Micro Finance for Marketing the Products through Self Help Groups

1.0. 0 Introduction

The study focuses on the self help groups and their involvement in Micro finance. Today finance is the blood of the economy after land, labor and organization capital is the high degree resource in the factors of production. The business man earns his livelihood through business, profession or occasion, but it is very difficult for him to involve in either small scale industry, large scale industry or key industry. India is a country which has got the maximum villages around 85% of its population live in rural areas. To cater the livelihood and occasion we need small level finances such as micro financing, rural lending to unorganized sectors, tiny sectors etc. The white colored bankers have been right from the begin neglecting or avoiding these unorganized tiny sectors to improve and develop their livelihood. Only after 1980 the nationalized banks starts showing a step motherly treatment to these categories which definitely had their big share in the GDP contribution and improve the growth rate of our country.

The American Association redefines marketing Research as "the function that links the consumer, customer and public to the marketer through information used to identify and define marketing opportunities and problems; generate, refine and evaluate marketing actions; monitor marketing performance, and improve understanding of marketing as a process"\(^1\)

The poverty level should be eradicated; the unemployment should be taken care. These changing dimensions will satisfy the growth of our country and equalize the economic power of individuals. Prof. SP GUPTA study group and development of small enterprises has rightly mentioned the measures of these groups in the year march 2001 in its report. This study group made a number of recommendations for human resources development of small scale industries sector for their training skill and new management practices. Dr Arjun Sengupta chairman of policy initiated to upgrade the SME also facilitated and upgraded the growth of this area and since decade now there has been the vast change in these tiny sectors and self help group’s policies.

\(^1\)Naresh K Malhotra – Marketing Research – “An applied Orientation” 4\(^{th}\) Ed, Pierson Education, P.7
The self help groups have historically emerged in India from an unorganized discipline to the organized discipline. Today these groups are welcomed by banks and NGO’s co-operative sectors etc. In ancient India this type of business cartels and pools had effectively conducted this system. Centuries ago later on the principles of co-operative gave birth from this origination. The self-help groups focuses on the Talents, Marketability, Mutual growth, Mutual help and Exposure of traditional products and unrecognized products to the preview of organized markets thereby retaining the heritage which among centuries in our country.

The self-group are self managing people with or without education background either by individual or community vice economic development to share the benefit to all the members. It empowers rural, urban, poor, youth, women etc which is desires of economic empowerment.

Micro finance is the supply of loans, savings and other basic financial services to the poor. Financial services of micro finance usually involved small amount of money, small loans and small savings. A Micro Finance Institution (MFI) is an organization that provides micro finance services ranging from small non-profit to large commercial banks. An MFI can be broadly defined as any organization, credit union, down scale commercial bank, financial NGO or credit co-operatives that provides financial services to the poor. Self help groups are the groups popularly known as SHG’s in which mostly they are consisted of 12 to 20 persons. SHG’s are joined together mainly by neighbours, friends, or by any relatives. Government is taking full efforts to uplift this SHG groups. Mostly SHG members are very poor and uneducated and they are not aware of all rules and regulations in all the proceedings in our country.

1.0.1 Self Help Groups

Katz and Bender (1976) characterized SHGs as a group of participants that gather in order to mutually satisfy a common need to create a desired social or personal change. The initiators are

- To act as a media for the socio-economic development of the village.
- To develop links with institutions sponsored by NGOs.
- To organize training for skill development.
- To help in the recovery of loans.
➢ To gain mutual understanding, develop trust and self confidence.
➢ To encourage and sustain teamwork.
➢ To develop leadership qualities.
➢ To use as an effective delivery channel for rural credit.

1.0.2. Micro finance and poverty eradication:

The lack of access to credit for the poor is attributed to practical difficulties arising from the discrepancies between the mode of operation followed by financial institutions and the economic characteristics in our country and financial needs of low income households.

Over the last 10 years, however successful experience in providing finance to small entrepreneurs and producers demonstrate that poor people when given access to responsive and timely financial services at market rates repay their loans and used proceedings to increase their income and assets. Community banks, NGO’s and savings and credit groups around the world have shown that these enterprise loans can be profitable for borrowers and lenders making micro finance is one of the most poverty reducing strategies. To the extent that micro finance institution becomes financial viable, self sustaining and integral to the communities in which they operate, they have the potential to attract more resources and expand services to client. To be successful financial intermediaries that provide services and generate domestic resources must have the capacity to meet high standards. They must achieve excellent repayments and provide access to clients. They must build towards operating and financial self sufficiency and expanding client reach. In order to do so, micro finance institutions need to find ways to cut down administrative cost and also to broaden resources base.

Micro finance can be provided by two different forms.

M I C R O   F I N A N C E

Banks      NGO
Functional areas of both banks and NGO’s are different from one another. Banks are coming under the cadre formal sector institution and NGO’s are coming under the cadre informal sector institution.

NGOs generally take participatory and community development approach, which differs from traditional approaches usually taken up by government Vishwanath (1995) also found overall empowerment of women in southern states of India when they have been development program of NGOs.

Based on the statistics provided by NABARD, the focus was on the extent of SHG bank linkage and its contribution in improving the access of rural poor and other marginalized sections. From the statistics it is observed that formal credit have led to limited success to SHG members. SHG linkage banks targeting mainly on poor and enable them to avail formal finance, besides the inherent strength of SHGs for financial intermediation in loan recoveries the proactive involvement of apex agencies like NABARD and also that of NGOs is a major contributor factors in the positive results being under the programme.

The Role of Micro finance in improving the conditions of the rural people through SHGs, in Boamara village sambalput District in Orissa, micro finance through SHGs had become a ladder for the poor to bring them up not only economically but also socially, mentally and attitudinally. Basic problem with poor is not the higher rate of interest, but the difficulty to get adequate amount of credit on time. Micro finance provides opportunity to the poor for getting sufficient amount of credit easily to start any income generating activity.

1.0.3. Principles

- Ensuring financial services to poor people is primary principle of Micro financial Institution.
- Micro finance is considered as a tool for socio-economic development which help the poor and needy person through various services.
- Micro finance loans are aimed at empowering the impoverished, mostly women, to start their own businesses and to grow their money so that they can achieve long-term financial independence.
1.0.4. Scope of the study

The scope of the study was carefully analyzed taking into consideration factors such as self-employment, agricultural area, poverty role of NGO’s etc. basically the researcher was ambitious to know the role of extremely poor, poor, marginally poor, middle income and high income .The study revealed that high income were very less in this groups. The NGO’s were fairly rich but they have created an opportunity for the deserving class of people to find their livelihood’s he researcher was also eager to know the marketability of these products. On observation these products were welcomed by different people even in higher middle class and effluent class. Most of these products were cheaper and traditionally accepted items. These products were packed well and marketable even in super and hoofer markets. The products were up to the standards of export level but still the producer is yet to find their destination. The scope insisted on following major areas.

✓ The livelihood of self help group people was basically aim to fulfill employability and marketability.

✓ The income was distributed among the poor marginal and middle income group.

✓ The NGO’s has the part of their social responsibility involved to uplift economic conditions of these people.

✓ The self help groups with the help of the Micro finance could achieve a target of rich research findings to fulfill the needs of the objectives framed by her.
1.0.5. Objectives of the Study

The objectives were carefully framed in order to study the economic aspects, living standard and marketing problem of these self help groups working under the micro financing system with the help of bankers and other financial institution. The list of objectives and framed as follows:

- To identify the factors relating to the standard of living to self help group members.
- To Analyse the marketing problems faced by the SHG.
- To examine the operations of Banks and other financial institutions in lending Micro finance to the SHG.
- To offer suitable suggestions and recommendation to improve the marketing strategies of SHG’s.

The objectives were fully taken care with the help of questionnaire with 5 point scale and question amounting to nearly 53 and subdivision of 250 from 500 samples. The questionnaire was statistically proved for the efficiency and test namely conboch test proved its reability.
1.0.6 Hypotheses of the Study

Stemming from the objectives series of hypothesis have been formulated as follows.

- **H₀** - The Self help groups have not improved the Economic condition of lower middle class, unemployed, deserving and deserted families in the region.

- **H₁** - The Self help groups have not improved the Economic condition of lower middle class, unemployed, deserving and deserted families in the region.

- **H₀** - The banks and NGO's have not been effective lenders in the form of Micro-Finance to the Self help groups.

- **H₁** - The banks and NGO's have not been effective lenders in the form of Micro-Finance to the Self help groups.

- **H₀** - The Products manufactured by the Self help groups had no effective customers without any major middlemen involved in the study area.

- **H₁** - The Products manufactured by the Self help groups has effective customers without any major middlemen involved in the study area.

- **H₀** - The Self help group have not developed entrepreneurship due to Micro financing system.

- **H₁** - The Self-help group have not developed entrepreneurship due to Micro financing system.
1.0.7 Area of the Study

The area of the study is to determine the employability of the poor people or deserving people or interested people in this type of business. This business take cares of less capital or no capital individual with talent and efforts. The researcher has taken pains to couple out the micro financing sectors in Vellore district comprising of the following Tallukas namely Vellore, Gudiyatham, Tirupattur, Vaniyambadi, Ambur and Pallikonda. The samples received from 50 and above groups involved in various productions like soaps, candles, toys, handmade chocolates, hand kerchiefs, paper products, food items and candies sanitary napkins, eco friendly tea powders, oils, balms basic agricultural needs etc. Around 100 products and more products have been produced by the groups visited by the researcher. The researcher has taken the pain to collect around 500 samples from self help groups and 50 executive summary from various financing institution including banks who had lent money in the form Micro-finance.

The scope was geographically located on the western division of the Vellore district for easy accessibility of the researcher.
1.0.8 Limitation of the Study

- The limitation of this study restricted purely in the revenue villages’ tallukas of Vellore district in the state of Tamil Nadu.

- The researcher had fixed the target and limited herself to approach the self help groups who are receiving the financial seed money from the banks and non-governmental organization in the form of Micro-finance.

- Though there are several thousands of self-help groups functioning in the state of Tamil Nadu the researcher only selected these places for the purpose of flexibility and easy accessibility in order to reach and perform efficient research.

- The researcher had to discard many non-co-operatives NGO’s and banks due to the less interest shown by them.

- The limitations are purely on the basis of morability, accommodation of research interest of research interest and responses shown by the samples.
1.0.9 Research design

The statistical tools started from primary to complex empirical study. The empirical study comprised of simple ratios, percentages, diagram, correlative and regretive factors raising from tabulation and cross Analysis of data and with the following SPSS tools like Analysis of variance, Co-efficient, ‘T’test, chi-square test etc. Research Design constitute the blue print for the collection ,measurement and analysis of data ,it expresses both the structure of the research on relation of the problem.

a. Method

Descriptive method of study is used for the researcher.

b. Variables

Variables are an event, act, characteristic, trait or attribute that can be measured by assigning categorical values. The researcher is interested in relationship among the variables.

Independent Variables – Age, Education, Marital Status, Occupation, Income, Type of Family.

Dependent Variables - Purchase Behavior, Amount spent on Purchase, Mode of Payment, Influence of Media, Preference of Product, Frequency of purchase.

c. Population

Women in vellore select town is the target population for the study.

d. Samples

A sample of 500 women are drawn using cluster random sampling method of which some were found improper and considered as salvage .It was finalised with 350 samples.
e. Tools

A carefully drafted pre-tested structured close-ended questionnaire was administered to elicit information.

f. Types of Analysis

Analysis transforms the raw data into a form that will make them easy to understand and interpret. The researcher used the following analysis in the study.

- Frequency Distribution
- Cross Tabulation.
- Graphical Methods
- Computer Programmes-SPSS-Statistical Package for the Social Sciences.

g. Data Collection

Statistical investigation requires systematic collection of data. The data is collected by the researcher through the following sources.

h. Primary Data:

Questionnaire was administered in person by the researcher to elicit primary data.

i. Secondary Data.

The following were the sources of secondary data through which the researcher collected the data.

- Books
- Journals
- News papers
- Magazines
- Publications
- Websites
j. Data Analysis

The following analysis were used by the researcher for data analysis.

- One-sample t-test
- Paired t-test
- One-way ANOVA
- ANOVA with Post Hoc Test
- Correlation
- Chi-square
- Regression Analysis
1.1.0 Definitions and Concepts

Throughout the last fifty five yrs. Of development process, planners and policymakers assumed that the state would provide the lead role in formulating and implementing enabling policies for poverty alleviation. As experience accumulated about the working of the political system and administrative machinery and constraint within the state, a new understanding began to emerge. The focus then shifted to development activities of locally rooted, participatory micro-development organizations. At the formal level this shift is evident in the increasing attention being paid to voluntary and non-governmental organization in asserting the positive values of participation of the poor in development and bringing about social changes within a democratic political frame work (Prasad 2003:p4).

It has been realized in many parts of the world that an effective way to tackle poverty and to enable communities to improve the quality of life through social mobilization of disadvantaged people, especially into Self Help Groups.

The concept of SHGs is based on the idea of community participation as sustainable community development requires the active participation of the entire community. “Popular participation ensures that the benefits of development are equitably distributed. To further this proposal are made for the decentralisation of the authority so as to ensure redistribution of wealth, improved access to education and other social services. Consequently the focus of SHGs to develop the capacity of the disadvantaged, particularly women, and to organize them, so that they can deal with socio-political and socio-economic issues that affect their lives.

A Self Help Group is a socially and economically homogenous group of 12-20 poor people voluntarily coming together to achieve common goals. These groups start with savings and not with credit: the group then issues its savings to give loans to members to meet their emergency and other needs. The interest rates on the loans are market driven. The members decide on saving per member, maximum size of loans, guarantee mechanisms in loan sanction. They prioritize loan application on the basis of need. The groups enjoy institutional autonomy and necessary flexibility to operate their business. Regular meetings are conducted in which savings are collected, loans are lent,
recoveries affected and group decision taken. All the transaction are recorded in their account books. The SHGs offer an easy and cost effective way of depositing these small savings. They open a savings bank account with a nearby bank branch to deposit surplus cash if any.

The groups are eligible for loans from banks after six months of savings and credit operations. The bank assess the strength of the groups in terms of successful rotation of savings of the groups as loans, regularity in conducting and attending meetings, savings mobilization, numbers of loans issued to the groups and repayment of loans. The opportunity provided in safe savings as well as availability of need-based credit has led to more and poorer people keen to join SHGs. The members use the credit for a variety of purposes like small businesses, agriculture, health, education of children, festivals, and so on. (srinivasan, girija 2002). When micro-finance institutions locally mobilize voluntary savings, the household as an enterprise gets the benefit. These institution of self finance in fullfil the working capital needs as well as save towards investment needs. Saving accounts not only provide security, legal recognition of the asset and returns, they also improve household financial management. In addition, women have in many cases for the first time the opportunity to hold their savings in their own hands (world bank 2001:p 263).

On the basis of the literature survey, it may be said that it most cases, women involved in SHGs have been considered in decision-making affairs of the family. The effectiveness by which women members may keep control over the credit and the repayment may at certain times be a point of deeper probing but the strength of groups in taking up issues which affect their own lives and of the village and community has been seen tackled by SHGs. The other members of the family consult or listen to the views of the women in the aspects of education of the children, marriage of the children, property purchase, getting loans, and the like and hence to this extent SHGs have contributed to women’s empowerment. Similarly there participation at the community level has been found to open new vistas to their expression and also helped in shaping their identity.

The Reserve Bank of India issued its first notification to the all scheduled Commercial Banks advising them to participate in the pilot projects started by NABARD of extending loans to SHG. The circular (dated 24.07.91) stated that the objective of the
pilot project was to improve the access of the rural poor, who are still dependent on money lenders for their emergency needs to banking loans through the intervention or intermediation of Self Help Groups.

In November 1994 the RBI constituted a working group for studying the functioning of SHGs and NGOs with the view of expanding their activities and “deepening their role in the rural sector”. The findings of the study was that the linking of SHGs with the banks is a cost effective, transparent and flexible approach to improve the accessibility of credit from the formal banking system to the unreached rural poor. The study observed that the linking of SHGs with banks offers ‘the much needed solution to the twin problem being faced by banks, viz recovery of loans in the rural areas and the high transaction cost in dealing with small borrowers at frequent intervals’ (RBI Circular RPCD No. PLBC 120/04.09 22/95-96 dated 02.04.96). The working groups recommended that the banks treat the linkage programme as a business opportunity for reaching the rural poor and making it a part of their corporate strategy.

Upto December 1995 about 2700 SHGS were linked with banks and the amount of bank loan disbursed to them was about Rs. 332 lakhs. During 2002-2003 the number of new SHGs financed banks was 255,882. For the banking sector SHGs are a tool or an instrument to expand its lending activities and are seen as a vehicle for economic development.

In recent years the Government of India has assigned a special role to SHGs in the implement of its poverty alleviation programme. Here SHGs are seen as a means to promote and enhance peoples participation in developing programmes. In using SHGs as a strategy for implementing poverty alleviation programmes. The focus is also on economic development and there in no attempt to strike at the roots of poverty and to bring about changes in the system.

This book entitled “self help groups and civil society: A Preliminary study” contains the findings of a study on role of SHGs in civil society it was an extensive study of 613 SHGs spread over 12 districts in 4 states. The study took a comprehensive view of the over all functioning of the SHG and the role of facilitators in promoting SHGs.
However the main focus of the study was on the social impact of the SHG and the potential of SHG becoming tools for social transformation.

The findings of the study indicate that most of the SHG in the states under study are of recent origin in the sense that they have been started in last 3 to 4 years, nearly half of the members were below the age of 30 yrs and 45% belonged to most vulnerable sections of society (ST, SC and most backward caste groups.)

The study brings out that the SHGs have had an impact first of all the decision taken with the family. There has also been an impact on the community as it was found that enrolment of children in schools has increased while it is encouraging to find that the economic impact of these mostly “young” SHGs has been limited. The wider impact of the SHGS on civil society is not very noticeable. These findings clearly show that the SHGs have not yet realised their full potential.

And therefore the challenges facing those involved in promoting SHGs are many. There is the challenge of promoting SHGS based on the principles of democratic functioning, transparency, and participation so that the groups bring about empowerment of women. There is the further challenge of enabling SHGs to play a greater role at the panchayat level to make the RBI as real peoples institutions.

In a patriarchal culture like ours, women are denied access to social and economic decision-making in the family and community, inspite of being major contributors to the family’s economy and management. These are the exclusive domains of men and women are considered as in-door beings. In India, poverty in general and extreme poverty in particular has a significant gender dimension. Women are the most vulnerable group affected by poverty. Self help groups have emerged in order to help the rural poor, particularly women in securing inputs like credit and other services. It lays the foundation of self-reliance through the building up of an institution which has the capacity to sustain the development and empowerment process for women.

Along with poverty eradication, women empowered has for a long time been a stated aim of many micro-finance programmes. i.e. empowerment of the women leads to the development of the family and the community at large. Empowering women through
micro enterprise creation may lead to financial and all other forms of empowerment. The self management of the groups has improved their managerial and decision making skills and leadership qualities. Many groups have become centers for initiating social action against prevailing mal practices in the society. Women have been found to take up challenges and to question all types of exclusion and exploitation. Considering this aspect of SHGs it can be stated that the formation of SHG is not the end in itself but the means to facilitate the process of bringing positive change in society.

In this backdrop it becomes important to understand the various roles women play being in SHGs and the way these roles create an impact on the civil society, if any many studies have brought forward the impacts of women SHGs on the economic aspects, but not many attempts have focused on the social role. This study aim to analyze and understand the role women SHGs have in society. This chapter is divided in four parts. Part one consists of the theme, the focus of the study, concept of social capital and the process model of SHGs, part two gives a broad concept of micro finance, micro finance institution and the critique to this approach, part three deals with the methodological aspects and part four covers the area profile of the study.

1.1.1 Focus Of The Study

The present study focused on the extent to which SHGs build up confidence and mutual support for women striving for social change by establishing a forum in which women can critically analyse their situation and devise collective strategies to solve their problems. It also sought to examine the impact of SHGs in the economic sphere. Besides, an assessment on how these SHGs are working for the establishment of gender equality and political participation in society was also, carried out. It studied the role of NGOs, in the formation of SHGs their approach as whether their intervention would bring a change at an economic level or whether they will focus on the other issues to help women getting their share in the society.

Concept of Social Capital And the Process Model Of SHGs

The precise nature, of the creature of social capital and the role it plays in furthering development interventions at local levels as well as the nature of intervention
between new institutions and the older formalized networks needs to be more clearly understood to bring on enduring development. An evolving and increasing stock of social capital forms a necessary input for sustained development. This section focuses on the concept of social capital and the process model of SHGs.

**Concept Of Social Capital**

The concept of social capital has added a new dimension to the dialogue on development. Putman (1993) identifies social capital with ‘those’ features of social organization such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated action. The concept of social capital is best looked as a characterization of the processes that set societies on certain development paths in contrast to the outcomes of those development paths. In common with other kinds of capital, it is a means of achieving well being which constitutes the end. That is perhaps the reason it is referred to as ‘capital’ (chopra.k.2002).

The basic promise of an institutional perspective is the notion that institution influence what people think, do and are able or allowed to do. Institution are structures that are shaped by social interaction while in turn they control and give meaning to processes of social interaction(WDR,2001).

The institutional environment therefore is a crucial phenomenon, and in shaping the livelihood option of the poor, its role in increasing by recognized. Such an institutional perspective of the processes that control the livelihood opportunities of the poor is particularly helpful in explaining why many of the previous efforts at poverty alleviation have fallen short of their objectives.

The concept of social capital has added a new dimension to the dialogue on development. With the retreat of interventionist state, development is often perceived as a product of partnership between the state and the civil society with increasing emphasis on peoples participation at the grass roots (Emmanuel D silva and sudha pai,2003). The sustained efforts by national and international NGOs Government organization towards poverty alleviation continuously trigger new thinking on all the possible variables that might constrain the development of the poor and the efficacy of development
intervention. A significant evolution can be noted with respect to the way poverty and poverty alleviation as been perceived over the past decade. Let us consider for example the world development report 1990 in which a multi dimensional conceptualization of poverty was adopted (Batiansen et.al.2001).

This conceptualization besides including the aspect of material deprivation emphasized the low quality of human capital interns of health and education. Hence, poverty alleviation was perceived as a two-tier strategy promoting both labour intensive growth and the provision of social services. (world development Report,1990). Now in the year 2003, after reading the world development Report we must conclude that the perspective has changed. The changed perspective reflects in many ways much of the work done in the academic world and other multinational agencies during the nineties maxwell 2001). There are at least two important to be noted.

First of all, there is a departure from a relative by mechanical point of view towards a more people oriented or micro point of view of poverty alleviation. During 1990 it was emphasis that promoting economic growth is not the only difficulty; but once the growth has actually been achieved, it does not necessarily lead to advantages for all people. In addition there are a number of factors that restrict the provision of social services to the people in their need. In order to tackle these issues, increased importance was given to the analyses of the development organization and the poor people themselves in relation to macro-solution on poverty alleviation(chen and Revallion, 2000).

This bring into the second important change, which refers to the fact that poverty is increasingly interpreted from a relational point of view (WDR,2000). Poor people face a number of limitation that prevent them from participating in fruitful and meaningful ways of political, social and economic life.

From this viewpoint, poverty is found related to the nature of social networks and to the poor people's place in their networks. This has led to more question as to how these different kinds of networks function and how they evolve. The world development report 2001] is heavily inspired by what is known as the institutional and social capital perspective our poverty alleviation and development. Micro-finance programmes are
currently dominated by the financial self sustainability paradigm, where women participation in groups is promoted as a key mean of increasing financial sustainability while at the same time assumed to automatically empower them. The evidence from studies has indicated that micro-finance programmes, which build social capital, can indeed make a significant contribution to women empowerment. However serious questions need to be asked about what sort of norms, networks and association are to be promoted in whose interests, and how they can best contribute to empowerment, particularly of the poorest women (Mayout, Linde 2001).

1.1.4 Process Model of SHGs; Levels and Its Impact

The process model of SHGs compromise on the one hand the various ingredients and on the other hand the different categories (areas or facets) of the society (environment) that can be influenced by the SHGs. The ingredients can be distinguished as: the member (and their respective families) of the SHGs as an institutional group, the village community, the Panchayat Raj institution, the outside facilities, NGO, Government agencies etc., the financial institutions (state owned banks, required rural banks, private banks, refinancing institution, specific micro finance institution etc).

The structure can be represented as concentric circles starting from the core circle that represent the ingredients (1) the members (2) the SHGs as an institutional group and outside entities (Figure 1) the four areas of the society that get influenced by the SHGs are expressed here as four segments (described below) intersecting the concentric circles). First one is the economic factor, which includes natural resources, labour, capital, infrastructure, technology etc., Second is socio-cultural which includes social structure and dynamics, human nature perspective, religion, gender, roles, time and space orientation; language etc., Third is political which includes stability, ideology, institution geo political links etc., The fourth is demographic which includes population growth, age structure, urbanization, migration, health status etc. (Austen 1990: p39-75)

The intersection on the concentric circles represent the environments that get influenced by the SHGs.
Household is the unit of social structure. Besides the household level, the most important decision making levels for the poor are the level of the group, community and locality. Together they comprise the local level. Social interaction at the local level is quite distinct from other higher levels of decision making like district, region and nation (Bastiaensenetal, 2001) an important area of negotiation is the control and allocation of resources in relation to the different activities undertaken within the household. Besides intra household divisions on the basis of gender, there are other divisions on the basis of age, parental status, health status etc. All of their division have consequences for the distribution and control over resources and activities within the household.

In actual field situation there can be many other factors operational than the one mentioned here, they may also many as per the existing situation, so here Austin reflection is given just to introduce some of the factors which may exist at field level, here in this study attempts are made to study the various components in the functioning of SHGs as well as the areas that can be influenced by the SHGs.

1.1.5 Micro Finance and the SHGs

In contemporary times when technological innovations are making our world increasingly smaller and our production systems have become more efficient, the benefits of economic growth and development as a whole have not reached to all the sections in the society. Eradication of poverty through subsidized and institutional credit has been the major goals of development efforts.

A review of the rural development programmes and the credit system reveals that over the past few years. There has been no significant development on either poverty or rural development. The neo-classical economists, analysing the rural financial markets in the developing countries attribute the failure of institutional agencies to reach effectively the poor, mainly to the subsidized cheap credit policy. (Adams, 1984).

To them, the failure is due to the inability of the institutional agencies to cover higher marginal costs associated with serving large number of small borrowers with small credit requirements.
The micro-finance revolution has lent newer dimensions to the debate on the role, relevance and efficiency of such programmes, which EVOLVE out subsidized credit to their so-called beneficiaries. Many studies have pointed out that the subsidy and concession culture has meant considerable for the Indian banking system. It has been argued that such interventions have not allowed of leakage of benefits to undeserving households. But also under-estimated the ability of the poor to save or pay market rate of interest. The neglect of non-agricultural enterprises has denied the poor the opportunities for risk diversification and resulted in production inefficiencies. The most undesirable aspect of this experience has been that the formal banking system has developed an aversion to the risk of lending to the so called priority sectors and an unhealthy appetite for safer investments like government securities (Shyendra 1994a; Majimdar 1998; Nair 2000).

On the other hand experience of the welfare programmes implemented throughout the world have sown that the key to their success lies in the evolution and participation of community based organization of the grass root level. People's participation in credit delivery and recovery and linking of formal credit institution to borrowers through the inter mediation of SHGs have been recognized as a supplementary mechanism for providing credit support to the rural poor. It was in this context that the Bangladesh grameen bank model of micro financing turned out to be an extremely effective tool in poverty alleviation and improving people's participation in the development process.

Indian practice is diverse in terms of the development aims with which micro-finance is combined. Broadly it includes poverty alleviation livelihood promotion, developing the local economy empowerment building people's organizations and changing wider systems and institutions within the society.

India is also fast becoming one of the counties with largest micro-finance system, and the SHGs are set to reach 17 million women by 2008 at the latest (Fisher and Sriram 2002: p23)

The history of the institutional programmes in India can be divided in three phases (Fisher and Sriram 2002, p.33) during the first phase until the 1960s pursuing development objectives through the financial sector focused primarily on delivering
agricultural credit through co-operations with increasing frustrations tractions at the outcomes of these endeavours attention shifted in the second phase to the commercial banks, 14 of which were nationalized in 1969, while a network of requital rural banks (RRBS) was established in the 1970s this had a major impact. India still has one of the largest banking networks in the world. There is a bank branch for every 15,000 rural for e=households and a co-operative in almost every village.

The impact of rural credit supply was also significant as the proportions of rural credit from the formal financial sectors (banks and co operatives) were from 29.2% in 1971 to 61.2% in 1981), although this fell back to 56.6% by 1991. During this phase, the government also established the (Integrated Rural Developmental Programme IRDP) in 1980-81 to direct subsidized loans to poor self-employed peoples through the banking sector. Over almost two decades IRDP extended assistance to about 55 million families. The second phase culminated in 1989 with the first official loan waiver that severely undermined what was left of any other credit discipline.

The third phase was started by the financial crisis of the early 1990s following which came the first significant economic liberalization measures. These included the slow restructuring of the commercial and regional rural banks, the freeing of some interest rates, the consolidations of the government self-employment schemes (into swaran Jayanthi Swaraojgar Yojana{SISY}) the introduction of local area banks, the introduction of mutually aided co operative societies (MACA) autonomous government control, and other such measures. This process of restructuring continues full date.

Micro-finance institutions (MFIs) are those, which provide through credit and other financial services and products of very small amounts, mainly to the poor in rural, semi-urban areas for enabling them to raise their income level and improve living standards. Such a definition encompasses a large variety of initiatives, ranging from individual agents in the informal sector (like money lenders commission agents, jobbers etc.) to informal groups (chit fund, rotating savings and credit associations) and formal sector institutions. However there has been an increasing tendency to use the term micro-finance (MF) for formalized institutions.
The (MF) paradigm received an increased impetus after the world summit for social development in March 1995. The Copenhagen summit underscored the important of improving access to credit for small producers, landless farming and other low-income individuals particularly women and disadvantaged vulnerable groups and governments were advised to take steps regarding this. Subsequently, the United Nations declared the year 1996 as the international year for eradication of poverty. By the end of the century significant support structures for SHGS and MFOs had been put in place, including active promotion by the national bank for agriculture and rural development (NABARD) and small industries development banks of India (SIDBI) NABARD’s effort at improving the access for the rural poor to formal banking service through SHGS has gathered momentum over the years. The programme has achieved significant growth both in terms of coverage and the outreach of credit to the poor. This has been possible through continuous innovations based on programmes approach, linking support organizations with the credit institutions through their essential support mechanism such as training, orientation and capacity building of client institution and NGOs for strengthening micro finance activities in the country.

Small industries development bank of India (SIDBI) introduced the micro-credit scheme (MCS) in 1994. Assistance extended under this programme through 125 NGOs covering over 1,23,000 poor women members, yielded satisfactory results. This has encouraged SIDBI to meet the challenge by taking pro-active steps to enhance the flow of institutional funds to this sector. With this objective, SIDBI launched a Rs 100 crores SIDBI foundation for micro-credit (SFMC) in November 1998, the SIDBI foundation for macro-credit (SFMC) in November 1998. The SIDBI foundation provided multi channel credit to poor people and to also focused on encouraging micro finance product innovations besides endeavouring to simplify the procedures. The renewed approach focusses on identifying major (nodal) micro-finance institution (MFIs) as long-term partners and providing credit support for their micro credit initiatives.

Not only the government institution but also other agencies are involved in such endeavour i.e., Rashtriya Gramin Vikas Nidhi (RGVN) established in 1990 with head quarters at Guwahati (Assam) as a non-profit society, is an organizational innovation in support of social action. With sponsorship from IFCI, IDBI and NABARD RGVN aims to improve the quality of life of the poor or otherwise under privileged rural and urban
people through social action. More than just being a credit programme this intervention is targeted at bringing about intrinsic attitudinal changes within the communities in the effective use of credit and thrift in livelihood strengthening.

As for the flow of funds, the major institutional sources of bulk credit in India are NABARD and SIDBI and also a government initiated NGO the Rashtriya Mahila Kosh (RMK) under the Department of women and child development that extends credit supports to NGOs and women economic development corporations. Thus in the MF sector in India the formal funds go into the non-formal channels before they reach the desired segment of the clientele. This entry of a new set of players in the financial systems has definitely eased a lot of delivery obstacles, by externalizing a part of bank responsibilities in the sphere of identification of clients, assessment of their risk profiles, loan monitoring and recovery, which in turn may result in the reduction in transaction cost. According to a study conducted by NABARD there has been a 40% reduction in transaction cost due to SHG intermediation and the consequent reduction in the time spent by the bank staff. Similarly the borrowers transaction cost has been found to decline by 85% with the elimination of complex documentation procedures and reduction in time and cost incurred in repeated visits to banks.

1.1.6 The Critique of the Micro-Finance Approach

The world bank's call for the extension of micro credit to 100 million of the world's poorest by 2005 has been criticized on the premise that micro-credit is not seen as a tool to organize or mobilize the poor to claim their rights, but as a panacea for all economic ills the magic wand that can wish away poverty without having to address the uncomfortable issue of inequitable ownership of wealth and resources (Kalpana. K.2003) micro finance by far, is the first such intervention that explicitly puts the burden of success (and hence the onus of failure) almost exclusively on the fragile shoulders of women. It has already created a new stereotype of poor women, Honest, dignified hard working and family oriented. It is hence natural that a large part of recent ideological debates in the area of gender and development has concerned the micro-finance sector(Nair tara S.2001)
One of the key characteristics of the emerging global finance trend is that it legitimizes credit as an effective means to perpetuate and open up markets. The Breton wood institution like world bank and IMR are in the business of giving credit to the nation states, especially those less privileged ones in the global south. But the world is not made of middle class alone when the markets exhaust nation state gets saturated by middle class. What is left to be targeted further here is where the large majority of poor people without any purchasing power, come into the picture.

There are some aspects of the savings and credit movements that warrant concern. There is a tendency among savings and credit institutions to report unrealistic levels of repayment (around 100 percent) year in and year out. Whether this is to impress their donors financial backers or to outdo their competitors, it creator an unnecessary pressure on the low-income membership and prevents the development of mechanism to deal with default. Similarly there is a growing body of experience that suggests that savings and loan movements bring far more benefit to people on and just below the poverty line than they bring to those who are far below it. This means that high interests rates that the very poor pay on small subsistence loan ultimately contribute towards the capital for larger loan to the more entrepreneurial and better off. Critics note that earlier credit provision scheme provided lower interest rates as a means of targeting subsidies to the poor. Such critics argue that rather than alleviating poverty, micro-credit will simply keep the very poor enmeshed in poverty while those who are better off can eventually more beyond the savings and credit groups and obtain credit at market (read chapter) rates (memoire aide, 2003)

1.1.7 Back Ground of Self Help Groups

The Indian experience shows that the non-involvement of people has led to an attitude of total dependence on the government for every developmental effort leading to lack of effort and accountability of people. There were also instances in the seventies and the eighties in other developing countries like Kenya, Korea, Bangladesh and Nepal where the various credit programmes for agriculture and rural development, when modeled on participatory approach showed better impacts and results. Based on these experiences, the international agencies like World Bank and International Labour Organization (ILO) stated emphasizing the need for making development a 'people's
movement'. The focus of attention shifted on developing people's institutions accountable to community having linkage with various developmental and financial agencies. Against this backdrop the concept of Self Help Groups appears to be a good alternative strategy to involve people in the development process.

The experiences in Kenya on the Co-operative Saving Scheme Linked to Co-operative production Credit Scheme, modification of the traditional Key system and integration into the mutual Credit Programme in Korea, the Small Farmer Development Agency Groups in Nepal and Grameen in Bangladesh, which were basically started owing to resource crunch shows that huge resources can be mobilized from even among the poor people. Another feature was the management of the resources by the people themselves.

The Agricultural Credit Review Committee (1989) had identified a number of weaknesses in the Indian banking sector. Some of the identified institutional weaknesses are low recovery and poor recycling of funds, poor deposit mobilization and ineffective lending vis-a-vis available potential. A part from the weaknesses, the banking sector has been able to reach only about 36 per cent of the rural families in spite of vast expansion.

On the other hand, most of the informal finance in the rural money market comes from two main sources i.e. professional money lenders and traders (credit and trade linked finance). Prima-facie, it appears that the rate of interest demanded by the informal agency is exorbitant and sometime usurious which leads to perpetual indebtedness of the rural poor. However, the easy and timely availability, flexibility in delivery to the needy clientele places them better as compared to the formal financial agencies.

The SHG linkage to banking sector is expected to combine specific advantages of both the above systems and also enable larger and faster coverage of rural poor.

1.1.8 Self Help Groups Formation

The Self help Groups (SHGs) are voluntary association of people formed to attain a collective goal. People who are homogeneous with respect to social background,
heritage, caste or traditional occupations come together for a common cause to raise and manage resources for the benefit of group members.

The process by which the group of people with a common objective are facilitated to come together in order to participate in the development activities i.e. savings, credit, income generation etc. is called Group Formation.

Although the SHGs can be formed for any development activity for the financial institutions to use them as a conduit for banking activities, the SHGs should be practicing thrift and credit and be familiar to money management.

**Group Formation**

**Existing Groups:**

Before considering the formation of new groups, it is essential to understand the nature of existing groups in the society and the role of the poor in them. In many parts of India, it is possible to identify societies, where there are kinship groups or economic groups or activity groups already in existence, which may or may not undertake any organized development activity. Some examples of such groups are Grain, Fodder and Seed Banks in parts of Maharashtra Madhya Pradesh and Orissa. The village chit funds and kitties, joint forest management groups (hills of Uttar Pradesh and Madhya Pradesh), Village Development Councils in Uttar Pradesh, the Roscos in Phillipines are a few other examples.

Such existing groups can be identified and depending on their potential and suitability elements of SHG approach can be introduced into these groups. Since these groups have some experience of collective working, it is easier to inculcate the saving and thrift habit in these groups.

**New SHGs**

In the formation of new SHGs basically two stages are involved viz. pre-group formation stage and the promotion stage.
Pre group formation stage

In this Stage, it is important that the SHG promoter visits the village frequently, gathers information about various facets of the village life, its environment and people. During this stage the promoter also builds up rapport with the villagers.

Promotion Stage

There are four stages in this phase:

i. **Forming:** In this stage, people come together informally and meet. They are encouraged to talk about their problems and solutions. During this stage, based on the felt need, homogeneous groups emerge naturally.

ii. **Storming:** During this stage conflicts between individual interest and group interest surface and are dealt with. The leadership emerges. The procedures, rules and roles are established.

iii. **Norming:** Trust develops among group members leading to cohesiveness in the group.

iv. **Performing:** This is the final stage when the group becomes operational and starts functioning for the benefit of its members.

Group Functioning

Formation of a group is only the beginning. The group has to function vigorously with the active participation of its members in the development process. For the group process to be effective, the group has to have some characteristics, as discussed below:

Group Meeting

The periodicity of the meeting could be weekly, fortnightly or monthly. The time and place of the meeting should be such that it is convenient to majority of the group members.
Evolution of Norms

The group has to decide on a set of rules and decision making arrangements for its functioning. The byelaws could include criteria for membership, saving loans, fines, sanction etc.

Saving Mobilisation

The group has to decide on the amount as also the periodicity of saving of the members. The members of the group must save accordingly.

Loan Activity

The group decide the purposes for which loan will be given, in addition to the rate of interest, repayment period and the loaning process.

Recycling of Funds

The recovery of both principal and interest on loan is essential the rotation of the capital is also important. The capital is formed by the savings of the group members as also from contributions from outside.

Leadership

Generally there are 2 to 3 group leaders with different designations, such President Secretary and Treasurer. The election process also varies from weekly rotation to as long as 5 year period.

Maintenance of Books

The books maintained by SHGs are Saving Registers, Meeting proceedings and attendance books. Individual pass books in some cases are also maintained. The books are to be maintained by Group members themselves.
Management of funds and operation of bank account

The group is to manage its own funds as also the fund it receives from outside. Normally the sources of funds for the group are membership fees, savings, fines, donations, interest on loans, ban, loan, bank interest, and contribution from outside. The fund is used for normal loaning as decided in the meetings as also for meeting emergencies faced by the group members. The cash is handled at three stages.

1. Secretary/treasurer holding cash to meet emergencies.
2. Secretary/treasurer holding the savings before depositing in the bank.
3. The office bearers who are authorised to withdraw cash/loan from bank for disbursement among members.

All the members of the group must be gradually exposed to operating the bank account.

Group Discipline

The group must function democratically and in disciplined manner. The repayment ethics, effectiveness of peer pressure, implementation of norms and sanctions reflect the discipline and dynamics of the group.

Group Sustainability

The group formation and functioning are not an end but a means to development. If SHGs are to play their intended role it is important that are sustainable units. The group sustainability deepened to a large extent in how the group promoter prepares and strengthens the group to come together on self help notice, participate actively and manage its affairs democratically.

1.1.9 Role of Non-Governmental Organisations in Linking Self Help Groups to Formal Credit Systems

In India informal Non Governmental Organisations (NGOs) in the form of temple trusts, panchayats existed since times immemorial. One of objectives of these agencies were to help the poor and improve their economic conditions. Charity and self help were
build into the lifestyle of people. There was very thin or no demarcation between social and religious aspects of life. Origin of missionary type of voluntary agencies can be traced to Christian missionaries who adopted a grass root approach to community development. These agencies concentrated on literacy and skill development in order to expand the range of economic opportunities available to the poor people. Apart from this, they also concentrated on health up liftment of women and children.

The sterling contributions and potentials of NGOs to promote micro level development are universally acclaimed. India has about 7000 small and medium sized voluntary organisations spread across the country. Studies have revealed that success of a NGO in mobilising community resources for welfare programmes is due to:

- They have greater human touch and closer personal contact and better rapport.
- They are more adaptable to changing needs and ideas.
- They modify their methods according to the need.
- They are dedicated and do not work within the time constraints.
- The Eight Five Year Plan emphasizes on People's Participation and involvement of NGOs for development. The Seventh Plan Document defines the NGOs as essentially a nonprofit and non partisan organization. The Government of India's criteria for identifying NGOs for rural development programme are as follows:
  - The organization should have a legal entity.
  - It should have broad based objectives of serving the social and economic needs of the community as a whole and mainly for weaker section.
  - It should be based in rural area and working there for more than 3 years.
  - It's activities should be open to all citizen of India irrespective of religion, colour, creed, caste, gender or race.
  - It should have necessary flexibility, professional and organization skills to implement programmes.
  - It's office bearers should but be elected members of any political party.
  - It should declare that it will adopt constitutional and non violent means for rural development purposes.
  - It is committed to secular and democratic concepts and methods of functioning.
The NGOs initiate the voluntary action. The NGOs' action aims at creating a situation or groups or communities to find solutions to their problems, ways and means in handling them in realizing their ultimate goal. Characteristics of voluntary action can be summaries as,

- **Peoples Participation:** Harnessing the people's power and initiative for participation in development endeavors. e.g., Mahila Mandals, Youths Clubs, Farmers's Clubs.
- **Democratic Approach:** People have to help themselves by taking their own decisions regarding their development based on need identification and priorities as perceived by them.
- **Economic and social development:** The action should lead to some economic and social development for e.g., adopting modern agricultural techniques, saving habit etc.

**Role of NGOs in Development of Self Help Groups (SHGs)**

The role of the NGOs involved in promoting SHGs and linking the SHGs to the Formal Financial Agencies (FFAs) can be summarized into:

1) Organizing the poor people into groups.
2) Train them and help them in their organizational, managerial and financial matters.
3) Help them in their access to more credit and linkage with formal financial agencies.
4) Channeling the group effort for various development activities.
5) Help them in availing opportunities, widening the options available for economic development.
6) Help them in sustaining the group effort independently even after withdrawal of the NGO.
Organising Groups

In order to facilitate the initial task of organising the poor into groups, attention was first focused by the NGOs on some specific issues of immediate concern to the poor, like exploitation by vested interests, seasonal migration for employment, small credit needs to meet emergency situations, raw material supply etc. Initial efforts were directed towards bringing about a new awaking among the target group i.e., the small and marginal farmers, landless agricultural labourers, backward classes, and SC/STs. Various instruments like non-formal education, informal discussion, plays ad puppet shows were used. Programmes like extension services, health care and financial support in times of difficulty were also often used to win over the confidence of the target groups. This preparatory stage of awareness creation through various conscientisation methods and establishment took considerable time, sometimes more than 2 years. During this phase, the NGOs succeeded in establishing a rapport with the target groups bringing about considerable awareness among them and most importantly, triggering a process of collective thinking on common problems and evolving solutions based on group effort.

In short, the process involved in group formation is very 'Time Intensive'.

NGO Experience

The Credit System comprising of formal institutions like Commercial Banks and Co-operatives of one side and informal institutional like money leaders in the on the other side were not able to meet the credit need if the poor. The money lenders were exploitive, motivated by personal gains, banks had limitations on accounts of structure and policy and co-operatives were infested with heterogeneity in membership, concentrated powers, political interference and rules if government. While searching for alternative the NGOs came across a few small groups of women who were saving weekly small amounts of money that they could put aside. Some NGOs also came across women saving a handful of rice everyday & pooling this to meet emergent need of a family which otherwise would have to go without meals. These women on their own accord made some rules to discourage withdrawals until their amounts had reached a certain size. However, sometimes there were occasions when one of the group members needed money urgently and needed a slightly bigger amount than what she had managed to save. Since there was money available in the group, the other group members saw no harm in making
advances out of the fund after they checked the genuineness of the need and agreed upon a rate of interest, mode of repayment and time frame for repayment. Other small functional groups were also existing in the operational areas of the NGOs. Thus the NGOs started working with these socially viable groups apart from directly with individuals also.

It was clear that these groups were socially viable and with appropriate inputs could function in a sustainable way. In order to function viably, they had to develop their own rules and regulation and pattern of behavior i.e., they had to become fully participative. The role of the NGO in this respect is very critical, the NGO has to provide sufficient training inputs, mobilize and imbibe confidence in the weaker members and gear them up for participation during the meetings. The NGOs aimed to achieve this through literacy and numeracy drives. A person who is able to read his/her pass book and records of the meeting, gains sufficient confidence to be participative.

**Organisation**

The group strategy i.e. formation of groups or identification of existing natural/social groups met with several obstacles. A brief based on the experiences of NGOs is given below:

1) The group which developed into a savings and credit management institution meeting the credit needs of its members created resentment among the money lenders. In some pockets where the feudal system is strong and money lending is the sole occupation of the money lenders organised oppositions to group formations.
2) The group strategy did not harmonise with anti poverty programme of the government which is individual oriented.
3) The Bank's operative systems of transacting lending operations where all the documents are in the name of individuals.
4) Resistance from men wherever women group were involved.
5) Lack of common place for holding the meetings.
6) With the entry of other institutions into the picture like NABARD, Banks, Government Agencies etc., group meant different thing to different people. The
difference lay in,

7) Understanding the structure of the group i.e. the difference between co-operative
heterogeneous large group and homogeneous socially viable groups.

8) The manner in which the people are approached and groups formed.

In one case where a collaboration existed between a NGO and Government
department, officers had visited the villages at their convenience usually between 10
A.M. and I.P.M or 3 P.M and 6 P.M. They announced their arrival and purpose i.e. to
identify eligible beneficiaries and gathered people around them. This gathering was
referred to as 'Group' by these officers. The options of each eligible family present were
identified and the officers left to process the applications. By this approach, people had
saved several trips to the BDO's office and Bank.

In the same collaborated project, another group of officers went to the NGO and
procured list of scheduled group meetings. They visited the groups on the day and time it
was scheduled to meet. They did not conduct the meeting but let the group negotiate its
business and agenda for the day. They explained the project they were involved with and
asked the groups to discuss with their members options at their pace and convenience,
they left promising to return for the next meeting. It often took more than 3 meetings for
options to be finalised for processing, as the original choices of members were discussed
by groups and several; changed. The take off in the second group was much slower than
the first but results in terms of choice and management of assets were more successful.
The second approach left the group far more involved in the programme and willing to
apply sanction for proper use of assets and recovery. It was also clear that the word
'Group' was understood differently by two groups of officials. In the first case the group
was formed and controlled by officers this was not so in second case.

1) The target approach has been found to be destructive to the process for group
formation.

2) Certain common features when other agencies have been involved are,

3) The pressure to achieve annual targets in expenditure or in identification of
beneficiaries was very strong and major factor driving the programme. The
performance of officials was assessed on the basis of targets achieved in the areas either (or both) of expenditure or beneficiaries assisted.

4) The dominate criteria to select "eligible" beneficiaries such as non-defaulters, or even to fix prior the number of group members were extraneous to and often destructive to the

5) Process of group identification, formation and functioning.

As a result of these dominate pressures the staff first identified the eligible families and brought these families together as a 'group'. In most cases these groupings were artificial though the members had a degree of economic and gender homogeneity. A large number of groups were not socially homogeneous, the members of the group were linked only by the desire to become "beneficiaries" of the programme. Groups formed in this fashion will not scrutinize the options of each member nor will apply sanctions throughout the process of management of the asset and recovery.

Nurturing the Groups

The formation of the group is only the stepping stone. It is not sufficient to form or to identify a group as the basis of a strategy and to provide members with assets or inputs; certain skills and practices are required of groups are to perform all the roles expected of them. Role of the NGO in maintenance of the group and giving a proper direction to achieve the ultimate goal is more important. After the formation of the groups, the NGOs have to closely involve themselves in systematizing the working of the group allowing fuller participation of the members in decision making, promotion of various forms of mutual support and emergence of leadership.

As an effort to improve financial strength of the groups, some of the NGOs first of all motivate, help and train the group members to start saving and inculcating thrift habit and build up a common fund. The group members are also imbued with sufficient literacy and numeracy so as to manage their funds-in the beginning the scarce resources pooled together in the form of savings and then the common fund. Many NGOs provide financial resources to the groups in the form of a revolving fund or seed money contribution. The access to literacy and numeracy also make the members more confident and therefore more participative in the group activities. People's democratic participation is very essential for sustainability of the group. The group members are also trained by
NGOs also encourage, the group to rotate it’s leadership to avoid concentration of power in few hands and for democratic approach to all decisions by the group. Ngo staff is usually present in the background in the initial stages when the group meetings are conducted. The role of the volunteer here is to guide the group to arrive at effective decisions. He/She does not participate in the meeting or conduct it. For example in meeting attended by me (as observer) the group wanted to plant some trees in the avenue leading to the village with the objective of afforestation. They were not aware of the cost of seedlings and the place of procurement. The Myrada Unit officer present gave them the necessary information and the group discussed the cost-benefit aspect of the enterprise and came to certain decisions like how many trees are required, of what genus, who will water the trees, how to share the benefits etc.

In case of some NGOs, they also engage auditors to audit the books of accounts of the group.

Credit Inputs

Another area where the NGOs' play an important role is the linkage of the SHG with the formal financial agencies. Initially the NGOs tried to get loans from banks directly to the individuals in the group by depositing some money with bank or offering guarantee and in many cases tried to take benefits under the existing credit linked programmes of banks and government.
Some even organized informal credit co-operatives of the poor for meeting legitimate credit needs for productive purpose (ASSEFA, WWF) some others like RMA and VASFA evolved suitable arrangements for linking up the poor to formal financial agencies with a fair degree of success. Subsequently when the pilot project on linking SHGs to Banks came up a number of models emerged.

Non Credit Inputs

Merely making available credit will not serve the purpose of the group formation. To ensure proper end use of the credit, the NGOs also conducts activity based training programmes for skill up gradation of the group members or for acquiring of new activities. In some cases, the NGO also helps the groups with the marketing outlets and provide marketing linkage. For e.g., Myrade contacted various in Dharmapuri like Titan watches so that the contract for uniform washing can be given to a Women Dhobi group. The group members' access to the outside world is limited and the NGO helps in widening its horizon.

Some NGOs encourage the poor to utilize the local resources like waste lands for environmental improvement and contributing to National effort as also enabling SHGs to directly benefit from such activities. Encouragement is also provided for meaningful alternatives to seasonal migration in search of employment, building up of Grain Bank and Fodder Bank to tide over lean periods. Many NGOs are also involved actively with SHGs in helping the latter to expand their resource base by taking up income generating activities at the group level like maintaining a ram or pedigreed bull for servicing purpose, preparation of concentrated feed etc. Many NGOs are also harnessing the group effort for improvement in literacy and education, health and hygiene, immunization and family planning as also various other social developments relevant to the area and people.

Group Sustainability

Last but not the least role of the NGOs is to prepare the group to sustain on its own on withdrawal of the NGO. When a group exist for more than two year, the changes of collapse are less. The NGO has already been giving inputs for strengthening and
proper functioning of the group. After a certain number of years when NGO feels that a particular group is strong enough to make its decisions, manage its affairs, the volunteer gradually reduces his frequency of attending the group meetings. But still for a period of time the NGO maintains contact with the group and withdrawal is very gradual. Apex bodies fulfill an important role in taking over responsibilities from NGO. When a number of group federate, it becomes a apex body.

**Constraints Faced by NGOs**

Studies have revealed that,

1. Interests of NGO for improving the conditions of rural poor clash with the vested interests of the money lender and petty bureaucracy. Organised poor, is treated as a threat to dominant interests of the privileged.
2. False propaganda by the vested interests to malign the NGO in the public eye.
3. Lack of sensitivity of the local bankers and government department to the credit needs of the poor. Many bank managers refuse to open saving account in the SHGs name, though provisions and instructions from RBI exist.

**1.2.0 Micro Credit - Role of Banks**

**Rural Credit Delivery System - an Overview**

The acceptance and implementation of the recommendations of Rural Credit Survey Report (1954), Narasimaham Committee (1975) and Nationalisation of Banks (1969) resulted in massive expansion and extensive proliferation of branches of the co-operative and commercial banking sectors. At present the rural branches of the co-operative and commercial banking sectors. At present the rural branches constitute about 44.2 percent of the total number of branches accounting for 15 percent of the credit disbursed by the commercial banks and RRBs. Of the total deposits mobilised only 34.78 percent are from rural society (CMIE 1993). Inspire of the fact that there has been growth in deposits and credit owing to quantitative expansion of the credit delivery system, the fact remains that, this has not made any remarkable dent into the rural economy. It is proved by the fact that only 36 percent of the rural families have access to the Formal Financial Agencies (FFAs) (RBI, 1989), ACRC has identified a number of weaknesses of the FFAs which are responsible for the present status of the credit delivery system (RBI, 1989). Some of the identified institutional weaknesses are low recovery and
poor recycling of funds, poor deposit mobilisation and ineffective lending vis-a-vis potential available. Against this backdrop it is necessary that the existing arrangements for purveying of credit be reviewed critically and alternatives arrived at. An attempt towards this objective is made through this paper.

The rural money market in India consists of many types of formal and informal lenders sources. The approach taken in this paper is that informality and flexibility of operations are the defining characteristics of the informal sector. Some other features that distinguish the informal sector from the formal sector are: 1, blending of the lending with other types of economic activities, 2, sometimes smallness of the loan and scale of operations, 3, not necessarily direct linkage to development.

Types of Informal Finance

There are four broad categories of Informal Finance existing in the rural areas. They are: 1 financing by individuals who have temporarily surplus funds, 2, specialize financiers like money lenders etc., 3, credit and trade linked finance by traders, 4, group finance. For the purpose of this paper, the discussions are restricted to the fourth type i.e. the Group Finance. The 'Group Finance' is the finance with group of individuals pooling their savings and lending to each other or to persons outside the group. Our interest lies primarily with that type of group finance wherein savings and lending is mutual and hence appropriately named as 'Self Help Group' (SHGs). A separate paper has been devoted exclusively on SHGs covering their various aspects.

Types of Formal Financial Agencies

In India, at the national level the Reserve Bank of India: National Bank for Agriculture and Rural Development, Industrial Development Bank of India and its subsidiary SIDBI which are primarily the refinancing and monetary control agencies. There are three other types of field level agencies i.e. the commercial banks, regional rural banks and co-operative banks, which through their branches and societies disburse credit and receive deposits directly from the people. The formal financial markets are operative under certain credit laws implemented by the state. In this paper confines itself to linkages between the field level agencies and the SHGs.
**Semiformal Financial Agencies**

A third category of financial agencies which operate outside the credit laws but under the control or with the consent of the state also exist. They include the A.F.A., NCDC, State Financial Corporations, Non governmental Agencies etc.

An ADB study disposes of the traditional criticisms about the informal sector. It is generally assumed that the informal finance is usurious and borrowers lose assets especially the land and the interest rates are high. The study summarizes that the high interest rates do not necessarily imply monopoly profits—they are often consequences of high transaction costs of making small and short duration loan available and the opportunity costs of funds. Credit at high cost is better than no credit at all. A study by BIRD to find out the references of the villagers source of credit brought out the preference for credit for smaller loans was from the money lenders (if SHG did not exist) even at higher interest rate.

As regards the dispossession of the land, the very idea of promoting Group finance is to prevent private credit operations. Though, large proportion of the informal credit is for consumption purposes, it is equally important as it plays a vital role in the welfare of the society and increases the efficiency of utilization of formal credit. The timely availability and the flexibility in repayment periods also are added advantages of informal finance.

The studies bring out very clearly that it is the informal credit which is more successful than the formal in reaching precisely under privileged borrowers who are sought to be benefited by credit targeted/directed programme i.e. small and marginal farmers, artisans, small entrepreneurs etc.

**Objective and need for Linkages between the SHGs and FFAs**

From a study of formal and informal financial sectors in Indonesia, in 1993 World Bank concluded that, "The traditional assessment of the informal sector has been that it is exploitative, usurious and dysfunctional and the formal financial agencies are often aimed at dismantling the informal sector. Such an approach depreciated the functional role that
informal markets and may result in policies which displace informal sector without offering alternate sources of institutional credit".

This has what has happened in case of India where we are unable to meet the demand for the rural finance through our FFAs. Moreover in the process of directed lending many of our FFAs have themselves become weak. Under the new liberalized policies for the economy, it is all the more important that the group finance be encouraged. By emphasizing the advantages and addressing the concerns raised by the informal finance, it is however not suggested that one can supplant the formal finance. Both the formal and informal have their comparative advantages. Therefore, the emphasis for a better economy is that both sectors develop linkages.

1.2.1 Linkage Models

The linkage between the Self Help Groups and the Formal Agencies (FFAs) has to be on a symbiotic relationship. In most of the developing countries, the countries, the savings and credit schemes of FFAs are separate, each with its own set of clientele. For the purpose of linking the SHGs to FFAs two basic models with number of modifications are at present working in India. In each model there exists a two way flow of funds as shown below.

i. Direct linkage model

In case of the direct linkage model the bank identifies the group (or facilitates evolution of the group) and deals with the SHG directly for both mobilizing the savings and for making available credit facilities to the group as a whole or to individual members. Group members act as collateral security. In this model the credit is generally made available to the group and members to be financed are identified by the group itself which takes the responsibility of loan repayment.

ii. Modified Direct Linkage Model I

Here the activity and member to whom loan is given is identified by group. The group is morally responsible for repayment but credit is given as in any individual loan.
iii. Modified Direct Linkage Model II

In this model NGO is not the financial intermediary. The NGO's role is only in group evolution and stabilization. Whereas the financial linkage is directly with the group.

iv. IFAD Model

In this model, the NGO is involved as in (iii) above but the line departments of Government like Women Development Corporations, Sericulture, Rural Development are also involved in identification of activity, beneficiary etc., The model is in existence in areas where IFAD projects are being implemented like Tamil Nadu, Maharashtra and Uttar Pradesh.

v. Indirect Linkage Models

In this model basically the funds flow through the NGO i.e. the NGO is the financial intermediary. In case of this linkage model various types are existing as follows:

vi. Modified Indirect Model

This model exists in cases where the groups are artisan/handcraft groups and NGO supper for marketing is also available like SEWA, Lucknow.

In the above models, apart from two way flow of funds, there is also flow of services, extension, consultancy, training etc., from the banks and the voluntary agencies.

The Self Help Group approach to the development of rural poor appears to be an effective and viable proposition as a supplementary micro credit delivery system. The models of linkage between SHGs and FFSs could be specific to the needs of the group. A strong linkage and continued development dialogue between the SHGs and FFSs appear to be the panacea for many of the ills in the present system.
1.2.2. Role of Banks

Before embarking on the linkage programme, the banks have to consider certain aspects so that the linkage programmes are effective and objective of the linkage is fulfilled. Some of the aspects envisaged are,

Commitment of the Top Management

The eighth plan document has clearly brought out that most of our conventional developmental programmes, and the subsidized target group approach of government has failed due to non-participation by the people in the developmental process. Therefore, it is essential that management of the formal financial agencies (banks) appreciate the importance and are committed to participatory approach in rural developmental banking. Only this will enable implementation of this innovative banking approach by adopting suitable policy changes and strategies to influence the organization behavior to take up the challenges of the linkage programme.

Tapping of Field Workers/Field Officers

The field worker/field officer of the bank is an important intermediary in the linkage programme. It is very essential that the field worker is sincere and committed to the concept and process of the linkage. In India, Banker’s experience is that a few excellent and well motivated field workers do better than a multitude who don’t understand and appreciate the concept and process of the linkage programmes. Training, mobility and motivation by participation in various forums as well as exposure to successful cases may be successful strategy that can be adopted by banks.

Training

Majority of the personnel are urban oriented, thereby lack the skills to identify and appreciate the needs of the rural poor. Efforts through training should be made to bridge up the gap in the psyche of the bank personnel, so that they appreciate and commit themselves to the idea of participatory development. For this purpose, exposure at field is felt to be very essential as also use of 'Participatory Training Methodologies'.
Decentralisation - Policy Changes

The bank management should initiate appropriate policy changes and decentralization procedures so that the decision making power for lending and the effective linkage programme is vested with the grass root level functionaries. The procedures laid down should be such that bank goes to the people and not the oriented and customer friendly. Easy and transparent procedures and transactions, simplified forms, documentation, modification in saving and credit schemes to suit local conditions and needs, are suggested. The bank has to play a 'catalytic role' than a mere financing agency and also respect the group's identity.

Communication

There is a need for communication process between the field workers with different tiers of management in the organisation as also effective communication with the SHG, NGO and other banks. The communication both within and outside the organisation should be participatory, based on mutual trust and respect. This helps in not only attuning the bank personnel to the need of rural poor, there is experiential learning promotion of healthy competition and it also motivates them to achieve the organisational goal.

Information System

Circulation of case studies, success stories, action research, impact evolution studies could be some of the methods the banks could adopt to motivate the field workers and sustain their commitment to the participatory approach. Regular monitoring and evaluation by the bank, of the linkage programme with a view to make necessary adjustments and changes is also suggested.

The concept of Self Help Groups and participatory approach to development appears to be a workable and viable proposition as a supplementary credit delivery system. The workable linkage model is the one involving the NGO for group formation and strengthening and minimum involvement of Government departments. To attain a balance between the macro level impacts like environment and ecological balance and the
micro level needs, a mixed approach rather than total target oriented approach may be adopted by Government departments and Formal Financial Agencies. The Self Help Groups may not prove to be a panacea for all ills of the present credit delivery system but they are surely an supplementary conduit whose strong linkage with the FFAs will enable coverage of large number of small borrowers with production potential. Therefore, it is necessary to develop linkage models based on practical field experiences.

1.2.3 Assessing a Self Help Group

For a banker, appraisal is very important for ensuring the utility of the loan and repayment of the loan. Bankers generally appraise the project and the borrower. In case of SHG financing, most of the project appraisal based on normal banking norms for assessing the cost-benefit and profits will not be workable due to the peculiarities of SHG financing. For considering a loan application for financing the banker has to evaluate the capacity and character of the prospective borrower. SJ+HG's customers have to be appraised before extending credit facilities. But them assessment of creditworthiness of a SHG is very different from that of an individual. SHGs are not to be assessed in terms of their ability to provide collateral of guarantees of net worth. The SHGs have to be assessed in terms of Group dynamics like cohesion, vibrancy, goal oriented action, participation of members, democratic decision and collective leadership. The appraiser has see whether the group is functioning, actually as a group, why the members have come together, whether it is for obtaining loan from bank or the group sees other purposes, what is the group discipline and whether it is sustainable.

The basic principles on which the SHGs function are:

1. The members should be resident in the area and be homogenous. Homogeneity can be in terms of caste/occupation/farm size/sex or income level.
2. Savings first, credit thereafter.
3. SHGs should hold regular meetings.
4. SHGs should maintain accounts.
5. They should have norms regarding membership, meetings etc.
6. Group leaders should be elected by members and rotated periodically.
7. Transparency in operations of the group and participatory decision making.
8. Rates of interest on credit should be decided by the group.
9. Group liability and peer pressure are to act as substitutes for traditional collateral.

For assessing a Self Help Group the important aspects that a banker should look into include

1. **Norms for functioning:**

   The SHG should have developed some kind of norms for its functioning the norms should be covering major areas of its functioning as well as the decision making processes, leadership etc., Norms generally relate to

   a) Membership
   b) Meetings - time, periodicity
   c) Savings- amount, periodicity, rate of interest (return)
   d) Credit - procedure for sanction, ceiling amount, purposes, rate of interest to be charged, repayment period etc.
   e) Fines - in case of default in attending meetings, savings and credit repayment. Group may also levy fines for pan chewing, bidi smoking, drinking liquor etc.
   f) Leadership - election or nomination of leaders, rotation of leaders etc.
   g) Personal/social improvement - minimum literacy level to be achieved, social work to be done etc.

   The group norms may be written or oral. They may be decided in the initial meetings or they may evolve over a period of time depending upon the need of the group. The important aspect to be looked into are:

   - How norms evolved, whether by the consensus of the whole group.
   - Whether the members are aware of the norms (even if they are oral) and understand them.
   - Whether the norms are implemented.
2. Meetings

The group decides the periodicity of the meetings i.e., weekly, fortnightly or monthly. They also decide on the time of the meeting. Decision on time and periodicity helps in regular conduct of meetings. The regularity in the holding of the meeting and the attendance during meeting gives an indication about group functioning. Therefore a banker should see whether:

- The meetings have been held regularly.
- The attendance in the meetings.
- The members are punctual and stay till the end of the meeting.
- Are there any sanctions for the errant members?

The banker can use his observations during the meetings and the meeting register to get data on this appraisal aspect.

3. Maintenance of Books

Whether group is maintaining the basic books which will give details of functioning and accountability of the group is an important criteria. The books should give the details of number of meetings held, decisions taken in the meetings, amount of savings of the members and credit availed, the total savings of the group & repayments. Who maintains these books is another important criteria for judging the group. Is it maintained by members, if not are they making efforts to learn numeracy or literacy so that they can start doing it themselves.

Banker has to Verify:

- Whether details of meetings, proceedings, and attendance are maintained.
- Whether member wise record of saving and credit are maintained.
- Whether the records are up to date.
- Whether all members are kept informed of their savings and credit balances from time to time.
- In case of illiterate groups whether what is the system followed, does the group verify the books maintained by NGO/outsider.
- Whether systems have been developed to ensure safe custody of cash.
3. Leadership

Two or three group members are elected as the leaders. Initially the opinion leaders may be selected as the leaders and over a period of time they are expected to be rotated. The group leaders are expected to:

a) regularly convene and conduct the meetings
b) help the group members in taking decisions
c) resolve conflicts
d) maintain books of account and
e) approach bank branch for operation of accounts.

The aspects that are to be seen are:

- Whether the leaders have been elected and rotated.
- Whether they help in democratic functioning of the group.
- Whether there is a conscious attempt to groom other members to take up leadership.
- Are they marginalizing the benefits (especially loans).

4. Participation and Awareness of Group Members

Are the Members aware of the purpose of group formation, the operations and activities of the group viz. The savings and the credit of the group as well as the individual member's savings and credit details.

- Do they participate in group discussions and decision making.
- Do they help solve the problem that are raised in the meetings.
- Do they work cohesively and have transparent dealings.

The democratic character of the group may be judged by attending one or two meetings and talking to individual members. The awareness level of members helps in healthy functioning of the group and resolution of conflicts within the group.
5. **Savings**:

The group decides on the amount of savings as also its periodicity. It has to be seen whether the saving, as decided upon, is regularly made, how the defaults are dealt with and whether the system is modified as per the requirements of the members.

6. **Credit**:

The following aspects to be looked into while assessing the credit function of the group:

- The decision making process of selecting loans.
- The system followed in assessing credit requirement of individual members and the amount to be sanctioned.
- The system of monitoring the credit.
- The repayment performance of members and incidence of defaults besides the effectiveness to deal with such defaults: whether the concept of 'peer pressure' is working.

7. **Self Reliance of the Group**

Can the group function on its own without the support of the NGO is an important criteria for assessment. The level of dependency on the NGO/promoter of the group and impact of withdrawal of NGO/promoter on the group is to be assessed.

1.2.4 **Conclusion**

The self help groups are the backbones of the rural economy, it has been proved from the study the products which are not projected in Micro, Macro level markets have come out the doors and streets and villages of each and every town of Tamilnadu specializing and attaching its importance with the place with high dignity.

To rule out these products the NGO'S and financial institutions have started giving fuel and hence it has accelerated the rural economy to bring out the potentiality without any backlog to talents by a way of empowering youth and women .The study with the sample arrived has bought out enough material for research .These summary
reveals of interesting factors of products movement, product introduction, financial help, marketing problems, marketing development and innovation.

The study reveals that self help groups are the areas which has not been touched or tapped till date which amount to greater help of empowerment and movement of traditional products such as perishable products, consumable products, eatable products etc.

There is no doubt that India is shinning and it shine forever. Today around 70% of our population who are poor and vulnerable are taken care in this world of Self help groups with appropriate , adequate and timely finance of the modern bankers to save this ancient , artistic and cultural products of our ages.

The introduction chapter is fully satisfied with concepts, definitions, methodology and stemming from the objectives and hypotheses, the chapter concludes with all necessary information of microfinance SHG products etc.. The second chapter in this study goes for worldwide definition through the review of literature which is continued in the following chapter.