SHG-BANK LINKAGE PROGRAMME – A STUDY IN THRISSUR DISTRICT

BY

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THESIS

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Declaration

DECLARATION

I hereby declare that this thesis report, entitled **"SHG-BANK LINKAGE PROGRAMME- A STUDY IN THRISSUR DISTRICT"**, is a bonafide record of research work done by me during the course of research and that the thesis has not previously formed the basis for the award to me for any degree, diploma, associateship, fellowship or other similar title, of any other University or Society.

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CERTIFICATE

Certified that the thesis, entitled "**SHG-BANK LINKAGE PROGRAMME- A STUDY IN THRISSUR DISTRICT**" is a record of research work done independently by **Miss.Vijitha.V.N** under my guidance and supervision and that it has not previously formed the basis for the award of any degree, diploma, fellowship or associateship or other similar title to her.

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Vijitha.V.N

Dedication

Dedicated to

all my

loved ones....

I Believe....

I believe that imagination is
stronger than knowledge;
That myth is more potent
than history;
That dreams are more powerful
than facts;
That hope always triumphs
over experience;
That laughter is the only cure
for grief;
And I believe that love is
stronger than death

- Robert Fulghum

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CHAPTER 1

INTRODUCTION

Micro finance in the recent times has been recognized and accepted as one of the new development paradigms for the poor with focus on women. Experiences of different anti - poverty and other welfare programmes within the country and elsewhere have shown that the key to success lies in the participation of community- based organizations at the grass root level. People's participation in credit delivery, recovery and linking of formal credit institutions to borrowers through the intermediation of Self Help Groups (SHGs) have been recognized as a supplementary mechanism for providing credit support to the rural poor.

1.1 Significance of the study

The high level of dependence of the informal sector on non-institutional sources continued despite a rapid growth in banking network in India during the last five decades. The rural financial system at present functions through an impressively large network of more than 1,50,000 retail outlets. Despite such phenomenal expansion of the outreach of the formal banking structure, the All India Debt and Investment Survey (Government of India), 1981 gave indications that the share of non-institutional agencies (informal sector) in outstanding cash dues of the rural households was quite high as at 38 per cent. It was also seen that households in the lower asset groups were more dependent on the non institutional credit agencies.

The main hurdle faced by banks in financing the very poor seemed to be the comparatively high transaction cost in reaching out to a large number of people who required very small doses of credit at frequent intervals. The same held true of the cost involved in providing savings facilities to the small and scattered savers in the rural areas. Feelings were mutual among the very small savers and borrowers in the rural areas as well, as they tended to view banking as an institutional set up for the elite; even if they tried to reach the bank branch, the long distance and the loss of earnings on being away from work while visiting the bank branch were hurdles moreover they were never sure whether they would get any service at all if they did approach the branch. The levels of mutual inconvenience and discomfort made the poor look at banking as an almost inaccessible service and the banks felt that banking with the very poor was not a 'bankable proposition'.

It was against this background that NABARD conducted studies in the mid eighties that brought out the simple fact that the most important and immediate banking needs of the poor households in the order of their priority are opportunities to keep safe their occasional small surpluses in the form of thrift, access to consumption loans to meet emergent needs and hassle free access to financial services and products including loans for micro enterprises.

Viewed against this demand, there were serious limitations in the supply side as the existing products and services of banking system were largely meant for a different type of customer segment. In trying to fulfill the credit needs of the poor for financial services, the banks had to contend with regulated interest rates, high transaction costs and high cost of mobilization of funds. In cases where credit are made available to the poor through special programmes, absence of an integrated savings component and something to fall back upon in case of any adversity was leading to poor repayment performance. The problem was further confounded as the users were unable to distinguish the state support and bank credit as the rural and agricultural banking system was getting identified with the state. The political expediency for removing poverty at a stroke was putting resources for running micro enterprises in the hands of the poor without nurturing them to handle such resources. The high cost of appraisal and monitoring led many banks to abandon those systems in the context of low value of advances, aggravating the already vitiated repayment climate further.

Based on the result of the action research conducted, NABARD developed the Self Help Group (SHG) Bank Linkage approach as the core strategy that could be used by the banking system in India for increasing their outreach to the poor. The strategy involved, forming SHGs of the poor, encouraging them to pool their thrift regularly and using the pooled thrift to make small interest bearing loans to the members and in the process, making them learn the nuances of financial discipline. Bank credit to such SHGs followed. NABARD views the promotion and bank linkage of the SHGs not merely as a credit programme but as part of an overall arrangement for providing financial services to the poor in a sustainable manner leading to the empowerment of the members of these SHGs. Nearly fifteen years have passed since NABARD introduced the programme. Hence it is quite pertinent to have an assessment of the programme from the point of view of bankers as well as beneficiaries.

1.2 Statement of the problem

The corporate mission for micro finance set by NABARD envisages banking services to one third of the very poor of the country, i.e., a population of about 100 million rural poor through one million SHGs by the year 2007-08. The overall strategy adopted by NABARD relies on two main planks viz; expanding the range of formal and informal agencies that can work as SHG promoting institutions and building up capacities of the increasing number of stake holders. The key to all such initiatives has been training and capacity building of various stake holders including the SHG members themselves, the range of which is growing at a fast pace.

The formal banking system in India has accepted the challenge of incorporating micro finance into their business policy. An increasing number of formal financial institutions like branches of RRBs, commercial bank branches and co-operative banking institutions are offering micro finance services. The unique features of SHG-Bank Linkage is the concept of lending to the Self Help Group as an effective financial intermediation for its retail loan funds to the poor members and mobilize regular savings. Keeping these in view, the basic problem of the present study can be stated as an assessment of the extent and pattern of utilization of the credit provided to the Self Help Groups and their members by the formal financial institutions comprising, commercial banks, RRBs and District Co-operative Banks (DCBs) so as to achieve the objective of empowerment of the members of the SHG. The study also aims to identify the problems and the constraints faced by the bankers in the process of the linkage so as to enable corrective action in the future.

1.3 Objectives of the study

The objectives of the study are

i) to analyze the level and pattern of utilization of the bank finance by the Self Help Groups and their members under the SHG-Bank Linkage Programme;

ii) to identify the constraints if any, faced by the banks in the SHG-Bank Linkage Programme and

iii) to make a bank-wise and spatial comparison of the SHG-Bank Linkage Programme.

1.4 Utility, Scope and Limitations of the study

The crux of micro finance lies in building self sufficient institutions while maintaining a commitment to reach the poorest of the poor. Micro finance should be in the form of a participation model and not as profit model. When a programme is built on existing structures, it leverages all strengths. Thus, because the SHG-Bank Linkage Programme is built upon the existing bank infrastructure, it has obviated the need for the creation of a new institutional set up or introduction of a separate legal and regulatory framework. Since financial resources are sourced from the regular banking channels and members savings, the programme bypasses issues relating to regulation and supervision. Even with the advantages, the SHG experiment could be successful only in a few pockets of India (Das, 2003). A study conducted during the early years of the implementation of the Programme in Kerala (Prothasis, 2001) revealed that loan for consumption requirements dominated that of productive activities. This could be excused being the initial years of implementation of the Programme. The present study at the micro-level regarding the level and pattern of utilisation of the credit provided by the banks under the linkage programme will bring to light the extent of change in this direction. This would definitely help the policy makers in incorporating necessary changes in the implementation of the Programme. Moreover the identification of the constraints faced by the banks in this programme will enable the banks to have a better framework while promoting and lending the SHGs , and also in identifying the areas where they can make tremendous contribution for scaling up of SHG on a higher growth path.

The scope of the study is limited to Thrissur district, from which three blocks are identified for selection of 30 SHGs and 90 members. Although it was not intended to include only women SHGs, during the random selection of the groups only one group comprising of male beneficiaries was included in the list of SHGs. This might be due to the less number of men SHGs in the district and specifically in the blocks selected for the study. Hence a representative sample of male beneficiaries was not obtained for making any comparison with female members in the utilisation of the loan.

1.5 Organization of the Thesis

The report of the study has been organized under five chapters. The first chapter entitled 'Introduction' deals with the significance of the study, statement of the problem, objectives of the study, utility, scope and limitations of the study. The second chapter deals with the earlier studies relevant to the topic of the study. The third chapter explains the 'Methodology' adopted in the process of investigation and analysis. The fourth chapter is earmarked for the results and discussion of the study. The last chapter highlights the summary of findings and conclusion followed by bibliography.

Review of Literature

CHAPTER 2

REVIEW OF LITERATURE

The performance of the Self Help Groups with respect to the empowerment of the poor and disadvantaged women has been the concern of policy makers and academicians since its inception. Hence studies on the subject are not scanty. But studies relating to SHGs as a micro financing agency are limited. However the available studies and opinions of various authors which have enabled the researcher to finalize the objectives and methodology of the study are reviewed here.

In accordance with the specific objectives of the study, the review is presented under the following heads:

2.1 Concept of Self Help Groups
2.2 Promotion and Performance of Self Help Groups
2.3 Progress of SHG-Bank Linkage Programme
2.4 Interest rates on Micro credit
2.5 Constraints of SHG- Bank Linkage Programme

2.1 Concept of Self Help Groups

The concept or characteristics of SHGs as visualized by different authors is the content of this section.

Coward (1976) in his study on indigenous organization, bureaucracy and organizations reported that, the SHGs as a whole stand guarantee for the individual members and ensure mutual accountability through tactics.

Kuhn (1985) defined SHG as an organization wherein the members unite on the basis of common interest to improve their economic and social conditions so as to enable them to pursue their paramount long term aims.

The Royal Tropical Institute (1987) considered SHG as a membership organization or group where its risks, costs and benefits are shared among the members on an equitable basis and that its leadership and managers are liable to be called to account by the members for their deeds.

Verhagen (1987) defined SHG as an institutional framework for various individuals or households who have agreed to co-operate on a continuous basis in order to pursue one or more objectives.

Pathak (1992) observed that the SHG being comprised of group of persons gets empowered to solve their problems through the process of continuous transformation and development.

According to Rajasekhar (1993) the members should be homogeneous in terms of combined criteria of caste, economics and sex for effective formation of SHG.

Rao (1994) defined SHG as a means of raising the claim making capacity of the rural poor for reaching out to such agencies with which they are willing to work and which can provide them with additional production resources. It also implies the development of their bargaining power to an extent that such agencies cannot unilaterally impose their conditions and regulations upon the rural poor as passive recipients.

NABARD (1995) has defined SHGs as a homogenous group of rural people, voluntarily formed to save whatever amount they can conveniently save, out of their earnings and mutually agree to contribute to a common fund from which they could cater to the productive and emerging credit needs of the members.

Singh (1995) conceptualized SHG as an informal association of individuals who are coming together voluntarily for the promotion of economic and/or social objectives.

According to Thundiyil (1995), women's SHGs are promoted more actively compared to that of men as they form the major population under poverty.

Dwaraki *et al.* (1996) described a Self Help Credit Group as an unregistered body of people, preferably the disadvantaged, who willingly contribute an agreed sum of money, which would be lent at a price for a short period as fixed by the group itself. According to them the goal of SHG is to pool together the strength of the weaker sections and gear them towards developing a self-reliant community. They also reported that attendance in periodic meetings was compulsory and was one of the eligibility conditions for financial assistance from the SHGs. This was insisted to ensure regularity in remittance of savings and repayment of loan.

The Indian Bank in its guidelines (Anon, 1996) had identified two phases in the formation process of SHGs. The first phase is the study phase and the second phase is the action phase, consisting of four stages *viz.*, preparatory stage, settling down stage, stabilization stage and completion stage.

Panda and Mishra (1996) supported the opinion of Dwaraki *et al.* (1996) with respect to the significance and regularity of meetings and regular attendance of SHG members in those meetings. Regular meetings will ensure creation of group bondage, participation of members and democratic functioning of the group. It will help in group planning, proper management of funds, enabling the members to resolve conflicts and exchange ideas and also ensuring participation in decision making process. They recommended that non attendance should lead to cancellation of membership automatically.

Roul (1996) defined SHG as an institutional frame work for individuals or households who have agreed to co-operate on a continuing basis to pursue one or more objectives. According to him women were found to be the dominant gender in most of the groups that were functioning well. It may take long time for men and women joining hands as equal partners in a SHG, to become the order of the day in rural India. It is therefore necessary to allow gender based distinction in promoting SHGs.

Srinivasan (1996) found that SHGs offer means by which the poor could have access to resources in their own right, without waiting for anyone, and not at another person's mercy. This makes the people confident that by saving small amount over a period of time they could accumulate resources to help one another in a big way. In addition, it gives them a feeling of being also in charge of their own lives, emboldened to do activities themselves and take a share of resources as a matter of right.

Anon. (1997) identified certain criteria for the SHG group formation to be complete. A combined membership of not more than 20 members, a common understanding among the members as to why they have come together, free and open communication with feedback among members, unity in decision making and rotating leadership of the group are the foremost among them. The regularity in conducting and attending meeting and increased participation in the meeting is highlighted by the author.

Moin Qazi (1997) in his article on 'Self Help Groups- a novel approach to rural development' has opined that the Self Help Group approach has showed remarkable results in poverty alleviation and that they have become significant institutions for rural development. As a result, banking sector in India has formally accepted the SHGs as the eligible entities for deployment of credit. He is of the opinion that SHG is not a state institution, but has grown on the resources and management skills of its members and their increasing confidence to get involved in issues and programmes that require their involvement in public and private spheres.

Studies conducted by NABARD (1997) revealed that the perceived socio-economic homogeneity is an important factor for the success of SHG formation.

Sreedharan (1997) pinpointed the guiding principles for SHGs to be sustainable. Homogeneity of the members of the group preferably residing in the same area, with at least five members, development of functional discipline and systems, conduct of regular meetings at least once a week, adoption of simple book keeping system having basic bye laws and rules, mobilization of savings and transparency in business operations are given foremost significance by the author. There should be facility for basic training and guidance to all the members. Group liability and peer pressure should be the substitutes for collateral. While respecting the autonomy of the SHG, commercial banks should be asked to provide appropriate advances or lines of credit to supplement the financial resources of the group and enable to lend for productive purposes. The group should keep the transaction cost at the minimum with simplified procedures and control.

Karmakar (1998) defined SHG as an informal group of people where members pool their savings and re-lend within the group on rotational basis.

According to Thomas (1998) there is no single reason why individuals join groups. The most popular reasons for joining the group are related to the need for security, status, self –esteem, affiliation, power and goal achievement.

According to Thomas (1998) SHG is a homogeneous group of rural poor voluntarily formed to save small amounts out of their earnings, which is convenient to all members and agreed upon by all to form a common fund corpus for the group to lend to its members for meeting its production and emergent credit needs.

Anon (1999) opined that Swarozgaries are the beneficiaries under the Swarna Jayanthi Grama Swarozgar Yojana (SGSY). The beneficiaries can be either groups or individuals. But it lays emphasis on group approach, under which the rural poor are organized into SHGs and who are identified by BPL census.

Dodkey (1999) opined that SHG is the solution to accelerate the socio-economic development of the rural poor in India. Therefore RBI has advised banks to treat SHG financing as their corporate agenda.

Gupta (1999) reported that the concept of SHGs in India comes from the Grameen Bank of Bangladesh which was founded by the noted economist, Mohammed

Yunus in the year 1975. It provides large scale micro lending; provide more credit to the rural section than the aggregate of all the other banks.

Patro (1999) after his study about SHGs in Karnataka State came to know that SHG movement has helped in eradicating other social evils like alcoholism, dowry for marriage and village disputes which ultimately created a very healthy living atmosphere in the village.

Pandian and Flograce (1999) opined that SHGs in rural areas are developed to improve their credit and saving system.

Unnikrishnan (1999) opined that the very word meaning of word 'Samatha' is social and economic equality. The main objective of Samatha Swayam Sahaya Sangam is the all round development of rural women who are living below poverty line and to free them from the clutches of money lenders.

Vajpayee (1999) stated that the concept of SHG is of immense importance in the realization of our goal to take banking services to the doorsteps of the poor. For the first time, it widened the scope of the Rural Infrastructure Development Fund of the NABARD, allowing lending to Grama panchayaths, SHGs and eligible NGOs for implementing village level infrastructure projects such as roads, drinking water schemes, primary education centers and rural health centers.

Gurumoorthy (2000) reported that SHGs generally have members not exceeding 20 and each group selects a leader among its members called animator. The savings collected in the meetings are being relented to the needy members for various purposes at specific interest rates. He also reported that repayment from SHGs to banks is more than 90 per cent whereas it was less than 35 per cent under Integrated Rural Development Project, which might have been the reason for failure of the Scheme.

The emergence of SHGs as a cost effective delivery mechanism at village level, to deliver micro finance as well as other services needed by the poor was pointed out by

Jayaseelam (2000). He also explained about the intricacies of micro finance and the SHGs highlighting the need for the utilization of credit in SHG more profitably as well as with elegant social outlook.

Joshi (2000) while studying about the sustained growth in rural economy found out that micro finance has emerged as an effective tool for alleviating poverty in many countries.

Laxmi (2000) emphasized that for the socio economic development of the rural areas, we have to encourage this novel initiative approach, micro finance, as it has a significant bearing on rural development. Unless the people, particularly the women living in the rural areas come up with socio economic development, upliftment of our economy will be a day dream.

Murugan and Dharmalingam(2000) in their study about the working of SHGs in Tamil Nadu said that empowerment of women through SHGs would lead to benefits not only to the individual women and women groups, but also for the family and community as a whole through collective action for development. Empowering women is through more holistic social development.

According to Ojha (2001) the benefits of SHGs are based on co-operation rather than competition. It follows the real principle of contribution according to one's own ability and extract according to need. In his opinion Self Help Group Model of self employment generation seems to be a workable model.

Rao (2002) opined that SHGs or micro credit groups are useful tools to help the poor to access financial resources not available to them previously and help them to break-through the strong hold of exploiting money lenders. The experiences in the country and elsewhere suggest that SHGs are sustainable, have replicability, stimulate savings and help borrowers to come out of the vicious circle of poverty.

Rasure (2002) in his study about women's empowerment outlined the importance of SHGs. The emergence of SHGs is a welcome development. These groups provide a permanent forum for articulating their needs and contributing their perspectives to development.

Bharatish Rao and Uma sharma (2006) concluded that as a platform for uplifting poor, the Self Help Group is a new marketing tool to sell development to the poor and the economically weaker sections of the society. SHGs are the major delivery channels or the last touch points in the process of making micro finance reach the rural poor. SHGs of India are considered as the world's largest micro finance programme.

SHG is a self governed, peer controlled, small and informal association of poor which is made of and controlled by the people affected. SHGs build on the strength of their members. The authors have identified homogeneity of the group, voluntary nature, common interest and under standing, mutual accountability and help, eradication of social evils, provision of micro finance and empowerment of women as the common characteristic features of the SHGs.

2.2 Promotion and Performance of Self Help Groups

SHGs play a major role in poverty alleviation in rural India. A growing number of poor people in various parts of India are members of SHGs and are actively engaged in savings and credit as well as in other activities. The SHG system has proven to be very relevant and effective in offering the rural poor the possibility of gradually moving away from exploitation and isolation. The opinions of various authors regarding the promotion, development and performance of SHGs are discussed in the following paragraphs.

Bhaskaran (1978) opined that no significant relationship was observed between age, extent of holding, education, risk perception of cost of innovation, perception of profitability, social participation, occupation and caste and their extent of adoption as well as credit utilization of SHG members

Pathak (1992) observed that the leadership in SHGs has been considered important since it can influence the SHG members towards proper functions. It can help, guide and support the members in solving their problems

Mankad and Singh (1995) during a workshop regarding the 'banking on poor' held in Bangalore reported that the Self Help Groups are able to mobilize group savings and provide group guarantees as a substitute for collateral securities and achieve high repayment rates on loans. So banks can meet the credit needs of the poor using self help groups as financial intermediaries.

While comparing the seven principles of co-operation between Primary Agricultural Credit Societies (PACS) and SHGs, Ramesh (1997) stated that these principles were overtly seen in the functioning of SHGs rather than in PACS. The distinctiveness of SHGs lies in the fact that they are fully democratic, autonomous and thrift based and is functioning in the same socio- economic and political environment in which PACS are functioning. SHGs continue to be functionally effective and flexible and deserve to be known as "new wave to co-operatives".

Rangarajan (1997) argued that studies have brought out encouraging features such as increase in loan volume of SHGs, shifting of loan pattern of members from non-income generating activities to productive ventures, excellent recovery of loans and significant reduction in cost for banks and borrowers.

Sangwan (1997) opined that establishment of relationship with the SHG members is significant as revealed from the instances of utilization and recovery of loans. The group approach is cost effective to achieve the objective as a number of persons are contacted in meetings.

Fernadez (1998) reported that Mysore Resettlement and Development Agency (MYRADA) are often asked whether women SHGs perform better than that of men or vice versa. Though there are several men's group that have an excellent record, the opinion is that overall, the women's group are not only more effective but also give more importance to the needs of the family. MYRADA's database is not programmed to answer this question satisfactorily, but certain indicators can be identified which tend to substantiate the opinion that the performances of women SHGs are better. Analysis of the groups on two MYRADA projects indicated that the women's groups have high level of performance and as such 95 per cent of the groups are composed of women.

In the study made by Dodkey (1999), *it is stated that the repayment* of loan both at SHG level and bank level under the linkage programme is excellent which is almost cent per cent

Karmakar (1999) analyzed the strengths and weaknesses of the rural credit system in India and prescribed various strategies and innovations, which will enable the existing credit system to emerge stronger and more viable. He pointed out that the initiatives of Grameen Bank need to be replicated far and wide in order to ensure that the rural poor do not remain marginalized for ever.

Kesavan (1999) reported that the farmers in SHGs of Vegetable and Fruit Promotion Council Keralam (VFPCK) have lived up to the expectations. Many of them have taken roles beyond farming including social, cultural and other spheres of life. Some of the additional activities taken up by the farmers include introduction of scholarships, conducting exhibitions and publishing farmers' magazines.

Rao (1999) while studying functioning of Andhra Pradesh Women's Finance Corporation stated that self- help supplemented with mutual help could be a powerful vehicle for the efforts in the upward migration of the socio-economic poor. Participative financial service management was more efficient and responsive. Small affinity groups of poor, with initial outside support could effectively manage and supervise micro credit among members. Collective wisdom of the group and the peer pressure is a valuable collateral substitute. SHG as a client facilitated wider outreach, lower transaction costs and much lower risk cost. The greatest feature of SHG movement is the empowerment process that was initiated among the poor and particularly women.

Sherin (1999) while studying the dynamics of self help group formation in Thrissur district identified four stages of SHG formation viz., pre formation stage, group initiation or formation stage, group stabilization or performing stage and withdrawal stage. Limiting up the membership of a functional SHG between 11 and 20 and allowing the SHG members to enjoy full authority in planning, decision making, implementation and evaluation were recommended for the efficient functioning of SHGs.

In a general monitoring study of SHGs in Karnataka State financed by Vijaya Bank, Tatti (1999) concluded that the SHGs have homogeneous membership, saving habit has been inculcated well in almost all the members, and groups which have matured (4 to 5 years old) have taken credit for productive activities. Group dynamism, the capacity to take decisions and manage credit was observed to have developed in many groups. Several instances of mutual help, self-help and affinity among the members have been noticed in the SHGs.

Puhazhendi (2000) concluded that SHG-Bank linkage programme has been successful in triggering a cycle of growth and development of the rural poor on a modest scale. The lending pattern has shifted predominantly from consumption to production purposes which in turn led to income generation, savings and empowerment of women. Intermediation of NGOs and SHGs also helped banks to reduce their transaction costs and the most important feature of SHG-bank linkage Programme was the on-time repayment of loans from banks at 92 per cent.

Surendran (2000) during his study of participatory group approach for sustainable development of agriculture in Kerala found that the participation efficiency and group efficiency of government and NGO sponsored groups lagged behind the quasi government sponsored groups. The study suggested that concerted efforts from all the quarters' viz., governmental, quasi governmental and NGOs agencies are required to promote effective participatory group approach.

Amruta and Madheswaran (2001) observed that the success of Maharashtra Rural Credit Project (MRCP) was due to the combined effect of factors like, credit being available for consumption purpose under the SHG-Bank linkage programme, easy and periodic availability of credit due to rotation of savings, and active participation of the non-governmental organizations. Major problems pointed out during this study related to identification of an economic activity that will yield a rate of profit necessary to cover the interest rate of the loan, and marketing of the produce. The study suggested that micro credit should be used to meet the current demands of the rural women, whether these are for health, education or consumption purposes.

Dadhich (2001) studied about the Oriental Bank Grameen project in Uttar Pradesh and Rajasthan which were organized as Self-Help groups consisting of five persons each. As a result of their participation in the Grameen Project a large number of women had taken up subsidiary occupations and consequently family income of the group members increased substantially. The study proved that micro lending is economically viable. Positive and liberal approach adopted by central banking authority of the country will facilitate further improvement and development of micro-finance system in India.

While studying the performance of Samatha self help groups in Thiruvanthapuram district Meera (2001) pointed out that Samatha Self Help groups encouraged the members to save regularly and acquire the habit of thrift. The group members are involved in different productive activities like bakery, processing and garment making. The main constraint faced by Samatha Group was the lack of forward and backward linkages for easy marketing.

NABARD (2001) reported that the on-time repayment performance of SHG loan continued to be above 95 per cent. The coverage of SHG Banking is increasing, and it is highly profitable for the banks.

Naithani (2001) reported that many studies mention about the Grameen Banking Micro Financing strategy, claiming a repayment rate of 99 per cent, which is a matter of great surprise for a commercial bank having clientele of beggars, illiterates and widows compared to commercial banks catering to the well to do.

Namboodiri and Shivani (2001) studied the potential role of self help groups in terms of reach, linkage with banks for savings and credit for the weaker sections of the rural households in Gujarat. It was found that social cohesion in the self help groups and the selection of the group leaders in rotation gave a sense of responsibility to each member of the group. Credit portfolio covering both consumption and production purposes, maintained productivity and income generating activities. They also discovered that the major weakness of the SHGs was the limited scope for future growth in membership and the dominance of consumption loans limiting the opportunity for income generating activities. One of the major threats was that the SHGs are not having any legal status. The study also revealed that empowerment of women both in economic and social terms is one of the greatest opportunities for women to participate in the main stream of development activities.

Puhazhendhi and Satyasai (2001) evaluated the economic and social impact of SHGs in rural India. The evaluation covered 560 member households belonging to 233 SHGs spread over 11 States. The study showed that the average net incremental income per household was 33 per cent higher during the post SHG period. Inequality in income was reduced and the propensity to save among the members was enhanced during the post SHG period. The additional employment generated due to the Programme was estimated at 17 per cent. The involvement of members in the group activities significantly contributed in boosting their self confidence and improving their communication skills.

Satish (2001) while discussing the issues during the formation of SHGs observed that there were large numbers of pre-existing social groups in India, which could be easily converted into SHGs as the members were aware of the group dynamics. Even though several SHGs included very poor members, no conscious attempt was made by the promoters to include the poorest of a village while forming an SHG. The study suggested that the process of SHG formation has to be systematic whether it is formed by a bank or an NGO. The study also revealed that most of the SHGs had to face initial resistance in their efforts, which was overcome by the members with their perseverance.

Sharma (2001) determined the success of Non-Government Organizations in micro financing SHGs of rural poor. The study conducted in Himachal Pradesh found out that the repayment of the loans was 100 per cent by all the categories.

Anand (2002) examined the performance of women Self Help Groups (SHGs) and Neighborhood Groups (NHGs) in Chungathara Panchayath of Malappuram District, Kerala. The thrift component of the SHGs acted as an informal bank for women. Both external and internal factors played an active role in making the groups self reliant. The study revealed that a positive change has taken place in the attitude of the beneficiaries. Distrust in the leaders, lack of transparency in transactions and autocratic leadership were identified as the major factors adversely affecting the success of the group in the long run.

Bhatia and Bhatia (2002) reported that Oriental Bank of Commerce launched the Grameen Project in 1995 in two districts of North India with one of the districts reporting incredible recovery rate. Cauvery Grameen Project showed 100 per cent recovery performance for the promoted SHGs.

Jha (2002) reported that the repayment ethics among the borrower members of micro finance was invariably of higher order, as recovery performance in the case of selected micro finance institutions was observed to exceed 95-98 per cent for all types of credit products.

Mohandas (2002) in his paper presented at an International seminar on income generating activities came to the conclusion that the micro finance system linked with SHGs has a lot of untapped potential to be designed as an effective poverty eradication

Programme if appropriate support services, infrastructure and promotional facilities are provided. In the absence of strong forward and backward linkages and other essential infrastructural, organizational and managerial support, it is not possible to transform micro finance into a meaningful poverty alleviation Programme.

Raghavendran (2002) while comparing performance of women Self Help Groups organized by two NGOs reported that there was non significant differences between participation and economic variables, namely, family income, land holdings and material possession. It was evident that members of SHG were from poor families in the village and the low economic status itself might have made them participate in SHG activities by contribution.

Reji (2002) while studying the impact of micro finance through self help groups in Malappuram district of Kerala stated that the economic impact of SHGs on beneficiaries are reflected in terms of increased saving habit, increased accessibility to credit, increased contribution to household income, acquisition of household assets, increased income and employment generation. The social impact of SHGs on beneficiaries are reflected in terms of improvement in women's respect and status in family, greater sense of solidarity and will to shoulder responsibilities among the group members.

Shetty (2002) opined that poverty alleviation and empowerment of the poor are better sustained on a more rapidly economic base in a village for which, the development of rural financial institutions in general and extension of institutional credit in particular, are necessary condition. He emphasized the need for better database on microfinance.

Vanitha (2002) studied the awareness and impact of SGSY on women beneficiaries and the results indicated that the Programme was successful in creating additional employment for its beneficiaries. She observed that the group faced problems regarding maintenance of assets and inadequacy of loan amount to purchase the assets.

Narayanaswamy *et.al* (2003) in a comparative study of co-operatives and SHGs observed that co-operatives and SHGs could forge linkage in order to see that the poor are effectively served and empowered. Such linkages open up a great deal of opportunities for both the organizations. Study revealed that Self Help Groups (SHGs) have emerged as an alternative development strategy to promote common interest of the weak and the vulnerable section of the society. They are considered as informal co-operatives as they possess distinct features of grass root level co-operatives.

Nikita (2003) while studying SGSY in Gujarat revealed that under political pressure to form many self help groups as possible in a short time, village level policy functionaries and their administrative leaders in blocks and districts failed to bring process orientation into their policy practice.

Ramakrishnan (2003) while studying the training need assessment of SHG members of watershed Programme in Karnataka found that the extent of training received has a positively significant relationship with the knowledge and skill component of the SHG members. He emphasized the need for extension agency to take cognizance of the identified areas of training required by the SHG members and organize need based training.

Anand (2004) studied about the factors contributing to the failure or success of the SHGs and found that the external factor was the nature of the agency that promoted and motivated the members. The internal factors included the presence of an educated, sincere, and dynamic leader, stability in leadership, homogeneity in membership, democracy, transparency and co-operation, unity and mutual understanding among the members. The association with SHGs has improved the economic status of the women involved.

Das (2004) opined that micro finance through SHGs has now become a modern economical weapon for the poor to fight against poverty. Many big and small institutions are taking part in this revolution of microfinance vigorously. Still it has a long way to become successful.

Gupta (2005) while studying micro finance in India observed that credit under SGSY across the states has been extended to the poor in the population. Though credit in SHG credit has been uneven, it has been growing at the rate of 120 per cent per annum. The southern states were seen as SHG developed states, while Bihar and Madhya Pradesh were among those characterized as SHG backward.

Shylendra (2005) opined that increased outreach and loan business has created skepticism about the not-for-profit nature of the NGOs. NGOs are increasingly finding that their present form is not conducive for up scaling and attaining sustainability of micro finance operations.

Devaprakash (2006) opined that every hour 400 rural women and every day an NGO joins an SHG movement in India. The movement has been growing exponentially with more and more number of SHGs, clusters, federation and Micro Financial Institutions (MFIs) being added every day in and out.

According to Ghate (2006) NGOs in India have played a crucial role in the spread of micro finance. Their success in delivering micro finance has made many of them explore the possibility of scaling up their operations further. The success is also attracting many newer NGOs to enter the field. It is estimated that in India as of 2006, there are about 800 NGOs involved in the delivery of micro finance with an outreach of about 7.3 million households.

The above studies give ample evidence that the SHG approach is very effective, efficient and a relevant tool for organizing and empowering the poor. Many agencies and NGOs support SHGs in India in one way or other and the success stories describe how membership in a SHG have changed the life of a particular individual or group for the better.

2.3 Progress of SHG-Bank Linkage Programme

SHG - Bank linkage approach is the core strategy adopted by NABARD that could be used by the banking system in India for increasing their outreach to the poor. NABARD views the promotion and bank linking of SHGs not as a credit Programme but as part of an overall framework for providing financial services to the poor in a suitable manner and also as an empowerment process for the members of these SHGs.

Majumdar (1996) stated that linking SHGs and voluntary organizations with the credit institution is one of the innovative modalities of credit delivery. Such linkages would reduce the transaction cost of credit institutions and also ensure better repayment performance.

Srinivasan and Rao (1996) opined that SHGs often mean the poor could have access to resources in their own right, without waiting for anyone and not by another person's mercy. This makes the people confident that by small amounts over a period of time they could muster resources to help each other in a big way. This also gives them a feeling of being in charge of their own lives. They feel emboldened to conduct themselves and take a share of resources as a matter of right, which is nothing but empowerment.

Srinivasan and Rao (1996) realised that groups formed with the genuine purpose of self-help had much chance of success compared to other groups.

A study by Merhotra (1997) has revealed that majority of the rural lending Programmes has not increased the income level of beneficiaries. In order to strengthen the rural credit delivery system, the SHG-Bank linkage Programme implemented by NABARD, SBI and its associates through voluntary agencies should be encouraged. According to him SHGs may eventually be the only viable route for rural lending as transaction cost would be reduced and recovery would improve.

Mohanty (1997) is of the opinion that bank linkage in India has emerged as a successful model which has the potential and promise of being a sustainable, successful, cost effective and transparent means of providing micro finance to the unreached and the disadvantaged rural poor. International or regional co-operation in terms of resources, experience and information is required for furtherance of linkage banking and adoption of successful micro finance mechanisms.

State Bank of Indore (1997) has shared their experience on the scheme of financing through Self Help Groups. The strategies for promoting SHGs and for linking SHGs with the bank were identified and implemented and attempts were made by motivating selected persons for providing training and awareness Programmes. The results were very encouraging and effective by continuous efforts and were able to link 100 groups comprising 2000 members.

Dodkey (1998) reported that under the SHG-Bank Linkage Programme that was launched by NABARD in 1992, there are three linkage models viz., banks are directly linked with SHGs without the intervention of NGOs, banks are providing credit to SHGs and NGOs act as Self Help Promoting Institutions (SHPIs) and NGOs are acting both as SHPIs and financial intermediaries for channelising credit from banks to SHGs

Gopalakrishnan (1998) in his research work concluded that bank assistance to SHGs particularly women have given them an opportunity for able guidance; women are capable of managing their socio-economic, political and managerial needs.

Report of NABARD (1998) shows that during the year, about 6000 SHGs have been financed by the Bank with refinance support of about Rs. 9 crore from NABARD raising the total number of groups to more than 14,000 and cumulative finance support at Rs.19.60 crore.

Shylendra (1998) in her working paper on promoting women SHGs evaluated the performance of eight women self help groups promoted in the village of Bidaj in Gujarat. The analysis has been done taking different aspects of the financing and the performance of the SHGs both as instruments of financial intermediaries and development, especially for poor women. The overall assessment has revealed that SHGs of Bidaj, which started of quite successfully, however failed after first three years of their existence in realizing the potential benefits of the objectives visualized at the time of creation.

Dinakar and Rajaram (1999) in a study of eight branches- five of nationalized banks and three of RRBs, dealt with credit extension of SHGs and SHG linkage Programme of banks. It covered method of lending to SHGs, lower transaction costs, recovery performance, income generating activities and participatory working of SHGs.

Dodkey (1999) says that the progress of linking SHGs with banks made rapid progress over the years mainly on account of low transaction cost, high percentage of recovery and mobilization of rural savings.

Karmakar (1999) in his book expressed his vision that, micro finance could be developed into a useful additional strategy in the fight against rural poverty. However, micro finance institutions have yet to develop a strategic alliance with the banking system so as to access large funds for lending.

Lalitha (1999) argued that SHG –Bank Linkage Programme is a part of the micro finance operation emphasizing savings based credit Programmes, flexibility in lending operations, de-linking credit from the bondage of collateral requirements, group lending, inter group learning, group decision in fixing repayment schedule and skill development through linkage facilities through NGOs who act as facilitators. The effective partnership between reputed NGOs and banks for promotion of SHGs will provide a strong institutional base for disbursing credit to micro enterprise for women.

Dubhashi (1999) has mentioned about prospects and guidelines regarding Self Help Group linkages with co-operative banks. Considering the advantages of lending through SHGs, it is envisaged that co-operatives have a significant role to play in making credit available to the rural poor through SHG linkages.

Nanda (1999) has referred to the linking of banks and Self Help Groups through NABARD scheme. The impact and progress of linkage Programme and role of various Self Help Promoting Institutions (SHPIs) have been discussed. The need for encouraging credit delivery initiatives to rural people is also being emphasized.

Task force on supportive policy and regulatory frame work (1999) emphasized need for a process change leading to empowerment of poor households through strong and viable people's structures like SHGs and micro finance institutions which draw strength and support from banking system with the message that banking with poor is a profitable business opportunity for both the poor and banks.

Venkatachalam (1999) observed that the SHG linkage with banks enables the rural poor to have access to bank credit for improving their economic conditions. The repayment of loans is very good having 95 to 100 per cent; banking with poor has become a viable business proposition; SHG-linkage has opened a new era in rural bank credit.

Aswini (2000) in her critical study about SHGs and small village co-operatives for rural development concluded that rural credit management needs a more systematic approach and ideas like SHGs have less validity and there is every need to strengthen PACS base.

Jayaseelam (2000) outlined many details about SHGs which are useful for a banker and opined that the need of the hour is the turn of rural bankers to cash in on the potential goldmine of the SHGs. The credit with the SHGs has to be deployed more profitably as well as with the social outlook.

Joshi (2000) observed that since micro finance has emerged as an effective tool for alleviating poverty in many countries, in the annual budget 1999-2000 NABARD and SIDBI were asked to cover 50,000 SHGs to develop micro enterprises. The

NABARD and SIDBI were given a target of additional one lakh groups during 2000-2001.

Sarkar (2001) has outlined details regarding the role of financial institutions on professional management of co-operatives. According to him, micro credit and SHG linkage programme has emerged as a popular and effective means of assisting the socio-economically disadvantaged sections of the rural areas.

Banarjee (2001) argued that the importance of micro credit in financial market has progressively gained universal acceptance as an effective tool to eradicate poverty and unemployment prevailing in developing countries. It helps to provide credit for dispossessed people to build business.

Dadhich (2001) considered financing through SHGs as the best since it reduces cost of both lenders and borrowers as a result of providing credit at the doorstep of borrowers without lengthy formalities.

Laxmi and Archana (2001) emphasized the need for development of new ways and initiative forms of financing which are based on sound commercial principles and yet help to alleviate poverty. Experiences in various countries have brought to light the fact that SHGs play a significant role in mobilizing substantial amount of savings.

Robert (2001) studying the linking of Micro Enterprises with SHGs concluded that the linking of micro enterprise activities with self help group had enabled the members to improve their socio-economic status. The SHPIs, which promote the SHGs can play a crucial role in making the SHGs effective by providing managerial, financial and technical support to them.

Sarkar (2001) opined that the national policy on finance should emphasize on encouraging initiatives and participation of different types of institutions in micro finance, bringing the micro finance activities within the regulation and supervision by competent authorities creating policy environment for closer linkages of the micro finance sector with formal banking channels.

Rao and Chimanchodkar (2006) opined that the SHG Bank linkage programme has proved to be the major supplementary credit delivery system with a wide acceptance by banks, NGOs and various government departments..

NABARD's "SHG-Bank Linkage Program" aimed at connecting self-help groups of poor people with banks, has, in fact, created the largest micro finance network in the world.

2.4 Interest rates on Micro credit

Micro credit is distinctly different from other poverty alleviation schemes. Loans under micro credit Programmes are very small per borrower and are targeted to rural and urban households, with emphasis on women borrowers, provision of finance for creation of assets and their maintenance in bringing in greater quality of services. Interest rate is one of the basic issues being debated while assessing the SHG-Bank linkage Programme.

According to NABARD (1997) rate of interest for SHGs should be "market related".

Harper's (1998) work on 19 "typical" SHGs across India in 1997 revealed that the interest rate charged by SHGs ranged between 18 to 60 per cent. Nearly 50 per cent of the SHGs selected for the study charged an interest rate of 24 per cent per annum for its members.

RBI (1999), in its Monetary and Credit Policy for 1999-2000 has stated that while small loans directly given by banks would continue to be subject to the interest rate ceiling as prescribed by the RBI from time to time, interest rates applicable to loans given by banks to micro-credit organizations or by these organizations to their members/beneficiaries will be left to their discretion"

The Task Force of RBI (1999) on micro-credit noted that the past experience has proved that dollops of sympathy in the form of subsidy and reduced rate of interest have not helped matters much. Micro-credit has to be commercialized where all patrons – micro finance providers, intermediaries, NGOs, facilitators and the ultimate clients - must get compensated appropriately. The cell believed that freedom from poverty is not free. The poor are willing and capable to pay the cost.

From a study of 70 SHGs in Tamil Nadu in 1996-97, Puhazhendi (2000) concluded that the interest rates charged varied widely among groups. About 51 per cent of the groups had charged 3 to 5 per cent per month [36 to 60 per cent per annum] during the initial period, which was reduced to 2 to 3 per cent per month [12 to 36 per cent per annum] after a period of 3 years. In 21 per cent of the groups, the interest rate fixed was 1.5 per cent per month [18 per cent per year] .In the case of remaining 28 per cent of the groups, a uniform interest rate of 3 per cent per month [36 per cent per annum] was charged for all the purposes right from the beginning.

Puhazhandi and Satyasai (2000) in a study of 560 households belonging to 220 SHGs in 11 States of India in 1999 argued that there was an unmistakable tendency for the interest rates at which members were borrowing to converge towards the range of 12 to 24 per cent.

Gaiha (2001) in his review paper on SHGs under the Maharashtra Rural Credit Project noted that the average interest rates were two to three per cent per month (*i.e.*, 24 to 36 per cent per annum).

Harper (2002) in his study of 35 SHGs across India, noted that 31 out of 35 groups (89 per cent) charged two per cent a month or more (*i.e.*, 24 per cent per annum or more) and some of them charged even three to five per cent per month (*i.e.*, 36 to 60 per cent per annum).

Kropp and Suran (2002) also noted that the interest charged for internal lending to members ranges from 24 per cent- 36 per cent as a flat rate. In fact, they added that the interest rates could be increased to reflect higher cost in serving SHGs at their doorstep more regularly.

Srinivasan, (2002) argued that allowing the rates of interest to be determined by the market have led to significantly higher costs of credit for poor borrowers. One important reason for higher rates of interest is the practice of charging margins at different levels of the credit chain. The review study indicated that the final rates of interest on micro-credit turn out to be in the range of 24-36 per cent per annum. This was true for all three variants of the linkage programme examined in the above study. The reason for such high rate of interest was the margins charged by the banks, SHGs, and the NGOs (for Model III).

Seibel and Dave (2002) noted that SHGs mostly lend at effective rates of two per cent per month or 24 per cent per annum, which works out to a real rate of 19.3 per cent per annum.

The SHG-Bank linkage programme has enabled the members to reduce their interest burden by avoiding the exploitation of informal agencies, particularly the money lenders.

2.5 Constraints of SHG- Bank Linkage Programme

Though SHG Banking has reduced the establishment costs of the banks in dealing with small accounts, and ensures almost cent per cent repayment, this Programme faces some constraints, which need to be reviewed.

Sreedaya (2000) studied the performance of self help groups in Vegetable production in Trivandrum district and pointed out that the major constraints felt by the SHGs of Kerala Horticulture Development Programme were associated with field centers and marketing, whereas the SHGs of Intensive Vegetable Development Programme, faced constraints in planning, production, marketing and organization.

Prita (2001) studied the performance of SHGs in Dharward district of Karnataka and identified the inadequacy of raw materials, difficulties in diversification of the activities, misunderstanding among the SHG members, frequent power cuts and lack of space for storage of materials as the constraints of SHGs for higher performance.

Sarada (2001) while studying the empowerment of rural women in SHGs in Andhra Pradesh reported that the problem of non functioning units are the improper selection of group activities, lack of co-operation and zeal among the members of the group, non availability of adequate amount of raw materials, lack of demand of the products and lack of marketing facilities. She suggested that field level workers of District Rural Development Agency should promote the groups with marketing facilities so as to sustain their environment and organize training for their skill up gradation.

Das (2003) showed that SHG experiment was success only in a few pockets of India. Andhra Pradesh has 47.9 per cent share in total SHG and other major states are Tamil Nadu and Karnataka. The study pointed out the major drawback of SHG programme was that the beneficiaries were nearer to Below Poverty Level not absolute poor. The second major constraint identified was that SHG has focused disproportionately more attention on the financing for women.

Fayas (2003) studied the economic performance and constraints faced by SHGs in Thiruvananthapuram district. The results showed that the farmers of SHGs had better economic performance. Compared to other farmers, the major constraints faced by the farmers of SHGs were lack of proper storage facilities and high damage of crops due to pest, disease and natural calamities. The study suggested that vegetable cultivation through SHG should be according to market demand.

The major constraints of the SHG-Banking programme include lack of co-operation and zeal among members, lack of proper marketing system of the products, lack of proper maintenance of records and heterogeneity among members

As regards to the characteristic features of Self Help Groups, majority of the authors have pointed out regularity in conducting meetings and attendance and participation of members in meetings on a precondition for the successful functioning of the SHGs. The socio-economic homogeneity of the group members, common interest of the members and rotation of group leadership cannot be overlooked. SHGs as micro finance institution should be in a position to enable the members to contribute savings from their own earnings from productive endeavors which would finally result in the improvement of the eradication of rural poverty. The group pressure tactics of the SHGs enable the members to have nearly cent percent repayment of their borrowings from the group and the banks.

Materials and Methods

CHAPTER 3

MATERIALS AND METHODS

The ultimate reliability and validity of the research findings depend on the effectiveness of the design of the study or research. The methodology of data collection and analysis should be designed in such a way so as to enable the interpretation of the results with minimum degree of ambiguity. The present study aims to analyse the level and pattern of utilisation of bank finance by the SHGs and their members. In addition, the study attempts to identify the constraints if any, faced by bankers in the Linkage Programme. A bank wise and spatial comparison of the programme is also attempted. This chapter discusses the data sources and the methodology adopted for collecting the data and analysing the above objectives.

3.1 Locale of the Study

The study is confined to Thrissur district, which was purposively selected, being the highest SHG promoting district of Kerala. Thrissur district has got 17 blocks, out of which three blocks Ollukkara, Chalakkudy and Pazhayannur were selected at random.

3.2 Selection of the Sample

According to the classification of NABARD, there are three Models in SHG-Bank Linkage programme.

Model I: SHGs formed and financed by banks

Model II: SHGs formed by formal agencies and NGOs but directly financed by banks

Model III: SHGs financed by banks through NGOs and other agencies as financial intermediaries.

While studying the samples, SHGs linked to the banks for a minimum period of two years and those engaged in income generating activities were selected so as to ensure a minimum level of working. From each of the three models, a minimum of five SHGs were randomly selected so as to constitute a total of 30 SHGs. Depending on the number of SHGs under each category, five SHGs were selected from Model I, 15 from Model II and 10 from Model III. From each of these three SHGs, three members including one office bearer were selected randomly, thus constituting a total sample of 90 respondent beneficiaries.

In order to study the constraints faced by the banks in the SHG-Bank Linkage Programme, 15 banks comprising of five commercial banks, five co-operative banks and five RRB branches were selected from Thrissur district.

3.3 Collection of Data

The study is based on both primary and secondary data. Primary data regarding the level and pattern of utilisation of the bank finance by the SHGs and their members were collected from 30 sample SHGs and 30 respondent beneficiaries of SHGs from the Thrissur district by using two separate pre-tested structured interview schedule. The data regarding the major constraints faced by each category of financial institutions *viz*, commercial banks, co-operative banks and RRBs were collected by conducting a semi structured interview with the bank officials dealing with the SHG financing of these institutions. Secondary data for evaluating the physical and financial performance of the SHG-Bank Linkage programme and for making bank wise and spatial comparison of the SHG-Bank Linkage Programme, were collected from the Thrissur District Development Office of NABARD, Annual reports of NABARD (www.nabard.org), website of RBI (www.rbi.org.in) and from other publications of NABARD.

3.4 Analysis of Data

The statistical tools and techniques employed in the study are presented below:

3.4.1 Percentage analysis

The characteristic features of the SHGs, the socio economic characteristics of the respondents and their level and pattern of utilisation of bank finance has been analysed by means of percentages and averages.

3.4.2 T-test

While analyzing the bank wise and spatial comparison of the SHG-Bank Linkage Programme, T-test for proportion was done in order to identify whether any significant difference existed in the proportion of the SHGs under the three models for the six regions of the country.

T-test for proportion was calculated using the formula.

$$Z = \frac{/\, p_1 - p_2 \,/}{\sqrt{PQ\,(1/n_1 + 1/n_2)}}$$

Where $Q = 1\text{-}P$

$P = n_1p_1+n_2p_2 / n_1+n_2$

P = Combined estimate of population proportion

n = Sample size

3.4.3 Shannon Weaver Diversity Index

To verify whether the spatial distribution of the loan amount disbursed per SHG over the three models under each scheme over five years (2002-03 to 2006-07) is uniform or not, Shannon Weaver diversity index was used, which is calculated using the formula.

$H = - \sum P_i \log P_i$

Where Pi = Proportion of individuals of a given sample to the total number of individuals in the population.

$Pi = n_i / N$

Where n_i = Number of individuals in each population sample and

N = Total number of individuals in the population.

3.4.4 Analysis of Variance (ANOVA)

For finding out the variation if any between three agencies (i.e. commercial banks, co-operative banks and RRBs) involved in the SHG-Bank Linkage in providing loans to the SHGs in all the six regions, ANOVA was used. There are 47 commercial banks, 156 RRBs and 329 co-operatives in all the six regions taken for the study. The F-statistic was computed using the formula

$$F = \frac{\text{Variation between samples}}{\text{Variation within samples}}$$

$F = S_1^2 / S_2^2$, follows with F distribution with $(n_1\text{-}1)$ and $(n_2\text{-}1)$ degrees of freedom

Where

n_1= Size of first sample

n_2= Size of second sample

$$S_1^2 = \frac{1}{n_1 - 1} \sum (x - \bar{x})^2$$

$$S_2^2 = \frac{1}{n_2 - 1} \sum (y - \bar{y})^2$$

3.4.5 Kendall's coefficient of concordance

To know the concordance or agreement among the bankers in ranking the constraints faced in the SHG-Bank linkage Programme, Kendall's coefficient of concordance was used. In order to identify the constraints faced by the banks in SHG-Bank linkage Programme, the respondent banks were asked to rank each of the 12 factors, based on their opinion. Scores were assigned to each rank - a score of twelve was given for the first rank and a score of one for the last rank, i.e., twelfth rank. The other scores was between this range i.e., for ranks 1 to 12, scores of 12 to 1 were given respectively. The scores thus obtained were totalled and the factors were finally ranked based on the total scores to arrive at the rank position of the constraints.

Kendall's Coefficient of Concordance 'W' was calculated by using the formula

$$W = \frac{12\,S}{K^2\,(N^3 - N)}$$

Where N= Number of objects

K= Number of judges

$S = \sum (R_j - \bar{R}_j)^2$

χ^2 was computed for testing the significance of 'W' by using the formula $\chi^2 = K\,(N-1)\,W$, with K-1 degrees of freedom.

3.4.6 Charts

Bar Charts are also presented to show the progress of the SHGs along with the region wise disbursement of bank loans.

Results and Discussion

CHAPTER 4

RESULTS AND DISCUSSION

SHG-Banking is a Programme that helps to promote financial transactions between the formal rural banking system in India comprising of public and private sector commercial banks, regional rural banks and co-operative banks and the informal Self Help Groups (SHGs) known as clients. SHGs are financial intermediaries owned by the poor and are usually started by making voluntary thrift on a regular basis. They use this pooled resources together with the external bank loan to provide interest bearing loans to their members. Such loans provide additional liquidity or purchasing power for use in any of the borrower's production, investment or consumption activities. SHG banking, through SHGs and the existing decentralized formal banking network including several organizations in the formal and non formal sectors as banking partners allow for large scale outreach of micro finance services to the poor in India. These banking services are expected to be made available at low cost, are easily accessible and flexible enough to meet poor people's needs. The objective of the study is to make an enquiry into these aspects of the SHG-Bank Linkage Programme. Hence an attempt is made in this chapter to analyze the level and pattern of utilization of the bank finance by the SHGs and their members under the SHG-Bank Linkage Programme and to identify the constraints if any, in the SHG-Bank Linkage Programme. An effort is also made to give a brief picture about the global and Indian initiatives in micro finance as a prelude to the analysis of the assessment of the utilization of bank finance by the SHGs and their members. Therefore the analysis is presented in five sections as outlined below.

4.1 Micro finance - The global experience

4.2 Micro finance - The Indian initiative and experience

4.3 Level and pattern of utilization of bank finance

4.4 Constraints of SHG-Bank Linkage Programme

4.5 Bank - wise and spatial comparison of SHG-Bank Linkage Programme.

4.1 Micro-finance –The global experience

The concept of micro finance is not new to the world. In fact it runs back to the traditions of rural financing. Micro finance is "provision of thrift, credit and other financial services and products of various small amounts to the poor in rural, semi urban and urban area for enabling them to raise their income level and improve living standards" (Nanda 1999). Since micro finance is considered as the backbone of rural economic activities, the developing nations focus on it as an ideal input for economic development and progress. It attempts to formalize the virtues of traditional rural financing with a social motive rather than a business motive. Thus it can offer a unique opportunity to combine genuine humanitarian aid for the poorest with investment and income generating opportunities.

In the present world, micro finance as a grassroots finance assumes great significance as an innovative policy instrument in the eradication of poverty. Most of the developing nations have been striving to accomplish substantial gains in narrowing down poverty levels by adopting wide range of innovative micro credit policies. Micro finance is an innovative credit delivery mechanism that ensures viable financial services to the needy in the developing countries. In any one year, a large number of people move in and out of poverty. The most significant impact of micro finance is to keep those just above the poverty line from falling below it, particularly through building assets, financing diversified households and smoothing consumption through emergency finance.

Recognizing the substantial impact of micro finance on poverty alleviations, both government and non government organizations (NGOs) have been prioritizing micro finance schemes. The problem of serving masses in a more systematic and effective way attracted the attention of almost all the underdeveloped and developing South Asian and Pacific countries and therefore many models of SHGs were evolved and tried to meet the challenges.

The Grameen Bank of Bangladesh has been the pioneer in this field. The branches of Bangladesh Grameen Bank working in the rural areas have done a miracle in the development and upliftment of the poor by way of providing easy credit. This model was established in 1976 in the village of Johra (Bangladesh) by Professor Mohammed Yunus of Chittagong University. He realized that it was impossible for the landless poor rural people to get loan from commercial banks since they could not offer collateral security. He personally guaranteed the bank loan to the poor. The repayment rates by the rural poor were above 99 per cent, which proved that they are bankable. In 1983, the project became a full-fledged bank. The Grameen Bank's most significant innovation was to organize people into groups and each of the members had to guarantee the repayment of the loan taken by other members, thus becoming individually and collectively liable. The success of the Bank was encouraging and it proved to be naive model for approaching the rural poor and was replicated by many countries.

Promotion of Rural Initiatives and Development Enterprises (PRIDE) and the Kenya Rural Enterprise Programme (KREP) are two micro finance organizations of Kenya started during early 1980s with the objective of providing substantial financial services to small scale business in the rural towns of Kenya. KREP was a project of US agency for international development as a means of advising and providing financial assistance to local and foreign NGOs which were involved in enterprise development. BANCOSOL (The Banco Nacional De Comercio Interior) was a leading model for developing savings and thrift among the poor in Mexico. Its task was to provide credit to small scale retailers and wholesalers in order to serve those people engaged in trading sector. Badan Kredit Kecamatan (BKK) in Indonesia, Action Comunitaria in Peru and Amnah Ikhtiar Malaysia in Malaysia are among those who have successfully served hundreds of thousand of the world's poor particularly targeting women.

In 1984, The Federal Ministry of Economic Co-operation and The Agency for Technical Co-operation of the Federal Republic of Germany undertook a series of studies and workshops on rural finance in developing countries that resulted in a new policy of Self Help Groups (SHGs) as a financial intermediation between rural poor and financial institutions on the one hand and micro enterprises on the other.

In 1986, the participation of Asia and Pacific Regional Agriculturists Credit Association (APRACA) decided on a coordinated Programme for the promotion of linkage between banks and SHGs for rural savings mobilization and credit delivery to the rural poor.

Basically, micro credit system gained momentum in the mid 90s after the World Summit for Social Development held at Copenhagen in 1995. The summit, which emphasized the easy access to credit for small producers, landless farmers and other low income individuals, particularly women, urged governments of various nations to take appropriate actions in order to make easy accessibility of credit to the poor. Subsequently in 1997, the World Micro-Credit Summit in Washington announced a global target of ensuring delivery of credit to hundred millions of world's poorest families especially the women of those families.

4.2 Micro finance - Indian initiative and experience

Home to the largest population of poor in the world, India has been a natural candidate for experimenting with micro finance as a tool for poverty alleviation. The post nationalization period in the banking sector witnessed substantial amount of resources being earmarked towards meeting the credit needs of the poor. The banking network underwent an expansion phase without comparables in the world. The branch expansion was synergized with massive manpower recruitment drive for manning such branches. Credit came to be recognized as a remedy for many ills of the poverty. Credit packages and Programmes were designed based on the experiences gained. Besides the Programmes initiated by the Central Government, a large number of credit based Programmes were introduced by the State Governments with large resource allocations.

The following are some of the events or developments that took place in the Indian Banking sector at the initiative of Government of India and Reserve Bank of India to encourage banks to make a viable, timely, adequate and uninterrupted finance to the agricultural sector and the rural masses.

- Formation of State Bank of India and its associates
- Creation of special developmental finance institutions like NABARD, IDBI, State Finance Corporation etc
- Nationalization of major commercial banks in 1969 and 1980
- Creation of Regional Rural Banks
- Aggressive branch licensing policy by RBI for expanding the branch network in the rural areas
- Mandating credit for the priority sector (agricultural, small scale industries, housing, small business, education, professionals)
- Banking sector's participation in subsidy linked credit Programmes of the Central and State Governments
- Controlling interest rates on deposits and advances.

All the above interventions were supply driven and were intended to convert the banking system from "Class banking" to "Mass banking" mode.

Against the above background, the Integrated Rural Development Programme, the ambitious subsidy linked credit Programme of Government of India targeted for the poorest of the poor was the biggest micro credit Programme in our country and in the world as well. This Programme however could not achieve the objective of poverty alleviation and was often criticized for contaminating the loan portfolios of banks with Non Performing Assets (NPAs).

While the underlying objectives were laudable and substantial progress was achieved, credit flow to the poor, especially to poor women remained low. Inspite of the vast banking network comprising of 1,50,000 retail rural outlets, the disadvantaged sections of the society could not access financial services from the formal financial system and they had to depend on the informal system for meeting their credit needs. In fact the poor came to be recognized as 'unbankable' and there appeared a tendency to blame the poor for the mounting NPAs in the rural bank branches. The less than desired impact of credit flow to the poor could perhaps be attributed to the following factors.

- Target oriented approach in reaching out to the poor
- Inability of the formal system to understand the credit needs of the poor
- Over emphasis on 'asset creation' and absence of any adequate system for meeting emergent credit needs of the poor
- Emphasis on security and collateral security and
- Excessive paper work and procedural complexity

There was therefore a need for a fresh approach for making available institutional credit to the poor. This led to initiatives that were institution led, that attempted to converge of the existing strengths of rural banking infrastructure and leverage this, to better serve the unbanked poor. The pioneering efforts at this were made by NABARD which was vested with an enviable task of framing appropriate policy for rural credit, provision of technical assistance, liquidity support to banks, supervision of rural credit institutions and other development initiatives.

NABARD during the early eighties conducted a series of research studies in association with Mysore Resettlement and Development Agency (MYRADA), a leading NGO from South India and also independently, which showed that, despite having a wide network of rural bank branches that implemented specific poverty alleviation Programmes and self employment opportunities through for almost two decades, a very large number of the poorest of the poor continues are remaining outside the fold of the formal banking system. These studies also showed that the existing banking policies, systems and procedures, deposits and loan products were perhaps not well suited to meet the most immediate needs of the poor. It also appeared that what the poor really needed was a better access to these services and products, rather than cheap subsidized credit. Against this background, a need was for alternative policies, systems and procedures, savings and loan products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest, especially of the women members of such households. The emphasis therefore was on improving the access of the poor to micro finance (mf) rather than just micro credit.

4.2.1 Launching of Self Help Group - Bank Linkage Programme

Micro credit in the sense of small loans to the poor is of ancient origin in India. Traders and money lenders have traditionally provided credit to the rural poor, usually at exorbitant rate of interest leading to considerable hardship and impoverishment of borrower, including undesirable and illegal practices like bonded labor. What is referred to as microfinance today does not include such exploitive practices, but rather lending to the poor at reasonable but sustainable rate.

Thus there was a paradigm shift to a 'micro finance approach' which has engendered a new relationship between the banks and the poor - a relationship which is based on sound business principle and which enables the poor to approach the banks as 'customers' and not as 'beneficiaries'. It is with this approach that the SHG-Bank Linkage Programme was initiated by NABARD.

The launching of Pilot phase of the SHG - Bank Linkage Programme in February 1992 could be considered as a landmark in the development of banking with the poor. The SHG–informal thrift and credit groups of the poor came to be recognized as bank clients under the Pilot phase. The strategy involved forming small, cohesive and participative groups of the poor, encouraging them to pool their thrift regularly and using pooled thrift to make the small interest bearing loans to members, and in the process learning the nuances of financial discipline. Subsequently bank credit also became available to group, to augment its resources for lending to its members. It needs to be emphasized that NABARD sees the promotion and bank linking of SHGs not as a credit Programme but as part of an overall arrangement for providing financial services to the poor in a sustainable manner and also an empowerment process for the members of these SHGs. NABARD, however, also took a conscious decision to experiment with other successful strategies such as replicating Grameen, and wholesaling funds through NGOs to MFIs.

The NABARD led Pilot project commenced with the support of the Central Bank of the country i.e., Reserve Bank of India, from 1992 onwards, aimed at promoting and financing 500 SHGs across the entire country. Now the SHG –Bank Linkage strategy has come a long way. The strategy includes the financing of SHGs promoted by external facilitators like NGOs, bankers, socially spirited individuals and government agencies, as also promotion of SHGs by banks themselves and financing SHGs directly by bank or indirectly where NGOs and similar organizations act as financial intermediaries as well.

With a nationalized formal banking sector that has emphasized rural and developmental banking for several decades now, India's involvement with small credit targeted primarily at the rural poor is hardly new. However, recent years have generated unprecedented interest in micro credit and micro finance in the form of group lending without collateral. Over the past decade, NABARD's "SHG-Bank Linkage Programme" aimed at connecting Self Help Groups of poor people with banks, has, in fact, created the largest micro finance network in the world. The central government has recognized the advantages of group lending and has adopted the approach in its battle against poverty.

Self Help Groups, usually at the behest of certain developmental non governmental organizations (NGOs), have quietly mushroomed in most districts of India over the last few years. Millions of poor, predominantly women, are now members of thousands of SHGs.

4.2.2 Strategic support elements of NABARD

NABARD Linkage Banking Programme initiator and prime mover has developed a detailed strategy for SHG Banking promotion with the purpose to include, address and familiarize the potential actors with the Programme. They are qualified to take over the promotional role in the scheme and to assist in financial group formation through NGOs, bankers, government officials, farmer clubs, and volunteers. Most of the experimentation and the subsequent main streaming of new non NGO SHPIs for promotion of SHGs were met out of funding and facilitation support from Swiss Agency for Development Corporation (SDC).

The support of NABARD covers the following main aspects:

1. Financial support
    - Refinance drawn by banks.
    - Direct loan fund support to NGOs, MFIs, SHG Federations.
    - Recently a Micro Finance Development Fund was established at NABARD with a start up fund of Rs. one billion.
2. Capacity Building Support
    - Conducting training Programmes for SHG members.
    - Conducting training Programmes for bankers including chairman of RRBs.
    - Conducting refresher and awareness Programme for CEOs and field staffs of different NGOs.
    - Arranges Programmes for different government officers including senior bureaucrats.
    - Exposure visit to banks and institutions pioneering in micro finance initiatives and NGO officials.
3. Group building support

In contrast to the individual and activity oriented lending that the bankers have been so far involved in SHG lending is organization based. Therefore facilitating agencies were given support by NABARD to assist in establishing SHGs and to cover the costs involved.

4.2.3 Self Help Groups as Micro Financing Institutions (MFIs)

Self Help Group is a small voluntary association of poor people, preferably from the same socio-economic background. They come together for the purpose of solving their common problems through self help and mutual help. The SHG promotes small savings among its members. The savings are kept with a bank. This common fund is in the name of the SHG.

The SHGs comprise very poor people who do not have access to formal financial institutions. They act as the forum for the members to provide space and support to each other. It also enables the members to learn to co-operate and work in a group environment. The SHGs provide savings mechanism, which suits the need of the members. It also provides a cost effective delivery mechanism for small credit to its members. The SHGs significantly contribute to the empowerment of the poor women. Creation of SHGs can be done by NGOs, social workers, health workers and village level workers.

The SHG-Bank linkage Programme is targeted to reach the poorest sections, which are by-passed by the formal banking system. Therefore it is essential that only the very poor be considered as the target group for the SHG-Bank linkage Programme. An SHG can be all women group, all men group, or even a mixed group. However, it has been the experience that women's groups perform better in all the important activities of SHGs. Mixed group is not preferred in many of the places, due to the presence of conflicting interests.

As soon as the SHG is formed and a couple of group meetings are held, a SHG can open a Savings Bank (SB) account with the nearest commercial or Regional Rural Bank or a co-operative bank. This is essential to keep the thrift and other money of the SHG safely and also to improve the transparency levels of the transactions of the SHGs transaction. Opening of SB account, in fact, is the beginning of the relationship between the bank and the SHG. The Reserve Bank of India has issued instructions to all banks permitting them to open SB accounts in the name of registered or unregistered SHGs.

A Self Help Group consists of five to twenty persons, usually all from different families. Often a group is given a name. Each such group has a leader and a deputy leader, elected by the group members .The members decide among themselves the amount of deposits they have to make individually to the group account. The starting monthly individual deposit level is usually low- Rs.10 or Rs.20. For a group of size 10, this translates to Rs.100 to Rs.200 of group savings per month. On the basis of the resolutions adopted and signed by all members of the group, the manager of a local rural or commercial bank opens a savings bank account. The savings are collected by a certain date (often before the 10^{th} of the month) from individual members and deposited in the bank account. Joining an existing SHG is a costly affair for an aspiring villager. In order to maintain parity among the members, a new member has to join by depositing the total accumulated individual savings and interest of the group. Besides the new member has to be accepted by every member of the existing group. Thus it is often easier for a person not affiliated with a SHG to start a new SHG than joining a pre-existing one. Loans are then given out to individual members from out of these funds upon application and unanimous resolution drawn at a group meeting. The banks permit withdrawal from the group account on the basis of such resolutions. Such loans, fully funded out of the savings generated by the group members themselves are called "inter-loans".

The repayment periods of loans are usually short, three to six months. After regular loan issuance and repayment for six months, the bank considers making a bank loan to the SHG. The maximum loan amount is a multiple (usually 4:1) of the total funds in the group account. This limit is also reached gradually starting from a lower (2:1 or 1:1) figure. Thus a 10 member SHG with individual monthly deposit level of Rs.20, completing a six- month successful "inter-loaning", accumulates total savings of Rs.1200/- part of which may be lent out to individual members and is eligible for a maximum bank loan of Rs.4800/-.

By initially managing their own common fund for some time, SHG members not only take care of the financing needs of each other, but develop their skills of financial management and intermediation as well. Lending to members also enhances the knowledge of SHG members in fixing the interest rate and periodic loan installments and recovering the loan.

4.2.4 Role of NGOs in microfinance

Self Help Groups are almost always formed with outside assistance. Developmental NGOs, often with considerable history of working in a particular area for projects like literacy and sanitation take to organizing SHGs, bringing together people, explaining the concept to them, attending and helping coordinate a few of the initial group meetings, helping them maintain accounts and linking them with the banks. Of late, some of the rural banks themselves are being designated as Self Help Promoting Institutions (SHPIs) and they help in the formation and 'nursing' of SHGs.

Over the last quarter century, a few organizations, outside the purview of the public sector, have succeeded in effective poverty alleviation through micro-credit. Self Employed Women's Association (SEWA) in the Western India State of Gujarat and Working Women's Forum in the Southern State of Tamil Nadu were among the pioneers in this effort. The sector received a major boost in the 1990s with the entry of several NGOs. Many of these NGOs have been previously functioning in different developmental roles among the poor, and now added micro credit to the list of services they provided. A few others, impressed by the success of micro finance elsewhere, started off as MFIs. SHGs among the poor, mostly women have rapidly become a common rural phenomenon in many Indian states.

NGOs provide the leadership and management necessary in forming and running such groups in most cases. They also act as the crucial link between these groups and the formal banking system. Presently well over 500 NGOs - MFIs are actively engaged in micro finance intermediation across the country.

4.2.5 SHG Models in India

The main advantage of SHGs lies in their joint liability and consequent "peer monitoring" of member borrowers. In association with sponsoring NGOs, they serve to reduce the transaction and monitoring costs of small lending for the banks as well as reach credit to the absolute poor. It is therefore hardly a surprise that they have attracted considerable attention in the rural banking sector as well as from the government in recent years.

Several alternative models of SHG-NGO-Bank relationship have emerged in recent years. One such model is where the bank lends directly to the SHG and the latter further lends it to the individual members. As a variant of this model, an NGO may provide training and guidance to the SHG still dealing directly with the bank. This has been the most popular model in the Indian context. Alternatively, the NGO itself may act as an intermediary between the bank and the SHG, borrowing from the bank and lending it to (usually multiple) SHGs. Yet another model involves the bank lending directly to the individual borrower with the NGO and the SHG acquiring an advisory role. Here the NGO assists the bank in loan monitoring and recovery.

4.2.6 Government support for SHG - based financing

While most of the SHG formation / nursing process has initially been in non-government hands, the developmental potential of the SHG- based micro finance process has not gone unnoticed by the government. The emphasis on linking the SHGs of rural poor to the formal banking system was made in the mid 80s in the Asia and Pacific Regional Agricultural Credit Association and the SHG-Bank linkage emerged as a result. RBI included the Programme in its 'Priority sector lending' and in 1999, the Government of India recognized in its budget. In recent years, government development Programmes have also sought to target the poor through the SHGs. Starting with the Rastriya Mahila Khosh and Indira Mahila Yojana, the government has used the SHG approach in many of its anti poverty projects. The most important of the government programmes using the SHG approach is the Swarnajayanthi Grama Swarojgar Yojana (SGSY) launched in 1999. With increasing acceptance of the SHG based developmental approach there is pressure set on village and block level administrators to achieve targets of forming a certain number of SHGs by a specified date. Thus Panchayaths are also promoting SHGs in many areas.

SGSY has emerged as a main anti poverty Programme instituted by the Central Government in recent years. Started in April, 1999, it seeks to lift the rural poor out of poverty in three years by generating significant sustainable income. Organizing the poor into self help group lies at the heart of this approach. The goal of the Programme is to enable the poor to attain income generating assets. According to the SGSY Guidelines, "The SHG approach helps the poor to build their self confidence through community action. Interactions in group meetings and collective decision making enable them in identification and prioritization of their needs and resources. This process would ultimately lead to the strengthening and socio-economic empowerment of the rural poor as well as improve their collective bargaining power."

The SGSY strategy includes identifying a cluster of activities at the block level and funding SHGs to perform these activities. The Programme is implemented country-wide through a hierarchy of SGSY committees, at the central, state, district and block levels. The actual implementation requires close interaction between the government officials at various levels, particularly the District Rural Development Agencies (DRDAs), managers from the participating banks, NABARD, as well as NGOs. The actual disbursement of government funds would be through the DRDAs who would distribute the subsidy to banks. The Programme recognizes the important role that NGOs play in the formation and nurturing of SHGs and seeks to include them in the exercise. From the point of view of the SHGs, SGSY is an excellent source of subsidized credit. If a group survives for six months, it becomes eligible for a revolving fund of Rs.25, 000 from a participating bank. Out of this loan Rs.10, 000 is in the form of Government subsidy and banks may charge interest only on the amount exceeding this Rs.10, 000. The Rs.25, 000 fund injection becomes part of the group corpus. With some exceptions, six months after the receipt of the revolving fund, the groups would be tested for their preparedness to take up economic activities. If they pass the test, they would be eligible for loan-and-subsidy for economic activity up to a maximum of Rs.10000 per group member or Rs 1.25 lacs per group, whichever is less. There are also incentives, payable in several stages, to NGOs or "animators" incubating and nurturing SHGs. Though financing is a very important part of SGSY, it is not the only element. Identification of the activity clusters, recognizing training needs of Swarozgaries, imparting proper training and building capacity of the groups and the group members in the selected activities are also essential elements of the Programme.

The logic and rationale of SHG based micro finance have been established firmly enough that micro credit has effectively graduated from an "experiment" to a widely accepted paradigm of rural and developmental financing in India. But the assessment of the impact has been limited so far within the framework set by the objectives of such studies conducted so far. Hence an assessment of the utilization of bank finance by the SHGs and their members at the micro level is attempted in the ensuing section.

4.3 Level and Pattern of Utilization of Bank Finance

The level and pattern of utilization of bank finance have been analyzed from two angles- one from the point of view of the Self Help Groups and second from that of the SHG members. The level of utilization is assessed based on the quantum of advances given by the bank and the extent to which the SHGs and their members have utilized them. The pattern is examined with respect to the purposes for which these loans have been utilized. The analysis of the utilization of bank finance by the SHGs is done first, followed by that of the members.

4.3.1 Level and Pattern of Utilization of Bank Finance by Self Help Groups

As already stated, there are three different models of promoting credit linkages between SHGs and banks in India. All these three models have been represented while selecting the sample SHGs for conducting the study.

Model I : SHGs formed and financed by banks

Model II : SHGs formed by NGOs and formal agencies, but directly financed by banks

Model III: SHGs financed by banks using NGOs and other agencies as financial intermediaries.

To analyze the level and pattern of utilization of bank finance by the SHGs, only those SHGs which have been linked to the banks for a minimum period of two years and those involved in income generating activities were selected. From each of these three models, a minimum of five SHGs were selected so as to constitute a total of 30 SHGs. The selection of SHGs and their members are summarized in Table 4.1

Table 4.1 Selection of SHGs and Members -Model – wise

Promotional Agency	Model I		Model II		Model III		Total	
	SHGs	Memb.	SHGs	Memb.	SHGs	Memb.	SHGs	Memb.
Banks	5	15	0	0	0	0	5	15
Kudumbasree	0	0	7	21	0	0	7	21
SGSY	0	0	3	9	0	0	3	9
NGO	0	0	5	15	10	30	15	45
Total	5	15	15	45	10	30	30	90

Source: Compiled from primary data

Model I comprises of SHGs formed and financed by banks. Five SHGs were selected from this category. Under Model II SHGs may be formed by NGOs or by formal agencies like Kudumbasree or SGSY, but they are directly financed by banks. Since this is the most common model available in India, 15 groups were selected from this category. Form the third model, ie., SHGs financed by banks through the intermediary of NGOs, 10 SHGs were selected. From each of these models 30 members were selected, of which one is an office bearer.

4.3.1.1 Characteristics of Sample Self Help Groups

Before enquiring into the extent and pattern of utilization of the loans and advances provided to the SHGs by the bank to which it is linked, a description about the characteristic features of the groups selected is given, so as to get a better understanding about the SHGs and their functioning. The features of 30 selected SHGs are depicted in Table 4.2

Table 4.2. Characteristics of the Sample Self Help Groups

Characteristics	Model I	Model II	Model III	Total
No. of members				
10-12	1 (20.00)	3 (20.0)	0 (0.00)	4 (13.3)
12-14	1 (20.00)	4 (26.7)	2 (20.0)	7 (23.3)
14-16	0 (0.00)	5 (33.3)	3 (30.0)	8 (26.8)
16-18	2 (40.00)	1 (6.70)	1 (10.0)	4 (13.3)
18-20	1 (20.00)	2 (13.3)	4 (40.0)	7 (23.3)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)

<u>Period of working</u>				
Upto 3 years	0 (20.0)	7 (46.6)	3 (30.0)	11 (36.7)
3-6 years	4 (80.0)	2 (13.3)	7 (70.0)	13 (43.3)
> 6 years	0 (0.0)	6 (40.0)	0 (0.00)	6 (20.0)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)
<u>Bank to which it is linked</u>				
Commercial	0 (0.00)	11 (73.3)	4 (40.0)	15 (50.0)
Co-operative	4 (80.0)	4 (26.6)	0 (0.00)	8 (26.0)
RRB	1 (20.0)	0 (0.00)	6 (60.0)	7 (23.0)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)
<u>Criteria for joining the group</u>				
Homogeneity in the standard of living	3 (60.0)	7 (46.6)	4 (40.0)	14 (46.7)
Proximity of stay	1 (20.0)	2 (13.3)	2 (20.0)	5 (16.7)
Homogeneity of activity	1 (20.0)	6 (40.0)	4 (40.0)	11 (36.6)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)
<u>Conduct of meetings</u>				
Weekly	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)
<u>Place of conduct of meetings</u>				
Permanent	2 (40.0)	6 (40.0)	3 (30.0)	11 (36.7)
Rotating	3 (60.0)	9 (60.0)	7 (70.0)	19 (63.3)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)
<u>Level of attendance</u>				
<70%	0 (0.00)	0 (0.00)	0 (0.00)	0
70-80%	0 (0.00)	1 (6.7)	0 (0.00)	1 (3.3)
80-90%	1 (20.0)	6 (40.0)	4 (40.0)	11 (36.7)
>90%	4 (80.0)	8 (53.3)	6 (60.0)	18 (60.0)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)
<u>Amount of savings</u>				
Fixed	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)
<u>Fixed savings amount (Rs)</u>				
10	3 (60.0)	13 (86.7)	5 (50.0)	21 (70.0)
15	0 (0.00)	0 (0.00)	2 (20.0)	2 (6.7)
20	2 (40.0)	2 (13.3)	3 (30.0)	7 (23.3)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)

Office bearer keeping cash in hand				
Yes	0 0.00)	5 (33.3)	4(40)	9 (30.0)
No	5 (100)	10 (66.6)	6(60)	21 (70.0)
Total	5	15	10	30 (100.0)

Source: Compiled from primary data,

Note: Figures in parenthesis represent percentage to total

While explaining the concept of Self Help Group, it is already seen that a SHG has a membership ranging between five and 20. Among the 30 SHGs selected for the study, minimum membership is five and maximum is 20. It is to be noted that there is only a single group with a membership of five. This group has been started as an activity group for undertaking a specific activity i.e., for starting tailoring unit. Otherwise the minimum membership is 12. Although majority of the groups were formed initially with a membership of 15 – 20 members, the number got reduced due to the shifting of the residence of some of the members. Hence, at present, the highest members are seen in the range of 14 – 16 members group, constituting 26.8 per cent of the total members.

It is already seen that Model II is the most common method of linkage of SHGs with a bank. This might be the reason for the groups in this model alone functioning for more than six years. It is also to be noted that only SHGs which were linked to banks for a minimum period of two years were selected for the study.

As regards the type of financial institution to which the SHG is linked, it is quite noteworthy that commercial banks are not interested in the promotion of SHGs. Even though 50 per cent of the Groups are linked to commercial banks, none of the 30 selected SHGs have been promoted by a commercial bank. This implies that commercial banks are not much interested in spending their time for the promotional aspects of a SHG, but wants to concentrate on their main functions of accepting deposits and advancing loans. Another noteworthy feature is that commercial banks prefer to finance SHGs directly than through the intermediary of an NGO or other agencies. This is evident from the fact that while more than 73 per cent of the SHGs of Model II are linked to commercial banks, only 40 per cent are linked under Model III. The co-operatives are interested equally in both promotion and financing, but they are lagging behind the commercial banks since they have entered into this function very late.

One of the preconditions for the success of the groups as pointed out by NABARD is the homogeneity of the group members. It is seen from Table 4.2 that this has been the most important motivating factor for the members, to join the group. Certainly this might be one of the reasons for the successful working of the SHGs.

Regularity in both conducting the meeting and in the attendance of the members is another contributing factor for the success of a SHG (Sreedharan, 1997). Weekly meetings increase the frequency of the meetings which will lead to a strong relationship between the members. In the case of majority of the groups (60 %), the attendance is more than 90 per cent, which is a positive sign of the efficient functioning of the groups. Moreover, this implies a democratic method of taking decisions in the group. It is in these meetings that savings are collected and loans disbursed. Higher percentage of attendance is achieved by the group by imposing penalty or fine for late attendance or for absence in the meetings. But there are provisions in almost all SHGs for waiving the penalty or fine, for genuine reasons like sickness, urgency of any work and any other contingencies.

Majority of the groups conduct the meeting on a rotating basis at the residence of the members. In the case where the meeting is conducted on a permanent basis, they conduct it in the house of President or Secretary, for the convenience of all the members. The group itself fixes the date and time of the meeting. Majority of the groups conduct meetings on Saturday or Sunday after 6 pm.

In all the meetings under the three models, majority of the members are actively participating in the meetings and are expressing their views on different aspects of discussions. All the groups have an agenda for the meeting. The main topics of the agenda include report reading, discussions regarding the activities to be undertaken, taking decisions regarding loans and disbursal of loans. The agenda is usually prepared by the Secretary of the Group. The usual topics of discussion in the meeting other than the agenda will be regarding the common problems faced by them, the education of their children, new avenues for employment and income generation, recent newspaper headings, family matters, financial problems, health, social and cultural activities.

In order to avoid the complexities involved in the collection of varying amounts as savings from members, all the groups insist on a fixed amount of savings. This is collected in the meetings. All the members are very regular in their savings since any default is fined or charged by way of penal interest.

The major sources of funds of the groups are savings of members, bank loan, interest earned on loan to members and fine from members. Among the various sources of funds, bank loans constitute a major share followed by savings of the group and interest received on loan. Since all the groups are undertaking income generating activities, the profit from such group activities is a source of fund for majority of the groups. Some groups are depositing the profit amount and are distributed among members annually; some groups use it for repaying the loan amount; some are keeping it as reserve fund and using it for welfare purposes and for doing seasonal business.

In the meetings, the minutes are prepared by the treasurer in the case of all the SHGs. The nature of decision making is democratic and there is opportunity for equal participation for all the members. They agree upon a common decision by raising hands or by clapping hands for the majority opinions. In Model I and III there are three office bearers which include President, Secretary and Treasurer, which are elected by the members democratically for a period of office of one to three years. In some cases i.e about ten per cent, the same office bearers are continuing from the time of inception, which is not a good tendency. But in majority of the groups, it is rotating from one member to another on the ground that all should be given chance and for ensuring participation of all members in the entire activities of the group. In Model III there are five office bearers, consisting of President, Secretary, Treasurer, Educational Volunteer and Development Volunteer. Their period of office is one year.

A limited number of groups are keeping a minimum balance of their deposits in banks and the rest is kept as cash in hand by the office bearers. The intention is either to meet the emergency requirements of the members or to lend to the outsiders at a higher rate of interest. Although SHGs are not expected to lend to outsiders, they are finding this as an avenue for investing their surplus funds and making considerable profit. But financing outsiders with the funds borrowed from banks is definitely to be discouraged. On the one side it is unethical and on the other side, the productive activities of the group will be gradually withdrawn, which will adversely affect the final objective of this Programme.

The analysis of the characteristic features of the 30 sample SHGs selected for the study reveals that they are having the features as outlined by various authors, and NABARD, while reviewing the literature except the habit of keeping cash with the office bearers for on lending to outsiders. This may in later years, refrain them from undertaking productive activities, which will take away the benefits enjoyed by this informal system.

4.3.1.2 Level of Utilization of Bank Finance by Self Help Groups

Even though the main objective of the Programme is easy access to credit, it also gives importance to thrift and savings. After six months of normal functioning, each SHG is assessed by the banker to ascertain whether they are 'bankable'. Once the banker is satisfied with respect to the functioning of the group, it is selected for financing by the bank, which is known as linking with the bank. The loan is sanctioned based on the savings of the SHGs which are collected in the meetings and deposited in the Savings bank account of the group with the bank. This savings system enables to develop a basic financial discipline and build up own capital stock as an internal resource base to become eligible for bank loan.

The total savings of the SHG or the balance amount in the account of SHGs as on July 31st 2007 is presented in the Table 4.3

Table 4.3. Total savings of the SHGs (as on 31st July 2007)

Year	Total savings of SHGs			Average savings of SHGs		
	Model I	Model II	Model III	Model I	Model II	Model III
Up to 3rd year	30000	97788	16180	30000	13969.7	5393.3
3-6 year	141565	9158	40100	3539.30	20050.0	5728.5
> 6 years	0	77033	0	0	12838.3	0
Total	171565	183979	56280	34313	12265.3	5628

Source: Compiled from primary data

Table 4.3 shows that the total amount of savings is more in Model II than in Model I and Model III. In Model II, there are many SHGs which has completed more than six years of their formation. So there is an increasing trend in the savings amount corresponding to the age of the groups. This was expected since over the years, the members recognized an increased need for savings and had the tendency to increase the amount of savings. During the survey, a tendency was noted among the members of SHG of Model III to keep the savings minimum in the account and lend the rest of the amount to outsiders or to the group members for emergency purposes at higher rate than their internal lending rate. This is a serious situation which has to be properly monitored by the promotional agencies else the essence of SHGs would be eroded. The bankers should also be alert in cases of groups which keep minimum amount in their account and strict corrective actions may taken so that the tendency would not spread to other SHGs

Initially banks were giving an amount equal to the savings of the group as loans at the time of linkage. Now the banks are giving up to four times the savings for the group as loans at the time of linkage itself. A comparison of the savings and loans of the selected SHGs at the time of linkage is summarized in Table 4.4.

Table 4.4 Comparison of savings and loan at time of Bank linkage

(Amount in Rs)

Model	Total amount of savings @ linkage	Average amount of savings of each group @ linkage	First installment of loan provided	Average loan provided for each group
Model I	31580	6316.0	142000	28400.0
Model II	94750	6316.6	383000	25533.3
Model III	46010	4601.0	177000	17700.0
Total	172340	5744.6	702000	23400.0

Source: Compiled from primary data

From Table 4.4 it is seen that SHGs under Model I are getting the highest amount of loans from banks even with the same average amount of savings of Model II. SHGs formed and financed by banks come under the first model. It is already seen from Table 4.2 that the commercial banks have not promoted any of the SHGs selected for the study. Therefore, the RRBs and Co-operatives might be financing the SHGs promoted by them on a higher scale compared to the SHGs financed by NGOs and other agencies. Comparison of the total savings and total loans at the time of linkage reveals that the loan amount is approximately four times of the total savings of the concerned group. Comparison of the average savings and average loans also reveal the same trend. This implies that the banks are satisfied with respect to the 'bankability' of the SHGs, if not they would not have financed four times of the savings of the group.

The process of financing the SHGs continues after the linkage. Generally the loans are provided for a maximum period of 36 months. Most of the groups will be repaying the amount even before the lapse of 36 months. Immediately after one loan is repaid, the next loan is sanctioned by the bank, based on the requirement of the group. The total loans disbursed by the banks from its inception till 31^{st} July 2007 is depicted in Table 4.5.

Table 4.5. Model –wise disbursement of loans and its Repayment -as on 31st July 2007 (Amount in Rs)

Model	Total amount of loan disbursed	Average loan amount of the group	Total loan repaid	Average loan amount repaid by the group	Total amount outstanding	Average loan outstanding for each group	Overdue if any
Model I	11,08,000	2,21,600	7,70,000	1,54,400	3,38,000	67,600	Nil
Model II	30,96,000	2,06,400	28,50,000	1,90,000	2,46,000	16,400	Nil
Model III	11,85,800	1,18,580	8,66,300	86,630	3,19,500	31,950	Nil
Total	53,89,800	179660	44,86300	149543.3	9,03,500	30116.6	Nil

Source: Compiled from primary data

With respect to the total loans disbursed to the SHGs, the same trend as in the case of loans at the time of linkage is seen. Model I is having the highest amount followed by Models II and III. The loans are being repaid regularly and hence there are no over dues in respect of any of the groups. From the average loan outstanding for each group it is seen that SHGs coming under Model II are making the repayment much early. It is being noticed from the disbursement registers maintained by the groups that the full amount of loans received from the banks have been disbursed to the members by the SHGs. Hence there is cent per cent utilization of the bank finance provided by the banks to the SHGs.

Once the level of utilization of bank finance by SHGs is analyzed, the next attempt is to analyze the pattern of utilization of bank finance by SHGs, which is done in the ensuing section.

4.3.1.3 Pattern of Utilization of Bank Finance by SHGs.

All the SHGs covered under the study have taken loans from banks for undertaking group activity only. Individual loans are provided by the groups out of their savings. All the SHGs are having income generating activities since only SHGs linked to the banks for a minimum period of two years and are undertaking such activities were purposely selected. The purpose –wise utilization of bank finance are depicted in Table 4.6.

Table 4.6 Pattern of Utilization of Bank Finance (as on 31st July 2007)

(Amount in Rs)

Purpose	Model I	Model II	Model III
Agri and Allied	1,50,000 (13.5)	9,10,000 (29.3)	0
Business	0	14,61,000 (47.2)	1,15,000 (9.7)
Textile & tailoring	0	3,45,000 (11.3)	5,90,000 (49.7)
Food processing	3,98,000 (36)	80,000 (2.6)	3,80,000 (32.2)
Others	5,60,000 (50.5)	3,00,000 (9.6)	1,00,000 (8.4)
Total	11,08,000 (100)	30,96,000 (100)	11,85,800 (100)

Source: Compiled from primary data

Note: Figures in parenthesis represent percentage to total

Table 4.6 reveals that the total amount of loans advanced is the highest under Model II. It is to be remembered here, that this model is the most common in our country and hence 15 of the sample SHGs are from this group. While Model I is concentrating on agriculture, food processing and 'others' category which includes manufacturing of paper bags, concrete units etc., Model II is covering all the productive activities. The pattern of utilization is different for the various Models. Model I gives prominence to the 'others' category, Model II to agriculture and Model III to textile and tailoring.

To know the impact of the SHG-Bank linkage Programme on the borrowing pattern of the sample SHGs, the details of the loans disbursed to the SHGs under the three Models is shown year wise in Table 4.7.

Table 4.7 Details of loans disbursed to SHGs – year wise as on 31st July 2007

(Amount in Rs)

Year	Total loans disbursed to SHGs			Average amount disbursed to each SHG		
	Model I	Model II	Model III	Model I	Model II	Model III
Upto 3years	1,75,000	9,65,000	5,10,000	1,75,000	1,37,857	1,70,000
3- 6 years	9,33,000	1,60,000	6,75,000	2,33,250	80,000	96,543
> 6 years	0	19,71,000	0	0	3,28,500	0
Total	11,08,000	30,96,000	11,85,800	221600	206400	118580

Source: Compiled from primary data

It could be seen from Table 4.7 that the older group are availing more credit than the recently formed groups in all the three models. The groups are receiving more credit since they have promptly repaid their earlier loans, without any overdues. Group which are in existence for a longer period are more in Model II compared to the other two Models. So their total amount is also high compared to other Models. Therefore the Programme has a significant impact on the borrowing pattern of sample SHGs.

The interest rate charged is one of the basic issues being debated while assessing the SHG-Bank linkage Programme. Banks are free to modify the interest rates according to local conditions. The RBI created the necessary conditions by deregulating the interest rate enabling the application of market rates of interest. Interest rates charged by different agencies (i.e. banks and NGOs) under different Models of linkage are presented in Table 4.8

Table 4.8 Interest rate charged by agencies to SHGs

Interest rate	Model I	Model II	Model III	Total
8-9%	3 (60.0)	1 (6.7)	0 (0.0)	4 (13.3)
9-10%	2 (40.0)	12 (80.0)	1 (10.0)	15 (50.0)
10-11%	0 (0.0)	2 (13.3)	3 (30.0)	5 (16.7)
11-12%	0 (0.0)	0 (0.0)	6 (60.0)	6 (20.0)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)

Source: Compiled from primary data

Note: Figures in parenthesis represent percentage to total

Table 4.8 shows the interest rate charged by different agencies like commercial banks, regional rural banks and NGOs. In Model I, where the banks are directly involved in the promotion and financing of SHGs, they are charging an interest rate ranging from 8-10 per cent. Similar trend is seen in the case of Model II, where the bank is financing those SHGs which are promoted and nurtured by formal agencies like District Rural Development Agency (DRDA) under the SGSY scheme, Kudumbasree mission under Kudumbasree scheme and by various NGOs. But in Model III, where NGOs are functioning as intermediaries, the interest rate ranges between 10-12 percent, since NGOs are charging a margin to the interest rates charged by the banks. The NGOs are not permitted to charge more than three percent to the interest rates charged by banks. The banks have to keep their operational cost at a low level and also have to control the operational cost of the SHG in order to assure its earning capacity within the margin left to them. If the bank is providing supervision and other services at the door steps, it would lead to high cost structure and the interest rate would exceed and could not be covered under present interest rate structure of 8-10 per cent. So the banks are involved in the financing of the existing SHGs under Model II, which are promoted and nurtured by formal agencies. If the banks go for promotional activities, their cost will increase. This is the reason for a decreased number of SHGs under Model I.

The SHGs usually use their pooled resources together with the external bank loan to provide interest bearing loans to their members. The decision on who gets the loan is being taken by the group and not by the bank staff. Sometimes the loan appraisal of individual loan requirements is made within the group. The members are given loans during the group meetings out of the collections during the day, or they are issued cheques on their group account with the partner bank. The system is designed to make sure that the loan fund is reaching them directly in a transparent manner. The interest rate charged by the SHGs to their members will naturally be higher than that charged by the banks, which is presented in Table 4.9.

Table 4.9 Interest rate charged by SHG to members

Interest rate	Model I	Model II	Model III	Total
12%	0 (0.0)	11 (73.3)	0 (0.0)	11 (36.7)
20%	0 (0.0)	0 (0.0)	5 (50.0)	5 (16.7)
24%	5 (100.0)	4 (26.7)	5 (50.0)	14 (46.6)
Total	5 (100.0)	15 (100.0)	10 (100.0)	30 (100.0)

Source: Compiled from primary data

Note: Figures in parenthesis represent percentage to total

From Table 4.9, it is evident that the interest rates charged for internal lending to members ranges from 12 to 24 per cent. Loans may be granted to the members for different purposes. The purposes can be emergency needs like illness in the family, marriage etc or buying of assets for income generation and acquisition of assets. The group will discuss and will decide about the purpose for which loans are given for the individual members by the SHGs. The authorized functionary of the SHG withdraws money from bank by way of cash or by cheque. The loan amount is handed over to the individual borrowers in the group meetings. The interest rate charged to the members usually varies between 12 to 24 per cent as a flat rate partly to simplify calculation by SHG members. The interest rate charged is usually expressed as two rupees per hundred rupees per month, since interest per month is better under stood in villages than annual interest rates. In Model I, all the groups are charging 24 percent to the members for lending to them. In model II, 73 percent of groups are charging 12 percent and rest is charging 24 percent and in Model III, 50 percent of groups are charging 20 percent and rest 50 per cent are charging 24 percent.

Once the level and pattern of utilization of bank finance by SHGs has been done, the next attempt is to analyze the same with respect to the SHG members, which is discussed in the following section.

4.3.2 Level and pattern of Utilization of Bank Finance by SHG Members

The analysis of the level and pattern of utilization of bank finance by SHG members is preceded by an enquiry into their socio-economic characteristics. From each of the 30 SHGs selected for the study, one office bearer and two members were selected so that the total respondents constituted 90 members. For analyzing the socio-economic characteristics of the respondents, six indicators, viz., age, religion/caste, educational status, family size, occupational status and household income are considered, which are depicted in Table 4.10.

Table 4.10. Socio-economic characteristics of the respondents

Characteristics	Model I	Model II	Model III	Total
Age in years				
20-30	3 (20.0)	11 (24.4)	7 (24.4)	21 (23.3)
30-40	6 (40.0)	17 (37.8)	17 (37.8)	35 (38.9)
40-50	6 (40.0)	14 (31.1)	14 (31.1)	29 (32.2)
50-60	0 (0.00)	3 (6.7)	3 (6.7)	5 (5.6)
Total	15 (100.00)	45 (100.00)	30 (100.00)	90 (100.00)
Religion / caste				
Christian	6 (40.0)	11 (24.4)	2 (6.7)	19 (21.1)
Muslim	0 (0.00)	7 (15.6)	2 (6.7)	9 (10.0)
Hindu				
SC/ST	1 (6.7)	14 (31.1)	4 (13.3)	19 (21.1)
Ezhava	8 (53.3)	13 (28.9)	14 (46.7)	35 (38.9)
Nair	0 (0.00)	0 (0.00)	8 (26.6)	8 (8.90)
Total	15 (100.00)	45 (100.0)	30 (100.0)	90 (100.0)
Family Size				
Upto 3	0 (0.00)	4 (8.90)	1 (3.4)	5 (5.5)
3 to 5	12 (80.0)	29 (64.4)	19 (63.3)	60 (66.7)
5 to 7	3 (20.0)	12 (26.6)	10 (33.3)	25 (27.8)
Total	15 (100.0)	45 (100.0)	30 (100.0)	90 (100.0)
Educational State				
Illiterate	0 (00.0)	3 (6.7)	0 (0.0)	3 (3.3)
Primary School	2 (13.3)	21 (46.6)	7 (23.4)	30 (33.3)
High school	7 (46.7)	14 (31.1)	16 (53.3)	37 (41.1)
Pre-degree	5 (33.3)	4 (8.9)	4 (13.3)	13 (14.5)
Degree/Technical education	1 (6.7)	3 (6.7)	3 (10.0)	7 (7.8)
Total	15 (100.0)	45 (100.0)	30 (100.0)	90 (100.0)

Occupational Status				
Agrl. Labourer	1 (6.7)	6 (13.3)	0 (0.00)	7 (7.8)
Non Agril. Labourer	1 (6.7)	3 (6.7)	0 (0.00)	4 (4.4)
Housewife	13 (86.7)	35 (80.0)	30 (100.0)	79 (87.8)
Total	15 (100.00)	45 (100.00)	30 (100.00)	90 (100.00)
Household income (Rs)				
Upto 1000	6 (40.0)	24 (53.3)	10 (33.3)	40 (44.4)
1000-2000	4 (26.6)	15 (33.3)	13 (43.4)	32 (35.6)
2000-3000	3 (20.0)	5 (11.1)	6 (20.0)	14 (15.6)
3000-4000	0 (0.00)	0 (0.00)	1 (3.30)	1 (1.10)
4000-5000	2 (13.4)	1 (2.20)	0 (0.00)	3 (3.30)
>5000	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
Total	15 (100.0)	45 (100.0)	30 (100.0)	90 (100.0)

Source: Compiled from primary data

Note: Figures in parenthesis represent percentage to total

It is seen from Table 4.10 that majority of the respondents belong to a middle aged category between 30 and 50 years. None of the members are unmarried. The participation of women belonging to SC/ST category is only 21 per cent. One of the reasons preventing them from joining these groups is the fact that, the concession available to this category from the government will not be received if there are forward caste members in their group. A tendency of promoting caste – based SHGs was noticed while collecting the data. In such cases, majority of the members may belong to a particular religion/caste. Majority of the respondents have a family size of three to five. None of them have a joint family.

Majority of the respondents have an educational status of primary or high school level. Only three per cent of the members are illiterate who belong to the SHGs of Model II. Housewives constitute the majority of the members in all categories. Since they are not working outside their houses, they are considering SHGs as an avenue for maintaining contacts with the outside world. The household income of the respondents reveal that most of the SHG members are poor and do not have regular earnings.

The socio – economic characteristics of the respondents reveal that the members of the SHGs are from the lower strata of the society. The members of the Model II are the poorest and educationally backward when compared to Models I and III. This is due to the identification of poor families by DRDA and Kudumbasree mission under SGSY Scheme and Kudumbasree programme respectively , in order to bring them above the poverty line.

Before analyzing the level and pattern of utilization of bank finance by the SHG members, the general characteristics of the respondents with respect to source of awareness regarding SHGs, savings of the respondents, source of borrowings before joining SHG, incremental income of members and asset holding of members are studied and presented in Tables 4.11 to 4.12

The major source of awareness about the SHGs is shown in Table 4.11.

Table 4.11 Source of awareness about SHGs

Source	Model I	Model II	Model III	Total
Neighbours	0	9(20)	18(60)	31(34.4)
Panchayath members	0	16(35.6)	6(20)	18(20.0)
Media	0	0	0	0
VEO	0	12(26.7)	0	12(13.4)
Animator	15(100)	8(17.7)	6(20)	29(32.2)
Total	15(100)	45(100)	30(100)	90(100)

Source: Compiled from primary data.
Note: Figures in parenthesis represent percentage to total

Table 4.11 reveals that the major source of awareness about the SHG and its Programmes are from the animators in the case of Model I, in which the bank officials who is in charge of the bank linkage programme would be visiting the areas and creating awareness among the people. In case of Model II, the Panchayath members and VEOs play an important role in creating awareness among the members, and in Model III, neighbours and also animators play an almost equal role.

All the SHGs conduct weekly meetings and collect a fixed amount of savings of Rs.10 or Rs.20 during the meeting. The SHG-Bank linkage programme distinctly differs from other micro finance programmes across the world mainly in terms of greater emphasis on savings. The details of savings of the respondent members is presented in the Table.4.12.

Table 4.12 Total savings of the respondents as on 31st July 2007

(Amount in Rs)

Year	Model I	Average savings/ member	Model II	Average savings/ member	Model III	Average savings/ member
Up to 3 years	1560	1560	27110	3872.9	8200	2733
3 – 6 years	15290	3822.5	5310	2655	21215	3030.7
>6 years	0	0	44670	7445	0	0
Total	16850	3370	77090	5139.3	29415	2941.5

Source: Compiled from primary data

Table 4.12 shows the details of the savings of the respondent members under the three Models of SHGs based on the age of the groups. The basic philosophy of savings first and credit next is assumed to be one of the strengths of the Programme. The savings amount shows an increasing trend depending upon the age of the group. The lower amount in absolute terms in the case of Model II is the category of 3-6 years is due to less number of groups/ members in the category. The members of the SHGs might have recognized the importance of increased need for savings over the years and might have increased the rate of savings corresponding to the loan amount. The Programme rests on the premise that members will develop the habit of thrift so that during post SHG phase, they can avail credit. This, besides increasing their self reliance and meeting the credit needs of the group members, will also help in the efficient deployment of credit among the other members.

An attempt is also made to know the major source of borrowings of the respondents before joining the SHG, the results of which are presented in Table 4.13

Table 4.13. Source of Borrowings: Pre-SHG

Source	Model I	Model II	Model III	Total
Banks	0	0	0	0
Money lenders	11(73.3)	33(73.4)	20(66.7)	64(71.1)
Friends	3(20)	4(8.8)	4(13.3)	11(12.2)
Relatives	1(6.7)	8(17.8)	6(20)	15(16.7)
Total	15(100)	45(100)	30(100)	90(100)

Source: Compiled from primary data
Note : Figures in parenthesis represent percentage to total

As shown in Table 4.13, 71 percent of the respondents depended on money lenders before joining the SHG. But after joining the SHG, the situation has totally changed and cent percent of the respondents are now depending on the SHGs for getting loans. This shows the great success of the SHG-Bank linkage programme in reliving the rural masses from the clutches of money lenders who were charging exorbitant interests and making them indebted till their death. SHGs are playing as a substitute to all sorts of informal agencies in meeting the credit needs of the respondents.

The SHG-Bank linkage with better access to credit brings in its wake increased income to the SHG members. The monthly family income of the SHG members during the pre and post-SHG situation is analysed to arrive at incremental income and is presented in Table 4.14

Table 4.14. Incremental income of members- Model wise

Model	Income during Pre SHG(Rs)	Income during Post SHG(Rs)	Incremental income(Rs)	% increase in income
Model I	3850	6200	2350	61
Model II	5250	9100	3850	73
Model III	2590	4800	2210	85

Source: Compiled from primary data

Table 4.14 shows the incremental family income of the respondents of the SHGs. All the members of all the Models are able to increase their level of income during the post SHG situation. The incremental income among the respondent members of the SHGs itself is a sign of the success of the SHG-Bank linkage programme, which has resulted in the improvement in the standard of living of the members. The percentage increase in the income of the respondents under Model III worked out to be 85 percent, which is high when compared to other two Models. It was noted during the survey that some groups under Model III is lending to the outsiders at an increased rate. This might be the reason for their increased income. Since majority of the respondents were housewives, not engaging in any productive activities before joining SHG, the incremental income is generated from the individual and the group economic activities undertaken by the members.

Poor people are usually characterized by low asset base. Therefore, any Programme targeted at the poor should strengthen their asset holding pattern. In order to know the impact of the SHG-Bank linkage Programme on the poor, their asset holding pattern under the three models is being studied and presented in Table 4.15.

Table 4.15. Asset holdings of the respondents after joining the SHG

Model	No. of members who acquired the assets	No. of members who has not acquired any assets	Total
Model I	9(60)	6(40)	15(100)
Model II	36(80)	9(20)	45(100)
Model III	16(53.3)	14(46.6)	30(100)
Total	61(67.7)	29(32.3)	90(100)

Source: Compiled from primary data.
Note: Figures in parenthesis represent percentage to total

Increase in the asset base strengthens the financial position of the household and also improves the shock absorbing capacity. Table 4.15 shows that majority of the members have a positive change in the asset holding pattern. They have acquired assets like poultry, milch animals, electricity, latrines and various consumer durables. This shows that the Programme has strengthened the asset base of the respondent members and also had a positive impact in the standard of living of the respondents.

After depicting the socio- economic characteristics of the respondents, the level and pattern of utilization of bank finance taken by the SHG members is analyzed in the following section.

4.3.2.1 Level of Utilization of Bank Finance by SHG Members

The loans obtained from the Bank are distributed by the SHGs to its members. Members are participating in more than one economic activity. There are also very few members who are not participating in any group economic activity, but are taking loans for individual economic activities. Loans for consumption purposes are met from the savings of the groups. So there can be cases where, even though the installments of loans of group activities are repaid, there are outstanding for other loans for some of the members. The amount of bank finance utilized by the SHG members and their repayment is depicted in Table 4.16.

Table 4.16. Level of Utilization of bank loans by members (as 31^{st} July 2007)

Model	Total loan availed by members	Average loan amount per member	Total amount repaid	Total amount outstanding	Overdue
Model I	226500	15100	130260	96240	Nil
Model II	539000	11978	367050	171950	Nil
Model III	177400	5913	124460	52940	Nil
Total	942900	10477	621770	321130	Nil

Source: Compiled from primary data.

As seen in the case of SHGs (Table 4.5), members of Model II are availing the highest amount of loans in absolute terms. Since the representation of the Model II SHGs in the sample SHGs are more, naturally their representation of members also will be high accordingly. Moreover, in Model II, many of the SHGs are bank – linked for more than six years. Hence their total loan amount will be higher compared to other models. The average loan amount of the members of the SHGs of Model I is the highest at Rs.15100/-, while it is very low at Rs. 5913/- for Model III. It is to be noted here that the average loan per member /family at the national level is only Rs. 2025/-, while it is as high as Rs. 15100/- in the case of Kerala of Model I SHGs. This brings to light the level of advancement of the SHG model of financing in Kerala compared to their counterparts in the rest of the country. It is also to be noted here that there is cent per cent utilization by members of the loans provided by banks through SHGs. Overdue are seen in the case of Model III since many of the members are rolling the same loan amount again, i.e., before repaying one loan fully, they are taking another loan.

4.3.2.2 Pattern of Utilisation of Bank loans and Savings by Members

The total sources of funds for the SHG members consist of their savings and bank loans. For consumption purposes the members are financed out of their savings. The individual economic activities are also financed out of the savings. This enables the members to utilize the bank loans fully for the group economic activities. The pattern of utilization of savings and bank loans of the members is depicted in Table 4.17.

Table 4.17. Pattern of Utilization of SHG savings and bank loans by members (as on 31st July 2007)

Purpose of loan	Model I	Model II	Model III	Total
Income generation	10(66.7)	20(44.4)	5(16.7)	35(38.9)
Consumption	3(20.0)	20(44.4)	23(76.7)	46(51.1)
Repayment of old debt	2(13.3)	4(8.9)	2(6.6)	8(8.9)
Not taken loan	0	1(2.3)	0	1(1.1)
Total	15(100)	45(100)	30(100)	90(100)

Figures in parenthesis represent percentage to total

Table 4.17 reveals that in aggregate, more than 50 per cent of the loans enjoyed by SHG members are utilized for consumption purposes like marriage, education of children and medical expenses. But when a comparison of the SHGs under different models are considered, it is seen that two – third of the loans under Model I, which are promoted and financed by banks are given for income generating purposes. Only 20 per cent of the total loans under this model are utilized for consumption purposes. The least share for income generating activities is from the members of Model III SHGs, which are promoted mainly by NGOs. It implies that the efforts of NGOs to attract the members to income generating activities have not yet been successful.

After joining the SHG, the members are not depending on any outside source of loan. This shows the confidence of the SHG members that they can meet their financial crisis being in the group. This is a positive change shown by the SHG members. Their self-confidence and self-worth has increased, which is an indication of social empowerment of the members.

The members have received so many training programmes. The training plays an important role in the future sustainability of the SHGs. The banks, NGOs and other formal agencies involved in promoting the SHGs are providing various capacity building programmes to the members regarding the concept, awareness and orientation about the SHG. They are also provided training on various income generating activities like tailoring, paper bag making, vermi compost making, mushroom cultivation, vegetable cultivation, milk processing, soap and soap powder making, umbrella making etc. Training has improved the effectiveness of the SHG members.

After joining the SHG, the respondent members have derived so many social and economic benefits from the SHGs. The SHG members have improved their self confidence and self worth. They are receiving respectful treatment from family members. Their communication skill and decision making power has also improved. They also make joint decisions in social matters like education of their children, their marriage etc. They are having confidence in dealing with the banks. Only few members reported of having some problems due to the internal conflict among the members, but they managed to solve it within the group itself. All the members are willing to continue with the SHG since they are benefited from the Programme. The Programme has a positive impact on the economy as a whole.

4.4 Constraints of SHG-Bank linkage

In order to identify the major constraints faced by the participating banks (commercial banks, co-operative banks and RRBs) in Thrissur district, five commercial banks, five co-operative banks and five RRB branches were selected randomly and a semi structured interview was conducted with the bank officials dealing with SHG financing.

Even though the banks enjoy many advantages like reduction in the transaction cost of both disbursement of credit and mobilization of savings, functional efficiency in externalization of loan functions, positive attitudinal change in dealing with poor i.e., confidence building and acceptability and cent per cent loan recovery, they are facing many constraints.

Based on the review of literature, many constraints that might faced by the financial institutions in the SHG-Bank Linkage Programme were identified. These constraints were screened based on discussion with experts. Finally twelve constraints that could be faced by the financial institution in the SHG-Bank Linkage Programme were identified and are listed below.

Constraints faced by the Banks in SHG-Bank Linkage Programme:

a. Less knowledge about the Programme
b. Cannot afford such a 'social business'
c. Lack of sensitization of Bank staff
d. Target syndrome
e. Slow process
f. Lack of financial planning and policy initiative
g. Poor recovery performance
h. Inadequate central financial assistance
i. Lack of homogeneity among the members
j. Political interference
k. Insufficient provision of subsidy
l. Less experience of linkage

To know the concordance or agreement among the bankers in ranking the constraints faced in the SHG-Bank linkage Programme, Kendall's coefficient of concordance was used.

Table 4.18. Kendall's Coefficient values in ranking the constraints

Banks	**Constraints faced by banks**											
	a	**b**	**c**	**d**	**e**	**f**	**g**	**h**	**i**	**j**	**k**	**l**
Bank 1	6	7	5	4	12	11	1	8	3	10	2	9
Bank 2	8	6	9	5	11	12	1	2	7	3	4	10
Bank 3	7	8	9	6	10	11	1	2	12	4	3	5
Bank 4	6	3	7	9	5	8	1	12	11	2	10	4
Bank 5	6	5	7	4	11	12	1	9	8	2	3	10
Bank 6	5	4	6	8	7	12	1	11	10	2	3	9
Bank 7	5	6	8	2	7	12	1	10	4	11	9	3
Bank 8	3	4	10	5	6	12	1	2	11	7	8	9
Bank 9	8	6	9	5	11	12	1	2	7	3	4	10
Bank 10	5	4	6	8	7	12	1	11	10	2	3	9
Bank 11	6	3	7	9	5	12	1	12	11	2	10	4
Bank 12	6	5	7	4	11	12	1	9	8	2	3	10
Bank 13	5	6	8	2	7	12	1	10	4	11	9	3
Bank 14	6	7	5	4	12	11	1	8	3	10	2	9
Bank 15	7	8	9	6	10	11	1	2	12	4	3	5
Rj	89	82	112	81	132	168	15	110	121	75	76	109
Rj- ∑Rj ----- N	-8.5	-15.5	14.5	-16.5	34.5	70.5	-82.5	12.5	23.5	-22.5	-21.5	11.5
(Rj- ∑Rj)2 ----- N	72.3	240.3	210.3	272.3	1190.3	4970.3	6806.3	156.3	552.3	506.3	462.3	132.3

Source: Compiled from primary data

In order to identify the constraints faced by the banks in SHG-Bank linkage Programme, the respondent banks were asked to rank each of the 12 factors, based on their opinion. Scores were assigned to each rank - a score of twelve was given for the first rank and a score of one for the last rank, i.e., twelfth rank. The other scores was between this range i.e., for ranks 1 to 12, scores of 12 to 1 were given respectively. The scores thus obtained were totaled and the factors were finally ranked based on the total scores to arrive at the rank position of the constraints. From Table 4.18, Sum of the squares of ranks(S) is computed, whose value is 15571, k= 15 and N= 12. The computed value of Kendall's coefficient of Concordance was .48 i.e. the agreement among the 15 banks is expressed by

W = .48

The significance of W is determined using χ^2. The table value of χ^2 with 14 degrees of freedom at 5 % level of significance is 23.68 and the calculated value is 79.2, which is higher than the table value. Thus we can conclude that the value of W is significant, and there is perfect agreement among the banks that ranked the constraints.

Recently caste and religion based groups are being formed. Due to this the members belonging to a particular caste/ religion might be dominating the group. This is a matter of great concern to the commercial banks. They fear that such groups will get bifurcated in the future. The SHGs should be constantly supported and nurtured throughout; otherwise there is a possibility of losing the basic characteristics of the SHGs. Some SHGs are not properly organized and problems of internal conflict are coming up among the members of the SHGs.

Another constraint is with respect to the decreasing number of productive groups which might lead to the problem of low repayments. Due to lack of time and staff, the banks cannot properly monitor the loan utilization of the SHGs. This might be exploited by the SHG members. In case of default also, no legal actions could be taken against the group.

The Regional Rural Banks are facing the problem of double financing, the problem of religion and caste based groups and lack of homogeneity among the group members.

Since the co-operative banks have entered the SHG-Bank linkage programme late, they are having a problem of low linkage i.e slow process. There is lack of initiative among the officials to train the groups properly. Some groups are not maintaining proper records.

Even though the banks are facing some minor constraints, they are still lending to the SHGs on an increasing scale since SHGs is a source which brings excellent repayment rates with low risk, stability in return and potential growth for the banks. But if the constraints are not removed, the goodwill and reputation which this informal system of financing enjoys at present may be lost in the future.

4.5.1 Bank-Wise and Spatial Comparison of SHG- Bank Linkage Programme

The SHG-Bank Linkage programme led by NABARD in India claims to be "the largest and fastest growing micro finance Programme of the world", with over 11 million poor households accessing banking services including micro credit through their 29,24,973 SHGs. The SHG-Bank linkage programme has gained wide acceptance among the partners including banks, NGOs and the poor and is poised for sustained expansion.

After a decade of implementation of the "linkage banking or Self Help Group Banking" approach, NABARD has been able to increase the outreach of banking in rural India substantially, the highlights of which are depicted in Table 4.19

Table 4.19. Highlights of SHG-Bank linkage Programme in India (2002-03 to 2006-07)

Particulars	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07
No. of SHGs provided with bank loan	717360	1079091	1618456	2238565	2924973
Percentage of women groups	90%	90%	90%	90%	90%
No. of participating banks	505	560(10.89)	573(2.32)	545(-4.9)	498(-8.6)
i)Commercial Banks	48	48	47	47	50
ii)Regional Rural Banks	192	196	196	158	96
iii)Co-operative Banks	265	316	330	340	352
No. of states and UT covered	30	31	31	31	31
No. of districts covered	502	563	572	583	587
Cumulative Bank loan (Rs million)	20487	39042(90)	68985(76.7)	113980(65.2)	180410(58.3)
Cumulative Refinance (Rs million)	14188	21242(49.7)	30920(45.6)	41600(34.5)	54590(31.2)
No. of house holds assisted (in million)	11.6	16.7(43.9)	24.3(45.5)	32.98936.2)	40.95(24.2)
Average loan/SHG: New	26985	32000(18.5)	32012(.003)	36416(13.75)	44342(21.7)
:Repeat	32405	40648(25.4)	49144(20.8)	50917(3.6)	78693(54.6)
Average loan/ family:					
New	1687	2286(35.5)	2287(.0043)	3940(72.3)	3167(-19.6)
:Repeat	2025	2903(43.6)	3508(20.8)	4250(21.2)	5621(32.2)
Model wise linkage(Cumulative)					
Model 1	20%	20%	21%	20%	17%
Model 2	72%	72%	72%	74%	75%
Model 3	8%	8%	7%	6%	8%

Source: NABARD publications: progress of SHG-Bank linkage (2002-03 to 2006-07)

Note : Figures in parenthesis represent percentage to total

The Table 4.19 shows the performance of the banks in linking self help groups to the banking system over the years from 2003-07. It is to be noted that ninety per cent of the SHGs are exclusively women groups. This has every reason to state that linkage banking has contributed to the feminization of micro financing banking in India. Out of the 2,924,973 SHGs which are provided with bank loans, 17 per cent of them are facilitated by bank branches exclusively (Model 1) without any NGO being involved and75 per cent were linked with banks by initiatives of their promoting/ establishing/ nurturing NGOs or the government (Model II), while only eight per cent of the SHGs are having established financial transactions with NGO as financial intermediaries directly (Model III). The key indicator for the success of SHG-Banking is the extent to which the vast network of commercial banks, co-operative banks and regional rural banks with 1,60,000 retail outlets is ready to co-operate. Actually 498 banks ie 50 commercial, 196 RRBs and 352 co-operatives through their 20,000 branches are now involved in linkage banking. The reduction in the number of participating banks in the recent years is due to the decrease in the number of participating Regional Rural Banks. There has been a reduction in the number of RRBs in the country in the recent years due to the absorption of certain RRBs by the others.

The cumulative progress of SHG-Bank linkage from the year it has been initiated up to 2006-07 is shown in Table 4.20

Table 4.20. SHG-Bank Linkage Programme- Cumulative progress

(Amount in Rs million)

Year (end-March)	No. of SHGs linked	Bank loan	Refinance assistance
1992-93	255	0.29	0.27
1993-94	620	0.65	0.46
1994-95	2122	2.44	2.13
1995-96	4757	6.06	5.66
1996-97	8598	11.84	10.65
1997-98	14317	23.76	21.39
1998-99	32995	57.07	52.06
1999-2000	114775	192.98	150.13
2000-01	263825	480.87	394.13
2001-02	461478	1026.34	790.24
2002-03	717360	2048.67	1412.71
2003-04	1079091	3904.20	2118.15
2004-05	1618456	6898.46	3085.91
2005-06	2238565	11397.55	4153.63
2006-07	2924973	18041.28	5459.24

Source. RBI publications 2007

The bank loan aggregating Rs.18041.28 million has been disbursed to 29,24,973 SHGs with refinance support of Rs.54, 592 million from NABARD upto 31st March 2007.

The cumulative number of SHGs linked and the bank loan provided under the SHG-Bank linkage programme is shown using the following Charts 4.1 and 4.2 respectively.

Chart 4.1 Cumulative number of SHGs linked, 1992-93 to 2006-07

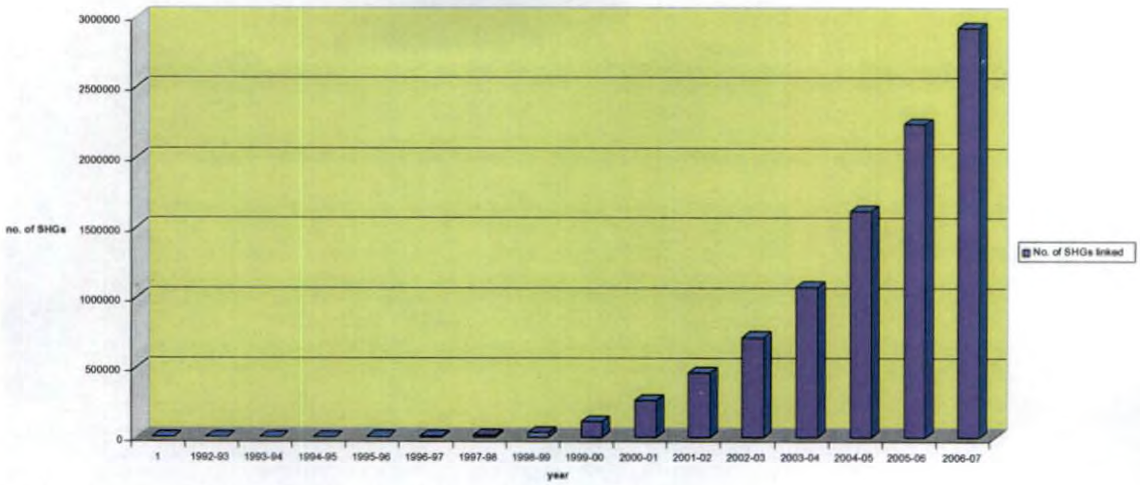
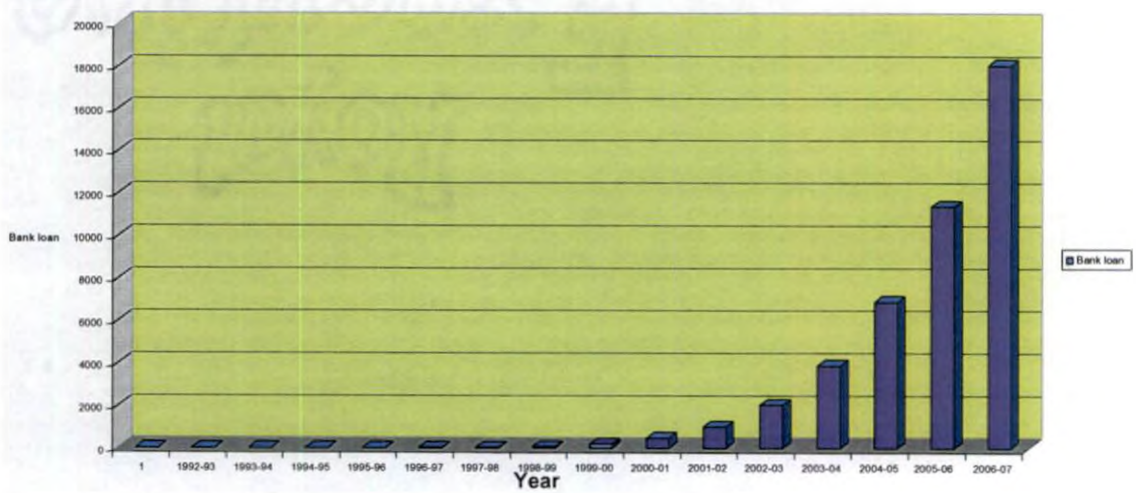


Chart 4.2 Cumulative bank loan provided to SHGs, 1992-93 to 2006-07



The increasing trend in the number of SHGs linked and the amount of Bank loan provided to SHGs by Participating banks is quite evident from the Charts 4.1 and 4.2

4.5.1 Regional spread of SHG-Bank Linkage

For assessing the regional spread of SHG-Bank Linkage, the whole country has been divided into six regions, viz; Northern, North- Eastern, Eastern, Central, Western and Southern. The growth of SHGs and the loans disbursed to them from the year 2002-03 to 2006-07 over the six regions are shown in the Table 4.21.

Table 4.21. Regional spread of Physical and financial progress of SHG-Bank linkage

(Amount in Rs million)

Year	2002-03		2003-04		2004-05		2005-06		2006-07	
Regions	No. of SHGS	Bank loan	No. of SHGS	Bank loan	No. of SHGS	Bank loan	No. of SHGS	Bank loan	No. of SHGS	Bank loan
Northern	15602	398.18	17473	552.3	33622	1071.51	47079	1590.67	48921	2189.62
North-Eastern	2579	34.92	8209	141.82	21960	817.47	28279	637.4	29237	981.89
Eastern	45001	467.51	67344	1400.74	95478	2577.98	128723	4171.13	131530	6691.7
Central	33402	878.35	45426	1315.8	70356	2251.3	70550	3035.5	64814	2878.8
Western	12862	354	12635	539.69	41451	1541.96	69988	2300.6	104193	3897.6
Southern	146436	7821.1	210644	14604.9	264585	21682.2	275490	33255.5	307713	49792.3
All India	255882	10223.4	361731	1855.3	539365	29942.5	620109	44990.8	686408	66431.9

Source: Compiled from NABARD publication (2002-03 to 2006-07)

There is a positive growth in the SHG-Bank linkage Programme in all the regions except the central region during 2006-07. This growth is facilitated by the state/ region specific strategies developed by NABARD in consultation with its regional offices at the state level, banks, NGOs and the state governments. Promotional efforts were launched in these states by NABARD through its regional offices, participating agencies and other institutions including the government and non governmental agencies.

NABARD took specific steps to identify district level bottlenecks in upscaling the SHG-Bank linkage in the states of Bihar, Uttar Pradesh, Madhya Pradesh, West Bengal and Orissa by conducting Goal Oriented Project Planning (GOPP) Programmes for the district officers of NABARD in those states.

In order to assess the coverage of SHG-Bank linkage for five years from 2002-03 to 2006-07 and their spread across different regions i.e, Northern(N), North Eastern(NE), Eastern(E), Central(C), Western(W) and Southern(S) region, the following charts were used. The chart shows the growth of SHGs and the loan disbursed to them.

Chart 4.3 Growth of SHGs and loans - Northern Region, 2002 -03 to 2006-07

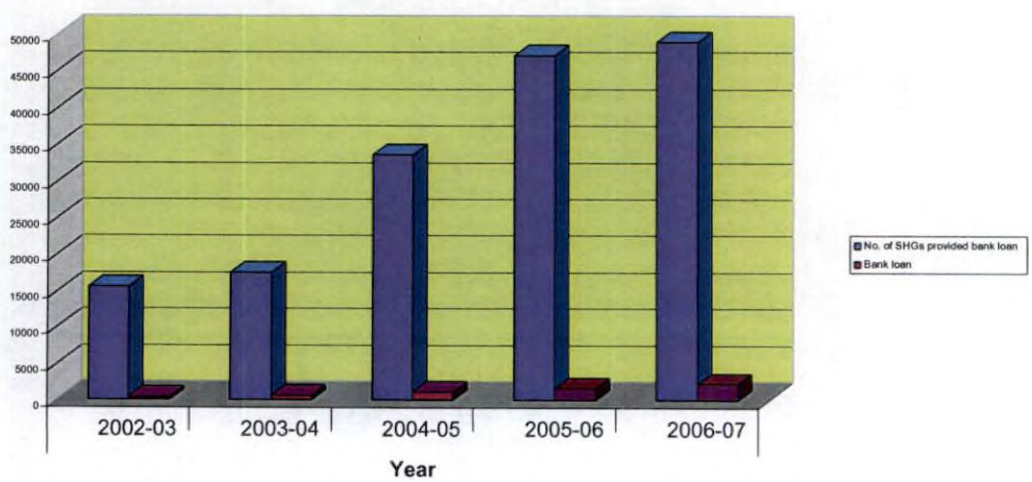


Chart 4.4 Growth of SHGs and loans -North Eastern Region, 2002 -03 to 2006-07

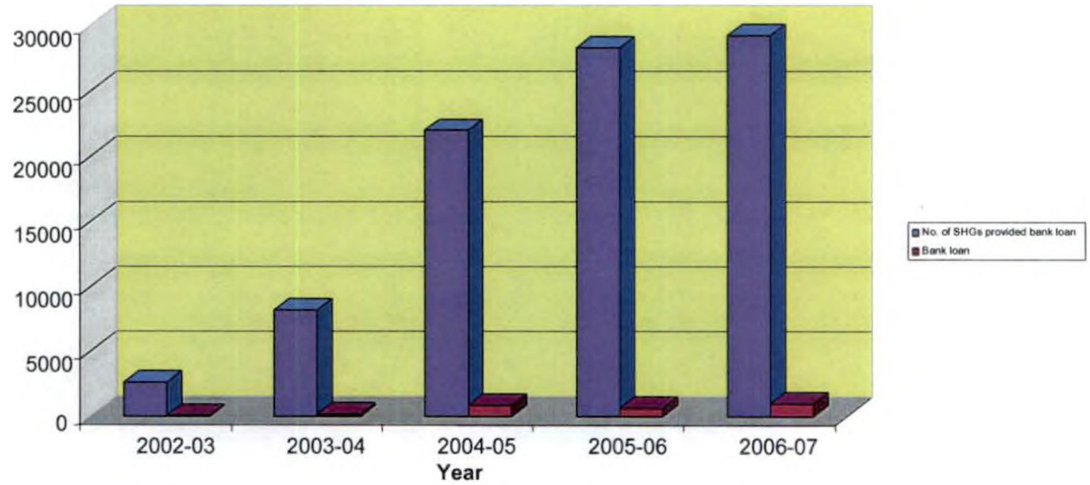


Chart 4.5 Growth of SHGs and loans - Eastern Region, 2002 -03 to 2006-07

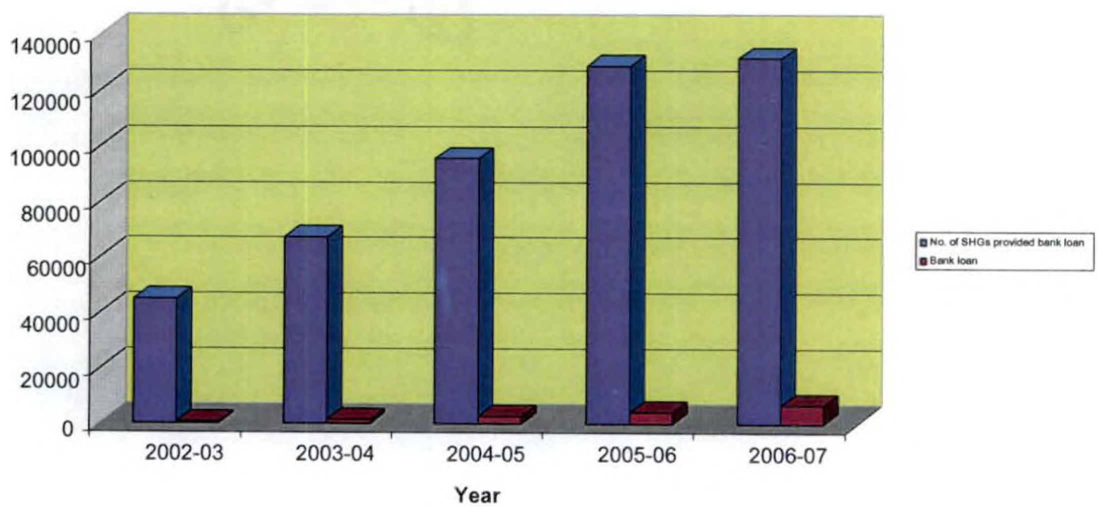


Chart 4.6 Growth of SHGs and loans Central Region, 2002 -03 to 2006-07

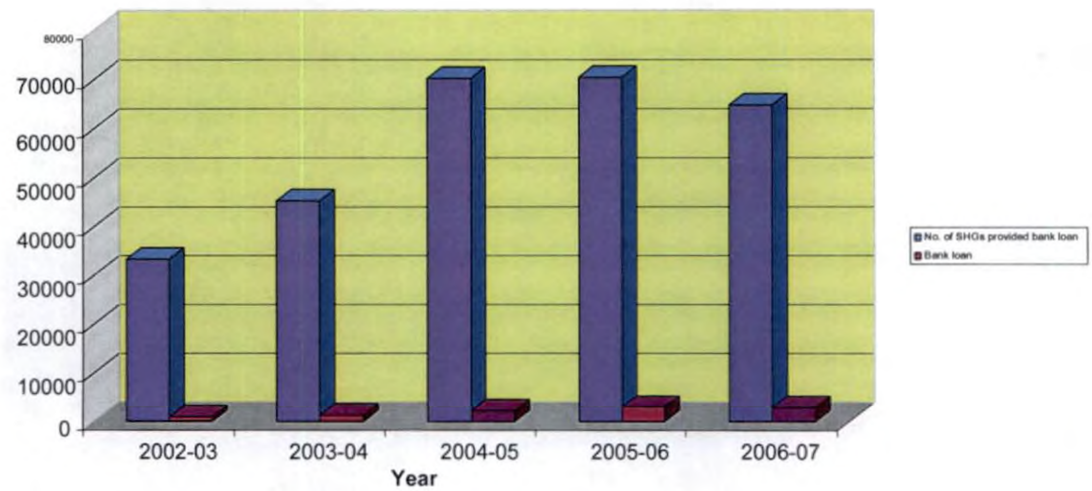


Chart4.7 Growth of SHGs and loans – Western Region, 2002 -03 to 2006-07

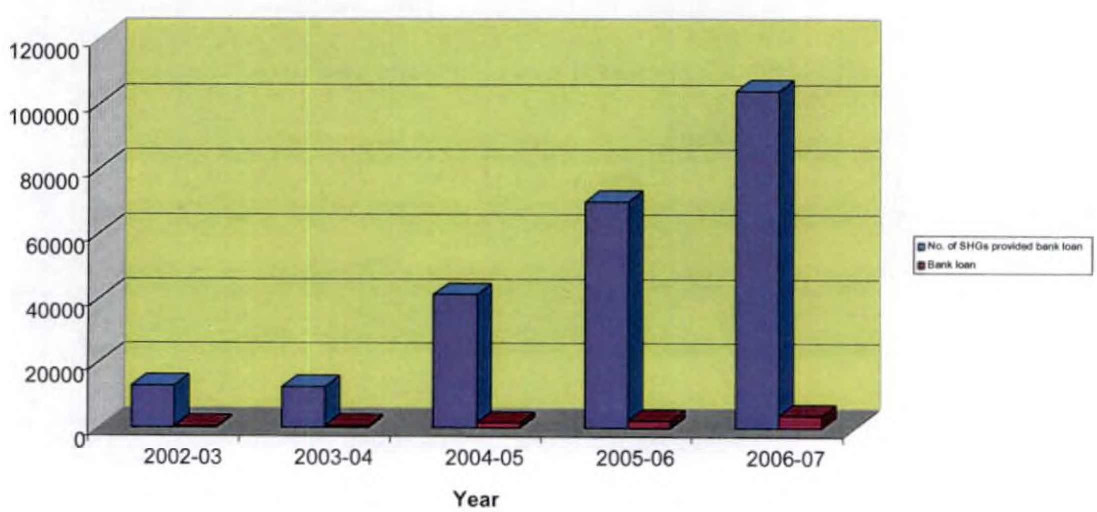
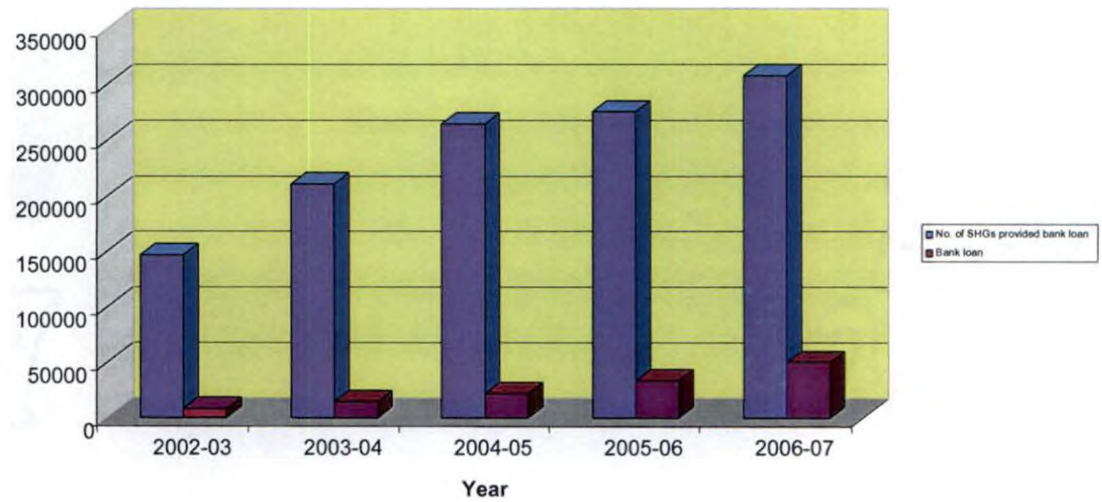


Chart 4.8 Growth of SHGs and loans – Southern Region, 2002 -03 to 2006-07



The charts depict the physical and financial performance of SHG-Bank linkage Programme. Right from the inception, the programme has been a major success in south India. Even now, it is showing a positive growth in terms of number of SHGs linked and in the amount of bank loan provided. In the eastern and the western regions, the number of SHGs linked had increased, but these regions share to the total linkages had decreased. In the northern and north eastern regions, the SHG-Bank linkage Programme has shown a drastic progress from 2002-03 to 2006-07. In the central region, even though the number of SHGs credit linked had decreased due to sharp rise in credit linkages in Uttar Pradesh, later it has shown a declining trend. But adequate up scaling measures are taken by NABARD to improve the condition.

The data regarding total bank loans provided to SHGs through the premium institutions like commercial banks, RRBs and the co-operative banks over the period 2002-03 to 2006-07 are presented in Table 4.21. The figures relate to five years from 2002-03 to 2006-07, given in different colours.

Table 4.22. Total bank loan provided to SHGs by different agencies, 2002-03 to 2006-07

(Amount in Rs million)

Region	Commercial Banks	Regional Rural Banks	Co-operative Banks
NR	259.57, 493.94, 1007.6, 1879.97, 3063.88	331.19, 515.7, 841.95, 1256.41, 1868.52	180.53, 313.95, 545.62, 849.47, 1243.06
NER	16.93, 77.58, 711.43, 1021.51, 1563.06	43.54, 117.45, 273.78, 570.88, 912.89	0.85, 7.11, 34.4, 64.62, 162.96
ER	424.69, 965.21, 2350.92, 4320.85, 7794.09	564.25, 1210.17, 2081.64, 3677.25, 6141.03	215.4, 429.7, 750.5, 1350.92, 2110.79
CR	441.29, 1087.63, 2207.37, 4063.96, 5735.41	936.85, 1504.57, 2510.05, 3521.42, 4550.35	69.32, 171.05, 297.14, 464.69, 643.16
WR	516, 812.89, 1870.41, 3172.23, 5339.03	256.95, 400.35, 664.95, 1161.08, 1941.25	96.17, 195.57, 415.41, 841.58, 1868.71
SR	9837.61, 19111.04, 33442.5, 55415.97, 90480.17	5139.02, 9034.43, 14623.1, 23034.43, 34896.08	1157.61, 2593.83, 4355.87, 7226.52, 10092.99

Source: Compiled from NABARD publications (2002-03 to 2006-07)

The growth of the loan disbursed to SHGs by the three agencies had more or less exponential growth over the six regions namely, northern region, north eastern region, central region, eastern region, western region and southern region. According to NABARD data 2005-06, the commercial banks are participating in the SHG-Bank linkage with all 27 public sector banks and 21 private sector banks. The State Bank of India has linked the highest number of SHGs (3,92,494) during 2005- 06 followed by Andhra Bank (1,13,466) and Indian Bank(96,460). Many other banks, specifically Canara Bank, Indian Overseas Bank, State Bank of Hyderabad, Syndicate Bank and Bank of India registered an impressive growth. The private sector banks which supported SHG financing are ICICI(17,755) followed by Vysya Bank(8,252). The Regional Rural Banks financed SHGs in a significant way. All the 196 RRBs in the country participated in the SHG-Bank linkage programme. During the year 2005-06, the maximum number of SHGs have been linked by Pandian Gramin Bank in Tamil Nadu(45,672) followed by the Sri Visaka Gramin Bank(35,872) and Nagarjuna Gramin Bank (27,879) in Andhra Pradesh. The other RRBs which have shown significant achievement are Koraput-Panchabati Gramin Bank, Kalahandi Anchalik Gramiya Bank in Orissa and Gorakhpur Kshetriya Gramin Bank in Uttar Pradesh. Co-operative Banks, though comparatively late starters, have begun many forays into the micro finance sector on a large scale. The amendments made by many of the States in their respective Co-operative Societies Acts enabled Co-operative Banks to take up the activity of promotion and nurturing of SHGs. Influenced by the pioneering performance of DCCBs at Bidar (Karnataka), Mugberia and Hoogly(West Bengal) in the SHG-Bank linkage programme, many DCCBs envinced keen interest in SHG-Bank linkage programme. The number of partners for the SHG-Bank linkage in the Co-operative banking sector increased to 332 upto March 2007.

The change in the quantum of loan disbursed by the three agencies viz; the five years has been calculated from Table4.22 and depicted in Table 4.23.

Table 4.23. Change in the quantum of loan disbursed by three agencies

(Amount in Rs million)

	Quantum of change in the loan disbursed over the years											
	Commercial Banks				Regional Rural Banks				Co-operative Banks			
NR	234.3	513.7	872.4	1183.9	184.5	326.2	414.5	612.1	133.4	231.7	303.9	393.6
NER	61.7	633.9	310.08	541.6	73.9	156.3	297.1	342.1	6.26	27.3	30.2	98.34
ER	540.9	1385.7	1969.9	3473.2	645.9	871.5	1595.6	2463.8	214.3	320.8	600.4	759.9
CR	646.3	1119.7	1856.6	1671.5	567.7	1005.5	1011.4	1028.9	101.7	126.1	167.6	178.5
WR	296.9	1057.5	1301.8	2166.8	143.4	264.6	496.13	780.2	99.4	219.8	426.2	1027.1
SR	9273.4	14331.5	21973.5	35064.2	3895.3	5588.8	8411.3	11861.7	1436.2	1762.1	2870.7	2866.5

Source: Compiled from NABARD publication (2002-03 to 2006-07)

Table 4.23 shows that there is an increase in the quantum of loan disbursed by the three banks over six regions. It is evident that the southern region accounted for the maximum increase in the SHGs with the total loan amount sanctioned through commercial banks amounting to Rs.35064.2 million over the previous year, whereas the corresponding figures were Rs.11861.65 million and Rs.2866.47 million for RRBs and Co-operative Banks respectively.

The loans sanctioned to the SHGs were mainly through three Models.

Model 1 - SHGs formed and financed directly by banks

Model 2 – SHGs formed by formal agencies and NGOs but directly financed by banks

Model 3 – SHGs financed by banks using NGOs and other agencies as financial intermediaries.

It is already revealed that the growth of loans disbursed per SHG by the three agencies had more or less exponential growth over the six regions (Table 4.22). Table 4.23 also revealed that there is an increase in the quantum of loans disbursed by three types of banks over six regions. Hence a region wise comparison of the SHGs under the three models is done using T-test, to examine whether there exist any significant difference in the proportion of SHGs over the six regions and is presented in Table 4.24

Table 4.24. Region wise comparison of the proportion of SHGs under the three models using t-statistic

	T- Statistic of proportion of SHGs.											
	2002-03			2003-04			2004-05			2005-06		
	Model I	Model II	Model III	Model I	Model II	Model III	Model I	Model II	Model III	Model I	Model II	Model III
Regions												
NR vs NER	35.2	50.9	15.7	125.8	145.9	68.2	227.4	246.7	77.5	300.5	328.6	101.6
NR vs ER	101.2	169.7	68.5	143.3	204.1	94.5	167.5	223.7	107.7	180.8	220.2	112.3
NR vs CR	40.5	60.9	20.4	58.8	76.5	46.1	74.9	87.9	47.3	87.9	99.0	46.2
NR vs WR	28.9	32.7	3.71	50.7	54.3	21.2	120.2	144.9	74.0	151.1	178.2	84.4
NR vs SR	68.5	22.6	45.9	36.5	20.2	66.8	8.4	60.8	83.3	41.6	97.1	99.1
NER vs ER	8.4	21.4	12.9	41.7	28.3	18.	123.7	106.1	29.1	204.8	194.9	8.6
NER vs CR	17.2	23.9	6.79	95.2	106.2	25.1	200.7	211.3	41.8	274.8	297.3	80.7
NERvs WR	20.4	33.4	12.9	88.5	105.1	52.2	135.9	138.1	4.62	189.4	198.8	22.8
NER vs SR	77.2	84.2	6.9	209.1	212.	3.8	339.6	285.7	4.32	420.4	369.7	8.6
ER vs CR	82.9	147.5	64.6	121.5	101.7	97.9	135.6	196.2	119.2	118.6	172.2	119.6
ER vs WR	76.3	145.2	68.9	92.7	150.3	89.9	39.2	70.8	52.2	8.34	32.9	44.9
ER vs SR	319.3	419.4	100.1	380.0	447.3	88.8	352.9	357.6	76.9	286.7	245.9	39.9
CR vs WR	9.17	26.2	16.9	15.4	14.8	34.8	67.9	85.3	48.4	89.7	112.2	65.4
CR vs SR	182.7	168.1	14.6	176.7	138.5	49.5	129.9	62.2	80.2	93.2	18.9	102.3
WR vs SR	129.15	88.13	41.02	125.98	76.59	60.28	194.8	105.86	15.04	202.23	159.42	24.42

Source: Compiled from NABARD publication (2002-03 to 2006-07)

All the t- statistics are significant at 5% level of significance.

Region – wise comparison of the SHGs under the three models using T-test, revealed that a significant difference existed in the proportion of SHGs under the three Models for the six regions under consideration over the years. It can be read from Table 4.24 that the proportion of SHGs was more under Model 1 in comparison with the proportion of SHGs under Model 2 and Model 3. Even if the proportion of SHGs under each model varies significantly, it is the average loan amount per SHG disbursed under each model that is of importance.

To make a spatial comparison of SHG-Bank linkage programme, the total bank amount disbursed/ SHG under the three models in all the six regions is given in Table 4.25.

Table 4.25. Shannon Weaver Diversity Index for Loan per SHG under three different Models

Year	2002-03			2003-04			2004-05			2005-06		
Regions	Model I	Model II	Model III	Model I	Model II	Model III	Model I	Model II	Model III	Model I	Model II	Model III
Northern	0.022	0.022	0.006	0.023	0.003	0.086	0.025	0.028	0.086	0.026	0.03	0.022
North-Eastern	0.014	0.015	0.015	0.017	0.017	0.011	0.033	0.019	0.01	0.029	0.02	0.011
Eastern	0.012	0.017	0.012	0.015	0.021	0.013	0.016	0.024	0.016	0.026	0.02	0.018
Central	0.016	0.018	0.014	0.024	0.021	0.018	0.025	0.025	0.018	0.027	0.03	0.018
Western	0.024	0.019	0.017	0.027	0.027	0.018	0.031	0.029	0.04	0.03	0.03	0.043
Southern	0.041	0.035	0.024	0.039	0.028	0.028	0.043	0.059	0.038	0.053	0.053	0.05

Source: Compiled from NABARD publication (2002-03 to 2006-07)

To verify whether the spatial distribution of the loan amount disbursed per SHG over the three models under consideration for each region as also over regions under each scheme over five years (2002-03 to 2006-07) is uniform or not, Shannon Weaver diversity Index was used. Shannon Weaver diversity index is having an upper and lower limit. The lower limit being always zero and the upper limit is based on the number of models/ regions under consideration as the case may be.

The indices computed for comparison of the three models region wise are given in Table 4.26

Table 4.26. Indices within region

Models	2002-03	2003-04	2004-05	2005-06
Model 1	0.48	0.53	0.61	0.65
Model II	0.49	0.48	0.63	0.69
Model III	0.37	0.55	0.64	0.56

Source: Computed from Table 4.2

From the figures representing the overall summary of the diversity indices computed from the regions under each model over the years, there was an increased tendency for a uniform disbursal of the loan amount over the three models as the popularity of the SHG scheme itself shows a sudden flair-up.

The indices for comparison of models within region are given in Table 4.27

Table 4.27. Indices within Model

Regions	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Northern	0.20	0.31	0.40	0.28
North-Eastern	0.19	0.19	0.23	0.24
Eastern	0.17	0.18	0.22	0.26
Central	0.20	0.20	0.26	0.28
Western	0.24	0.24	0.34	0.35
Southern	0.34	0.34	0.37	0.50

Source: Computed from Table 4.25

For comparison of Models within the region, the range of Shannon Weaver diversity index was found to be 0 to 1.095, whereas the range for comparison of regions within models it was from 0 to 1.791. It should be observed that more evenness of the loan per SHG is visualized when the diversity index approaches the upper limit.

The tendency of an increased uniform distribution of the loan amount/SHG was more innate with the southern region, followed by western and eastern regions. In the northern and north eastern regions, it was in a mixed state. The growth of SHGs and also the increased loan amount per SHG in the southern region could be attributed to the popularity of the scheme coupled with the high literacy rate and per capita income rate of the southern region.

The variation between the three agencies i.e., the commercial banks, RRBs and co-operative banks in providing loans to the SHGs under the SHG-Bank Linkage programme is analyzed using Analysis of Variance (ANOVA) or F-statistics. All the 47 commercial banks, 156 RRBs and 329 Co-operative banks participating in financing of the SHGs under this programme from all the six regions are taken for analyzing the variance. The degrees of freedom between the samples (v_1) and within the samples (v_2) are 2 and 529 respectively. The Table value of 'F' for v_1=2 and v_2=529 at 5% level of significance is 3.00, which is much less than the calculated value of F=28.14. Thus it is found that there is significant difference in the loan disbursed through the commercial banks, co-operative banks and RRBs.

Summary of Findings and Conclusion

CHAPTER 5

SUMMARY OF FINDINGS AND CONCLUSION

The study entitled "SHG – Bank Linkage Programme: A study in Thrissur District" has been undertaken with the objectives of analyzing the level and pattern of utilization of bank finance by the Self Help Group and their members under the SHG- Bank Linkage Programme; to identify the constraints, if any, in the SHG – Bank Linkage Programme: and to make a bank-wise and spatial comparison of the SHG- Bank linkage Programme.

Both primary and secondary data have been used for the study. Primary data have been collected from 30 SHGs and 90 members from the three models of SHGs functioning in Thrissur district. Percentages, averages, T- test, Kendall's co-efficient of concordance, χ^2, Shannon Weaver Diversity Index and ANOVA have been used for the analysis of the data collected.

5.1 Major findings

The major findings of the study are summarized below:

5.1.1 Level and pattern of utilization of bank finance

Among the 30 SHGs selected for the study, minimum membership is five and maximum is 20. There is only a single group with a membership of five. This group has been started as an activity group for undertaking a specific activity ie., for starting tailoring unit. Otherwise the minimum membership is 12.

Model II is the most common method of linkage of SHGs with a bank. This might be the reason for the groups in this model alone functioning for more than six years.

Commercial banks are not much interested in the promotion of SHGs. Even though 50 per cent of the Groups are linked to commercial banks, none of the 30 selected SHGs have been promoted by a commercial bank. This implies that commercial banks are not much interested in spending their time for the promotional aspects of a SHG, but want to concentrate on their main functions of accepting deposits and advancing loans. Another noteworthy feature is that commercial banks prefer to finance SHGs directly than through the intermediary of an NGO or other agencies. The co-operatives are interested equally in both promotion and financing, but they are lagging behind the commercial banks since they have entered into this function very late.

Homogeneity of the group members has been the most important motivating factor for the members, to join the group. Certainly this might be one of the reasons for the successful working of the SHGs.

Weekly meetings increase the frequency of the meetings which will lead to a strong relationship among the members. In the case of majority of the groups (60 %), the attendance is more than 90 per cent, which is a positive sign of the efficient functioning of the groups. Moreover, this implies a democratic method of taking decisions in the group. It is in these meetings that savings are collected and loans disbursed. Higher percentage of attendance is achieved by the group by imposing penalty or fine for late attendance or for absence in the meetings. But there are provisions in almost all SHGs for waiving the penalty or fine, for genuine reasons like sickness, urgency of any work and any other contingencies.

Majority of the groups conduct the meeting on a rotating basis at the residence of the members. In the case where the meeting is conducted on a permanent basis, they conduct it in the house of President or Secretary, for the convenience of all the members. The group itself fixes the date and time of the meeting. Majority of the groups conduct meetings on Saturday or Sunday after 6 pm.

The main items of the agenda in the meeting include report reading, discussions regarding the activities to be undertaken, decisions regarding loans and loan disbursal. The usual topics of discussion in the meeting other than the agenda will be regarding the common problems faced by them, the education of their children, new avenues for employment and income generation, recent newspaper headings, family matters, financial problems, health, social and cultural activities.

In order to avoid the complexities involved in the collection of varying amounts as savings from members, all the groups insist on a fixed amount of savings. This is collected in the meetings. All the members are very regular in their savings since any default is fined or charged by way of penal interest.

Among the various sources of funds, bank loans constitute a major share followed by savings of the group and interest received on loan. Since all the groups are undertaking income generating activities, the profit from such group activities is a source of fund for majority of the groups. Some groups are depositing the profit amount and is distributed among members annually; some groups use it for repaying the loan amount; some are keeping it as reserve fund and using it for welfare pr\purposes and for doing seasonal business.

A limited number of groups are keeping a minimum balance of their deposits in banks and the rest is kept as cash in hand by the office bearers. The intention is either to meet the emergency requirements of the members or to lend to the outsiders at a higher rate of interest. Although SHGs are not expected to lend to outsiders, they are using this as an avenue for investing their surplus funds and creating profit out of it.

The analysis of the characteristic features of the 30 sample SHGs selected for the study reveals that they are having the features as outlined by various authors and NABARD, except the habit of keeping cash with the office bearers for on lending to outsiders.

After six months of normal functioning, each SHG is assessed by the banker to ascertain whether they are 'bankable'. The loan is sanctioned based on the savings of the SHGs which are collected in the meetings and deposited in the Savings bank account of the group with the bank.

The amount of savings is more in the SHGs of Model II. The tendency to keep the savings at the minimum level in the account and lend the rest of the amount to the outsiders or to the group members at higher rates than their internal lending rates was noted among the members of Model III. This is an undesirable practice, which would be detrimental to the growth of the SHGs.

SHGs under Model I are getting the highest amount of loans from banks even with the same average amount of savings of Model II. Comparison of the total savings and total loans at the time of linkage reveals that the loan amount is approximately four times of the total savings of the concerned group. Comparison of the average savings and average loans also reveal the same trend. This implies that the banks are satisfied with respect to the 'bankability' of the SHGs, if not they would not have financed four times of the savings of the group.

With respect to the total loans disbursed to the SHGs, the same trend as in the case of loans at the time of linkage is seen. Model I is having the highest amount followed by Models II and III. The loans are being repaid regularly and hence there are no overdue in respect of any of the groups. From the average loan outstanding for each group it is seen that SHGs coming under Model II are making the repayment much early. It is being noticed from the disbursement registers maintained by the groups that the full amount of loans received from the banks have been disbursed to the members by the SHGs. Hence there is cent per cent utilization of the bank finance provided by the banks to the SHGs.

The total amount of loans advanced is the highest under Model II. This is because this model is the most common in our country and hence 15 of the sample SHGs are from this group. While Model I is concentrating on agriculture, food processing and 'others' category which includes manufacturing of paper bags, concrete units etc., Model II is covering all the productive activities. The pattern of utilization is different for the various models. Model I gives prominence to the 'others' category, Model II to agriculture and Model III to textile and tailoring.

In Model I, where banks are directly involved in the promotion and financing of SHGs, an interest rate ranging from eight to ten per cent is charged. A similar trend is seen in the case of Model II, where banks are financing SHGs promoted by formal agencies like DRDA, Kudumbasree and NGOs. But in the case of Model III, where NGOs are functioning as intermediaries, the interest rate ranges between 10-12 per cent.

The banks have to keep their operational cost at lower level for which they would prefer to avoid supervision of SHGs and provision of services at the door steps. Hence, the banks are involved in the financing of the SHGs under Model II.

Majority of the respondents belong to a middle aged category between 30-50 years. None of the members are unmarried. The participation of women belonging to SC/ST category is only two per cent. One of the reasons preventing them from joining these groups is the fact that, the concession available to this category from the government will not be received if there are forward caste members in their group. A tendency of promoting caste – based SHGs was noticed while collecting the data. In such cases, majority of the members may belong to a particular religion/caste. Majority of the respondents have a family size of three to five. None of them have a joint family.

The socio – economic characteristics of the respondents reveal that the members of the SHGs are from the lower strata of the society. The members of the Model II are the poorest and educationally backward when compared to Models I and III. This is due to the identification of poor families by DRDA and Kudumbasree mission under SGSY Scheme and Kudumbasree Programme respectively, in order to bring them above the poverty line.

The major source of awareness about the SHG and their Programmes are the neighbours and animators, though their role is varying with respect to Models.

All the SHGs conduct weekly meetings and collect a fixed amount of Rs.10 or Rs.20 during the meeting. The savings amount shows an increasing trend depending upon the age of the group.

While 71 per cent of the respondents depended on money lenders for meeting their credit needs, before joining SHG, now they are being relieved from their clutches. Now all of them depend on SHGs for their credit requirements. This reveals the success of the SHGs in replacing the informal credit system existing among the rural masses.

All the respondents were able to increase their family income during post SHG period. Since majority of the respondents were house wives, not engaging in any productive activities before joining SHGs, the incremental income generated is from the individual and group economic activities undertaken by the members. The increase in the incremental income is the highest in the case of respondents of Model III, where lending to outsiders at higher rates is adhered to by the Group.

Majority of the members have acquired assets like poultry, milch animals, electricity, sanitation and consumer durables and strengthened their asset base and thus improved their standard of living after joining SHGs.

As seen in the case of SHGs (Table 4.5), members of Model II are availing the highest amount of loans in absolute terms. Since the representation of the Model II in the sample SHGs are more, naturally their representation of members also will be high accordingly. Moreover, in Model II, many of the SHGs are bank – linked for more than six years. Hence their total loan amount will be higher compared to other models. The findings of Table 4.3, that the average loan amount is the highest in the case of SHGs of Model I is reiterated here. The average loan per member /family at the national level is only Rs. 2025/-, while it is as high as Rs. 15100/- in the case of Kerala of Model I SHGs, thus brings to light the level of advancement of the SHG model of financing in Kerala, compared to this counterparts in the rest of the country. There is cent per cent utilization by members of the loans provided by banks through SHGs. Overdue are seen in the case of Model III since many of the members are rolling the same loan amount again, ie., before repaying one loan fully, they are taking another loan.

In aggregate, more than 50 per cent of the loans enjoyed by SHG members are utilized for consumption purposes like marriage, education of children and medical expenses. But when a comparison of the SHGs under different models are considered, it is seen that two – third of the loans under Model I, which are promoted and financed by banks are given for income generating purposes. Only 20 per cent of the total loans under this model are utilized for consumption purposes. The least share for income generating activities is from the members of Model III SHGs, which are promoted mainly by NGOs. It implies that the efforts of NGOs to attract the members to income generating activities have not yet been successful.

5.1.2 Constraints of SHG – Bank Linkage

Even though the banks enjoy many advantages like reduction in the transaction cost of both disbursement of credit and mobilization of savings, functional efficiency in externalization of loan functions, positive attitudinal change in dealing with poor i.e., confidence building and acceptability and cent percent loan recovery, they are facing many constraints. The formation of caste/ religion based groups in the recent days is a matter of great concern to the bankers. Due to this the members belonging to a particular caste/ religion might be dominating the group. The banks fear that such groups will get bifurcated in the future. The SHGs should be constantly supported and nurtured throughout; otherwise there is a possibility of losing the basic characteristics of the SHGs. Some SHGs are not properly organized and problems of internal conflict are coming up among the members of the SHGs.

Another constraint is with respect to the decreasing number of productive groups which might lead to the problem of low repayments. It was already noted while analyzing the pattern of utilization of funds by SHG members that consumption loans are dominating. This is more evident in the case of Model II. Due to lack of time and staff, the banks cannot properly monitor the loan utilisation of the SHGs. This might be exploited by the SHG members. In case of default also, no legal actions could be taken against the group.

The Regional Rural Banks are facing the problem of double financing, the problem of religion and caste based groups and lack of homogeneity among the group members.

Since the co-operative banks have entered into the SHG-Bank linkage programme late, they are having a problem of low linkage i.e slow process. There is lack of initiative among the officials to train the groups properly. Some groups are not maintaining proper records.

5.1.3 Progress of SHG-Bank Linkage programme

Bank loans aggregating Rs.18041.28 million has been disbursed to 29,24,973 SHGs with refinance support of Rs.54,592 million from NABARD upto 31st March 2007.

There is a positive growth in the SHG-Bank linkage programme in all the regions except the central region during 2006-07. This growth is facilitated by the state/ region specific strategies developed by NABARD in consultation with its regional offices at the state level, banks, NGOs and the state governments. Promotional efforts were launched in these states by NABARD through its regional offices, participating agencies and other institutions including the government and non governmental agencies.

NABARD took specific steps to identify district level bottle necks in up scaling the SHG-Bank linkage in the states of Bihar, Uttar Pradesh, Madhya Pradesh, West Bengal and Orissa by conducting Goal Oriented Project Planning (GOPP) programmes for the district officers of NABARD in those states.

The trend in the physical and financial performance of SHG-Bank linkage programme is positive in all the regions except the central region where adequate upscaling measures are taken by NABARD.

The growth of the loan disbursed to SHGs by the commercial banks, RRBs and co-operatives had more or less exponential growth over the six regions namely, northern region, north eastern region, central region, eastern region, western region and southern region.

The State Bank of India has linked the highest number of SHGs (3,92,494) during 2005- 06 followed by Andhra Bank (1,13,466) and Indian Bank (96,460). Many other banks, specifically Canara Bank, Indian Overseas Bank, State Bank of Hyderabad, Syndicate Bank and Bank of India registered an impressive growth. The private sector banks which supported SHG financing are ICICI (17,755) followed by Vysya Bank

(8,252). The Regional Rural Banks have also participated in the SHG-Bank linkage Programme in an increasing manner. But their number has reduced in the recent years due to the absorption of certain RRBs by others. Co-operative Banks, though comparatively late starters, have begun many forays into the micro finance sector on a large scale. The amendments made by many of the States in their respective Co-operative Societies Acts enabled Co-operative Banks to take up the activity of promotion and nurturing of SHGs.

There is an increase in the quantum of loan disbursed by the three categories of banks over six regions. The southern region accounted for the maximum increase in the SHGs with the total loan amount sanctioned through commercial banks amounting to Rs.35064.2 million over the previous year, whereas the corresponding figures were Rs.11861.65 million and Rs.2866.47 million for RRBs and Co-operative Banks respectively.

Region – wise comparison of the SHGs under the three models using T-test, revealed that a significant difference existed in the proportion of SHGs under the three models for the six regions under consideration over the years. The proportion of SHGs was more under Model I in comparison with the proportion of SHGs under Model II and Model III.

From the figures representing the overall summary of the diversity indices computed from the regions under each model over the years, there was an increased tendency for a uniform disbursal of the loan amount over the three models as the popularity of the SHG scheme itself shows a sudden flair-up.

The tendency of an increased uniform distribution of the loan amount/SHG was more innate with the southern region, followed by western and eastern regions. In the northern and north eastern regions, it was in a mixed state. The growth of SHGs and also the increased loan amount per SHG in the southern region could be attributed to the popularity of the scheme coupled with the high literacy rate and per capita income rate of the southern region.

The variation between the three agencies i.e., the commercial banks, RRBs and co-operative banks in providing loans to the SHGs under the SHG-Bank Linkage programme is analyzed using Analysis of Variance (ANOVA) or F-statistics. All the 47 commercial banks, 156 RRBs and 329 Co-operative banks participating in financing of the SHGs under this programme from all the six regions are taken for analyzing the variation. It is found that there is significant difference in the loan disbursed through the commercial banks, co-operative banks and RRBs.

5.2 Conclusion

The study reveals that commercial banks are more interested in the financing of SHGs, rather than concentrating on promotional activities of SHGs. As regards the level of utilization of bank finance, it is seen that there is cent per cent utilization of bank loans by SHGs and their members. The average loan per member / family in the case of Kerala is very high compared to the national average. With respect to the pattern of utilization of bank finance by SHGs, it is seen that more than 50 per cent of the loans are utilized for consumption purposes. But a comparison of the SHGs under the three models reveals that banks prefer income generating activities, compared to other promoting agencies. The study also brings to light that the efforts of the NGOs to attract the members to income generating activities have not realized the desired results.

There is a positive growth in the SHG-Bank linkage programme in the entire six regions taken under consideration. The trend in the physical and financial performance of SHG-Bank linkage programme is positive in all the regions except the central region where adequate up scaling measures are taken by NABARD. Shannon Weaver Diversity Index computed for loan per SHG under the different regions revealed that there was an increased tendency for a uniform disbursal of the loan amount over the three models.

The development of caste and community based sub groups within the SHGs is an undesirable development which has been noticed during the study. Kendall's Co-efficient of Concordance has proved that there is perfect agreement among the fifteen banks that ranked the twelve constraints of SHG – Bank Linkage Programme. The problem of decreasing productive activities was noted, which in future might lead to low repayments. Moreover, financing by SHG members to outsiders at high rates of interest may gradually withdraw them from the already limited income generating activities and limit the significance of this micro financing programme to the role of a pure money lender in the days to come, if adequate steps are not taken by the promoting and financing agencies.

"Those who start with too little money are more
likely to succeed than those who start with too much.
Energy and imagination are the springboards to wealth creation".

- Brian Tracy

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Annexure

COLLEGE OF CO-OPERATION BANKING AND MANAGEMENT
KERALA AGRICULTURAL UNIVERSITY, THRISSUR

SURVEY SCHEDULE
(For SHGs)

1. Name of the SHG	:
2. Address	:
3. Model of SHG	: Model I , Model II, Model III
4. Promotional agency	: NGO / Kudumbasree / SGSY/ Banks
5. Date of inception	:
6. Total No.of members at the time of inception	:
7. Total No. of members at present	:
8. Date of linking with banks	:
9. Linked to which bank	:
10. Feature of the group	: Homogeneity in the standard of living/ Proximity of stay/ Activity
11. Conduct of meetings	: Weekly/ Fortnightly/ Monthly/ irregular
i) Reason for that specific conduct of meetings	:
ii) If irregular (Reason)	: a) Pre occupation with house hold activity b) Perceiving SHG meeting as waistage of time c) Difficulty in adhering to fixed time schedule d) Inconvenience in date and time e) Non availability of place f) Other reasons
12. Place of conduct of meetings	: Permanent/ Rotating
a) Specify the place of conduct	: Panchayath office/ Aganvadis/ Residence of any members

b) Any residence of members where meeting was not conducted : Yes/ No

c) If yes, specify the reason :

13. Prepare any agenda for meeting : Yes/ No

a) if yes, topics of agenda :

b) Who prepares it :

14. Level of attendence : <70%, 70-80%, 80-90%, >90%

15. Usual topics of discussions :

16. Any follow up action of the problems discussed :

17. Participation of the members in the discussion : Limited, Majority, only office bearers talk

18. Source of funds for the group : a) Savings
b) Agency(NGO) contribution
c) Bank loans
d) Fine
e) Interest
f) Others

19. Amount of savings : Fixed / Fluctuating

a) If fixed, specify amount :

b) If fluctuating, specify amount : Rs 5-10, Rs10-20, Rs20-30, Rs30-40, Rs40-50,>50

20. Mode of collection of savings : In the meetings/ office bearers collect from members residence

21. Whether they prepare minutes : Yes/ No

22. Nature of decision making :

23. No. of office bearers :

a) How they are elected :

b) Period of office :

c) keep any cash balance in hand :

Utilization of bank finance

24. Date of opening bank a/c :

25. Name of the bank and branch :

26. In whose name a/c is opened :

27. Who is operating the a/c :

28. Amount of at the time of linking :

29. Source of loan : Direct through banks or through NGOs

30. If directly through bank, give pattern of utilization

	Date	Purpose, period and amount				Interest charged				Repayment Amount		Amount outstanding
		Individual		Group		Individual		Group				
		IG	NIG	IG	NIG	IG	NIG	IG	NIG	Principal	Interest	
Pre-linkage												
Post-linkage												

IG - Income Generating, NIG - Non Income Generating

31. If through NGOs , give the interest charged

Si no	Purpose and Interest charged			
	Individual		Group	
	IG	NIG	IG	NIG

32. Balance amount in the a/c as on date :

33. Whether SHG give loan to outsiders : Yes/ No

a) If yes, to whom : i)To persons outside the group

ii) To other SHGs

b) In both cases, give details

Date	Purpose	Period	Amount	Interest charged	Repayment amount	Outstanding balance

34. Total amount of loan given so far :

a) Amount recieved from bank :

b) Amount given to members :

35. Procedure for availing loan :

a) Through banks :

b) Through NGO :

35. Participation of members in preparation of loan proposal : Yes/ No

36. In what do you ensure the participation : a) Pre-planning
(For both banks and NGOs)
b) Planning
c) Decision making
d) Implementation
e) Monitoring and evaluation

37. Any member with out loan :

38. Average deposit/ member (as on date) :

39. Average loan/ member (as on date) :

40. Repayment performance (in %) :

41. Any subsidy available for SHG :

42. Any training programmes conducted for group members :

43. How subsidy is distributed :

44. Benefits of SHG-Bank linkage :

45. Any problems faced in availing loans :

COLLEGE OF CO-OPERATION BANKING AND MANAGEMENT

KERALA AGRICULTURAL UNIVERSITY, THRISSUR

SURVEY SCHEDULE

(For Members)

1. Name of the respondent :
2. Name of the SHG :
3. Promotional agency :
4. Age of the respondent :
5. Gender :
6. Marital status : Married/ Unmarried/ Widowed/ Divorced
7. Educational level : Illiterate/ Primary school/ High school/ Technical education/ others
8. Religion : Nair/ Ezhava/ SC/ST/ Others
9. Nature of the family : Nuclear/ Joint
10. Family particulars (Including the respondent)

Sl No:	Name	Age	Sex	Education	Occupation	Monthly income

12. Motive of joining the SHG : a) Security

b) Status

c) Self esteem

d) Affiliation

e) Income generation/ employment

f) Obtaining credit

g) Social empowerment

13. How do you come to know about the SHG : Neighbors/ Block or panchayath members/ Media/ VEO/ Others (specify)

14. No. of years of membership :

15. Frequency of meetings conducted : Weekly/ Fortnightly/ Monthly

16. Participation in the group meetings : Regularly/ occasionally/ rarely

17. Do you save with the SHG : Yes/ No

18. If yes,

a) Amount of savings (as on date) :

b) Frequency :

19. Able to save the amount : Yes/ No

20. If No, why (Specify the reason) :

21. Source of savings : From owned sources/ Husband's money

22. Major source of borrowing

Source	Before joining the SHG	After joining the SHG
Banks		
Money lenders		
Friends		
Relatives		
Others		

23. Do you have a bank account : Yes/ No

(Pre or post joining the SHG)

24. Indebted to any source : Yes/ No

(Before joining the SHG)

25. If yes, give details

Date	Purpose	Amount	Source	Period	Interest	How it was repaid

26. Availed loan from SHG : Yes/ No

27. Utilization pattern of credit from SHGs

i) Purpose wise utilisation of credit from SHG : a) Debt redemption

b) Day to day consumption

c) Business investments

d) Consumer durables

e) Investments in land

f) Medical expenses

g) Education for children

h) Festivals and ceremonies

i) Purchase of livestock

j) Other income generating activities

k) Others

ii) Loan utilization pattern

Date	Purpose(domestic consumption, investment, repayment of old debt, marriage etc)	Amount	Period	Interest rate	Amount repaid	Amount outstanding	Source of repayment

28. Whether interest rate is high compared to other sources of loan : Yes/ No
29. Whether you prefer loans directly through banks or through NGOs.why? :
30. Any diversion of loan from purpose : Yes/ No
31. Has your Income increased after joining the SHG : Yes/ No

32. If yes, show your present and past source and amount of income

SI no	Past		Present	
	Source	Amount	Source	Amount

33. Has your savings increased after joining the SHG : Yes/ No

34. If yes, show your savings amount before and after joining the SHG

SI no	Before	After

35. Do you have savings other than SHG : Yes/ No

i) If yes, Specify :

ii) Do you have employment from that :

iii) Do you generate income from that :

36. Have you made any improvement to your home after joining the SHG : Yes/ No

37. If Yes,

SI no	Improvement	Before	After

38. Have you been able to acquire new assets after joining the SHG from the additional income : Yes/ No

39. If yes, give details

SI no	Assets	Before	After

40. Have you been able to get more employment after joining the SHG : Yes/ No

41. If yes, give details

SI no	No. of working days	Before	After

42. Have you depend on any other source of loan : Yes/ No

43. If yes, specify the source and purpose

SI No	Source	Purpose	Amount

44. Recieved any subsidy from SHG : Yes/ No

45. If yes, details

SI no	Source	Amount

46. Have you been able to acquire any new skill/ develop any existing skill through the SHGs : Yes/ No

47. If yes, indicate the skill/ training received

48. Benefits derived from the SHGs :a) Debt redemption
b) Savings habit
c) Economic independence
d) Employment
e) Better standard of living
f) Better education for children
g) Own assts or consumer durables
h) Self confidence
i) Social solidarity
j) Problem solving skill
k) Any other (specify)

49. Any problems faced :

50. Will you continue or leave :

51. Any one left after empowerment :

52. Any suggestions :

COLLEGE OF CO-OPERATION BANKING AND MANAGEMENT
KERALA AGRICULTURAL UNIVERSITY,
THRISSUR

TITLE OF THE STUDY: SHG-BANK LINKAGE PROGRAMME- A STUDY IN THRISSUR DISTRICT

Survey schedule
(For Banks)

1. Name of the Bank and Branch :
2. Year of commencing of SHG financing :
   a) When SHG a/c started :
   b) When SHGs are linked :
   c) When SHGs are financed :
3. No.of SHGs formed and financed over the years

	Number of SHGs					
Year	Formed			Financed		
	Directly	Under SGSY	Through NGOs	Directly	Under SGSY	Through NGOs

4. Details of loans and interest

Years	Directly		Through SGSY		Through NGO	
	Loan	Interest	Loan	Interest	Loan	interest

5. Interest rate

a) NABARD to Bank :

b) Bank to NGO :

c) Bank to SHGs :

6. Structure of Interest rate :

Purpose	Interest rate

6. Does interest rate vary depending upon the loan amount: Yes/ No

7. If yes, specify the interest rate :

8. Procedure for linking each model :

a) Directly :

b) Under SGSY :

c) Through NGOs :

9. Procedure of sanctioning :
   a) Directly :
   b) Under SGSY :
   c) Through NGOs :
9. Procedure of disbursement :
   a) Directly :
   b) Under SGSY :
   c) Through NGOs :
10. Credit limit fixation (Method) :
11. Rate of utilization of bank finance : 0-50%, 50%-80%, Above 80%
12. Monitoring of loan utilization : Yes/ No
   a) If Yes, how :
   b) If No, why :
13. Any supervisor is there : Yes/ No
   a) If yes, who :
   b) and Frequency of visit :
14. Repayment of loan : Regular / Irregular
15. If irregular,

Year	Amount	Overdue %

16. Any recovery measures adopted :
17. Refinance if any : Yes/ No
   If yes a) How much :
   b) Institution providing :
18. Subsidy if any :

If yes a) How much :

b) When it is received from Govt :

c) How it is adjusted :

19. How does the bank like to promote the SHG and why?

a) Directly :

b) Through SGSY :

c) Through NGO :

20. How do you rate SHG financing : Excellent/ Good/ Average/ below average/ Poor

21. What are the benefits of the programme :a) Low additional operational cost

b) Marginal loan losses

c) Tapping the skills of poor

d) No additional expenses on staff

e) More flexible and innovative

f) Transparency of transactions

g) Job satisfaction

h) Excellent loan recovery

22. What are the constraints faced :

a. Less knowledge about the Programme
b. Cannot afford such a 'social business'
c. Lack of sensitization of Bank staff
d. Target syndrome
e. Slow process
f. Lack of financial planning and policy initiative
g. Poor recovery performance
h. Inadequate central financial assistance
i. Lack of homogeneity among the members
j. Political interference
k. Insufficient provision of subsidy
l. Less experience of linkage

Abstract

SHG-BANK LINKAGE PROGRAMME – A STUDY IN THRISSUR DISTRICT

BY

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ABSTRACT OF THE THESIS

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ABSTRACT

Self Help Groups have been recognized by the policy makers as an effective tool for accomplishing the distributional objectives of monetary policy. The SHG model with bank lending to groups of poor women without collateral has become an accepted part of rural finance. With over 11 million poor households accessing banking services including micro credit through their 29,24,973 SHGs, the SHG-Bank Linkage Programme led by NABARD in India claims to be the largest and fastest growing micro finance programme in the world.

The study entitled "SHG – Bank Linkage Programme: A study in Thrissur District" has been undertaken with the objectives of analyzing the level and pattern of utilization of bank finance by the Self Help Group and their members under the SHG-Bank Linkage Programme; to identify the constraints, if any, in the SHG – Bank Linkage Programme: and to make a bank-wise and spatial comparison of the SHG- Bank linkage Programme. Both primary and secondary data have been used for the study. Primary data have been collected from 30 SHGs and 90 members from the three models of SHGs functioning in Thrissur district. Percentages, averages, T- test, Shannon Weaver Diversity Index and ANOVA have been used for the analysis of the data collected.

The study has revealed that the average loan amount per member / household is as high as Rs. 15100/- in the case of the SHGs selected, while the national average is only Rs. 2025/-. There is cent per cent utilization of loans of banks by the SHGs and their members. In aggregate, more than 50 per cent of the loans enjoyed by SHG members are utilized for consumption purposes. But when a comparison of the SHGs under different models are considered, it is seen that two – third of the loans of SHGs which are promoted and financed by banks are given for income generating purposes. The least share for income generating activities is from the members of SHGs which are promoted by NGOs. A tendency among SHGs to lend their funds at high rate of interest to outsiders

was noticed. This would further bring down the involvement of members in income generating activities in the future.

The development of caste and community based sub groups within the SHGs is an undesirable development which has been noticed during the study. The problem of decreasing productive activities was noted, which in future might lead to low repayments. Kendall's Co-efficient of Concordance has proved that there is perfect agreement among the fifteen banks that ranked the twelve constraints of SHG – Bank Linkage Programme.

There is a positive growth in the SHG-Bank linkage programme in the entire six regions taken under consideration. The trend in the physical and financial performance of SHG-Bank linkage programme is positive in all the regions except the central region where adequate up scaling measures are taken by NABARD. Shannon Weaver Diversity Index computed for loan per SHG under the different regions revealed that there was an increased tendency for a uniform disbursal of the loan amount over the three models.

The study has brought out the increasing significance of this informal system of financing to bring the poor and unbankable within the reach of a formal banking system. Efforts from the promoters, banks, NABARD and other agencies involved in the promotion and development of SHGs can definitely take our Self Help Groups and their member beneficiaries to still further heights in the future.