

CHAPTER I
INTRODUCTION



“No, these women needed opportunity, not charity – They want chance, not bleeding hearts” – Prof. Mohammed Yunns

Executive Summary

This Research study begins with a background discussion about unemployment and poverty in rural areas and why low-income persons seek self-employment as a viable option towards building social and human capital to work towards poverty alleviation. It moves on to a discussion of a qualitative analysis the impact of SHGs on individual members, family, and community life, changes in skills, knowledge, and attitudes, successful outcomes, and the development of human and social capital. Utilizing these findings, effectiveness of Women SHGs in the promotion of micro enterprises is discussed, suggesting that micro enterprise development is a viable option for poverty alleviation, and community economic development.

This research study examines the Effectiveness of Women SHGs in the promotion of micro enterprises in Rajasthan and Tamilnadu, specifically, the development of social and human capital through micro enterprise development to work towards poverty alleviation.

The growing commercialisation of rural economy, increasing dependence of agriculture on external inputs, mobilizations of savings towards construction and the growing education have opened up new vistas for the micro-enterprise development in India. Micro enterprises in the study area, as else where, are undergoing a very remarkable change in terms of their capital composition. While certain traditional industries are carried out with low technology, using low quality raw material and catering to the low-income groups of the customers, many others are facing urgent need to enhance their capital base for productivity improvement, cost reduction and innovate for effective marketing. All these are requiring additional capital investment for which the entrepreneurs need credit. At the same time, a few enterprises employing slightly improved technologies, using better quality raw materials and catering to the low income as well as the regional markets have been able to generate sizeable surpluses.

The experience in promoting micro enterprises in the regions of poverty suggests that markets are dynamic and for enterprises to be sustainable, the entrepreneurs must be able to understand the behaviour and character of markets and respond appropriately to the challenges of competition. Micro enterprise promotion among the very poor requires comprehension of the market dynamics. Markets being highly dynamic in character, enterprises are under constant risk due to relative ease of entry and exit conditions.

The study shows that SHGs are still in a state of flux and their sustainable development depends on a number of factors, which are both internal and external to the group. No doubt, SHGs have set a new empowerment agenda for financial intermediation by banks. Further, SHG as a system has infused certain synergy among its members to move up in the socio-economic ladders from passive onlooker into an active partner/stakeholder in the development process. Today, SHGs in India have become a potential tool for the empowerment of women, social solidarity and socio-economic betterment of the poor in their own setting.

1.1 Introduction and background

Throughout history, people have formed groups with others who have something in common with them, and oppressed people have joined together to overcome the conditions they face. **Self Help groups**, as we know them, go back at least to the 1930s, when Alcoholics Anonymous started in USA. While self help groups have distinct characteristics, the philosophies of the self help movement overlap with various other ways of working. Community Development, which became established as a discipline in the late 1980s, shares the concept of empowerment. In the past two decades, the self-help movement has mushroomed. AA, the largest self-help group, reports over one million members in the US. One estimate places the total number of people in self-help support groups at 20 million. There are groups for addictions--Alcoholics Anonymous, Gamblers Anonymous, Debtors Anonymous; for families--Families of the Mentally Ill, Mothers of Twins Clubs; for illness/disability--National Association of People with AIDS, Tourette Syndrome Association; for mental illness--Emotions Anonymous, Recovery, Inc., GROW; for bereavement--The Compassionate Friends, Survivors of Suicide, Widow to Widow; and for lifestyles--Single Mothers by Choice and Society for the Second Self (cross dressers),etc.

Self Help Group is about people coming together with others who are affected by a particular issue (experience, disadvantage, discrimination, etc) to support each other and to work together to change the disadvantage affecting them. Activities that groups do include community education, information, mutual support etc.

Self Help group (SHG) is a self-governed, peer-controlled small and informal association of the poor, usually from socio-economically homogeneous families who are organized around

savings and credit activities. Funds for credit activities are coming through regular savings deposited by all of its members on a weekly or fortnightly basis. In the meetings they discuss common village problems and plan solution, share information; make efforts to improve their health and literacy skills.

Self Help Groups are not charity or simply community based groups. They are made of and controlled by the people affected. Group members are not volunteers. Although the work is usually unpaid, members work to change their own situation and the support is mutual. The knowledge base of self-help mutual support groups is experiential, indigenous, and rooted in the wisdom that comes from struggling with problems in concrete, shared ways. Self-help groups build on the strengths of their members.

SHGs have another very important role to play particularly in the transfer of technology to user group population. It has been found by the members of SHGs that they offer them organizational base, large resources, and access to modern technology leading to employment and income generation. Thus, SHG movement among the rural poor in different parts of the country is emerging as a very reliable and efficient mode for technology transfer. However, it is strongly felt that the pace of transfer and popularization of technologies must be accelerated so that even the small farmer can benefit from new technologies.

1.2 The Effectiveness of Self-help Groups in Global Context

The emergence of self-help groups can be seen as a response to industrialization, the breakdown of the kinship system, and the decline of the community (Katz & Bender, 1976; Humm, 1997; Kessler et al. 1997), although alternative views see it as a reflection of an ineffective, inefficient and dehumanizing formal system of care (Gartner & Riessman, 1977). Currently, the increasing interest in providing services that are family-centered is also considered a factor contributing to the increased number of self-help groups (Rosenbaum et al., 1998). Despite the variety of explanations for the self-help phenomenon, the consensus is that there is a need for a new model to supplement and complement professional services, and that self-help groups are growing at an unprecedented speed worldwide. For example, about two percent of Canadians belonged to self-help groups in 1987 (Gottlieb & Peters, 1991), approximately 10 percent of Israel's population, was estimated to have some type of involvement in a self-help group (Ben-Ari & Azaiza, 1995), and cancer self-help groups were

found to be prevalent in major cities in China (Mok & Zhang, 2001). In the United States, self-help group participation amounted to 10 million in 1996 (Kessler et al., 1997) and it was recently noted that more Americans try to change their health behaviors through self-help than through all other forms of professional programs combined (Davison et al., 2000). The proliferation of self-help groups in various countries can be seen as an initial indication of self-help group effectiveness, because groups will cease to exist without value.

The self-help movement is becoming a global phenomenon. In some countries, self-help groups already exist for every medical condition listed by the World Health Organization (Riessman, 2000a), and they are serving people who encounter almost every physical, behavioral and emotional problem (Humphreys, 1997; Kessler et al., 1997). In spite of the rapid growth of self-help groups in India, the full potential of utilizing self-help groups remains untapped. One of the reasons may be attributed to the lack of systematic research and solid methodological foundations. Little was known about how helpful self-help groups are to members, and what kind of social impact they have brought about. The research component of the self-help phenomenon has clearly been left behind by the self-help movement itself.

Theoretically and empirically, the effectiveness of self-help groups has been widely documented in global context. The “helper-therapy principle” postulated by Riessman (1965) pointed to the process by which helping others has a therapeutic effect on the helper, and the self-help group provides the context for members to gain the unique benefits that may arise from helping someone who has the same problem as the helper. Rappaport (1993) asserted that self-help groups, which offer the venue for, shared experience; emotional support and social learning can help constitute a social identity. Along the same line of thinking, Yalom (1995) contended that self-help groups provide a unique opportunity for growth, social experimentation and change. Past research has also identified several major outcomes of self-help groups. These include: emotional support, acceptance, empathy, affirmation, spirit of hope, and sharing of feelings; provision of factual information and sharing of experiential knowledge; development of a sense of community; and individual and collective empowerment (Gottlieb, 1982; Kurtz, 1988; Borkman, 1976; Levy, 1979; Gartner & Riessman, 1977; Katz & Bender, 1976; Gidron et al., 1991; Jacobs & Goodman, 1989; Bennett et al., 1996; Humphreys & Rappaport, 1994).

1.3 SELF HELP GROUPS: PATH WAYS OUT OF POVERTY IN INDIA

Self-help groups (SHGs) play today a major role in poverty alleviation in rural India. A growing number of poor people (mostly women) in various parts of India are members of SHGs and actively engage in savings (in actual term Thrift) and credit (S/C), as well as in other activities (income generation, natural resources management, literacy, child care and nutrition, etc.). The S/C focus in the SHG is the most prominent element and offers a chance to create some control over capital. The SHG system has proven to be very relevant and effective in offering women the possibility to break gradually away from exploitation and isolation. Almost all major donor agencies support SHGs in India in one way or another, and many success stories are available, describing how membership in a SHG changed the life of a particular individual or group for the better. Many NGOs are promoting the SHG mechanism and linking it to various other development interventions. Whereas there is ample evidence that the SHG approach is a very effective, efficient and relevant tool for organizing and empowering the poor, do arise with design, development and introduction of programmes to promote income-generating activities (IGAs) that will generate sufficient, sustainable and regular income.

The approach towards poverty alleviation is based on the formation of self-help groups at the grass root level. This brings about the necessity for organizing them in a group by which they set the benefit of collective perception, collective decision-making and collective implementation of programme for common benefits. This organization holds the power and provides strength and acts as an anti dote to the helplessness of the poor. The group saving of self helps groups serve a wide range of objectives other than immediate investment. The approach has evolved over the years in India. Before understanding the strength of SHGs as a tool in Poverty Alleviation, it is imperative to understand the evolution of various Poverty Alleviation programs in India.

1.4 PERSPECTIVES OF POVERTY ALLEVIATION IN INDIA

Empowerment of the poor encompasses three basic dimensions-reduction of poverty, creation of employment, and erasing inequality. Since the magnitude of poverty challenges the very basis of State as an independent economic and political unit, it has been realized by the policy planners that development, needs to be people centered and participation oriented across

various interfaces. Poverty Alleviation has thus assumed a new thinking and new practices have emerged through integrated community participation of the poor. The basis of the concept of micro finance is self-organization of the poor at the community level driven by a desire and an inherent capacity to improve their living conditions by themselves. Inspired by the success of the Bangladesh Grameen experiment, the self-help group approach in India has taken strong roots as an effective and viable channel to take the poor to a new domain of economic empowerment and social upliftment. Micro finance, which synergies the thrift and credit habits of the poor in a participatory and informal setting, is now widely acknowledged as a strategic tool to dent poverty in all poverty alleviation programmes. With the fast expanding Self Help Groups movement covering nearly 8 lakhs SHGs across the country, India is poised to provide pragmatic solutions by demonstrating the success of micro finance for eliminating total poverty in the coming decade.

Poverty as a global phenomenon has varied genesis, dimensions, and definitions. The definition of poverty is to be derived from a holistic approach to the multidimensional problem. While human poverty is generally interpreted based on motivation levels, income poverty is defined on the basis of minimum income levels required to meet basic consumption needs and amenities. The definition of poverty needs to go beyond these conventional interpretations and cover the deprivation of human dignity caused by vulnerability to social and cultural shocks resulting in a low quality of life. The eradication of poverty has been an integral component of the strategy for economic development in India. 'Poverty line', the basic indicator of poverty according to the Planning Commission, is defined as "total consumption expenditure at which one can expect a person to be adequately nourished in the specific society under consideration". The underlying assumption is that people at the poverty line have just enough money to provide themselves with food that translates into 2200 calories per person. Large sample surveys are conducted by the National Sample Survey Organisation (NSSO) to obtain the consumption expenditure of various groups of the population at an interval of approximately five years. Based on this, the incidence of poverty is estimated at national and state levels. It has indeed declined from 54.9% in 1973-74 to an all-time low of 26.1% in 1999-2000.

In view of the larger distribution of poor geographically as well as the magnitude of the population below poverty line, the central government has taken a pro-active stand in dealing

with the problem. Policy planners have explored the following approaches in designing different poverty alleviation programmes.

- Area development to decrease regional disparities and to take care of vulnerable regions affected by natural calamities.
- Sectoral approach to assist the poor in their livelihood activities with major emphasis on farming.
- Targeted approach for a section of people by creating employment generation through development programmes.
- Empowering approach through financial incentives and credit support for self-employment enterprises in farm and non-farm sector.
- Multipronged approach with integrated spatial and social development

1.5 OVERVIEW OF POVERTY ALLEVIATION PROGRAMS IN INDIA

Programme	Target	Objectives	Approaches
POVERTY ALLEVIATION PROGRAMS INITIATED WITH AREA/ SECTORAL/ SECTIONAL APPROACH IN SEVENTIES & EIGHTIES			
1) Command Area Development Programme (CADP)	.....	Equitable development of backward areas	Area Development Approach
2) Drought Prone Area Program (DPAP)	.....	Relief/rehabilitation/promotion of suitable livelihoods in the affected areas.	Area Development Approach
3) Hill Area Development Programme (HADP)	.....	Development of hard terrain and disadvantaged areas.	Area Development Approach
4) Modified Area Development Programme. (MADP)	.....	Same as above	Area Development Approach
5) Small Farmers Development Agency (SFDA) & Marginal Farmers and Agriculture Labourers Development Agency (MFAL)	Small and Marginal Farmers	Provision of inputs for poor farmers to pursue livelihoods in agriculture and allied activities.	Sectoral Development Approach
6) Fish Farmers Development Agency (FFDP)	Fish Farmers		Sectoral Development Approach
7) Large Agricultural Multipurpose Society (LAMPS)	Rural Poor	Direct assistance for livelihood promotion	Sectoral Development Approach
8) Economic Rehabilitation of Rural Poor (ERRP)	Vulnerable People		Sectional development approach
9) Massive Assistance Programme (MAP)	--do---	Special Assistance to Vulnerable sections livelihoods/health/Literacy.	Sectional development approach
10) Special Assistance		Empowerment of	

<p>Programme (SAP)</p> <p>11) Development of Women and Children in Rural Areas (DWCRA)</p> <p>12) Scheduled Caste Action Plan (SCAP)</p>	<p>Women & Children</p> <p>SCs</p>	<p>Women & Child Education</p> <p>Empowerment of SCs</p>	<p>Sectional Development Approach</p> <p>Sectional Development Approach</p>
<p>POVERTY ALLEVIATION PROGRAMS INITIATED WITH INTEGRATED APPROACH IN NINETIES</p>			
<p>13) Integrated Rural Development Programme (IRDP)</p> <p>14) Integrated Tribal Development Agency (ITDA)</p> <p>15) Twenty Point Economic Programme (TPEP)</p>	<p>Rural poor</p> <p>Tribal poor</p> <p>Rural & urban poor</p>	<p>Functional, temporal & sectoral integration development of national resources human resources and provision of initiatives for holistic approach.</p> <p>As above, targeting tribal poor who constitute major disadvantaged section of poor</p> <p>Removing social and economic disparities raising productivity. Rural poor</p>	<p>Integrated Approach</p> <p>Integrated Approach</p> <p>Integrated Approach</p>
<p>POVERTY ALLEVIATION PROGRAMS INITIATED RECENTLY WITH BENEFICIARY TARGETED & CREDIT SUPPORT FOR SHGs</p>			
<p>16) Swarnajayanti Gram swarozgar Yojana (SGSY)</p>	<p>Rural poor</p>	<p>Integrated initiatives for providing infrastructure, credit, marketing, utilities & services, training, etc., for promoting self employment, gender equality, community development projects, and overall empowerment of poor</p>	<p>Individual and self help group approaches cluster promotion, Direct grants/subsidy cum-credit support.</p>

17) Swarna Jayanthi Shahari Rozgar Yojana (SJSRY)	Urban Poor	aimed at poverty alleviation. Self employment for urban poor	Individual & SHG subsidy credit support/ training.
18) Jawahar Gram Samridhi Yojana (JGSY)	Rural poor	Employment assurance through wage employment. Provision of shelter with subsidized cost	Beneficiary targeted
19) Credit linked margin money Scheme of KVIC	Rural poor & semi urban poor	Self-employment through village enterprises with training & markets.	Beneficiary targeted with credit subsidy support
20) Prime Minister's Rozgar Yojana (PMRY)	Educated unemployed youth	Self employment through micro enterprises with training	Beneficiary targeted with credit and subsidy support/training.

1.6 INDIAN EXPERIENCE OF POVERTY INITIATIVES

The first anti-poverty program “**Antyodaya**,” aimed at the poorest of the poor, was kicked off in Orissa, the most backward state of India. Encouraged by the success of the scheme, a national programme was launched on a large scale under the name **Integrated Rural Development Programme** (IRDP) targeting below poverty line families in rural areas. This programme modified with the inclusion of Self Help Group pattern for beneficiaries under the name **Swarn Jayanthi Gram Swa Rozgar Yojana**, which continues to be the biggest employment generation programme for poverty alleviation in rural areas. The vulnerability of poor to passive risks of drought are tackled under Drought Prone Area Program (DPAP) where long term and sustainable asset creation is adapted as strategy for specific disadvantaged regions. IRDP, with massive dose of subsidy coupled with liberal bank finance and without collateral, was a large-scale financially structured initiative with project management units headed by senior bureaucrats in the country. Both programs were multisectoral in nature, as the programmes typically contained components from various sector such as roads, drinking

water supply, and education. The administration of these centrally sponsored schemes could be traced to the system of centralized economic planning in 1952 which invariably resulted in the centre taking a proactive role in formulation of development programmes falling in state list of subjects such as rural development, social, welfare, health, family welfare, area development, etc. The reasons for such an approach were generally scarcity of resources as well as technical expertise with states – and also the need for leadership initiative, which could be provided more effectively by the central government.

1.7 STRATEGIC SHORTCOMINGS IN POVERTY ALLEVIATION PROGRAMS

Three decades of experiments with poverty under the schemes have attained varying degrees of success due to some shortcomings in design and delivery.

- Improper delivery system affecting outputs in an adverse manner
- Insufficient funds for projects
- Project Management Units were not sustainable management entities with dependence on several institutions both promotional and financial.
- Public sector banks expected to play a constructive role, and only could address the development issues partially.
- Lack of proper supervision and monitoring of schemes.
- Lack of sharp focus on objectives with “plan driven approach” rather than demand driven approach.
- “Top down strategies” bypassing the total participation of beneficiaries and grass root level local governing institutions, who are the stakeholders of the schemes
- Emphasis on asset creation instead of gainful employment
- Operation of overlapping schemes with similar objectives resulting in funds leakage for unintended beneficiaries.

1.8 Conceptual evolution of micro finance in India

The irrepressible desire and inherent capacity of poor to improve their living for themselves is considered as the foundation for concept of Micro Credit. Propelled by the demonstrative success of Bangladesh Grameen Experiment Micro Credit is acknowledged as an effective channel to take the poor into a new domain of economic empowerment. Micro credit

movement assumed global advocacy through Micro Credit Summit held in February 1997 at Washington. The summit representing 1500 institutions and 137 countries is a landmark in the collective crusade against poverty undertaken by the developed and developing countries together. The Micro Credit Summit launched a nine-year campaign to reach 100 million of the worlds poorest families by the year 2005. Micro credit is referred as providing “Credit for self employment, financial and other business services including savings and technical assistance.

Most of the countries have long-established cooperative movements, including credit cooperatives. In most countries in South Asia and also in Indonesia, credit cooperatives have been largely unsuccessful in extending financial services to poor households. Generally, the cooperative movement includes people of all income levels within a particular village or community, and does not target the poor. Moreover, management of the cooperative movement has been inadequate in most countries.

In some countries such as India and Pakistan, a large proportion of cooperatives is reported to be non-functional, due to financial mismanagement and inability to recover dues. Even where they are functional, management is often dominated by rural elites, with funds allocated on the basis of patronage rather than needs. Frequently they rely heavily on government funds and are largely owned and controlled by governments. In India and Pakistan, for instance, state and provincial cooperative departments have the right to be represented on the board of directors, and can exert considerable influence on the management of cooperatives. For instance, permission may be needed to hold elections, invest funds, change their area of operations, use funds from their reserves, and similar matters. Particularly in India there are very few highly successful cooperative banks and societies, which are devoted specifically to providing financial services to the poor, such as SEWA Bank and Working Women’s Forum etc,

Micro – credit is distinctly different from other poverty alleviation schemes. Loans under micro – credit programs are very small, on an average less than \$100 by world standards and in hundreds of rupees by Indian standards. Micro – credit continues to target the rural and urban households, with emphasis on women borrowers, provision of finance for creation of assets and their maintenance and bringing in greater quality of services. The beneficiaries are identified by micro – credit providers themselves independently or through NGOs/Self Help

Groups/ the repayment period is generally very short. The amount is increased based on the borrower's repayment history.

Micro – credit is a novel approach of banking with poor with the distinct advantages of high repayments of loans and low transaction cost. Various micro – finance initiatives have gathered pace in the recent years. In Micro – Credit NABARD's role has been twofold, viz., promotional and financial. Promotional efforts assume the form of the SHG – Bank Linkage programme and facilitating training. Financial involvement is in terms of providing refinance, revolving fund assistance and grants.

Over the last decade micro finance has become an accepted institutional framework for taking financial services to the poor. Micro finance has now evolved into a type of independent financial system of its own and there are a number of variants in micro finance institutions and systems. But broadly they can be classified into two—the individual approach and the group approach. An example of the group approach, where the group itself, not the individual member, is the client, is the self-help group program in India.

In all countries there are wide variety of small, informal savings and loans groups, such as rotating savings and credit associations (ROSCAs), which operate informally and are not registered. In at least three countries, these or similar groups have been institutionalised to some extent by involving them in formal micro finance programs. In India self-help groups (SHGs) are an integral part of the National Bank for Agriculture and Rural Development (NABARD) program for linking banks and SHGs. Nevertheless, they are generally not registered. Under Indian law, SHGs are only required to be registered (as a society, trust or cooperative) if they have more than 20 members. For this reason, many SHGs restrict their membership to 20 persons or less. It is also observed in Gujarat and some other parts of the country that some larger SHGs operate informally and are not registered.

The purpose around which an SHG is initially formed varies depending on the kind of program being implemented and the need for collective working. It varies from managing a collective resource to promoting a social cause. In the context of microfinance, SHGs are formed (and sometimes old SHGs established with another purpose are converted) to foster savings and credit. A small group of individuals become members and pool their savings on a regular basis

to form a collective fund. This fund is then rotated as credit amongst the members through a system of self-generated norms. Hence, the basis of the SHG is the mutuality and trust in depositing individual savings in group funds. Once the initial trust is established, the incentive or motivation for a member is the access provided to financial services through the common pool fund, which is higher than the individual's own savings. Once such an SHG is formed and stabilized (through repeated rotations of their own savings converted to mutual credit), it is possible for it to become a source of funds to others outside the SHG.

Indonesia has hundreds and thousands of groups engaged in savings and credit. Some of these are indigenous, based on traditional custom, while others are the result of action by government agencies, community groups and NGOs to form groups in connection with various government-initiated microfinance schemes. These include Bank Indonesia's microcredit project and program linking banks with self-help groups (PHBK), the income-generating project for marginal farmers and landless of the Ministry of Agriculture, and the newer mass programs (IDT and Prosperous Family program). There is no provision for registration of SHGs, nor are they regulated except in the context of the particular government program from which they arise.

Similarly in Thailand, some of the community organisations involved in the microfinance programs of the Government Savings Bank (GSB) and Urban Community Development Office (UCDO) are registered as cooperatives. However, most are unregistered and operate informally. For instance, figures from UCDO show that of the 385 members with savings activities, only 66 are legally registered as cooperatives while the other 319 are not registered and operate informally.

Moreover, in most countries the cost of subjecting MFIs to full prudential regulation and supervision would be prohibitive. In Bangladesh, for instance, there are around 1,000 NGOs involved in microfinance. And while MFIs in other countries do not have nearly the same outreach as in Bangladesh, the number of MFIs is not necessarily less. In India there are perhaps as many NGOs engaged in microfinance as in Bangladesh, plus some 90,000 primary agricultural credit societies and thousands of self-help groups. In the Philippines, there are some 500 MFIs reaching a combined total of only 30,000 borrowers. In Thailand there are more than 1,500 community organisations engaged in microfinance.

In India, there are at least three official second tier institutions, which on-lend to specialist MFIs. However, none of them imposes rigorous performance and reporting standards. The second tier institution with the largest lending program is Rashtriya Manila Koch (RMK). For a partner organisation to borrow from RMK, it should have at least three years experience in thrift and credit administration, a 90 per cent recovery performance during the last three years (in practice, RMK generally accepts a recovery rate in the range of 80 to 90 per cent), satisfactory funds management and financial performance, and a good track record of work in the socioeconomic field. These requirements are all quite general in nature. There are also a number of requirements relating to loans by the partner organisations to individual borrowers. Further, partner organisations are supposed to maintain 10 per cent of the loan provided by RMK as reserves, but this is not strictly enforced.

The performance and reporting standards imposed by two other significant second tier institutions, the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are even less specific than those imposed by RMK and do not provide a basis for monitoring the financial performance of the NGO.

As a part of its mandate, NABARD initiated certain research projects on SHGs as a channel for delivery of micro-finance in the late eighties. Amongst these, the project sponsored by the Mysore Resettlement and Development Agency (MYRADA) on “Savings and Credit Management of SHGs” was partially funded by NABARD in 1986–87. In 1988–89, in collaboration with some of the member institutions of the Asia Pacific Rural and Agricultural Credit Association (APRACA), NABARD undertook a survey of 43 nongovernmental organizations (NGOs) in 11 states in India, to study the functioning of microfinance SHGs and their collaboration possibilities with the formal banking system (NABARD, 1991). Both these research projects produced encouraging possibilities, and NABARD initiated the pilot project called the SHG linkage project in 1992. NABARD also held extensive consultations with the Reserve Bank of India. This resulted in issuing a policy circular to all commercial banks to participate and extend finance to SHGs (RBI, 1991). NABARD also issued a broad set of flexible guidelines in February 1992 (NABARD, 1992) to the formal rural banking system, explaining the project’s modalities. The project was extended to the regional rural banks and co-operative banks, in addition to the commercial banks in 1993.

1.9 Origin of SHGs in India

- In 1976, **Prof. Mohammed Yunus** of Bangladesh started women's groups in Bangladesh and developed thrift and savings among the poorest. Now it has developed into a bank named **Bangladesh Grameen Bank**. Its report in February 1998 states that the bank has 1138 branches and covers 39572 villages. It has 2367503 members of which only 124571 are men. The bank has disbursed a cumulative amount of US \$ 2714.61 Million whereas the savings of the members has reached US \$ 202.73 Million.
- With the success of BGB and similar organisations elsewhere, the concept of **Micro credit** has gained momentum in India. Based on this success many Non-Governmental Organisations (NGOs) in our country are involved in organising SHGs and they serve as an agent between the bank and the poor.
- Self- help groups (SHGs) play today a major role in poverty alleviation in rural India. A growing number of poor people (mostly women) in various parts of India are members of SHGs and actively engage in savings and credit, as well as in other activities (income generation, natural resources management, literacy, child care and nutrition, etc.). The S/C focus in the SHG is the most prominent element and offers a chance to create some control over capital, albeit in very small amounts. The SHG system has proven to be very relevant and effective in offering women the possibility to break gradually away from exploitation and isolation.
- In our country the pioneer in this field is **Self-Employed Women's Association (SEWA)**. Without the Grameen model SEWA was started in 1972. Though started as a Trade union for women in the unorganised sector, today SEWA boasts of running the first Women's Bank in the country. By the year 2000 SEWA has a membership of 209250. The SEWA Bank has 87263 depositors, and 41757 borrowers whose loan outstanding us Rs.887 lakhs 4 as on March 1998. SEWA has also networked many co-operatives and emerged as the largest federation of co-operatives in the country.
- In Southern India organisations like **PRADAN, MYRADA, ASSEefa, MALAR** etc. have entered into this rural credit system. PRADAN has a membership of 7000 women who have availed 40000 loans worth \$ 600000 as on March 1997. MYRADA has 62769 members who have saved RS.48 lakhs and availed loan to the tune of Rs.2.90 crores. MALAR has a membership of 15000 women who have saved RS.86 lakhs and availed loan to the tune of Rs.2.23 crores.

- NABARD refinances the banks, which lend to SHGs. As per NABARD's Annual Report 1998-99, banks have financed 30447 SHGs with a finance of Rs. 53 crores as on 31st March 1999. The repayment is excellent. The Finance Minister in his budget speech has asked NABARD and SIDBI to increase the number of SHGs to 100000. Even this number will be minuscule as it will cover only 2000000 people in our country which has nearly 38 crores of people below poverty line.
- MALAR has emerged as a new self-reliant model for our nation. An offshoot of the Total Literacy Campaign in Kanyakumari District, MALAR has emerged as an organisation of poor women who share the interest income to sustain a full time structure, office and training schedule. This has kindled a new hope. Already 10 districts in Tamilnadu have undergone training at MALAR and started similar organisations for micro-credit.
- Revamping of the rural credit system has already started. The banks Regional Rural Banks, Co-operatives and SHGs linked with Non-Governmental Organisations (NGOs) have a role to play. There is need for closer study to support the system. So that the country can eradicate poverty at least in the beginning of the next millennium. NABARD introduced a Pilot Programme for starting and lending to SHGs in 1992 based on the experience of BGB and MYRADA. Now seeing the success in repayment many banks are eager to lend to SHGs and because of the pressure from Govt. NABARD has started giving targets to Banks.
- NABARD also provides training support, Grant cum Aid support for micro credit under it's different schemes. SIDBI has entered this field late but now SIDBI has formed a Micro-credit foundation, which gives loans to NGOs after rating them by an external agency. The minimum loan is Rs.50 lakhs and it is to be used only for micro enterprises.
- Rashtriya Mahila Kosh - an organisation promoted by Govt. Of India also gives direct loans to NGO's for on lending with incentives for proper repayment. All Banks including co-operative Banks and Private Banks lend to SHGs based on their savings at the ratio of 1:1 initially and this can go upto 1:4. Suddenly World Bank and IMF have found a way to reach the poor through NGOs and they see this an opportunity to reduce poverty and also to prevent the poor from agitation because of the ill effects of their Economic policies.
- The Government of India, which is under IMF and WB guidance, has launched schemes scrapping Integrated Rural Development Programme, Scheme for Urban Micro enterprises, Prime Ministers, Urban Poverty alleviation programme and TRYSEM. The Schemes are known as (1). Swarnajeanthi Gram Swarozhar Yojana – SGSY. (2). Swarnajeanthi Sahahari Swa Rozhar Yojana – SJSRY

The former is for Gram Panchayats and the latter for Town Panchayats, Municipalities and corporations. According to this scheme, the Panchayats will select the good group with assistance from BDO, Bank and NGOs and provide Rs.10000/- as revolving fund - free of Interest and then banks will provide loan to the group - seeing the performance. There is an individual subsidy of 30% for those who do individual enterprises and 50% subsidy for Group enterprises. After the introduction of this scheme NGOs and Panchayat are forming groups or trying to get control of the Groups and funds. The scheme has a trap. If the repayment under this scheme is less than 70% in a Panchayat, nobody will get loan in this panchayat.

> After the Micro Credit summit held at Washington WB, IMF and many foreign funding agencies have directed their projects towards micro-credit. Now Govt. of India has also directed CAPART and other funding agencies to focus on micro credit because of which all NGOs are running after people to for SHGs so that they can get funds.

Thus a slow and steady SHG movement started during 1990s in India truly representing the concerns of the poorest of the poor.

Regional Spread of SHGs in INDIA

- Southern Region: 64%
- Eastern Region: 13%
- Central Region: 11%
- Western Region: 6%
- Northern Region: 5%

If we see the presence of SHGs in India, 64% of total SHGs are in Southern India that to particularly in A.P and Tamilnadu, where as SHG movement is very weak in Northern and western states (Pl. see table for details)

SHGs IN VARIOUS STATES OF INDIA (As on March, 2003)

States	No of SHGs
A P	281338
TN	98410
Karnataka	62178
Uttar Pradesh	53696
Orissa	42272
WB	32647
Maharashtra	28065
Raiasthan	22742
Kerala	21012
MP	15271

In developing micro finance in India, especially through the SHGs, a major role is that of the promotional institutions. Several institutional variants of the Self-Help Promotion Institutions (SHPIs) have come to the fore since the beginning of the last decade. In India, the promotional institutions are basically of three types: (1) Government (2) Banks and (3) NGOs. These institutions have over a period of time developed systems and practices, some of which can be emulated as best practices and some others which should be learning points for caution.

1.10 Government as a SHPI

As in all developing countries, in India development was considered to be the government's responsibility and it started several subsidy-linked credit programs where it had a major role right from the stage of identifying of the borrowers to the disbursement of credit and subsidy. The results of these pro-grams were not positive. Experience has shown that the non-involvement of the people has led to an attitude of total dependence on administrative efforts. This was especially true in credit programs for the rural poor. To overcome this, government started adopting participatory approaches to rural development, particularly the SHG approach. The entry of the government into the self-help group movement was through the Rashtriya Mahila Kosh, which started funding NGOs for forming and nurturing SHGs. Later, the Indira Mahila Yojana came into existence, which also facilitated the group formation and nurturing process. Few States like Andhra Pradesh, Maharashtra, Karnataka, and Tamilnadu taken very successful initiatives in this regard.

In India a number of micro-credit schemes have been introduced, first in form of cooperatives and later in form of loan melas for rural financing. Targeting women – specific programmes however started much later mainly by NGOs such as SEWA, PRADAN, MYRADA etc. The Government later entered this arena through Rashtriya Mahila Kosh, Indira Mahila Yojana, STEP and through NABARD. Of late the Rural Women’s Development and Empowerment Project known as ‘Swashakti’ has reached a take off stage in nine States by involving NGOs fully for its delivery of various components of the Project leading to holistic empowerment of women, by making them stakeholders alongwith the State Government Departments, Banks and beneficiaries.

There has also been a significant shift in the manner of funding the schemes. The Micro-Credit Rating International Ltd. (M-CRIL) in a study found that micro-finance had started to shift from being almost exclusively donor funded to being significantly finance through debts. Loan funds were sourced increasingly from apex level NGOs and developmental banks like NABARD and SIDBI, cooperative banks such as SEWA and even commercial banks. The Reserve Bank for example has been actively intervening to ensure that development banks and commercial banks play a active role in financing the SHGs and small micro-enterprises without demanding collateral and without putting the women’s group through banking loans and such other bureaucratic red-tapes. The Government promoted SHGs through the following programmes in various parts of India to strengthen SHG movement:

DWCRA Groups:

Groups with a maximum membership of 15 women are formed by the Department of Rural Development under the Development of Women and Children in Rural Areas (DWCRA) scheme. Thrift is used an important point for entry and micro financing among members. The scheme focuses on organization of women into groups to foster a collective approach to their problems and to enhance their bargaining power. These organised women pull many of the Government programmes into their respective villages for their benefit.

Under DWCRA Rs.25,000 is provided to the group as lump sum grant. The members can use it collectively or share it on prorata basis and can be used for any income generating activity. DWCRA recognizes that thrift and credit is essential for improving livelihood. Members are

encouraged to save their money as a common fund. Training in leadership, attitudinal changes, and skills for income generation is an integral part of the DWCRA scheme.

SGSY Scheme:

Swaranjayanthi Gram Swarozgar Yojana (SGSY) is a modified version of IRDP with a focus on group approach. Cost of group formation and development is met from SGSY funds amounting to Rs.10, 000 per group over a period of 3- 4 years. Process approach and social mobilization with minimum of 50% of women groups are salient SHGs approaches. Grading of groups is done once in six months to ascertain their status of performance and corrective capacity building is undertaken. Assistance for economic activities is given through bank loan-cum-scheme subsidy to individuals in groups as well as to groups.

Anganwadi groups:

These groups are formed by the Department of Women and Welfare at the habitation level for implementing health, nutrition, and literacy programmes for women. Micro finance is extended to the members for taking up income generating activities as individual or as group enterprises.

Joint forest management groups:

Village communities in notified forest areas are formed into Vana Samrakshana Samithis (VSS) to conserve forest wealth. Social mobilisation through the SHG route is being achieved under this programme. Village communities are exhorted to take up alternative income generating activities.

Watershed management groups:

Farmers in the watershed areas are formed into groups for implementing improved techniques of watershed development with the intervention of a facilitating agency, normally an NGO. While on-farm development activities are funded through grant support, these groups are also encouraged to take up microfinance, with thrift as an entry point activity.

Rashtriya Mahila Kosh groups (RMK groups)

These are groups formed by NGOs and funded by RMK, a fund set up by the Government of India for associating women to undertake income-generating activities. Credit is extended to individual women in the group mode.

Micro finance programmes of CAPART

The Council for Advancement of People's Action and Rural Technology (CAPART) is set up by the Ministry of Rural Development, Government of India, to fund voluntary organizations and community based organizations engaged in serving rural areas. CAPART occupies a significant space in shaping the development innovations of NGOs and catalyzing development initiatives to reach the poor.

The main objectives of the scheme is:

- to fund VOs and CBOs already working with self help groups to extend their reach to new areas and improve the quality of existing groups
- to extend training support to potential VOs and registered CBOs who are desirous of working in the area of micro finance and self help groups.
- to identify and support VOs and registered CBOs having outstanding experience in formation of SHGs and micro finance who would act as resource centres. The unit cost for the promotion of group is worked out to a maximum of Rs.9, 000/- per group, which includes expenditure for a 3-year project cycle.
- to fund Rs.10, 000/- per SHG without interest, where bank linkages are not available as revolving fund.
- to finance up to Rs.2.00 lakhs as bridge funds for a federation of over 100 active SHGs

SWA-SHAKTI PROJECT (Assisted by IFAD & World Bank)

This is a rural women's development and empowerment project encompassing six important states of Bihar, Gujarat, Haryana, Madhya Pradesh, and Uttar Pradesh with a central project

support unit in the Department of Women & Child Development of the Government of India to facilitate the implementation.

The broad components of the scheme are as follows:

- Institutional capacity building for women's development
 - promotion of women SHGs, cluster associations, and capacity building
- Supporting mechanism for income generating activities
 - mobilization of investment funds, provision of business management, and technical support services
 - mechanism to access social programmes and leverage funds for community asset creation.
 - to assist in improving women's access to social services such as health and child care
 - to create and improve community assets such as drinking water, sanitation, and day care centres.
- Provide effective project management systems
 - to strengthen the capacity of central and state level agencies to manage

Kudumbashree Project

The project is launched by the Government of Kerala with the active support of the Government of India and NABARD for wiping out absolute poverty from the state within a period of 10 years. This project aims at combining the self help group approach with demand led convergence of available services and resources to tackle the multiple dimension and manifestation of poverty holistically. The project is implemented through Community based organisations. This project is based on the successful experience of the **Alapuzha model (a district in Kerala) of poverty alleviation** with community participation, which won the UN Award at the 50th Anniversary of UN at New York in 1995. Kudumbashree aims at

- Empowerment of women through community based organizations
- formation of informal banks for the poor
- promotion of micro enterprises and establishment of rural marketing networks.
- striving for convergent community action

District Poverty Initiatives project: (VELUGU)

This project is being implemented in Andhra Pradesh with the aid of World Bank. The project aims to organise the poorest of the poor in selected districts through convergence of resources.

The project has components of organization capacity building, linkages, and capital support. The project envisages “common interest groups” to focus on accelerated progress in poverty alleviation. CIG members, mostly drawn from existing groups, are motivated to take up economic activities and community welfare programmes through the provision of revolving fund (Rs.20, 000/-) called common investment fund.

SJSRY (Swarna Jayanthi Shahari Rozgar Yojana)

SJSRY is an anti-poverty programme launched by the Government of India for eradicating absolute poverty from urban areas. The community development structure provides the channel for the delivery system of the scheme. The scheme has two sub components – Urban Self Employment Programme (USEP) and Development of Women and Children in Urban Area (DWCUA). DWCUA helps urban poor women in setting up gainful employment through group activity.

1.11 Banks as a SHPI

Among the formal institutions, next to government, banks play a major role as self-help promotion institutions in India. For several years, since the nationalization of the commercial banks, there has been a commitment at the highest policy levels, towards improving access to financial services for the poor. Several policy measures have also been in force to ensure this, such as the allocation of committed bank funds to small loans (priority sector banking), subsidized interest rates (ranging from 4% to 10%) for micro loans, and the opening of small rural bank branches. Hence, the mainstream banking system in India has always been involved in microfinance as a special area of their operation.

At the operational level, this policy commitment has been implemented usually by linking bank credit to a targeted program of the government of India. The Integrated Rural Development Program (IRDP) was a typical example. Based on this program, several projects of the government of India have had a strong microfinance component either through the banks or through government-established financial institutions. A further institutional focus was given to rural lending through small loans by establishing the regional rural banks in 1975. The SHG

linkage program is located in this national policy and institutional context, where there is a vast network of primary lending institutions to deliver microfinance on the one hand, and an apex national level institution, namely NABARD, to provide policy support and refinance on the other.

Banks have been slow in entering the field of microfinance from the angle of both promoter as well as lender. In general, banking institutions have treated the formation and promotion of SHGs as an activity which is strictly for voluntary agencies or non governmental organizations and not for mainstream commercial bankers. But the problem in India is that well-intentioned NGOs, which can take up these activities, are confined to relatively smaller pockets of the country. If banks see a new opportunity and a new market in microfinance they can-not always expect a ready-made institution to absorb their lending portfolio. It may be necessary for some banks to take up the work of forming and promoting SHGs on their own if they view it as a profitable market and a profitable business opportunity. Several banks, especially regional rural banks (RRBs), have done pioneering work in forming, promoting, and later financing SHGs. (Pl. see SHG –Bank Linkage model I)

In this method, the role of mobilizing and forming the SHG is taken up by the bank branch itself. There is no NGO facilitation. Although this model is not common, many banks have shown interest in forming SHGs themselves. However, this alternative is fairly unique, as banks do not usually go into social mobilization roles. Irrespective of the quality of the SHGs formed, the weaknesses of this alternative are obvious. The core competency of a banker is finance and not SHG formation. Even if the SHG formed is for the limited purpose of fund rotation, substantial effort has to be made to form SHGs. Further, SHGs formed only for receiving external funds may not be sustainable. The advantage of this alternative, however, is that it exposes the banker to social realities firsthand. Also, in all the places where NGOs are not operating, some mechanism needs to be found to improve access to microfinance.

There are at least three different SHG-Bank linkage models operational in India. For details please see the diagrams.

Historical Development of Rural Credit System In India

The first effort in institutionalizing rural credit was made by the Government of India in the first decade of the present century with the passing of the **Co-operative societies Act in 1904** to support the country's predominantly agricultural economy. Though the country witnessed significant growth of the commercial banks since then, their involvement in rural lending was negligible till the mid-sixties. Following the introduction of social control in 1967 by the Government of India & later nationalization of major Commercial Banks in 1969, these banks also were directed to involve themselves in rural lending. Later in 1975, Government of India also introduced a specialized state sponsored, regionally based & rural oriented Regional Rural Banks with the objective of accelerating rural economic development of the identified target groups i.e., weaker sections comprising small & marginal farmers, agricultural labourers, artisans, small entrepreneurs etc.

In 1981 **National Bank for Agriculture and Rural Development (NABARD)** came into existence. Rural financing has been playing & will continue to play an important role in the development of the Indian economy as 75% of the India's population lives in its villages. Commercial Banks, co-operative credit institutions & RRBs, which form an important segment of the rural financing system, have been helping in progressive monetisation of the rural economy through their operations in the rural areas. Although the institutional share in total rural credit has increased many fold over the years there is still a large institutional credit gap.

Despite the multi agency approach adopted for providing rural credit, certain inbuilt formalities viz. documentation, restricted working hours, loan amount, purpose of loan & proximity factors have been causing inconvenience to the deserving rural poor. Yet, exploitation of the rural poor continues by the local money-lenders. Only 2% of the 500 million small & micro entrepreneurs are accessed to formal sources all over the world.

There is need to provide them micro credit. The Banks have evolved a new approach to reach out the rural poor, named "**SELF HELP GROUP FINANCING**". In India local money lenders dominate the rural areas. Self Help Group Financing (SHG) - a new concept. SHG - a group of rural poor generally comprising of small/marginal farmers, landless agricultural labourers, rural artisans, women folk & other micro entrepreneurs organised themselves to achieve socio economic development by raising resources at their level initially & linking with the bank subsequently with the help of NGOs.

MILESTONES IN SHG-BANK LINKAGE IN INDIA

1992

- Launching of Pilot project of linking 500 SHGs with the banking system.

1993

- Introduction of bulk lending scheme to NGOs by NABARD. Studies on Transaction Cost conducted by external experts.

1994

- Extension of policy Support by RBI – beyond the Pilot phase. Unleashing the concepts of banking with poor. Extension of support for capacity building of NGOs by NABARD.

1995

- Setting up Credit and Financial Services Fund (CFSF) within NABARD - to support expansion of the programme.
- Setting up a working group on NGOs & SHGs - to assess ground realities and identify operational issues in implementation of the programme.
- Extension of Revolving Fund Assistance to Federations of SHGs by NABARD.

1996

- Mainstreaming SHG-Bank Linkage by banks - RBI and NABARD notifications.

1997

- Organizing National level Training consultation meet - thrust on trainers training.
- First experiment of RRB as Self Help Promoting Institution (SHPI).
- Up scaling training and awareness programmes by NABARD and the banking system.

1998

- Extension RRB as SHPI to other 10 other RRBs.
- Documentation of rating/grading practices for SHGs' appraisal.

1999

- Recognition of potential of SHGs by GOI by Setting up task force on supportive regulatory & policy framework.
- Extension of RRB-SHPI-experiment to 2 more RRBs.
- Deregulation of interest rates in SHG lending
- Emphasis on studies documentation and dissemination.
- Provision of promotional grants to NGOs for SHG promotion- development NGO appraisal tools.

2000

- Thrust on widening the range of SHPIs.
- SHGs credit linked crosses 1,00,000.
- RBI advises banks to finance Microcredit organizations.
- Emphasis on flooding market with quality SHGs by NABARD.
- Thrust on expansion of the programme in Union Budget.
- Recognition of potential of Farmers Clubs as SHPIs.
- Roping in Rural Volunteers as potential SHPI.
- II National Consultation meet on training to redesign training modules, contents and methodologies.
- Collaboration with Indira Gandhi National Open University - for commencing a distance education programme on women's empowerment and SHGs.
- Introduction of State level Awards for best performance.
- Evaluation studies on impact on SHGs.
- Setting up a separate fund for scaling up the programme-microfinance Development Fund.
- Technical collaboration with GTZ, Germany commenced.

2001

- Crossing 2,00,000 mark of credit linked SHGs.
- Thrust on backward States & districts.
- Extension of RRB-SHPI module to all RRBs.
- Launching of National Level newsletter.
- Conceptualizing the use of technology in micro Finance.
- Initiating efforts all developing a comprehensive Management Information System for SHG -Bank Linkage programme.
- Exposure visits to other mF initiatives for clients and banks.
- Launched studies to assess Savings pattern for the poor.

2002

- Intensifying training interventions through exposure visits.
- Focus on backward states/provinces Encouraging and facilitating internalization of rating and self-rating techniques.
- Launching a pilot in IT in microfinance.
- Launching studies to understanding the commercial prospects of SHG linkage.
- Support by way of promotional grants to NGOs closes to 500 nos.
- About 50% of the 10-year mission covered. Diffusion of knowledge and experience with International mF practitioners.
- Redefining the role of banks in the programme as enhancing business opportunities NOT mere Service providers.

(Source: NABARD, Mumbai,)

SHG-Bank Linkage-Physical and Financial progress as on 31 Mar, 03

No of new SHGs	255882
Union Budget	150000
Total No of SHGs	717360
% of Women	90%
Commercial banks	48
RRBs	192
Cooperative banks	264
No of states /UTs	27
No of Dists. Covered	412
No of NGOs & SHPIs	2800

Progress at a Glance (31.3.2003)

- No. of poor families having access to Bank Credit: 11.6 million
- Estimated No. of poor people assisted : 58 million

SHG-Bank Linkage-Physical and Financial progress as on 31 Mar, 03

Ground Level Credit during 2002-03 (Rs	1022.30
Cumulative micro-credit from banks (Rs cr.)	2048.70
Average bank loan per SHG (Rs)	28559
Average bank loan per family (Rs)	1766
Prompt repayment of loans by groups	95%
Refinance support from NABARD during 2002-03 (Rs cr)	622.30
Cumulative refinance as on 31 march 2001	1418.80
RFA to NGOs (Rs cr)	18.33

Participation of RFIs in Linkage programme

Commercial banks	27 PSBs and 21 Pvt banks participated
Andhra bank	61417 SHGs
SBI (largest)	83265 SHGs
Indian Bank	32892 SHGs
Other Important Banks	SBH, IOB, BOI, BOB Svndicate Bank. UBI
Private Banks	Vysya Bank, ICICI Bank, GTB

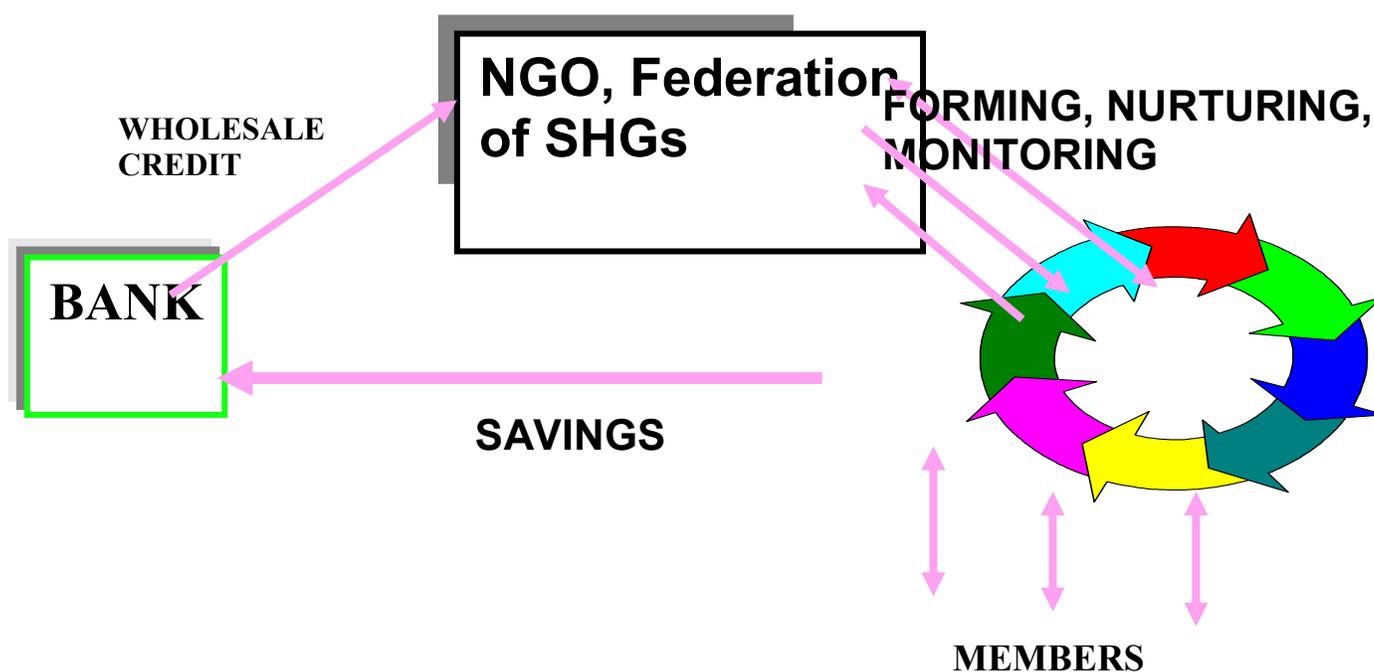
SHG BANK LINKAGE MODEL - I



SHG BANK LINKAGE MODEL - II



SHG BANK LINKAGE MODEL - III



1.12 PROGRESS OF SHG BANK LINKAGE IN INDIA

- The progress of banks in linking SHG groups to the banking system was quite phenomenal in the last few years. The banks financed 361,731 new SHGs in 2003-04, almost 30 percent of the cumulative 1,07,09 financed since 1992.
- Bank loans disbursed to SHGs during the year 2003-04 aggregated Rs. 1,855 crore, an increase of 82 percent, as compared to Rs.1, 022 crore during 2002-03.
- By March 2004, of the total SHGs credit linked, Andhra Pradesh accounted for 36 percent, Tamil Nadu 14 percent, Karnataka 10 percent and Uttar Pradesh 7 percent, together accounting for 67 percent of the total SHG credit-linked and 80 percent of the bank loans disbursed. In order to balance the uneven growth of the micro finance programme, NABARD has identified 13 states as priority states.
- Of the total number of SHGs linked to banks, 20 percent have been formed and financed by banks, 72 percent formed by government agencies other than banks and NGOs, but financed by banks and 8 percent financed by banks through NGO and other agencies as financial intermediaries.

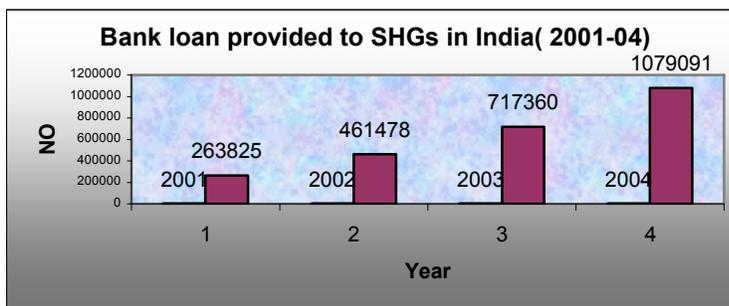
SHG BANK LINKAGE MODEL - III

- The number of banks which participated in partnering NABARD in the SHG bank-linked effort in 2003-04 was 560 of which 48 were commercial banks, 196 were regional rural banks, and 316 were cooperative banks. The number of NGO and other agencies which partnered NABARD was 3024

1.13 NABARD STATUS REPORT ON MICRO FINANCE THROUGH SHGS (2001-04)

From the above data, the clear picture is that the SHG movement has taken firm root in India albeit in a geographically imbalanced manner, also, it is apparent that suddenly the banks propensity to lend to this sector has increased. Although the base is small, as 82 percent increase in lending in one year seems significant.

As the above data shows the movement has increased a crescendo with NABARDs million SHGs by 2007-08 is well in advance in 2004.



SHG new target of 1 fulfilled However,

the effectiveness of SHG model as an effective conceptual model for empowerment is far from realized. The burden of target has been too heavy to be carried on the shoulders of participating actors. To Make SHG model an effective empowerment model needs addressing important issues. These Issues namely– capacity building, adequate personnel, financial and human resources, market linkages and capacity building at several stages have important bearing on the success of SHG as an effective tool of empowerment for women.

1.14 NGOs as a SHPI

Though government and banks have been played positive roles in the promotion of SHGs, in terms of numbers, the non-governmental organizations (NGOs) rank as the premier SHPIs. NGOs have so far been the main innovators in micro-finance. They have many advantages. Their very name, non-governmental, indicates that they are outside the framework of government. In India, where governmental systems are fairly rigid and bureaucratic, NGOs are characterized by their flexibility and ability to evolve simplified work systems.

While a group approach has been a developmental concept actively pursued by development practitioners for many years, the focused formation of SHGs under the microfinance framework is a relatively newer concept. It was initiated only in the late eighties by a few NGOs as an exclusive idea. The number of NGOs involved in the formation of microfinance based SHGs has increased many fold in the nineties. Contributing factors in this expansion has been the creation of an enabling environment for this kind of work by several national and international organizations, including multilateral, bilateral, and international NGO donors, plus an encouraging policy environment created by the government of India and the Reserve Bank of India. The SHG linkage program of NABARD through its widening network of institutions has also contributed to expanding the microfinance-based SHG movement.

Because of the expansion of the microfinance-related SHG program agenda, a wide diversity is observed in the approaches adopted by different agencies. Some NGOs act as banking intermediaries, channeling finance to different SHGs formed and centralizing all the accounts and financial systems at the NGO level. Others have formed collectives of several SHGs together, forming a federation of SHGs, and were linked them up with banks. There is also a fair amount of diversity in the levels of competencies and capacities to manage a microfinance SHG program within these agencies.

The non-governmental organizations who are a part of the SHG-bank linkage programs throughout the country have developed and fostered different types of institutional mechanisms for these groups. While most NGOs have opted for a conventional SHG of 15 to 20 members, some others have opted for different forms, notably the Mahila Mandal¹⁶ or federal type where the group is a single entity at the village level, as a sort of village level federation.

While basically all NGOs in the SHG movement have the economic empowerment of the poor, especially women, as their goal, their approaches and their working methods differ.

1.15 Effectiveness of Self-help Groups in Indian Context

Self-help groups (SHGs) are fast emerging as powerful tool of socio-economic empowerment of the poor in our rural areas. The self-help group is a small body formed by the people for meeting their specific objectives, particularly credit. However Local literature shows that self-help groups have been developed for a wide range of populations, including the mentally ill and their families, persons with disabilities and their care-givers etc. SHGs are initially formed on the foundation of the accumulated endowment of bonding social capital already existing in the community. The social capital produced by the SHG as it matures through creation of new ties and linkages, strengthens the community's cooperative capacity to the achievement of group government. When the SHGs grow they begin to articulate the community demands as they become aware of their rights and therefore attitude of the government bureaucratic officials changes and they become more responsive to the needs of the community i.e., with the maturity of SHG the state-society relationship begin to change at the local level towards the better.

In this way, SHGs which were originally established to produce economic benefits for members eventually became an associational framework for collaborative actions that produce public goods. As a result a range of other community-level organizations emerge where often members of the SHGs are recruited. Role of SHGs in strengthening local governance and political democracy can be described by the fact that a number of SHGs members are being elected in the Panchayati Raj system in India, the lowest tier of local democratic governance.

The working group (RBI, 1996) has commented thus on the progress of SHGs in India:

- 1. SHGs helped to generate and collect small thrift amounts from a cross section of people hitherto considered incapable of saving. The essential difference between thrift and savings was that while thrift was generated out of deferred consumption, the savings were generated out of surplus.***
- 2. SHGs have facilitated the rural poor in fulfilling their credit requirements, both for emergent consumption needs as well as for small production***

requirements.

3. SHGs have been able to meet successfully the credit requirements of the rural poor as per their choice, unlike in the case of borrowing under other programs of formal credit institutions.

4. The high recovery rates of the SHGs are in sharp contrast to the poor recovery performance of banks in respect of various activities under rural credit. Since credit/finance was seen as management of the participants' own funds and enterprises, a feeling of ownership and responsibility was generated.

5. The entire cycle of assessing need, disbursement, recovery, monitoring, and supervision shifted closer to the scene of action under SHGs, and therefore the transaction cost of the loans was relatively less.

In self help groups it is assumed that all poor households need to save and have the inherent capacity to save small amount regularly; easy access to credit is more important than cheap subsidized credit which involves intricate bureaucratic procedures, the poor are the best judge of their credit needs and are good users and re-payers of credit when formed in group. A notable feature of SHG is that before its linkage with any financial institution, credit discipline is imbibed among the member by way of SHG with banks has improved the socio-economic condition of its member by way of positive impact on income, saving, and self-confidence. The impact is more pronounced in the case of SHGs linked through NGOs. This and many other aspects of rural credit delivery system need to be studied in a greater depth. SHGs have proved to be successful in addressing the interests of women in a sustained manner. They are extremely useful in generating savings, ensuring successful delivery of credit to individual women and effecting recovery. In addition, they serve as an ideal mechanism for bringing women out of their homes, making them more articulate and honing their leadership qualities and their skills as motivators. Women led SHGs in Andhra Pradesh have won laurels for their exemplary performance.

Growth Rates of SHGs & SHGs per 1000 Females across the States (1998 – 2001)

States	Growth of SHGs Over the Years			Growth Rate	Growth of SHG/1000 Female Over the Years			Growth Rate
	1998-99	1999-00	2000-01		1998-99	1999-00	2000-01	
Andaman & Nic.	3	9	10	82.57	0.018	0.051	0.061	86.84
Andhra Pradesh	6579	29242	84939	259.31	0.179	0.786	2.258	255.39
Assam	10	46	156	294.97	0.001	0.004	0.012	288.79
Bihar	121	857	1846	290.59	0.003	0.018	0.046	324.17
Goa	4	14	27	159.81	0.005	0.018	0.041	180.97
Gujarat	879	1345	1375	25.07	0.038	0.057	0.059	24.70
Haryana	4	107	334	813.78	0.000	0.012	0.034	783.19
Himachal Pradesh	133	48	1166	196.09	0.041	0.014	0.390	210.24
Jammu & Kashmir	2	53	137	727.65	0.000	0.011	0.029	725.62
Karnataka	2002	3167	5627	67.65	0.079	0.124	0.217	65.51
Kerala	1291	1709	1826	18.93	0.079	0.104	0.112	18.59
Madhya Pradesh	461	1533	3174	162.39	0.018	0.040	0.110	200.29
Maharashtra	1058	3029	5509	128.19	0.024	0.069	0.119	121.14
Orrissa	975	2021	3850	98.71	0.056	0.114	0.213	95.49
Pondicherry	15	144	150	216.23	0.028	0.257	0.308	233.26
Punjab	1	18	71	742.61	0.000	0.002	0.006	728.69
Rajasthan	465	526	2513	132.47	0.019	0.021	0.093	123.84
Tamil Nadu	2618	7671	16676	152.38	0.087	0.251	0.541	149.99
Uttar Pradesh	1464	7744	5457	93.07	0.019	0.097	0.069	92.59
West Bengal	554	2317	5351	210.79	0.015	0.061	0.138	205.40
All India	18639	61600	140194	173.97	0.039	0.128	0.283	167.91

(Source: NABARD & Micro-finance, 2000 – 01)

1.16 Entrepreneurship through Self-Help Groups

Self-Help Group (SHG) enables the rural poor to earn their own livelihood besides participating in the process of development. The SHG scheme has been extensively used by voluntary agencies for a long time but has been incorporated in the conventional development programmes only recently. A typical rural women's self-help group is a good example of capacity building for prospective entrepreneurs. Its aims include enabling members with no educational or industrial or entrepreneurial background to become self-dependent and self-reliant by developing and enhancing the decision-making capacity of members and instilling in them the strength and confidence for solving their problems. They provide poor people a forum where they can learn about collectively mobilising and managing money and matters. Few other Central and State government schemes aimed at capacity building of women and others

for entrepreneurship include the 'Stree Shakti' programme in the dairy cooperative sector in M.P., training-cum-employment programme for women called Swa-Shakti and Rashtriya Mahila Kosh Project –supported by the World Bank and International Fund for Agricultural Development (IFAD).

1.17 IMPACT OF SHG MOVEMENT IN INDIA:

Various organisations evaluated SHGs including NABARD, NGOs and ORG-Marg. Some of the salient features are.

- 98% of the members make savings regularly as the norms prescribed by the groups.
- All the groups meet at least once in a month to discuss various social issues related to their day to day life.
- 98% of eligible members adopt small family norms.
- 100% children of SHG members are able to access immunization services against the 6 diseases.
- 30% of the members have access to safe cooking fuels (LPG) under the Government promoted scheme popularly known as "DEEPAM".
- 80% of the total SHGs have accessed financial assistance from banks and repayment is 98%.
- 10,000 SHG members were elected to the local bodies (3 term Panchayat Raj Institutions) in 1997 November elections.
- Members are engaged in 450 varieties of income generating activities.
- Additional family incomes to member range from Rs.1000-3000 per annum depending on the income generating activities.
- Increase in self confidence and self esteem

- Increase in awareness levels about the society and community. Voluntary participation in community activities like laying roads, planting trees conserving environment, construction of water harvesting structures, donations to the victims of natural calamities helping to reduce crime against girls & women, campaign against eradication of social evils like dowry, child marriages, untouchability, AIDS, rescue and rehabilitation of orphaned children, counseling adolescent girls, support to widows and destitutes are a few to mention.

1.18 Functions and Characteristics of an SHG

NABARD (1997) defines SHGs as "small, economically homogenous affinity groups of rural poor, voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members' decision". Most SHGs in India have 10 to 20 members, who can be either only men, or only women, or only youth, or a mix of these. As women's SHGs or sangha have been promoted by a wide range of government and non-governmental agencies, they now make up 90% of all SHGs. As Indian women do not generally have the same opportunities to migrate for wage work as men due to social obligations and taboos, it is particularly important for women to improve employment and income earning opportunities *in situ*, and in a way that is compatible with their role in child care.

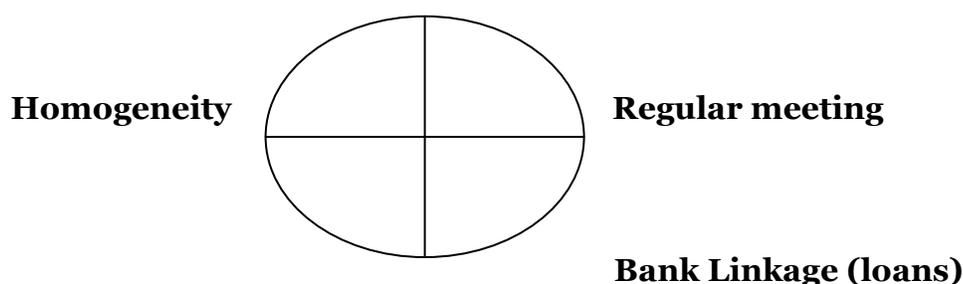
Self-help groups are mostly informal group where members pool savings as a thrift deposit. The groups have common perception of need and improvise towards collective activity. Many such groups formed around specific production activities, promote saving among members and use the pooled resources to meet the various credit needs of members. Where funds generation is low in the initial phases due to low saving capacities, this is supplemented by external resources. Thus self help groups have been able to provide primitive banking service to its members that are cost effective, inflexible and without defaults, based on local requirement. Self help group have also evolved their own characteristics of functioning.

The rules and regulations of SHGs vary according to the preferences of the members and those facilitating their formation. A common characteristic of the groups is that they meet regularly (typically once per week or once per fortnight) to collect the savings from members, decide to which member to give a loan, discuss joint activities (such as training, running of a

communal business, etc.), and to mitigate any conflicts that might arise. Most SHGs have an elected chairperson, a deputy, a treasurer, and sometimes other office holders. It appears as though the vast majority of rural SHGs invest the loan amounts in a mix of consumption and productive purposes. As credit needs of the poor are determined in a complex socio-economic milieu, where the dividing line between credit for 'consumption' and 'productive' purposes is rather blurred, it is difficult to adopt the traditional banking approach to lending and to insist that loans are not used for consumption.

Characteristics of an SHG

Regular saving (Thrift)



Homogeneity refers to sharing similarities: similarity of gender, caste. In most cases, it was homogeneity of gender; at times a particular section, handicapped, come around to form group; at others women of particular caste form their groups

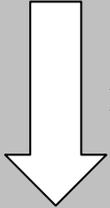
The second most characteristics of the group is **regular saving** by the group members and setting a set of guidelines to regulate these savings. These rules are as follows:

- ❖ Rules about entry and exit policy: About entry, the person should be above 18; should be usually from an economically backward class (but this is not mandatory).
- ❖ Rules about regular saving and meetings, etc.

The third most important characteristics is the linkage with lending institutions. Unlike the formal banking mechanism, banks do not ask for collateral while granting loan to SHG.

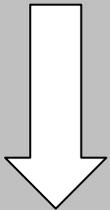
FLOWCHART Showing the Formation of an SHG

Intentions to form the group by a group of women on their own or by a facilitator



Role of Facilitator is very crucial in getting around a group of illiterate and poor people and present a positive outlook about SHG

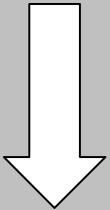
Form group and write rules for entry and exit Policy and for savings, Loans, non-repayment, etc,



(Need for efficient group leaders, animators etc.)

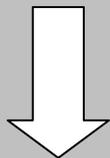
Regular Savings

deposits in a newly opened bank account



(Need for a sensitized micro credit institution, a village based accountant)

Apply for Bank Loans By SHG as a Group



(Need to synergies bank credit, insurance for any physical asset against bank loan under single window operation)

Disbursement of Loans to Needy members (Need to start Income generation activity which is self sustaining and not dependent on vagaries of Nature)

1.19 Future Concerns of SHG movement in India

There are many studies suggesting the successes of SHGs in empowering women. At the core SHG philosophy is the concern to gain control over capital by rural, poor women by virtue of spendthrift, gaining access to a financial pool of their own in time of need or to start income generation activity. A positive derived from Group psychology has been applied to SHG movement in developing countries. While there are many successful stories about the benefits of SHGs, there are many concerns about the future of SHG movement in India. The concern stems from their initial success and their geometric progression. Are they heading towards right direction of women empowerment? Are our formal lending institutions capable of handling so many illiterate women? Do we have the financial resources to lend loans to the vast number of SHGs? Are the loans given to SHGs sufficient to start an income generating activity on their own? Are Demand- Supply linkage been studied while deciding income generating activity for all SHGs in massive scale? What are the likely marketing problems or competitions, which are likely to arise when SHGs start micro-enterprises? Some of these issues are addressed in the present study