offer advantages both to the financial institutions as well as the poor in transaction costs. The significant reduction in transaction costs of lending as well as for borrowing offer stimuli to all the stakeholders to evince interest in the SHG programme as a microfinance tool for the
benefit of the resource poor. SHGs offer a significant reduction in such costs of transaction that makes another selling point for the SHGs. Transaction costs to financial intermediaries can be significantly reduced with a high retention rate which eventually results in higher average loan sizes.

**Efforts to Reduce Transaction Costs**

Banks should encourage SHG-bank linkage since transaction costs of lending as well as risk cost are significantly lower when compared to transaction costs under banks’ direct lending to individuals. Furthermore, there is a need to reduce the transaction costs for banks as well as borrowers. Banks need to invent new lending products and innovative systems and procedures to reduce the cost of lending to the poor. Some of the measures which can be effected to reduce the transaction costs are: (1) simplification of the documentation process and (2) simplification of the reporting system and reduction in the number of reports.

Sustainability is of root significance to microfinance programmes. Sustainability still remains the most concerning aspect of SHG approach for rural development. Banks which also promote SHGs themselves, such as the Regional Rural Banks, do not have adequate institutional capacity to sustain this role. Further, neither banks nor NGOs take into consideration the resources needed to maintain the SHGs structure after promotion, and to address the inevitable negative group dynamics on the long run. The commitment of banks to micro lending is often fragile and generally dependent on one or two visionary board members and enthusiastic managers rather than based solidly on institutional mission. In view of this, appropriate measures need to be introduced to encourage the branch managers and the staff for encouraging sustainability of SHG activity in their area of operations.
Accordingly, NABARD has to sharpen its focus on building the institutional capacities of RRBs and Cooperative Banks in remote rural areas. Although, NABARD is already doing, in this regard, the efforts have to be more focused and strategic.

Bank linkages for SHGs are at present driven more by annual targets than as a system. This is again turning to be like another target oriented government programme where statistics are more enticing than the actual quality of progress achieved. In view of this, banks linkages are to be driven more by passion and zeal than by targets in order to achieve sustainable results.

**Need for Developing Standards for SHG-Linkage**

The policy of supporting SHG linkages with banks has merit in a country with a large bank network. The study comes out with a concern about the quality of SHGs being linked. Since the SHG-bank linkage programme has almost become target driven, there is impending threat of defunct of SHGs due to various reasons. At the heart of SHG promotion is a need for skilled and dedicated staff capable of institutionalising internal systems and processes in the SHG along with providing internal systems and processes in the SHG along with providing support for maintenance of group accounts, periodic auditing and systems for flow of information to the facilitating institution. Although banks and NGOs use some kind of tools to rate SHGs, there is a need for standardising and sincerely enforcing the standards for linking the SHGs with banks.

**Public awareness and participation**

Mass media and educational institutions can play a key role in this area. Credible information material should be prepared for the purpose of heralding the role
of SHGs in rural development. Different forms of communication should be mobilized, and modern information technology may be used to document, validate, and disseminate the experiences of Self Help Groups and their economic impact on development of rural economy. It is preferred that the media messages should also be gender-sensitive.

Further, systematic efforts are required to be made for documentation of several innovative microfinance practices being adopted in different parts of India.

**Role of Government**

Various strategies are required to be developed by the Government of India including policy intervention, promoting research and stakeholder participation, and technological intervention and recognizing the role of Self Help Groups in development of rural economy.

Government role is desirable to be proactive towards developing infrastructural support for creating an enabling environment for SHGs in addition to the direct interventions in the form of providing subsidies to beneficiaries and allowing scope for political interferences in the programmes. Some of the studies on Government sponsored programmes have revealed that local level political interferences have affected the success of the programmes and also resulted in non-selection of most eligible beneficiaries for the programmes. At grass root levels, local level politics is on higher side and as a result animosity between divergent political groups affects the selection of the beneficiaries. In view of this, it is desirable that government role should be more on building an enabling environment than as a direct intervener.
The Governments both at the Centre and the State can think of the possibilities of implementing the some of the subsidy / margin oriented schemes through the SHGs so that recovery performance and end utilisation can be ensured besides reducing the transaction costs.

Need is felt to arrange entrepreneurship development programmes for the members of the SHGs who are graduating themselves beyond consumptive credit to the production / investment credit. It could be a specific skill oriented training.

In order to cover more and more weaker sections under this useful and effective rural development approach, it is required on the part of the government to implement as many development programmes as possible through the SHGs so that twin objectives like better utilisation of the scheme and coverage of weaker sections can be achieved.

Still there is a huge potential for the spread of this activity given the facilitating environment. In view of the smoothness of the concept and ease of adoption by all the stakeholders, concerted joint efforts can be made involving the line departments of the governments, NGOs and the banks for spreading the SHG activity still further to reach the unreached. Also, Government could earmark a part of the funds spent on providing subsidies under government-sponsored programmes for the formation of Self-Help Groups and providing useful incentives to SHG activity.

One of the more vital and challenging components of effective social and financial intermediation systems is savings. Savings serve many purposes viz; to demonstrate discipline and commitment; to serve as an insurance against default; to build a group-based capital asset, and to develop a source of loan capital for the institution itself. Savings services also respond to a felt need on the part of many
clients. Accordingly, there is a need to introduce incentives for increasing the thrift activity among the poor. While some of the selected few groups among the government promoted groups get incentives in the form of revolving fund assistance, a large number of groups promoted by NGOs and banks need to get incentives. In view of this, incentives to these groups also may be provided through the banks where the accounts of the groups are maintained in order to increase their savings propensity. This also increases the proportionate credit dispensation to the rural poor through these groups.

Interest rates for SHG loans need to be reduced to the levels at least at par with that of the Kisan Credit Card (KCC) loans to farmers since SHGs significantly cover the weaker sections. This measure would also add to the income levels of these groups and act as a motivation for increased credit availment.

In order to increase production levels of the SHGs significantly, the relevant production techniques and know-how need to be preserved and spread / shared among the production groups in order to standardise the production as well as packaging process that is suitable for storage and marketing. In this regard, the rural technology mission can be formed by the government with the involvement of the scientists involved in rural technology research, rural economists, rural bankers and NGOs involved in such activities.

*Marketing infrastructure*

The available marketing system like regulated markets in the formal sector and informal markets like weekly markets in rural areas do provide some marketing facilities. However, marketing avenues for the various products manufactured by the SHGs need to be created. Forward and backward linkages to the production groups
would go long way in increasing their production as well as income levels. The governments at the local and state level can earmark some of their rural infrastructure development funds for creation of marketing facilities (with cold storage facilities wherever required) exclusively for SHGs. Further, creating linkages between NGOs (and or federations of SHGs) and the marketing and export organisations in order to market the SHG products will be of immense help for encouraging the SHG activity.

**Governance of Microfinance Sector**

Microfinance sector of India is unmatched because of both its large size and diversity of institutions operating in the field. Having crossed the stage of formative years more under an informal framework the microfinance sector is now looking forward to a conducive and an appropriate regulatory environment to grow further. Since SHGs are mostly unregistered local groups, lack of legal framework does deter many grass root bankers from the concept as a major methodology for continuous lending. There is a need for establishing an apex organisation with some required statutory powers for microfinance at the national level, which should work for advocacy of microfinance and also for networking among NGOs, banks and governments.

The study has established the hypotheses that Self Help Group approach builds the capacity of individuals, households, and micro-enterprises to manage risks by increase in savings and its utilization, increase in employment generation, improvement in asset holding, effective utilizations of credit, credit-savings ratio, interest rates, repayment of loans, etc. It has proved that Self Help Group approach contributes to increase in production levels and reduction in the incidence and severity of poverty among clients through improvements in household income.
Further, the study has found that Self Help Group approach is an effective strategy for extending financial services to the poor and other disadvantaged groups not reached by formal sector finance, in terms of transactions cost both for the banks as well as the poor borrowers of SHGs. Also, Self Help Group approach contributes to empowerment of women by providing them access to economic resources and influence over their uses, participation in economic decision-making, opportunities for self development, skill development and thereby enabling them to participate in socio-political decision-making.

Finally it is concluded that Self Help Group approach combined with other supportive interventions (like non-financial services, social mobilization, and other forms of social protection) has greater impacts in reaching the women, SC/ST, and other weaker sections of the society.