CHAPTER - 2

REVIEW OF LITERATURE

The basic idea of microfinance is to provide credit to the poor people who otherwise would not have access to credit services. Micro-credit programme extend small loans to very poor people for self-employment projects that generate income and allow them to take care for themselves and their families. This programme is working in many developing countries. There is no dearth of literature related to microfinance. In order to find the impact of microfinance programme, impact assessment studies have been done by many authors in different countries like Bangladesh, India, Pakistan, Nepal, Thailand, Ghana, Rwanda, Peru and many other countries of South Asia and Africa. The literature on microfinance offers a diversity of findings relating to the type and level of impact of the programme. There are various studies which confirm that microfinance programme has a significant positive impact in increasing employment and reducing poverty. A number of studies show that the participant households enjoy higher standard of living as compared to the non-participants. The programme reduces consumption as well as income vulnerability among its beneficiaries. Some of the studies also confirm that the programme is helpful in attaining millennium development goals by reducing poverty, hunger, infectious diseases and through women empowerment. There are a number of studies which explain that participation in the programme has led to greater levels of women empowerment in terms of increase in knowledge, self-confidence, economic, social and political awareness, mobility, development of organizational skills etc. However, some of the studies show that the programme is not reaching the bottom poor people and the group loans are utilized for non-income generating activities such as consumption and other emergency needs. The studies also show that the women participants have limited control over the use of group loans, therefore, the programme results in limited empowerment of women participants. Thus the literature on microfinance provides mixed results about the impact of microfinance programme. In order to understand the concept of self-help groups and also to identify the areas already investigated, some of the important studies already undertaken and related to the objectives of the present study are mentioned. Other developing countries also face similar problems in helping the poor to fight their poverty. They have also experimented with many strategies. Some of them have adopted the micro-credit strategy. Their experiences may be of relevance to us. Therefore, studies on these experiments of such countries are also discussed in this section. For better understanding, the studies undertaken have been grouped under few headings viz. studies related to foreign countries, studies related to India, studies related to North east India, studies of Assam and finally studies related to Kamrup district of Assam. The basic idea of microfinance is to provide credit to the poor people who otherwise would not have access to credit services. Micro-credit programme extend small loans to very poor people for self-employment projects that generate income and allow them to take care for themselves and their families. This programme is working in many developing countries. The literature on microfinance offers a diversity of findings relating to the type and level of impact of the programme. There are various studies which confirm that microfinance programme has a significant positive impact in increasing employment and reducing poverty. A number of studies show that the participant households enjoy higher standard of living as compared to the non-participants. The programme reduces consumption as well as income vulnerability among its beneficiaries. Some of the studies also confirm that the programme is helpful in attaining millennium development goals by reducing poverty, hunger, infectious diseases and through women empowerment. There are a number of studies which explain that participation in the programme has led to greater levels of women empowerment in terms of increase in knowledge, self-confidence, economic, social and political awareness, mobility, development of organizational skills etc. However, some of the studies show that the programme is not reaching the bottom poor people and the group loans are utilized for non-income generating activities such as consumption and other emergency needs. The studies also show that the women participants have limited control over the use of group loans, therefore, the programme results in limited empowerment of women participants. Thus the literature on microfinance provides mixed results about the impact of microfinance programme on the programme participants. The review of impact assessment studies provides valuable insights into the benefits and drawbacks associated with microfinance programme.

NABARD started Self Help Group – Bank Linkage Programme in 1992, which was considered as a landmark development in banking with the poor. It was observed that Regional Rural Banks’ security-oriented individual banking system was replaced by the delivery of credit to focused groups. According to him the government sponsored programmes had occupied much of the economic space but did not achieve the objective of alleviating poverty. Self Help Group- Bank Linkage Programme had been proved very successful for the socioeconomic empowerment of hard core poor, providing financial services to them and preparing them to take up economic activities for poverty alleviation. Although this programme was not a panacea for the problems of rural poverty, yet it had the potential for becoming a permanent system of rural lending in the country with full participation from the formal banking system and without any interference from the government.

Gurumoorthy (2000) explained the Self Help Group (SHG) as a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programmes. It was an organized set up to provide micro-credit to the rural women on the strength of the group savings without insisting on any collateral security for the purpose of encouraging them to enter into entrepreneurial activities and for making them enterprising women.

Rutherford (2000) and Armendáriz & Morduch explained the difference between microfinance and micro-credit. Micro-credit referred specifically to small loans given to the poor people but microfinance was a broader term embraced efforts to collect savings from low-income households, provide consumption loans and insurance along with micro-credit. It also helped in distributing and marketing clients output. Microfinance embraced a range of financial services that seek to meet the needs of poor people, both protecting them from fluctuating incomes and other shocks and helping to promote their incomes and livelihood.

Manimekalai and Rajeswari (2001) studied the socio-economic background of self-help group women in rural micro-enterprises in Tamil Nadu and examined the factors which had motivated the women to become SHG members and eventually as entrepreneurs. The researchers analyzed the nature of economic activities and the performance in terms of growth indicators such as investment turnover, employment, and sources of finance, product marketing and other related aspects and identified the problems faced by SHG women in running the enterprises. For the purpose of the study, a sample of 150 SHG members was selected who were studied according to the nature of their activities from 5 blocks of Tiruchirapalli district of Tamil Nadu. These groups were formed and promoted by an NGO. The nature of micro-enterprises run by the groups included trade, agriculture, animal husbandry, processing of food, tailoring, gem cutting, catering, petty shop, bamboo based units and agro-based units etc. The primary data pertained to the year 1999-2000. The SHG women were employed both in agricultural and non-agricultural activities. The study found that women SHGs earned the highest profit from agriculture, followed by trade related activities and catering services. A majority of sample units did not market their products outside the districts but sold these directly to the customers. The income of the SHG women almost doubled after taking up micro-enterprises. Majority of the respondents faced serious problems like non-availability of raw materials, lack of infrastructure facilities including marketing, lack of support from family members in running the enterprises etc. The provision of microfinance by the NGO to the women SHGs had helped the groups to achieve a measure of economic and social empowerment. It had developed a sense of leadership, organizational skill, management of various activities of a business, identifying raw materials, market and suitable diversification and modernization.

Singh (2001) conducted a study on the socio-economic impact of microfinance programme in Uttar Pradesh. In order to study the impact, rural areas of Kanpur district were selected on account of highest number of credit linked SHGs as compared to other districts in the state. For the purpose of the study, out of 11 SHGs linked with RRB, one group in Beridayria village was selected. It was found that in pre-SHG situation most of the members were dependent on income from labour but in the post-SHG situation their main source of income was dairy. The survey showed that simple and quick credit delivery with lower interest rates in SHGs replaced the money-lenders. During pre-SHG some of the loans were taken for consumption purpose but in the post-SHG situation the loans were mainly taken for income generating purposes. The study showed that the average value of assets increased by 46 per cent and the annual income per household increased by 28 per cent in post-SHG periods. The most interesting feature of SHGs was compulsory savings even by cutting the necessary expenditures. Recovery rate was quite high which ranged from 95 to 100 per cent. The study also revealed that the commercial banks were not prompt in linking SHGs for loans.

Singh (2003) had explained the failure of government initiated anti-poverty programmes and the success of microfinance programme as an effective poverty alleviation strategy in India. According to him the government-implemented rural development programmes failed because these were centrally invented (lacking participation of local level institutions), politically motivated, had leakages, misappropriation and heavy administrative expenses. More than 250 million people in

India remained poor, even after 50 years of independence. Failures of these institutional initiatives and learning from the success of the Grameen Bank in Bangladesh had given way to the development of microfinance programme in India in 1992. Many NGOs who were following SHG promotion approach such as Mysore Resettlement and Development Authority (MYRADA) in Karnataka, Society for Helping and Awakening Rural Poor through Education (SHARE) in Andhra Pradesh, Rural Development Organization (RDO) in Manipur, People’s Right and Environment Movement (PREM) in Orissa and Andhra Pradesh, Youth Charitable Organization (YCO) in Andhra Pradesh, Acil Navsarjan Rural Development Foundation in Gujarat, ADITHI in Bihar Professional Assistance for Development Action (PRADAN) and Rural Development Society for Vocational Training (RUDSOVAT) in Rajasthan came forward in this sector. These NGOs were proving very successful in reducing poverty level of its clients and generating additional employment opportunities. Though in its young age microfinance sector had a diversified growth and multiplicity of impacts, as impact on income, employment, health, education, housing and sanitation etc. The programme was playing an important role in the process of development particularly when subsidy and grant based schemes were losing their importance.

Basu and Srivastava (2005) in their Rural Finance Access Survey-2003 conducted jointly by World Bank and National Council of Applied Economic Research, India, highlighted the inadequacies in rural access to formal finance and the exploitative terms of informal finance, which provided a strong need for innovative microfinance approaches. The survey took a sample of 6000 rural households from two Indian states- Andhra Pradesh and Uttar Pradesh. The study indicated that rural banks serve primarily the needs of the richer rural borrowers and the rural poor faced severe difficulties in accessing savings and credit from the formal sector. The survey showed that 66 per cent of the large farmers had a deposit account and 44 per cent had access to credit. While only 30 per cent of the marginal or landless farmers had a bank account and 87 per cent had no access to credit from a formal source. So, they had to depend on informal sources of finance. Around 44 per cent of the households surveyed, borrowed informally at least once in preceding 12 months and the interest charged on informal loans averaged 48 per cent per annum. It was also found that the largest uses of informal loans were for meeting family emergencies (29 per cent) and social expenditures (19 per cent) arising from events such as births, marriages and deaths. Some 13 per cent of borrowers reported using informal loans for investment related purposes.

Yunus (2006) in a study explained the differences between Grameen Bank and conventional banks. He explained that the Grameen Bank methodology was almost the reverse of the conventional banking methodology. Conventional banking was based on the principle that the more you have, the more you get. As a result, more than half of the population of the world was deprived of financial services of the conventional banks as conventional banking was based on collateral, focused on men, located in urban centers and owned by rich with the objective of profit maximization. On the contrary, the Grameen Bank started with the belief that credit should be accepted as a human right, where one who did not possess anything get the highest priority in getting a loan. Grameen Bank methodology was not based on the material possession but on the potential of a person. Grameen Bank, which was owned by women, had the objective of bringing financial services to the very poor, particularly women to help them fight poverty, stay profitable and financially sound. Yunus described poor people as a ‘human bonsai’. They were poor because society had denied them the real social and economic base to grow on. Grameen Bank’s effort was to move them from the flowerpot to the real soil of the society.

Sarkar (2008) in his paper discussed the new model of microfinance in Bangladesh and expressed the need of some institutional reforms in the microfinance development strategy of India. The Grameen Bank had introduced a more flexible credit system named as Grameen-II. Under this new system, loans of different duration suited to individual needs were provided. Besides the duration of the loan, the size of weekly instalments could be varied and the borrower could pay less during the lean season and more during the busy season. All borrowers started with a basic loan. In addition to the basic loan, the same borrowers were also granted a housing loan and a higher education loan simultaneously. The most important feature of the flexible loan was that, if borrowers were unable to repay their loans, they were no longer seen as defaulters, rather they had a legitimate way to remain within the folds of the organization so that they may continue to receive loans. The Grameen Bank had also introduced a pension fund for its borrowers with a minimum contribution for each borrower towards a pension deposit scheme. Further, the Grameen Bank had introduced loan insurance for its borrowers to pay off a member’s debt in the event of her or his death. In this way, Grameen-II introduced a range of attractive new savings and loan products for its borrowers, which the SHG bank linkage model of India was lacking.

Sangwan (2008) empirically ascertained the determinants of financial inclusion and studied the relevance of Self Help Groups (SHGs) in achieving financial inclusion. For the purpose of the study, the cross-section data of 42 Regions from different states and UTs of India was used. The coverage under financial inclusion was assessed in terms of percentage of adults having credit and saving bank accounts. In order to find out the determinants of financial inclusion a multiple regression technique was applied. The empirical evidence of impact of bank branch density, level of income, literacy and SHG membership on financial inclusion was estimated with this technique. It was found that as on March 2006, the financial inclusion of adults above 19 years of age was 63 per cent in terms of saving accounts and 16 per cent in terms of credit accounts and about 37 per cent adults in India did not use financial services. The regression equations estimated with cross section data of States revealed that the branch density had positive and significant coefficient with the percentage of adults having saving as well as credit accounts. The coefficient of per capita income was also positive and significant. Literacy percentage had surprisingly negative relationship with both percentage of saving as well as credit accounts of adults. It may be partly because of lack of financial education among the educated ones. The results substantiated that the persons having low income and less geographical access to bank (e.g., agricultural labourers, marginal and small farmers, migrant labourers, tribal and women) were excluded from the financial inclusion. The regression equations were also estimated by including percentage of adult covered in SHGs, the variable had positive association with the level of financial inclusion especially in credit accounts.

It suggested that SHGs could play significant role in achieving the financial inclusion especially for women and low-income families.

Dunn and Arbuckle (2001) studied the impact of micro-credit on the Mibanco clients in Peru. The impact was measured using cross-sectional data collected in two parts, once in 1997 and again in 1999. The study demonstrated a very significant positive impact on its clients in terms of income and employment generation. It was found that the participation in the programme led to nine additional days of employment per month. The authors calculated that based on 40,000 Mibanco members at the end of 1999, 17414 full time jobs were created. It was also found that Mibanco clients earned $266 more per household member per year than the non-participants.

Todd (2001) studied the impact of SHARE Microfinance Ltd. on its clients in Andhra Pradesh, India. The study compared 125 SHARE clients to 104 new clients who had yet to receive any exposure to the programme. All the SHARE clients had participated in the programme for at least three years. Todd created a poverty index composed of four elements: sources of income, productive assets, housing quality, and household dependency burden (the number of household members divided by the number of income earners). This index score helped Todd to document the extent to which clients had moved out of poverty. The results of the study showed that 76.8 percent of the total clients had experienced a reduction in poverty including 38.4 per cent that shifted from very poor to moderate poor category and 17.6 per cent that had left poverty entirely. As compared to the incoming clients, mature clients were more likely to send their children to school and spend money for health purposes.

Chen and Donald (2001) in their study compared the impact on the clients who borrowed for self-employment and the clients who only saved with Self-Employed Women Association (SEWA) Bank without borrowing to the non-clients of Ahmedabad and Gujarat states of India where SEWA was based. The study was conducted in two rounds, i.e. in the years 1997 and 1999. It was observed that repeated borrowing was especially important, compared to one time borrowing. Repeated borrowers had greater income spent on food, household improvements and consumer durables and more likely to had girls enrolled in primary schools. Income of participant was over 25 per cent greater than that of saver and 56 per cent higher than the non-participant income. Savers too enjoyed household income 24 per cent greater than that of non- participants. These findings indicated that microfinance was quite effective.

Fisher and Sriram (2002) explained that the financial sector developed in India by the end of 1980s was largely supply and target driven. The government sponsored poverty alleviation schemes experienced poor recovery rates with misutilisation of subsidy and lack of observation of repayment ethics. The repayment rate under the Integrated Rural Development Programme (IRDP) remained less than one-third and the programme created about 40 million bank defaulters. In 1989, with the first official loan waiver, credit discipline was thrown to the wind. This created cynicism amongst bankers about the credit worthiness of poor people. Also, a dominant perspective was developed that the finance for rural poor people was a social obligation and not a potential business opportunity.

Gaiha et al. (2001) in a study concluded that larger sections among the poor were not covered in the two major anti-poverty programmes (Rural Public Works and IRDP) in India and the impact of these programmes was limited due to their gross mistargeting and selection of non-poor as participants.

Harper (2002) studied the differences, outreach and sustainability of the SHG banking system and Grameen banking system of providing microfinance. SHG bank linkage and Grameen banking systems dominated the microfinance markets in India and Bangladesh respectively. In SHG bank linkage system 10 to 20 members formed a group and this group became an autonomous financial organization, received loans from the bank in group name and the group members carried all saving and lending transactions on their own behalf. Thus, SHG was effectively a micro bank. But in Grameen banking system microfinance participants organized themselves into groups of five members and each member maintained her individual saving and loan account with microfinance

Organization and the main function of the group was to facilitate the financial intermediation process. It was also found that both systems were best suited to their prevailing environments. SHG bank linkage system was more flexible, independence creating and imparted freedom of saving and borrowing according to the member's requirements, so was suitable in the Indian context. But Grameen banking system was more rigid, autonomous, over disciplined and dependence creating system which was suitable in Bangladesh where people were relatively more homogeneous, very poor and had less experience of democracy. It was also found that SHGs were probably less likely to include poor people than Grameen Bank groups but neither system reached the poorest. It was also found that SHG members were free to manage the group financial affairs so they were more empowered but at the same time more vulnerable. Grameen groups were much better protected against internal and external threats. Their members were less vulnerable but also less empowered.

Dahiya et al. (2001) in their research paper made a socio-economic analysis of the working of SHGs in Solan district of Himachal Pradesh. The data was collected from 54 SHG participants drawn from six SHGs from two development blocks of the district. The study revealed that members were mainly involved in small business and service or profession like bangle selling, tailoring, marginal farming etc. The interest rate charged on internal lending ranged from 24 to 60 per cent and the bank interest rate was 12.5 per cent. The recovery performance both for internal and bank loans was 100 percent. The study found that there was a considerable increase in annual income in post- SHG period. This increase was very high for the newly formed groups as compared to the older groups. The overall increase in annual income was 94.3 per cent in post-linkage period. The social impact was deep in empowering women folk, educational development of children and emancipation from social evils like drunkenness by male household members.

Nedumaran et al. (2001) conducted an empirical study on the impacts of SHGs in Tamil Nadu. Two districts of Tamil Nadu, namely, erode and Tiruchirapalli were selected. One hundred and fifty members from 30 SHGs promoted by two NGOs – MYRADA and LEAD were surveyed. Primary data was collected through personal interview method during March-April 2001. The study showed that the average amount of group loans availed was positively associated with the group age. The annual net family income of the members in post-SHG situation increased by 23 per cent over the pre-SHG situation. The study also indicated a considerable improvement in the social conditions of SHG participants after joining the group activities. The researchers also recommended the promotion of SHGs in rural areas, training to members and involvement of local NGOs in building SHGs for the overall improvement of the households.

Raghavendra (2001) evaluated the contribution made by microfinance programme initiated by Sahyadri Grameen Bank in Thyagarthi village in Shimoga district of Karnataka. The income generating economic activities and women’s empowerment in rural areas was studied. For the purpose of study, three SHGs were personally interviewed and data was collected for the years 1994-1995 to 1999-2000. Out of these three SHGs first group was run by a forward community, second was run by SC/ST and the third was run by a backward community. The analyses revealed a significant change among the group members in diversifying income generating economic activities. The researcher found that the microfinance programme was financially sustainable. The members reported that they did not borrow from moneylenders anymore. It was found that the members of SHGs formed by forward community had created their own capital base. They were involved in diversifying farm-based activities into market-based activities. For the other two groups, resource constraint was found to be a detrimental factor to expand economic activities. The case study concluded that there was a great potential for implementing various programmes for the rural poor through SHGs.

Puhazhendhi and Badatya (2002) in a study commissioned by NABARD surveyed 115 SHG members from 60 SHGs in eastern India. They concluded that institutional credit had deepened and widened among the rural poor, while there had been substantial reduction of loans from money-lenders and other informal sources. The findings of this study showed that 52 percent of sample households registered 23 per cent rise in annual income and 30 per cent increase in asset ownership in post-SHG situation. About 72 percent of the bank loan was used for income generating purpose and the remaining 28 per cent was for consumption and other social functions and contingency purposes. The estimated employment days per household worked out to 405 person days during post-SHG situation that had registered an increase of 34 per cent between pre- and post-SHG situations. Activity-wise, percent increase was higher for non-farm activities (121 percent) followed by off-farm activities (21 percent) and farm activities (19 per cent). The social empowerment of sample SHG members in terms of self-confidence, involvement in decision-making, better communication, etc. improved in a significant way. It was also found that members in the older groups of five years and above were more socio-economically benefited as compared to the members in newly formed groups.

Chowdhury et al. (2005) examined empirically the impact of micro-credit on poverty in Bangladesh. The focus was on both objective and subjective poverty and particular attention was paid to the length of time, the programme participants had access to micro-credit. Objective poverty is based on the costs associated with obtaining a minimum daily adult requirement of 2,112 calories. Subjective poverty is calculated on the basis of the personal views of the household head regarding the poverty level of his family by asking whether they consider their family poor on the basis of their yearly income. A household-level survey was carried on 954 micro-credit recipients from Grameen Bank, the Bangladesh Rural Advancement Committee (BRAC) and the Association of Social Advancement. The main finding of the study was that micro-credit was associated with both lowering objective and subjective poverty. It was found that for the entire sample, objective and subjective poverty rates were 54.6 and 60.2 percent respectively. There was also a clear poverty differential between ‘new’ and ‘old’ group members. The objective poverty rate for new members was 65.3 percent compared with 50.2 percent for old members. Likewise the subjective poverty rate for new members was 90.2 percent compared with 47.9 percent for old members. The predicted objective and subjective poverty rate of the participants at the time of joining the programme was around 65 percent and 85 percent respectively and after eight years of exposure to micro-credit, both these rates declined to about 45 percent. The researcher fitted a linear trend line in the poverty reduction impact of programme and suggested that objective poverty fell by about 2.5 percent per programme year. Likewise, subjective poverty fell by about 6.5 percent per programme year. The analysis carried out in the research paper showed that even after eight years of programme experience, the estimated objective and subjective poverty rates were still high, i.e., about 45 percent and suggested that microcredit organizations should reconsider and adapt their micro-credit technologies to improve the long-run poverty reduction capacity of micro-credit programme.

Kabeer and Noponen (2005) in their paper set out the findings of a socioeconomic impact study of PRADAN’s microfinance programme carried out in Jharkhand, one of the poorest states in India. The study was carried out in Godda, Dumka and Banka districts of Jharkhand. In order to study the impact of microfinance programme 400 SHG members were compared with 104 non-members in these three districts. The major objective of the study was to find out the impact of microfinance on the capacity of the participants to meet basic needs, livelihood base, asset position, saving and debt position and women's choice and agency. The findings of the study showed that as far as basic needs were concerned, the members had reported a more favorable overall food situation in terms of adequacy and diversity of diet as compared to non-members. They had better access to clean drinking water, improved housing with more rooms and doors. Members were sending greater number of children to school along with greater gender equity. Members were engaged in own cultivation and livestock rearing and less dependent on unskilled wage labour activities. Members had higher levels of savings and lower incidence of indebtedness to high interest of money lenders as compared to non-members. As regards women's skills, knowledge and agency, members had acquired more practical skills and demonstrated greater awareness of government programme for the welfare of poor. However, there was less difference regarding participation in household decision-making. In both the groups, women made sole decisions in one-fifth of the households and a joint decision was made in about half of the households. Overall, the study showed that members were in a better position than non-members and the process of women empowerment had been initiated through the microfinance programme.

Yamuna (2007) studied the changes in the role and status of SHG participants in Solamadevi village of Coimbatore district. For the purpose of study primary data was collected from 54 SHG members through an interview schedule. The results of the study showed that all the participants who received bank loans under this scheme started their own businesses. There was an increase in the income level, savings, value of assets and household durables after joining the SHGs. It was also found that SHGs had developed women's relationships with government department and banking institutions. They had been equipped with leadership skills through various human resource training programmes and interaction with other SHGs. Women had got lot of courage and self-confidence to speak for their rights after becoming SHG members.

Sarangi (2007) evaluated the impact of microfinance programme on rural poor households in some backward regions of Madhya Pradesh in India. For the purpose of study, Betul, a tribal region; and Sehore, a relatively prosperous region; were selected. The researcher examined three most popular group based microfinance programmes, i.e. government supported SGSY programme, NABARD's SHG bank linkage programme, and World Bank promoted Swashakti programme. One hundred eighty participants from two districts, and three programmes were selected through a multistage random sampling method. Non-participant households were selected with a ratio of 1:2 to participants in each village. In order to make comparisons, t-test, analysis of variance, and regression techniques were used. Impact assessment results showed a significant positive effect of programme participation on increase in the income of the households. It was found that the income of households reporting self-employment in off-farm activities was much higher for the participant households than their counterparts. Intervention of PRADAN in promoting poultry, mushroom cultivation and sericulture among the participant households had helped diversifying their economic portfolio. Indicators of consumption items including clothing and footwear seemed to obtain high average values for the participant households than non-participants. It was also found that location factors contribute to the creation of opportunities for diversifying the economic portfolio and employment choices. The profit regression was applied to estimate the probability of participation as a function of level of per capita income, off-farm activities, and work participation rate, education of principal earner of the household, adult literacy ratio, productive assets, agricultural land, distance index and years of operation of different microfinance programmes in the villages. The results indicated the exclusion of very poor households from participation in group-based credit programme. The probability of participation was low at the lower end of income distribution and it increased with the increase in per capita income of the household and declined with very high level of per capita income. The results also showed that the increase in share of off-farm earnings increased with increase in land holding. The returns seemed to be much higher for the very big land owners than the small farmers. The findings suggested that on the one hand, many of the very poor households were excluded from the programme, and on the other, the gains from participation of the programme were mostly observed for the better-off section of households, particularly those with high per capita income or the large landholders. He concluded that credit to serve as a sole instrument of poverty alleviation did not seem to be plausible, without other corroborative mechanisms that help in increasing the potential of credit use by the poor or the small farmer.

Hoque (2008) examined the relationship between households' involvement in BRAC's micro-credit programmes and the households' capacity to deal with economic hardships. It was hypothesized that the BRAC's credit programmes contributed to increase the participating households' abilities to cope with economic hardships. This hypothesis was tested by comparing 108 BRAC and similar number of non-BRAC households, the latter being defined as those who did not receive loans from BRAC or any other institutional sources. The data set used in this paper was obtained from the Matlab Health and Socio-economic Survey, which was carried out in Matlab, a region of rural Bangladesh. The survey results showed that 54.6 percent of the BRAC households and 43.5 percent among the non-BRAC households faced economic hardships. The major crises that were reported by respondents were sickness of householders, crop loss, damage of houses or businesses, losses due to natural disaster and the death of householder. With regard to the capacity of households to cope with crises, the study found that non-BRAC households had less capacity to cope with crises from their current income and earnings than the BRAC households. More BRAC than non-BRAC households borrowed money in crisis. Asset selling was another coping strategy but in this survey more non-BRAC than BRAC households resorted to asset selling–a negative coping mechanism. It was found that 7.1 per cent of the BRAC households used their own savings to cope with crises compared with 4.3 per cent of the non-BRAC households. This could be because the savings of non-BRAC households were also less than those of BRAC households. This meant that lacking savings, non-BRAC households resorted to asset selling. The results of this study showed that BRAC households were more able to obtain loans during times of crisis than non-BRAC households. Twice as many BRAC households borrowed money during crisis times than non-BRAC households (20 per cent compared to 10.1 per cent respectively).

Borbora and Mahanta (2008) in their case study of Rashtriya Grameen Vikas Nidhi's (RGVN) credit and saving programme (CSP) in Assam examined the role of credit in generation of employment opportunities for the poor. They also assessed the role of SHGs in promoting the saving habits among the poor and the contribution of the programme in social and economic empowerment of the poor in general and of women in particular. The analysis of survey data revealed that 80 per cent of the members in the selected SHGs were from poor families. The members of the groups were engaged in gainful economic activities. It was found that the programme had succeeded in inculcating the habit of saving among the members. As many as 57.8 percent of the members saved Rs. 200 to Rs. 500 and 42.2 percent saved Rs. 501 to Rs. 1000 each. It also helped them to free themselves from the clutches of non-formal sources of credit. Forty-three per cent of the sample beneficiaries expanded their income generating activities. The SHGs had helped to set up a number of micro-enterprises for income generation. The focus of CSP was exclusively on rural poor and it adopted a credit delivery system designed especially for them with the support of specially trained staff and a supportive policy with no political intervention at any stage in the implementation of the programme. So, the CSP in Assam was found to be successful.

Gaonkar (2001) studied the impact of SHGs on women in Goa. For this purpose, the data was collected from 5 women SHGs situated in Bardez and Bicholim talukas in Goa. The study revealed that SHGs made a lasting impact on the lives of the poor and their quality of life was improved in terms of increase in income, savings, and consumption expenditure, and self-confidence, productive use of free time, getting opportunity to improve hidden talents and getting more importance in the family. It was found that individual loans were mostly utilized for productive purposes and the repayment of these loans was 100 percent. The study concluded that the SHG movement could significantly contribute towards the reduction of poverty and unemployment in the rural sector of the economy.

STUDIES RELATED TO FOREIGN COUNTRIES

The SHG is the brainchild of Grameen Bank of Bangladesh, which was founded by Prof. Mohammed Yunus of Chittagong University in 1975. The concept of SHG serves to underline the principle “for the people, by the people and of the people”. Mohammed Yunus, popularly known as the father of micro credit system, started a research project in Bangladesh in 1979 and came out with ideas of micro credit that resulted in the establishment of Grameen Bank in 1983. In 1984, the participants of the Third International Symposium on Mobilization of Personal Savings in Developing Countries organized by the United Nations, agreed in the final resolution that –internal savings must provide the basis of credit programmes, state control over interest rate must be relaxed and there should be more decentralized financial services and strong linkage between the formal and informal credit institutions for development. In 1986, the Asia and Pacific Regional Agriculturist Credit Association (APRACA) devised on a coordinated programme for the promotion of the linkage between the banks and the SHGs for rural savings mobilization and credit delivery to the rural poor. In 1989, the Central Bank of Indonesia with the involvement of Self Help Promotional Institution (SHPI) started a pilot project entitled linking the Banks and the SHGs. In 1993, a first step was taken in Thailand by opening a Bank for Agriculture and Agricultural Cooperative (BAAC) and allowed to provide loans for farm related activities and as a second step in early 1999, Thailand government approved amendment to BAAC Act. GTZ, as part of its technical cooperation with BAAC, was helping the bank to develop a system for non-farm activities. By 2002, there were 13 Thai commercial banks, 5 credit fancier companies (type of finance company), 18 finance companies and 18 foreign commercial banks to help micro finance poverty alleviation programme. In 2003, Tanzania began pilot testing and provided access to micro credit to economically disadvantaged people using the village banking methodology.

MICRO-FINANCE INSTITUTES OF BANGLADESH

Bangladesh has been acknowledged as a pioneer in the field of micro-finance. Dr. Mohammad Yunus, Professor of Economics in Chitgaon University of Bangladesh, was an initiator of an action research project ‘Grameen Bank’. The project started in 1976 and it was formally recognised as a bank through an ordinance, issued by the government in 1983. Even then it does not have a scheduled status from the Central bank of the country, the Bangladesh Bank. The Grameen Bank provides loans to the landless poor, particularly women, to promote self-employment. At the end of December 2001, it had a membership of 23.78 lakh and cumulative micro-credit disbursements of 14.653 crore.

Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA) and PROSHIKA are the other principal Micro-credit Finance Institutions (MFIs) operating for over two decades and their activities are spread in all the districts of that country. BRAC is the largest NGO of Bangladesh with a total membership of 41.38 lakh. Initially set up in 1972 as a relief organization, it now addresses the issues of poverty alleviation and empowerment of poor, especially women, in the rural areas of the country. This institute also works in the field of literacy, legal education and human rights. BRAC has worked significantly in the fields of education, health, nutrition and other support services. PROSHIKA is also active in the areas of literacy, environment, health and organization building, while ASA and Grameen Bank are pure MFIS.

The micro-finance practices of these institutions revolve around five basic features. Firstly, these institutions primarily have women as their target group. Secondly, they adopt group approach for achieving their targets. The group approach focuses on organizing the people into small groups and then introducing them to the facility of micro-financing. The MFIs of Bangladesh place a great deal of importance to group solidarity and cohesiveness. Thirdly, savings are an essential precondition in all these MFIs for availing credit from them. Fourthly, the officials of the Bangladesh MFIs remain present in the weekly meetings of the groups and collect the savings, update the pass books and even disburse the loans, and lastly, the systems and procedures of the MFIs are quite simple and in tune with the requirements and capabilities of their clients.

Microfinance as an industry evolved in all the third world countries almost at the same time span. The world over, it was getting widely recognized that improving income levels of low-income community is essential to improve their well-being besides the state sponsored welfare programmers. During the 1970s and 1980s, the microenterprise movement led to the emergence of Non- Governmental Organizations (NGOs) that provided small loans for the poor. In 1990s, across the world, a number of these institutions transformed themselves into formal financial institutions in order to access and on-lend funds, thus enhancing their outreach. One of the significant events that helped it gain prominence in the 1970s was through the efforts of Mohammad Yunus, a microfinance pioneer and founder of the Grameen Bank of Bangladesh. In 2006, Prof. Yunus was awarded Nobel Peace prize “for his efforts to create economic and social development ” In India, many Central Credit Cooperative Banks , Local Area Banks (LABs), Self-Help Group (SHG) Bank linkage program received mixed success and the civil society organizations started feeling the need to offer financial services to the poor. Credit was getting increasingly recognized as an essential tool to break the vicious cycle of poverty. Gradually, Microfinance Institutions emerged in 1990s and 2000s. MFIs today differ in size and reach; some serve a few thousand clients in their immediate geographical area, while others serve hundreds of thousands, even millions, in a large geographical region, through numerous financial institution.

World Bank (1999) survey conducted for the mid-term review of the poverty alleviation and microfinance project among 675 micro-credit borrowers in Bangladesh showed that there had been positive change in the economic and social status of the surveyed borrowers. The survey showed that income had increased for 98 percent of borrowers; 89 percent of the borrower's accumulated new assets and 29 percent had purchased new land, either for homestead or for agriculture. Sanitation conditions improved for 69 percent and child education for 75 percent of the borrowers. The improvements had mainly achieved due to the increased level of self-employment of women participants.

Hossain (1988) conducted a study regarding impact assessment of Grameen Bank's microfinance programme in Bangladesh. The study took a comparison between the Grameen Bank members and eligible non-participants in Grameen Bank situated villages. It was found that participation in Grameen Bank's microfinance programme had a positive impact on various economic activities of members and helped in alleviating poverty. The average household income of Grameen Bank members was 43 per cent higher than that of target non-participants, and 28 per cent higher than eligible nonparticipants. Grameen Bank members spent 8 per cent more per capita on food and 13 per cent more on clothing than target non-participants and 35 per cent more on food and 32 per cent on clothing than target households in comparison villages.

Bangladesh has been known as the birthplace of microfinance, and competition has markedly increased during the last decade. Since its inception, microfinance has evolved as an economic development approach to benefit low-income people in rural and urban areas. Bangladesh has one of the longest histories with microfinance. Since various pilot programs and experiments were conducted by Grameen Bank and BRAC, microfinance has undergone continuous improvement in the country. Now, Bangladesh boasts a large number of well-known microfinance institutions (MFIs) including Grameen Bank, BRAC, and the Association of Social Advancement (ASA).

EVOLUTION OF SELF HELP GROUPS IN INDIA

In India, soon after independence, there has been an aggressive effort on the part of the Government, which was concerned with improving the access of the rural poor to formal credit system. Some of these measures have been institutional, while some others were through implementation of focused programmes for removal of rural poverty. Reaching out of the far-flung rural areas to provide credit and other banking services to the hitherto neglected sections of the society is an unparalleled achievement of the Indian Banking System. The main emphasis is the spread of the banking network and introduction of new instruments and credit packages and programmes were to make the financial system responsive to the needs of the weaker sections in the society comprising small and marginal farmers, rural artisans, landless agricultural and non-agricultural labourers and other small borrowers falling below the poverty line. With the implementation of the above policies, further the Government of India in its developmental planning emphasized the promotion of agriculture and other allied economic activities through credit intervention for ensuring integrated rural development and securing the prosperity of the rural areas. In pursuance of this, formal credit institutions have been guided by the principle of growth with equity and a large share of the credit disbursed for various activities was channelized towards the weaker sections of the society. Consequently, by the implementation of several poverty alleviation programmes, the number of people below the poverty line has declined from 272.7 million in 1984-85 to 210.8 million in 1989-90. This institutional credit system needs to meet the challenge of delivering credit to an ever-increasing number of rural people who need greater access to formal credit. It may have to reinforce its own structure at the grass root levels and also have to devise new ways of reaching out to the rural poor. As a result, the experience of the implementation of the above discussed Poverty Alleviation Programmes led to the introduction of the Integrated Rural Development Programme (IRDP) on 2 October, 1980 with the specific objective of raising the poor rural families above the poverty line. Such families considered credit support from banks as an important input in taking up economic and gainful activities In spite of these impressive achievements in the expansion of the credit delivery system and the special programmes, nearly half the indebted rural households are still outside the ambit of the institutional credit system. They approach the moneylenders for meeting their consumption and production in the absence of institutional support. Some of the poor who have not been reached even by the vast network of the institutional credit delivery system, have organized themselves into self-help groups (SHGs) and many such groups have come into existence either spontaneously or with the active involvement of the Voluntary Agencies which motivated the rural poor to pool their meagre financial resources for meeting their small and frequent consumption and production credit needs. While no definitive date has been determined for the actual conception and propagation of SHGs, the practice of small groups of rural and urban people binding together to form a savings and credit organization is well established in India. In the early stages, NGOs played a pivotal role in innovating the SHG model and in implementing the model to develop the process fully. In the 1980s, policy makers took notice and worked with development organizations and bankers to discuss the possibility of promoting these savings and credit groups. Their efforts and the simplicity of SHGs helped to spread the movement across the country. State governments established revolving loan funds which were used to fund SHGs. By the 1990s, SHGs were viewed by state governments and NGOs to be more than just a financial intermediation but as a common interest group, working on other concerns as well. The agenda of SHGs included social and political issues as well. Encouraged by the results of the studies of the SHGs experience, the NABARD in consultation with the RBI, the Commercial Banks (CBs) and the NGOs launched the pilot project of linking the SHGs with the Commercial Banks in 1991-92 and issued detailed guidelines in February 1992. The RBI advised the Commercial Banks in July 1991 to extend finance to the SHGs as per the NABARD guidelines. Subsequently, the linkage project was extended to the RRBs and the Co-operatives. The linkage philosophy was based on the informal credit system that is, the moneylenders were holding their away over the rural poor because of their responsiveness, flexibility and sensitivity to the credit needs of the poor. The poor require credit very frequently in small quantities without much hassle and for the activity of own choice. The moneylender is always there at his doorstep for supplying the credit promptly, but with an exorbitant rate of interest, forcing the poor to cough up all his surpluses or income and making him or her, thereby, move downhill along the poverty line. The moneylender has a vested interest in the perpetuation of poverty. The formal credit system has the resources, manpower and technical capability to handle any volume of credit dispensation. The pilot project on linking the SHGs with the Banks was launched aiming at combining the positive factors of both the systems and ensuring advantages to both the formal credit system and the SHGs. The traditional attitude of a banker that the poorest of the poor is not reliable and the banks are not meant for them is a myth to be dispelled. The distinct advantages envisaged under the project for the Banks and the SHGs are that the Banks are advised to win the confidence and trust of the rural poor. Through the pilot study is intended to find the impact of the SHGs with the Banks, however, during the pilot phase of the project, number of other studies have also been conducted, aiming at comparing the advantage expected and the reality. The potential of SHGs to develop as local financial intermediaries to reach the poor gained wide recognition in many developing countries especially in the Asia-Pacific Region, Many NGOs have played an active role in fostering the growth of the SHGs in furtherance of their socio-economic agenda. Considering the immense potential of the SHGs in meeting the development aspirations of the unreached rural poor, the National Bank for Agriculture and Rural Development (NABARD), the apex development institution with exclusive focus on integrated rural development supported and funded in 1986-87, a MYRADA sponsored action research project on savings and credit management of the Self-Help Groups. Therefore in collaboration with some of the other member institutions of the Asia Pacific Rural and Agricultural Credit Association (APRACA), the NABARD undertook a survey of 43 NGOs spread over 11 states in India to study the functioning of the SHGs and possibilities of collaboration between the banks and the SHGs in mobilization of rural savings and the delivery of credit to the poor.

STUDIES RELATED TO INDIA

The post-nationalization period in the banking sector 1969, witnessed a substantial amount of resources being earmarked towards meeting the credit needs of the poor. There were several objectives for the bank nationalization strategy including expanding the outreach of financial services to neglected sectors (Singh, 2005). As a result of this strategy, the banking network underwent an expansion phase without comparable in the world. Credit came to be recognized as a remedy for many of the ills of the poverty. There spawned several pro-poor financial services, support by both the State and Central governments, which included credit packages and programs customized to the perceived needs of the poor, while the objectives were laudable and substantial progress was achieved, credit flow to the poor, and especially to poor women, remained low. This led to initiatives that were institution driven that attempted to converge the existing strengths of rural banking infrastructure and leverage this to better serve the poor. The pioneering efforts at this were made by National Bank for Agriculture and Rural Development (NABARD), which was given the tasks of framing appropriate policy for rural credit, provision of technical assistance backed liquidity support to banks, supervision of rural credit institutions and other development initiatives. In the early 1980s, the Government of India launched the Integrated Rural Development Program (IRDP), a large poverty alleviation credit program, which provided government subsidized credit through banks to the poor. It was aimed that the poor would be able to use the inexpensive credit to finance themselves over the poverty line. Also during this time, NABARD conducted a series of research studies independently and in association with MYRADA, a leading non-governmental organization (NGO) from Southern India, which showed that despite having a wide network of rural bank branches servicing the rural poor, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking system. These studies also showed that the existing banking policies, systems and procedures, and deposit and loan products were perhaps not well suited to meet the most immediate needs of the poor. It also appeared that what the poor really needed was better access to these services and products, rather than cheap subsidized credit. Against this background, a need was felt for alternative policies, systems and procedures, savings and loan products, other complementary services, and new delivery mechanisms, which would fulfill the requirements of the poorest, especially of the women members of such households. The emphasis therefore was on improving the access of the poor to microfinance rather than just micro-credit. To answer the need for microfinance from the poor, the past 25 years has seen a variety of microfinance programs promoted by the government and NGOs. Some of these programs have failed and the learning experience from them have been used to develop more effective ways of providing financial services. These programs vary from regional rural banks with a social mandate to MFIs. In 1999, the Government of India merged various credit programs together, refined them and launched a new programme called Swaranjayanti Gram Swarozgar Yojana (SGSY). The mandate of SGSY is to continue to provide subsidized credit to the poor through the banking sector to generate self-employment through a self-help group approach and the program has grown to an enormous size. MFIs have also become popular throughout India as one form of financial intermediary to the poor. MFIs exist in many forms including co-operatives, Grameen-like initiatives and private sector MFIs. Thrift co-operatives have formed organically and have also been promoted by regional state organizations like the Cooperative Development Foundation (CDF) in Andhra Pradesh. The Grameen-like initiatives following a business model like the Grameen Bank. Private sector MFIs include NGOs that act as financial services providers for the poor and include other support services but are not technically a bank as they do not take deposits. Recently, microfinance has garnered significant worldwide attention as being a successful tool in poverty reduction. In 2005, the Government of India introduced significant measures in the annual budget affecting MFIs. Specifically, it mentioned that MFIs would be eligible for external commercial borrowings which would allow MFIs and private banks to do business thereby increasing the capacity of MFIs. Also, the budget talked about plans to introduce a microfinance act that would provide some regulations on the sector. Today, Self-Help Groups and MFIs are the two dominant form of microfinance in India. This report focuses on the aspects of the SHG as an effective means to provide financial Services to the poor. Self-Help Groups have found an important place in new micro-financial management activities. Many studies, therefore, have been carried out on various aspects of SHGs, such as: organization of SHGs, financial activities and related processes carried over by SHGs, the place of SHGs in the overall economic activities of the society, economic and social empowerment of women through SHGs etc.

Empowerment of rural women through self helps groups – An Indian experience – by V. Puhazhendhi & K.L.S. Satyasai (National Bank News Review. April –June 2002). For the study the data were collected with the help of a structured questionnaire .The sample for the study was 223 SHGs functioning in 11 states representing 4 different regions across the country. For assessing the impact of the programme, pre-SHG and post-SHG situations were compared. The reference year of the study was 1999-2000. Data in various economic and social aspects such as asset structures, income, social empowerment, behavioral changes etc. were collected and analyzed to assess the impact. It was concluded in the study that SHG as institutional arrangement could positively contribute to the economic and social empowerment of the rural poor.

Another Ex-post evaluation of study of self-help groups in that was conducted in Karnal, Gurgaon & Bhiwani districts of Haryana. (The study was conducted by (National Bank for Agriculture & Rural Development, September 2002). It was found in this study that in the pre-SHG situation 55.6 percent of the members talked freely without any inhibition, and in the post SHG period 77.8 percent of the members talked freely. The percentage of members who hesitated to talk reduced from 22.2 percent to 5.6 percent in the post-SHG period. The improvement in the communication was due to increase in awareness and frequent interaction with NGO and bankers. The financial independence of most of the members also helped in achieving their freedom of expression. After joining SHG, the members improved their status in the family, became helpful in family finance and sometimes helped others too. The overall improvement in all these confidence-building factors was about 43 percent. Involvement with SHG reduced the family violence in 16 percent cases especially due to reduced economic difficulties.

Another study conducted by Impact of self-help groups (Group processes) on the social empowerment status of women in southern India (MYRADA). This study shows that the level of confidence of respondents on several tasks specified, the members of older groups expressed a higher level of sense of ease. The older group had substantially larger percentage of respondents reporting increase awareness about health and hygiene. Over 95 percent of the old group members say that they themselves operate their accounts frequently. Older group members have had an important role in popularizing the SHG among the other women. A very high percentage of key family members are willing to support the SHG member as well as any other woman in the family who may like to get involved with a group. Particularly, the husbands have shown a generally positive attitude towards their wives. The older groups emerge as more confident, financially more secure, more in control of their family members. From all the above quoted studies, it can be said that SHG is a potent means for bringing about change and awareness regarding the surrounding situation in the society.

If the growth rate of SHG-bank linkage is impressive, its impact, especially economic impact, is amazing. Reviewing existing SHG-bank linkage studies H. D. (2005) and Tankha, (2002) pointed out, that SHG members realized major increase in assets, income and employment. In the borrowing patterns a shift has been observed over time from consumption loans to loans for income generating purposes. Increased savings and capital formation improved the self-financing capacities and improved their risk absorption capacity and made them less vulnerable. Access to formal finance has substantially reduced dependency on informal money lenders and has diminished capacities of SHG members to increase their household expenditure for basic needs such as better nutrition as well as for education and health. Among various benefits cited above, access to formal financial institutions is widely felt as the most important benefit. The second most important benefit is that freeing themselves from the influence of money lenders (APMAS, 2005). Yet another interesting trend observed in Andhra Pradesh is that money lenders are shifting out of money lending and some of them entered into real estate sector. When members get a series of loans, with increase in amount in every subsequent loan and assure of getting loans in the future, they can invest very high amounts in asset creation and income generation activities (APMAS, 2007b).

Studies also indicate that SHG members have experienced higher improvement in their economic conditions vis-à-vis non-members (V. C. and Badatya, 2002). Impact of the SHG bank linkage is also noticeable at macro level also. The rural household access to formal financial institutions in the country has increased between 1991 and 2003 (Srivastava and Basu, 2004). Andhra Pradesh, which is considered as Mecca of the micro-finance particularly the SHG-bank linkage, experienced the steepest decline in rural poverty rates in recent years and attained one of lowest rural poverty rates. The poverty in Andhra Pradesh has declined from 29.75% in 1983 to 10.85% in 2004-05. During the same time the poverty rate has declined from 44.93% to 28.27% at national level. Unlike the all India trend, in Andhra Pradesh the decline in poverty rate between 1983 and 2004-2005 is steeper in rural areas (16.46%) compare to urban areas (12.08%) (Dev 2007). The steep decline in rural poverty in the state during early years of current decade, during which agriculture witnessed an unprecedented crisis, is a remarkable achievement. The SHGs and bank linkage programs in particular, which are predominantly rural programmes, might have contributed to this achievement SHGs also contributed for the social changes such as mobility and ability to interact with outsiders, especially with officials and banks. As a result of these potentials, a number of government agencies, banks and other financial institutions, microfinance institutions, private sector, multilateral and bilateral agencies, donors and civil society agencies started partnerships with SHGs. India has adopted the Bangladesh's model in a modified form. To alleviate the poverty and to empower the women, the micro-finance has emerged as a powerful instrument in the new economy. With availability of micro-finance, self-help groups (SHGs) and credit management groups have also started in India. And thus the movement of SHG has spread out in India. In India, banks are the predominant agency for delivery of micro-credit. In 1970, Ilaben Bhat, founder member of SEWA (Self Employed Women's Association) in Ahmadabad, had developed a concept of women and micro-finance. The Annapurna Mahila Mandal in Maharashtra and Working Women's Forum in Tamilnadu and many National Bank for Agriculture and Rural Development (NABARD)-sponsored groups have followed the path laid down by 'SEWA'. 'SEWA' is a trade union of poor, self-employed women workers. Now nearly 560 banks like NABARD, Bank of Maharashtra, State Bank of India, Cooperative Banks, Regional rural banks, the Government institutions like Maharashtra Arthik Vikas Mahamandal (MAVIM), District Rural Devlopment Agency (DRDA), Municipal corporations and more than 3,024 NGOs are collectively and actively involved in the promotion of SHG movement.

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

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

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

Karmakar (1997) in his study “SHGs in Orissa: Some Conceptual Issues,” studied the performance of the credit linkage of all the Self-Help Groups, the Non-Governmental Organizations and the Banks in Orissa up to March 1995. Eight Non-Governmental Organizations, 11 banks and 14 self-help groups were taken as sample for the study from the entire state in the year 1996. Structured questionnaires were used to collect data besides a field study consisting of interviews and through non-participated observations at all self-help group levels. One of the findings showed that a few Non-Governmental Organizations started savings and credit programmes to the marine fishing folk through the Self-Help Groups. For lending, they relied mostly on mobilization of savings. Since the amount of saving is very small, the credit from the savings to the community was inadequate to meet their requirements. Loans were provided for growing crops, blacksmith’s work, making of hill brooms, trading and business. Repayment was 100 per cent among the woman self-help groups. The choice of the members of the Self-Help Group was limited to a few activities only because the amount of micro-credit available was small in the initial years of the linkage programme.

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

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

Manimekalai and Rajeswari (2000) in their work "Empowerment of Women through Self Help Groups," analyzed the women self-help groups formed by the Non-Governmental Organizations in the rural areas of Tiruchirapalli District for the purpose of promoting rural women through self-employment. The Non-Governmental Organization namely, Society for Education and Village Action and Empowerment (SEVAE) has been working in 362 villages and helping a total of one-lakh women beneficiaries consisting of different avenues of self-employment like petty businesses, processing, production and service units.

Nagayya (2000) in his paper "Micro Finance for Self-Help Groups", has reviewed the initiatives taken at the national level with a few institutional arrangements to support this programme for alleviation of poverty among the poor, with special focus on women.

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

Rao (2000), In the study entitled "A Study on Women Self-Help Groups in Andhra Pradesh", concluded that SHGs showed a positive impact on the households of the members in respect of building of self-confidence and social development skill and formation and social empowerment of members.

Raman (2000) in his work "Self-Help Groups – The Kerala Experiment", shares his research experience of the Primary Agricultural Co-operative Society of Kerala with Self Help Groups. His study shows that though both the groups avail themselves of the loan for the same purpose, the recovery of loans from the self-help groups is 95 percent to 100 percent while it is 60 per cent to 70 per cent from the members of the Primary Agricultural Co-operative Society. The reason cited is that the members of the self-help group are to pay only a 4.5 per cent rate of interest against the usual 9.5 per cent interest after deducting the State Government incentive of 5 percent. The low rate of interest and the government incentive make a large difference between the income and profitability of members covered under self-help groups and the others not covered by the self-help groups. The sample study shows that only 10 percent of the members of the Primary Agricultural Co-operative Society have been brought under the concept of self-help groups. Even among these, only 60-70 percent is actually benefited by the scheme and the rest are cultivators of crops other than food-grains, fruits and vegetables. He proves in his study that the self-help group concept has not only apparently reduced the poverty but also yields encouraging results. The self-help group concept has created further a positive impact on the functional efficiency of the Primary Agricultural Co-operative Society as well.

Lakshmikandan (2000) in his study titled "Self Help Groups in the Life of Rural Poor – A Philibhit Case Study," stated that most of the membership of the Self-Help Groups consisted of small landholders and agricultural labourers. Out of the 74 Self-Help Groups studied, 57 were women groups and 17 were men groups. The strength varied from ten to twenty and weighed heavily towards the larger figure. The SRESOC organized Self-Help Groups in that district. Among all the Self-Help Groups, only 11 were sanctioned loans successfully from the lead bank of the district, the Bank of Baroda and the amount varied from Rs.20,000/- to Rs.30,000/-. He is of the opinion that facilities for entrepreneurial development are available within the group only at the micro level when compared to the large basic functions like market study, providing resources, general production management and marketing management. The literacy rate of the members of some self-help groups has improved from five per cent to 90 per cent he stated.

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

Suriakanthi (2000) in her study "Literacy – Essential for SHGs" analyses the need for literacy of the self-help group members. A random survey of 120 group's shows nearly 95 percent of the members and 75 per cent of the office bearers are illiterate. The female office-bearers manage to carry on the activities with the help of their husbands and educated wards. They use to narrate the incidents that happen in the meetings to their husband/ward and they prepare the report. Fifty percent of the group's survey shown that only literate members prepare the minutes and accounts on behalf of the office-bearers who are illiterate. It is found that ten percent of the illiterate members do not even know the amount saved by them. She strongly insists on the necessity of imparting basic education to all Self-Help Groups.

Gurumoorthy (2002) in his work, "SHGs- Economic Empowerment through Self-reliance", studied the micro-credit funding agencies and the amount sanctioned by them. Out of the 27,000 self-help groups in Tamil Nadu, 5,400 are linked with banks and the banks advance credit to them to the extent of Rs.9 crores. In his view, Self-help groups have the power to create a socio-economic revolution in the rural areas of the country.

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

Chiranjeevulu (2003) in his study, "Empowering Women through Self Help Groups", studied the micro enterprises started by self-help groups in Warangal district (Andhra Pradesh). The micro-enterprises belong to chilly processing units. Srujana Mahilabhivridhi Upadi Mutually Aided co-operative Society was formed with a membership of 514 women. Each group raised a share capital of Rs.15, 000. The group members belonged to backward classes, scheduled castes and scheduled tribes.

The researcher states that the conversion of consumption based self-help groups into entrepreneurship-oriented self-help groups led to employment generation and empowerment of women.

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

Ritu, Kushawaha, and Srivastava (2003) in their work, “Socio-Economic Impact through Self Help Groups”, examined the functioning of Self-Help Groups in Kanpur Dehat District. Twenty five women from Self-Help Groups were selected as sample for the study. Ten woman members from each self-help group and ten non-members from the same village were selected as respondents, to study the impact of the self-help groups on their socio-economic status. The results show that there is relationship between the self-help groups and the socio-economic status of women.

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

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

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

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

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

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

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

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

Microfinance sector has grown rapidly over the past few decades. Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in 1976. Today it has evolved into a vibrant industry exhibiting a variety of business models. Microfinance Institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs. Banks have also leveraged the Self-Help Group (SHGs) channel to provide direct credit to group borrowers. With financial emerging as a major policy objective in the country, Microfinance has occupied Centre stage as a promising conduit for extending financial services to unbanked sections of population.

FINDINGS OF REVIEW OF LITERATURE:

As the above paragraph of literature stating that, women’s experiences as members are not unitary, nor should women business owners be treated as a monolithic group in some sort of misguided search for women’s ways of doing business. A critical theme threaded throughout this discussion is the need to resist any urge to homogenize women into clear patterns (often through contrasts with men) and to emphasize their differentiated opportunities, approaches, and perceptions of membership.

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

Ritu, Kushawaha, and Srivastava (2003) in their work, “Socio-Economic Impact through Self Help Groups”, examined the functioning of Self-Help Groups in Kanpur Dehat District. Twenty five women from Self-Help Groups were selected as sample for the study. Ten woman members from each self-help group and ten non-members from the same village were selected as respondents, to study the impact of the self-help groups on their socio-economic status. The results show that there is relationship between the self-help groups and the socio-economic status of women.

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Evidences from various developing countries throughout the world have shown that the poor can be helped by organizing themselves into Self Help Groups. Financial service is only a small part of the success story and the more fundamental have been voice, identity and empowerment. Self Help Groups form the basic constituent unit of micro finance movement in India.

Self Help Groups have the following advantages: -

1. They help the poor to gain economic and social empowerment.
2. They reduce the transaction cost of lenders and borrowers.
3. They encourage the poor to save.
4. Women are trained in new skills and technologies and the wage earning workers become micro entrepreneurs.

5. Increased asset creation and savings, higher employment and improved social lives of members are the benefits to the member.

Micro finance is considered as a development tool to alleviate poverty in Asian, African and South American countries. Micro finance gives quick and tangible results to the poor people especially women. Micro finance is required by the poor people to invest in income generating activities which will break their vicious cycle of poverty. NABARD has defined micro finance as follows: “Micro finance is all about provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi urban and urban areas for enabling them to raise their standard of living”.

Sharma (2007) explains the principles of micro finance based on the experiences gained during last three decades all over the world-

1. Small savings or thrift by poor is possible.
2. Poor people need small collateral free loans with regular frequency instead of large loans at a time.
3. Repayment matches with the family cash flow instead of individual cash flow.
4. Rate of interest is not crucial.
5. Timely, adequate and continued credit facility.
6. Relatively small repayment periods e.g. weekly, monthly, instead of yearly instalments and half yearly instalments.
7. Women are better customers than men.
8. Group method of lending is more successful than individual lending.

Empowerment of women through Micro Finance benefits individual women, their families and the community as a whole through collective action for development. Pollution of water, deforestation, inadequate public health and sanitation, ground water scarcity, falling ground water table, overexploitation of water resources are some of the problems related to environment which may be addressed through sustainable rural development which in turn is possible through SHG and micro finance. Group formation, provision of collateral free credit, participatory efforts for income generating self-employment, knowledge and awareness and skill development have improved the socio economic conditions of rural poor. Self Help Groups and micro finance are found to be successful in promoting empowerment of women leading to development.

Puhazhendi and Satyasai (2000) studied socio-economic impact of Self Help Groups and found that the overall impact of Self Help Group was significant both on social and economic spheres of the house hold. Their research reveals the following: -

- Only 23 per cent households were saving before forming Self Help Groups and 100 percent of households were able to save after joining Self Help Groups.
- Members were relatively more assertive on confronting with social evils and problem situations and the groups significantly contributed to improve self-confidence and the feeling of self-worth of the members. Their study concluded that the impact of micro finance was relatively more pronounced on social aspects than economic aspects.

Nedumaran et al. (2001) studied the performance and the socio economic impact of SHGs in Tamil Nadu and found that there was an increase of 23 percent in the net income in the post SHG situation, compared to the pre-SHG situation. Social conditions of the members also considerably improved after joining the Self Help Group.

Puhazhendi and Badyata (2002) studied the impact of Self Help Groups in Orissa, Chhattisgarh and Jarkhand. Their findings are as follows -

1) The Self Help Group – Bank linkage programme with better access to credit brought increased income to the Self Help Group members and the net income was the result of loans for productive purposes in farm and non-farm activities.
2) Easy and timely availability of credit enhanced different economic activities which increased employment in non-farm and off-farm employment.
3) Self Help Group linkage programme impacted social empowerment i.e. self-worth, treatment by neighbors, quality of treatment by members of family,

involvement in group activity, confidence in managing financial crisis of the family, decision making capacity in household matters and assertiveness in protesting against social evils like drinking, gambling and wife beating.

Number of studies revealed that Self Help Groups helped in improving the socio-economic conditions of members –

Rao (2004) reviewed the genesis and development of Self Help Groups in India and revealed that existing formal financial institutions failed to provide finance to landless, marginalized and disadvantaged groups and experiences available in our country and elsewhere suggested that Self-Help Groups are sustainable, have reliability, stimulate savings and help borrowers to come out of poverty.

Dogra (2005) studied Self Help Groups in Saharanpur district of Uttar Pradesh and found Self-Help Groups are successful in breaking the stronghold of money lenders; and families do not go to money lenders as forced labour and need not mortgage land or valuables as a result of SHG.

Rao (2005) narrates the benefits and gains of Self Help Groups after his study of SHGs in Midnapore district of West Bengal -

1) Increase in self-confidence and social status.

2) Improvements in leadership qualities and managerial skills and they become part of decision making process in family and community.

3) Better understanding of immunization of children; education of children. Income of members increased and assets created because of economic activities leading to significant improvement in the standards of living of the members and their families.

Leelavathy and Aradhana (2006) studied Self Help Groups in Nalbari district of Assam and reported that 69 per cent of the respondents had a high degree of participation in decision making and most of the members of the group expressed that they were economically empowered after joining Self Help Groups. They concluded that Self Help Groups brought about a sea change in personality, equipped with problem solving ability and enhanced self-confidence.

With a view to analyzing the relationship between the social factors and the attitude of the members towards economic, social, psychological and political impact the following findings are given: -

- There is no significant difference in the performance of the SHGs and the size of the membership of the SHGs.
- There is no significant difference in the self-worth of the members before and after joining the SHGs
- There is significant difference in the communication skill among the members before and after joining the SHGs.
- There is significant difference in the reaction to the social evils among the sample members before and after joining the SHGs.
- There is significant difference in the literacy level of the members before and after joining the SHGs.
- There is significant difference in the availing of amenities before and after joining the SHGs.
- There is significant difference in the political impact before and after joining the SHGs.

There is significant difference in the economic conditions before and after joining the SHGs.

There is no significant difference in the perception scores of the different groups of members classified according to their community.

The other side of SHGs:

Some studies have shown the negative impact of SHGs. A sketch of such studies that criticize the functioning of SHGs is presented in the following paragraphs -

Datar and Prakash (2004) found throughout the country SHGs are successful in covering non-bankable credit needs but not so in income generating activities. A majority of the women do not have the cultural moorings to become entrepreneurs; they lack requisite skills, infrastructural facilities and finance. Trainings are inadequate and there is no linkage between training and credit or credit and marketing. There is no integration with local economy as there is little demand for such products.

Selvarajan and Elango (2004) observed that some groups charge 24 per cent interest to the members and it is obvious that the high rate of interest is very much oppressive causing hardships to the poverty stricken groups.

Dhara and Nitra (2005) studied Self Help Groups in Hoogly district of West Bengal and found the members cannot be said to be hard decision makers and the empowerment is only at elementary level since they are not confident to carry out activities on their own. Members are not aware of the banking procedure and leaders are finding it difficult to maintain account books.

Sinha (2006) studied 214 SHGs in Andhra Pradesh, Karnataka, Orissa and Rajasthan and concluded that -

- SHG members contribute to women's election in Panchayat Raj but do not appear to inform what they can achieve if elected.
- Default rate was 28 per cent (high in Andhra Pradesh); 38 per cent of very poor members have more over due, in Andhra Pradesh defunct groups emerging as an indicator of loan default.

Swain and Wallentin (2007) studied Self Help Groups in 5 states (Orissa, Tamil Nadu, Andhra Pradesh, Uttar Pradesh and Maharashtra) and concluded that there is significant increase in the level of women empowerment over a period of time (2000-2003). However, it does not mean that every woman has been empowered to the same degree, but on the average, the Self Help Group members were empowered over this period.

Tripathy and Jain (2008) studied Self Help Groups in Haryana and Orissa and concluded that micro finance has a negligible income impact on asset less rural poor, the deprived and disadvantage.

CONCLUSION:

The micro finance revolution, a recent product of development, ensures the availability of institutional credit and financial inclusion to the poor, who were so far excluded from the institutional credit system. The literature review has shown the impact of micro finance and self Help Groups as a mixed picture, but it is an effective instrument and tool to pull the poor households from poverty in developing countries where it becomes a philosophy and practice of poverty eradication, empowerment and inclusive growth, especially in Asia, African countries. Studies carried out in India, as evident from the above literature review, indicated that micro finance and Self Help groups, by and large contributed to the development of core poor in terms of economic well-being, alleviating poverty and empowerment leading to overall development of rural poor. The real impact of micro finance should result in the creation of employment opportunities and micro enterprises. The real effectiveness and success depends on alleviating poverty by converting the poor into producers which will increase the income of the rural families.