

Amit K Bhandari · Ashok Kundu *Editors*

Microfinance, Risk-taking Behaviour and Rural Livelihood

Achievements and Challenges of SHG-Bank Linkage Program in India: The Result of Village Surveys in Andhra Pradesh and Maharashtra

Toshihiko Suda and M. C. S. Bantilan

1 Introduction

Poverty alleviation is one of the biggest agenda in the world, especially in South Asia where more than 500 million people live below the poverty line (World Bank [n.d.](#)).¹ Since International Year of Microcredit was declared by the United Nations in 2005, microfinance has been increasingly recognized as an effective instrument of poverty alleviation in developing countries.

These are the fundamental reasons why financial inclusion of the the poor through microfinance (MF) is highlighted as one of the main instruments for poverty alleviation and equitable economic development in India, especially in rural areas where majority of BPL people live (GOI [2008](#); Mehrotra et al. [2009](#)). Government policy to extend microfinance in rural India is presently implemented mainly through the SHG-Bank Linkage n.d. Program (the SHG Program) which is effectively put into operation by the national refinancing agency National Bank for Agriculture and Rural Development (NABARD). This program aims to provide financial services of formal financial system such as savings and loan facilities to the poor by linking banks and Self Help Groups (SHGs), each of them formed by 10–20 neighboring villagers, mostly by women.

As Table 1 shows, development of microfinance in India was classified as a medium level in South Asia, much behind Bangladesh and Sri Lanka till mid 2000s (World Bank [2006](#)). However, recent fast growth of the SHG Program has achieved

¹ This is the accumulated number of BPL people of India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan and Maldives by international standard (1.25 PPP\$ per day) as on 2010. There is no figure shown in the World Bank ([n.d.](#)) for Afghanistan.

T. Suda (✉)
Daito Bunka University, Tokyo, Japan
e-mail: toshihiko_suda@yahoo.co.jp

M. C. S. Bantilan
ICRISAT, Hyderabad, India

Table 1 Situation of Microfinance (MF) in South Asia

Country	Poor families (million)	MF clients (million)	Ratio of MF clients to poor families (%)	MF coverage of poor families (%)
Afghanistan	2	0.12	6	3
Bangladesh	13	16	123	62
India	60	15	25	9
Nepal	1.6	0.5	31	14
Pakistan	8.5	0.58	7	2
Sri Lanka	1	2.5	250	63
Whole South Asia	86.1	34.7	40	17

Source World Bank (2006), p. 23

Notes (1) “Poor Families” are families subsisting on less than the government-defined poverty thresholds. (2) The above data are the latest available data by 2005 and include estimates of the authors of World Bank (2006). (3) “Ratio of MF Clients to Poor Families” may exceed 100 % partly because one family may be clients of more than one MF institutions and partly because some nonpoor families may be clients of MF institutions. (4) “MF Coverage of Poor Families” are estimates of the authors of World Bank (2006)

remarkable increase of microfinance clients in India. As on March 31, 2010, the SHG Program provides savings facility to 97 million households through 6.95 million SHGs (NABARD 2010), which means about 44 % of the total households in India² are beneficiaries of this world’s largest microfinance program (NABARD 2010). Thus, the ratio of SHG member households to the total poor households (63 million³) reaches 154 %, which surpasses the Bangladeshi figure in Table 1. Present India is, no doubt, one of the leading countries in the development of microfinance at least in terms of outreaches to rural households.

However, the degree of development of the SHG Program varies greatly across India due to different policies undertaken by respective states (Sriram and Radha 2007). In general, the SHG Program is more developed in India’s southern states. Four southern states, namely, Andhra Pradesh (AP), Karnataka, Tamil Nadu and Kerala, account for 46.4 % of the total SHGs in the country, although these states have only 21.0 % of the India’s total population. Among them, as Table 2 shows, AP alone accounts for 20.8 % of the total SHGs, almost three times of its population share of 7.2 % in the country. Significant expansion of the SHG Program in southern India, especially in AP, becomes evident when we see the volume of loan disbursement by banks to SHGs. The four southern states account for 67.8 % of the total loan outstanding given by banks to SHGs, and AP alone

² This figure was calculated based on the assumption that the total population in India is 1,186 million (Government of India 2011) as on 2010, one family has on average 5.36 members (as per Population Census 2001), and there is one SHG member in each SHG member household.

³ This figure was calculated based on the same assumption as the above “Note 2”, and the BPL ratio of 28.6 % by the national poverty line (Government of India 2011).

Table 2 Region wise situations of the SHG program (2010)

Region/state	Population (2008)		Savings of SHGs in banks			Loan outstanding of banks to SHGs			NPA against loan outstanding to SHG (%)
	Person (million)	Share (%)	Number of SHG (million)	Share (%)	Savings outstanding (billion Rs)	Number of SHG (million)	Share (%)	Loan outstanding (billion Rs)	
Northern region	152	13.2	0.35	5.1	3.4	0.15	3.1	8.2	6.6
North Eastern region	43	3.7	0.29	4.2	1.2	0.13	2.8	6.7	5.5
Eastern region	252	21.9	1.37	19.8	11.2	1.03	21.2	36.9	3.2
Central region	294	25.5	0.77	11.0	5.1	0.50	10.3	24.6	8.1
Western region	168	14.6	0.95	13.6	9.3	0.46	9.4	13.7	4.5
Maharashtra	109	9.4	0.77	11.1	5.7	0.39	7.9	12.0	4.7
Southern region	242	21.0	3.22	46.4	31.7	2.58	53.2	190.2	1.9
Andhra Pradesh	83	7.2	1.45	20.8	12.6	1.47	30.3	117.4	1.3
Whole India	1,150	100.0	6.95	100.0	62.0	4.85	100.0	280.4	2.9

Source NABARD (2010)

Note (1) Population of the year 2008 are "Estimated Mid Year Population". (2) The data of savings, loan outstanding and NPA are as on March 31, 2010. (3) NPA stands for "Non Performing Assets".

represents 41.9 % of the whole country as on March 31, 2010. These figures clearly indicate that AP is the most notable state in terms of development of the SHG Program.

In contrast to the vibrancy of the SHG Program in the southern region, the northern and the central regions are least developed areas in terms of the SHG Program. Development of the SHG Program in the north-eastern, eastern and western regions is medium level as shown in Table 2.

2 Objectives and Methodology of the Study

2.1 *Objectives of the Study*

Considering the outstanding development of microfinance in AP and the expectation that other states in India can learn a valuable lesson from AP (Ramesh 2007), it is worth conducting an in-depth study on what the SHG Program of AP has achieved and what challenges it is facing. The in-depth study is necessary because, in spite of worldwide effort to develop microfinance, it is not still very clear how effectively and efficiently microfinance impacts on poverty reduction (Hermes and Lensink 2007). Indeed, other states in India as well as other countries which plan to embark on this exemplar program can learn a valuable lesson from the experience of AP through this in-depth study.

The World Bank (2006) recommends that the achievements of microfinance programs should be evaluated using two criteria and refers to it as “double bottom line”. The first criterion is to what extent the program is contributing to poverty alleviation; and since poverty alleviation is the main goal of the SHG Program, obviously this is the primary criterion used in this study.

The second criterion is to what extent this program is sustainable, or viable in the long term. Because the goal of the rural financial reform is to ensure the inclusion of the poor in the modern financial market, that is, to provide sustainable financial services to the poor (Adams et al. 1984; Adams et al. 1981), the SHG Program should be able to stand on its own foot, at least in the long run. In AP State, as much as 67 % of the total refinance fund provided by NABARD, the national refinancing agency, to banks is used as loans to SHGs during 2009–2010. This fund is not costless and should be examined for its efficiency and sustainability.

Based on the village level data used in this study, the evaluation of the SHG program focuses on how effective the SHG Program is for poverty alleviation and what problems it has at grass root level. Investigation of the efficiency criterion, namely “efficiency and sustainability of the SHG Program as a poverty alleviation program”, needs broader discussions such as subsidy dependence index (SDI), which is beyond the scope of the data available in this study.

2.2 Methodology of the Study

This chapter addresses the essential question: “how effective is the SHG Program for poverty alleviation and what critical challenges is it facing?” Analysis will be based on the household data collected using personal interviews and survey instruments in two villages, one each in the states of Andhra Pradesh and Maharashtra of India. The data collected from selected households and all SHGs in the study villages included relevant information related to the SHG membership and activities. The household and SHG data are supplemented by information gathered from key informants and other stakeholders including bank staff. The two survey villages were selected from among six villages in which the International Crops Research Institute for Semi-arid Tropics (ICRISAT) has been conducting the Village Level Surveys (VLS) longitudinal household panel survey since 1975. A comparative analysis is undertaken by considering one village in Maharashtra as the control village where the SHG Program has not been actively implemented versus the study village in AP where the dynamics of the success of the SHG program is distinctly experienced. By comparing the two villages, we examine how and to what extent the SHG Program can change villagers’ life and what measures are required to develop the SHG Program further. Available data from the VLS longitudinal panel are also used to present a better understanding of the village level dynamics with respect to availability of credit to women and the individual/household/village poverty alleviation and empowerment.

3 Situation of the SHG Program in AP and Maharashtra

Across all the states in India, AP State is a front runner of the SHG Program. The latest data indicate that there are 995 thousand SHGs and 11.1 million members in AP as of November 2011. The members are exclusively women (SERP 2011). This means that the ratio of rural households having SHG member reaches 82 %⁴ in AP state.

As shown earlier in Table 2, the share of AP in the national total loan outstanding given by banks to SHGs reaches 41.9 % (based on the update of March 31, 2010), which is significantly higher than the AP to All-India population share of 7.2 %. Moreover, we should pay attention to the high ratio of SHGs getting loans from banks. The same table shows that the number of SHGs having loan

⁴ This estimate is based on the following assumptions. The total population of AP state is 84.7 million (as per Population Census 2011), of which 72.7 % live in rural area (as per Population Census 2001). Each household in AP state consists of an average of 4.52 family members (as per Population Census 2001). SHGs exist only in rural area. There is only one SHG member in a household. However, these assumptions would give an overestimation of SHG member households, because some households have more than one SHG member (say a mother and a daughter or daughter-in-law).

outstanding from banks is, unlike other regions, almost equal to the number of SHGs having savings in banks. This means that almost all SHGs and their members in AP State can get loans continuously from banks.

High recovery ratio of loan in AP State is also notable. The ratio of Nonperforming Assets (NPA) against the loan outstanding is only 1.3 %, much lower than the national average of 2.9 % and Maharashtra of 4.7 %. In contrast to the common problem of low repayment ratio which most of rural financial institutions and programs are suffering in India, the SHG Program in AP is exceptionally healthy as a government financial program in terms of repayment ratio.

These remarkable achievements of the SHG Program in AP are greatly attributed to the strong commitment of the state government. The AP Government has empowered an integrated program called “Indira Kranti Patham (Indira Revolutionary Way)”, which includes the former Development of Women and Children in Rural Areas (DWCRA) Program and Velugu (Light) Program, with a central focal position for enabling anti rural poverty policies (Government of Andhra Pradesh [n.d.](#)). As a result, the SHG Program (SHG-Bank Linkage Program) became one of the major components of Indira Kranti Patham which then provides various social and economic services to the rural women through SHGs. In addition, the AP Government has set up a special agency called Society for Elimination of Rural Poverty (SERP) to implement Indira Kranti Patham. At the village level, SHGs are federated to Village Organizations (VOs) under the support of SERP; and VOs in turn work as facilitators of the SHG program by disseminating the merits of SHGs in the village, thus helping women in establishing SHGs, and connecting SHGs with banks and supporting capacity building for SHG management (including book keeping and settlement of problems) to ensure long-term viability.

Maharashtra State, where another survey village is located, has a relatively lower level of the SHG Program’s development and utilization. Historically, the cooperative movement has been quite strong in this state and the government’s efforts to deliver financial services to rural area have been mainly pursued by credit cooperatives (Primary Agricultural Credit Societies (PACS) and District Central Cooperative Banks (DCCB)). This may be one reason for the Maharashtra Government for not proactively promoting the SHG Program. The relatively stagnant SHG Program in Maharashtra is evident from the following indicators. First, the share of SHGs formed in Maharashtra in the whole country (11.1 %) is almost same as its share of population (9.4 %). Second, the share of Maharashtra’s outstanding bank loans to SHGs (4.3 %) in the whole India is much less than that of population. Third, it is also noted that the number of SHGs having loan outstanding from banks (0.39 million) is much less than the SHGs having savings in banks (0.77 million). This means that SHGs and their members in Maharashtra cannot get loans from banks as easily as in AP. Additionally, the NPA ratio of this state is 4.7 %, much higher than AP of 1.3 %. These figures indicate that loans to the rural poor through SHGs are not flowing smoothly and there is a serious non repayment problem in this program in Maharashtra.

A significant disadvantage of the Maharashtra’s SHG Program in comparison to the program in AP is the absence of a special government organization such as

SERP of AP to support the SHG Program systematically. It is observed that where proper supporting NGOs or voluntary supporting persons are available even in maharashtra, they may work as intermediary or facilitator of this program by bridging banks and SHGs and supporting the activities of SHGs. But where such NGOs or persons are not available, bank staff themselves must visit villages to organize and support SHGs. The results of these differences in policy of the two states are presented in the next section.

4 Field Observations and Analyses

4.1 Background on the Study Villages

The locations of the case study villages in the states of Andhra Pradesh and Maharashtra are shown in Fig. 1. As stated earlier, these villages were selected from among six villages in which International Crops Research Institute for Semi-arid Tropics (ICRISAT) has been conducting household survey since the mid1970s. Household data used in this chapter were mainly collected by ICRISAT staff stationed in the respective study villages.

The study village in AP (hereafter stated “Village A”) has 766 households with a population of 3,563 in 2008. As Table 3 shows, the Gouda Caste, a scheduled caste (SC) whose traditional occupation is toddy collection, is the largest caste group in the village and accounts for 23.9 % of the total village population. This is followed by the Madiga SC (leather work), Kurma SC (shepherd), Mala SC (agricultural laborer), Vaddera (stonecutters; backward caste (BC)); and the Reddy (farming; forward caste (FC)) etc. Distance from the state capital Hyderabad is about 70 km and villagers’ life is changing quickly due to the influence of this fast developing mega city. These changes include emigration to Hyderabad for job and

Fig. 1 Locations of the study villages, *source* illustrated by author



Table 3 Outline of the study villages

	Village A (AP)	Village M (Maharashtra)
Total households (HH)	766	546
Number of landless households and their ratio (HH, %)	131 (17.1 %)	229 (41.9 %)
Average landholding of the total households (ha)	1.3	1.3
Average landholding of the agricultural land holders (ha)	1.5	2.3
Main occupations of household heads (person)	Agriculture (300), Laborer (144), Stonecutter (31), Sheep Rearing (21), Mason (21), Driver (18), Carpenter (17), Grocery shop (12)	Agriculture (153), Agriculture Laborer (115), Non-Farm Work (38), Private Job (34), Driver (30), Government Job (25), Sheep rearing (16), Casual Laborer (15), Regular farm servant (12)
Major caste (HH)	Gowda (183), Madiga (141), Kurma (89), Mala (86), Vaddera (61), Reddy (42), Shakali (23), Vadla (21), Muslim (15), Mangali (14)	Maratha (250), Shepherd (104), Mahar (46), Holer (24), Wadar (19), Muslim (17), Chambbar (11)
Total number of SHGs in the village	46	14
Ratio of SHG member households (%)	83.9 %	26.0 %
Number of the surveyed households	70	89
Number of SHG member households among the surveyed households and their ratio (HH, %)	52 (74.3 %)	24 (27.0 %)

Source Census Survey conducted by ICRISAT in 2008, SHG Survey conducted in 2010

change of cropping pattern from sorghum, pearl millet, and pigeon pea to vegetable and Bt. cotton. Traditional toddy business and livestock rearing are also prospering than before due to the increase of demand with the increase of household incomes.

The study village in Maharashtra (hereafter called “Village M”) has 546 households and the total population of 2,518 as of 2008. The Maratha Caste (farming: FC) accounts for 45.8 % and Shepherd Caste (BC) 19.0 % of the total households. Thus these two castes form the majority of the village. Then, Mahar (service: SC, 8.4 %), Holer (leather work and cleaning: SC, 4.4 %), and others follow. This village is located near to the trunk road connecting fast growing mega cities, namely Pune, Mumbai, and Hyderabad. And recently, much of the land was covered by canal irrigation scheme, which changed the cropping pattern of the village drastically from sorghum and chickpea to sugarcane, wheat, and vegetable. The good road access and the availability of water through canal irrigation have been observed to drive the faster pace of the economic growth and to give opportunities for diversification of economy in this village.

As for the landholding structure, these two villages are in a similar situation in terms of the average agricultural landholding size being 1.3 ha. However, the magnitude of landless households is quite different. The share of households having no agricultural land (landless) is much higher in Village M (42 %) than in Village A (17 %). This suggests that the poverty may be more severe in Village M than in Village A.

4.2 Development of the SHG Program in the Study Villages

The SHG Program started in the study villages in early 2000s. In the Village A, the first SHG was formed in the year 2000, while in Village M the first SHG was formed in 2003. The number of operating SHG is 46 in Village A and 14 in Village M. The total numbers of SHG members (all women) are 643 and 142 in the respective villages, which means that 84 and 26 % of the total households in the respective villages participate in the SHG Program assuming that each member household has only one SHG member. Thus, the SHG Program is much more widely spread in the Village A than in the Village M (Fig. 2).

4.3 Analyses of the Household Data

(a) Outreach to the Poor

(i) Characteristics of the SHG Members

In order to examine the achievements and limitations of the SHG Program, analyses were based on the detailed data of 70 households in Village A and 89 households in Village M which have been generated through the ICRISAT VLS

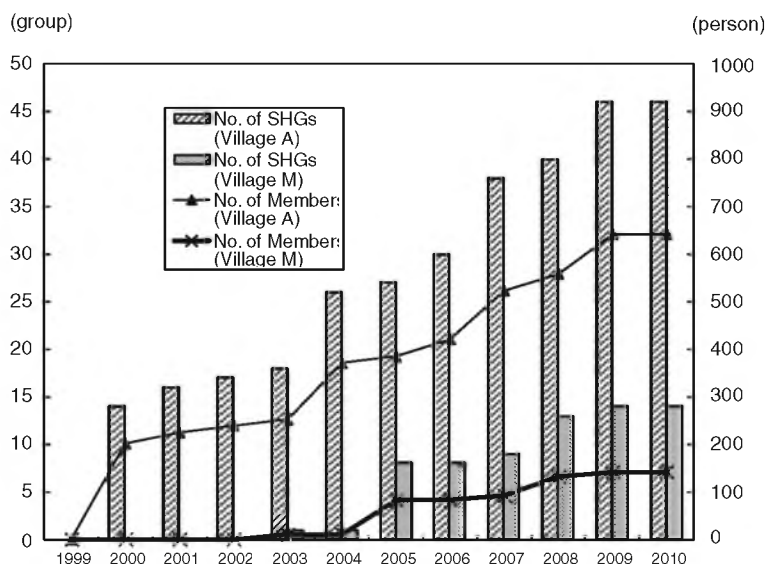


Fig. 2 Growth of the SHG Program in the Study Villages. *Source* Survey conducted in 2010. *Note* The numbers of SHGs and their members in respective years are those calculated by the established years of the presently working SHGs. Collapsed SHGs in the past and their members are not reflected in this figure. Therefore, the actual numbers of SHGs and their members in the respective years may be different from the numbers shown in this figure

longitudinal household panel surveys (see ICRISAT website on www.icrisat.org for description of the different VLS modules and other relevant information).

As Table 4 shows, majority of surveyed households (74.3 %) are SHG members in Village A. Interestingly, however, despite the main goal of this program being poverty alleviation, most of upper class households are found to be participating in the program while most of nonmembers belong to landless, marginal, and small landholding classes.

The data of Village M show the same result. That is, majority of the landless and small landholders are not included in the SHG Program, while many upper class households are benefiting from it. Seemingly, this program has failed to target the poor section of the rural society.

Landholding sizes of the member and nonmember households shown in the Table 5 confirm the above observation that SHG members are relatively rich households compared with nonmember households. The average landholding of member households is larger than nonmember households. But the median values of the member household and the nonmember household groups show little difference. This indicates that big landholders are included more often in member households than in nonmember households as the largest landholding sizes of member and nonmember households in the respective villages show.

Table 6 shows the relationship between the SHG Program and the main occupations of household heads. The result tells that the SHG Program covers all

Table 4 Relationship between landholding size and participation ratio in the SHG program

	Member of SHG		Nonmember of SHG		Total	
	Number of HH	Ratio (%)	Number of HH	Ratio (%)	Number of HH	Ratio (%)
Village A: Total	52	74.3	18	25.7	70	100.0
Landless	3	50.0	3	50.0	6	100.0
Marginal	17	85.0	3	15.0	20	100.0
Small	9	50.0	9	50.0	18	100.0
Small medium	15	83.3	3	16.7	18	100.0
Medium	8	100.0	0	0.0	8	100.0
Village M: Total	24	27.0	65	73.0	89	100.0
Landless	4	22.2	14	77.8	18	100.0
Marginal	5	29.4	12	70.6	17	100.0
Small	8	30.8	18	69.2	26	100.0
Small medium	4	20.0	16	80.0	20	100.0
Medium	3	37.5	5	62.5	8	100.0
Total	76	47.8	83	52.2	159	100.0

Source Survey conducted in 2010

Note Each household is classified into Landless (no agricultural land), Marginal (0.01–0.09 ha), Small (1.00–1.99 ha), Small-Medium (2.00–3.99 ha), Medium (4.00–9.99 ha), and Large (10.00 ha and above) according to the size of own agricultural land. There is no “large farmer” in the surveyed households

Table 5 Landholding size of member and nonmember households of the SHG program

	Village A		Village M	
	Member HHs (52 HHs)	Nonmember HHs (18 HHs)	Member HHs (24 HHs)	Non member HHs (65 HHs)
Average land holding (ha)	1.9	1.1	2.2	1.5
Median (ha)	1.4	1.1	1.2	1.1
Largest landholding (ha)	5.6	2.8	9.9	6.7

Source Survey conducted in 2010. ICRISAT VLS data base

kind of occupations almost evenly in both villages and shows no concentration on particular occupations.

In general, agricultural laborer households form the bottom of rural society. Therefore, the SHG Program should focus on this occupation along with other deprived sections. However, in both villages, the participation ratio of agricultural laborer households in the SHG Program is not visibly high. In other words, many agricultural labor households are excluded from this anti-poverty program. The reason the poorest of the poor do not participate in the SHG Program will be examined more carefully in the latter part of this chapter.

Table 6 Main occupations of household heads and participation ratio in the SHG program

	Member household		Nonmember household		Total	
	Number of HH	Ratio (%)	Number of HH	Ratio (%)	Number of HH	Ratio (%)
Village A: Total	52	74.3	18	25.7	70	100.0
Agriculture (Cultivation)	29	80.6	7	19.4	36	100.0
Livestock rearing	2	50.0	2	50.0	4	100.0
Agriculture Laborer	12	70.6	5	29.4	17	100.0
Non agriculture self employed	3	60.0	2	40.0	5	100.0
Non agriculture Permanent employee	4	100.0	0	0.0	4	100.0
Non agriculture day laborer	0	—	0	—	0	—
No job	2	50.0	2	50.0	4	100.0
Village M: Total	24	27.0	65	73.0	89	100.0
Agriculture (Cultivation)	9	25.7	26	74.3	35	100.0
Livestock rearing	1	20.0	4	80.0	5	100.0
Agriculture laborer	5	29.4	12	70.6	17	100.0
Non agriculture self employed	3	21.4	11	78.6	14	100.0
Non agriculture permanent employee	3	27.3	8	72.7	11	100.0
Non agriculture day laborer	1	33.3	2	66.7	3	100.0
No job	2	50.0	2	50.0	4	100.0
Total	76	47.8	83	52.2	159	100.0

Source Survey conducted in 2010

Table 7 Caste and SHG participation

	Member household		Nonmember household		Total	
	Number of HH	Ratio (%)	Number of HH	Ratio (%)	Number of HH	Ratio (%)
Village A: Total	52	74.3	18	25.7	70	100.0
Forward caste (FC)	5	71.4	2	28.6	7	100.0
Backward caste (BC)	30	71.4	12	28.6	42	100.0
Scheduled caste (SC)	17	81.0	4	19.0	21	100.0
Village M: Total	24	27.0	65	73.0	89	100.0
Forward caste (FC)	12	22.2	42	77.8	54	100.0
Backward caste (BC)	10	40.0	15	60.0	25	100.0
Scheduled caste (SC)	2	20.0	8	80.0	10	100.0
Total	76	47.8	83	52.2	159	100.0

Source Survey conducted in 2010

Likewise, it seems there is no particular relationship between the SHG Program and particular castes (Table 7). The SHG Program covers all castes almost evenly in the Village A, although the participation ratio of scheduled castes (SC) is slightly higher than the average. Participation ratio of SC in Village M is less than the average. And half of the total SHG members belong to forward castes (FC).

In conclusion, the above village-level evidences suggest that the SHG Program, so far, is not functioning well to deliver financial services to the poorest section of the rural society even in AP. While this program is open to all classes of the rural society, many nonpoor households and upper classes are more often enjoying the benefit of this program.

(ii) Reasons the Poor do not join the SHG Program

One natural question is “why many people, especially the poor, do not join the SHG Program?” As Table 8 indicates, the biggest reason majority of nonmember households do not join the SHG Program in Village A is that “There is no money to save”. Since the SHG Program is, unlike Grameen Bank of Bangladesh, “Savings First, Loan Later” type of microfinance program, it is difficult for the very poor households which have no saving capacity to join the program even if they wish to.

The second major reason of not joining this program is that “Husband does not encourage (to join SHG)”. This means there is still a psychological resistance in rural society at least for some men to let their wives go out for SHG activities.

The third common reason is that a woman who wishes to join the program is too old to be eligible for SHG’ membership. Since there is an age limit for SHG members, women over 60 years old are not able to join SHGs.

In conclusion, due to economic, social and institutional restriction, some women, especially poor and old women are excluded from this program even though they want to join it. Among these problems, poverty is the biggest reason for nonmember households’ exclusion from this program. Here lies a contradiction that the SHG Program, in spite of being a poverty alleviation program, tends to exclude its target beneficiary due to (a) lack of the poor sector’s adaptive capacity; as well as (b) ability of the elite to capture a whole range of beneficial development programs.

Another important result which is of interest in this study relates to the major reasons why majority of villagers in village M do not join the SHG program. Their commonest answer to this question is that they are not interested in this program.

Table 8 Main reasons nonmembers do not join SHGs

	Not interested	No money to save	Husband doesn’t encourage	Over the age limit	Others	Total
Village A (HH)	0	9	5	3	1	18
Village M (HH)	59	3	0	0	0	62
Total (HH)	59	12	5	2	1	80

Source Survey conducted in 2010

How should we interpret this answer? Interviews with some villagers revealed that attending monthly meeting of SHGs held in daytime for collection of savings and repayment of loans is taken as troublesome and waste of time especially for the poor who work on the field as agricultural laborers. Moreover, many people do not trust SHGs for safety of their savings due to experiences of collapse of several SHGs in the past. One informant revealed that 22 SHGs had been formed in this village but only 14 groups were working at the time of the survey (May 2010). The main reasons of SHGs' collapse are, according to the statement of villagers, that some members did not make repayment of their loans and did not save regularly. Conflicts among members regarding management of SHGs were also one of the major reasons of SHGs' collapse. In a word, SHGs in Village M are not working properly to make their members observe financial contracts and to solve conflicts among members.

On the contrary, collapse of SHGs is reportedly very rare in Village A. There is only one case that SHG stopped its activity because of conflict among members. However, after the leader of the group was replaced it started to work properly again.

Therefore, the question why many SHGs have collapsed in Village M arises as an important issue to understand the situation of the SHG Program in this village. This problem will be discussed again later.

(b) Effect of the SHG Program on Poverty Alleviation

(i) Financial Inclusion of the Poor by the SHG Program

We have seen that the SHG Program covers the majority of rural households in AP, while its outreach to rural people in Maharashtra is much less. So what results does the different outreach of the SHG Program in the two states make?

As Table 9 shows, the SHG Program has contributed to inclusion of many poor households having no or little land which were otherwise excluded from the formal finance in Village A. Over 31 % (22 households) of the total surveyed households, whose average landholding (0.8 ha) is much less than the average of the total surveyed households (1.7 ha), report that SHG is the only loan source from the formal financial sector. Similarly, 14.3 % of the surveyed households, again many of them are poor (average landholding 1.1 ha), answered that SHG is the sole means of savings in the formal financial sector. Thus, the spread of the SHG Program in Village A has contributed to the poor by including substantial part of the poor in the formal financial system.

However, we should not overlook the fact that there are still many poor households which are excluded from the formal finance. In Village A, nearly one-fourth (23 %) of the total surveyed households, many of them are poor in terms of landholding (average landholding 0.9 ha), still do not have access to the formal financial institutions.

As observed in the earlier section, inclusion of the poor in the formal financial sector through the SHG program in Village M has been constrained. Only four

Table 9 Contribution of the SHG program to financial inclusion of the poor

	Village A			Village M		
	Number of households	Percentage (%)	Average landholding (ha)	Number of households	Percentage (%)	Average landholding (ha)
Total households	70	100.0	1.7	89	100.0	1.6
No formal loan including SHG	16	22.9	0.9	35	39.3	1.3
Formal Loan only from SHG	22	31.4	0.8	4	4.5	0.6
Formal loan both from SHG and other formal institution/s	26	37.1	2.9	7	7.8	2.1
Formal loan other than SHG	6	8.6	1.5	43	48.3	1.9
No savings in formal institution/s	4	5.7	0.1	3	3.4	0.0
Savings in formal institution/s	66	94.3	1.8	86	96.6	1.7
Formal savings only in SHG	10	14.3	1.1	0	0.0	–

Source Survey conducted in 2010

Note Formal institutions include SHG, bank, cooperative, chit fund, post office, financial company, micro finance other than SHGs, pawn shop, etc

households (4.5 % of the total surveyed households) could obtain access to the formal financial sector by joining the SHG Program. In most cases, the SHG Program only provided additional loan sources to households which already had access to formal loans such as credit cooperatives and banks. On the other hand, 39.3 % (35 households) of the total surveyed households in Village M, many of them belong to the poor section inferred by their small landholding size (1.3 ha), are still left outside of the formal financial system in terms of access to loans, while most of the villagers have access to savings facilities in the formal sector. Although credit cooperatives in Maharashtra provide savings facility to all villagers, one must own at least one acre (0.4 ha) of agricultural land in order to be eligible for membership and to obtain loans. But as we have seen already, more than 40 % of the households in Village M are landless. Thus, the landless villagers generally do not have access to formal loans. Their loan sources are mostly friends/relatives and shopkeepers. These loans and advances are given usually free of interest but the amount is very little. Therefore, the biggest contribution expected for the SHG Program as a poverty alleviation program is to give financial

services, especially loans to the landless poor who are left outside of the cooperative system and in short of loan sources. But we must conclude that the SHG Program has failed to meet this expectation in Village M.

(ii) Position of the SHG Program in Rural Financial Market

In spite of general expectation that development of microfinance would eliminate dependency of the poor on informal finance especially usurious money lenders, the share of SHGs in the total financial market is very limited even in Village A. As Table 10 shows, shares of SHG loan and savings in the total loan and savings of the surveyed households are only 5.7 and 6.5 %, respectively. In Village M, the share of SHG on the villager's loan and savings portfolio is much less, only 0.9 and 4.9 %, respectively. This fact implies that the SHG Program has very limited impact on the rural economy as a whole even in Village A where majority of households participate in the SHG Program.

However, all households do not join the SHG Program and the impact of the program may be greater for the member households. So we divided the surveyed households into SHG nonmember households and SHG member households to see the impact of the SHG Program on the member households. Amount of loan and savings outstanding of SHG for each SHG member households are on average 5,900 Rs and 3,300 Rs, respectively in Village A and 1,800 Rs and 5,000 Rs, respectively in Village M. However, even for member households, shares of SHG loan and savings among their total loan and savings are only 7.2, 7.7 % respectively in Village A and 2.3, 14.6 % in Village M. Therefore, impact of the SHG Program is minor even for SHG member households.

The major loan sources and means of savings are quite different between the two villages. This is clearly a reflection of the governments' different policies and partly a difference of culture between AP and Maharashtra. The major differences of financial structure between the two villages are the role of cooperative sector and informal finance. The major loan sources in the Village A are still informal loans, especially from usurious money lenders (40 % of the total) who charge 33 % of annual interest rate on average. Interest rate of moneylenders' loan is much higher than those of the SHG Program charging 12 or 24 %. The former

Table 10 Share of SHGs in the rural financial market

	Village A	Village M	Total
Average loan outstanding of the total households (1,000 Rs)	76.2	55.2	64.4
of which, SHG loans (1,000 Rs)	4.36	0.48	2.19
Share of SHG loan in loan outstanding of the total households (%)	5.7	0.9	3.4
Average savings of the total households in financial institutions (1,000 Rs)	38.1	27.8	32.3
of which, SHG savings (1,000 Rs)	2.47	1.36	1.85
Share of SHG savings in the total savings in financial institutions (%)	6.5	4.9	5.7

Source Survey conducted in 2010

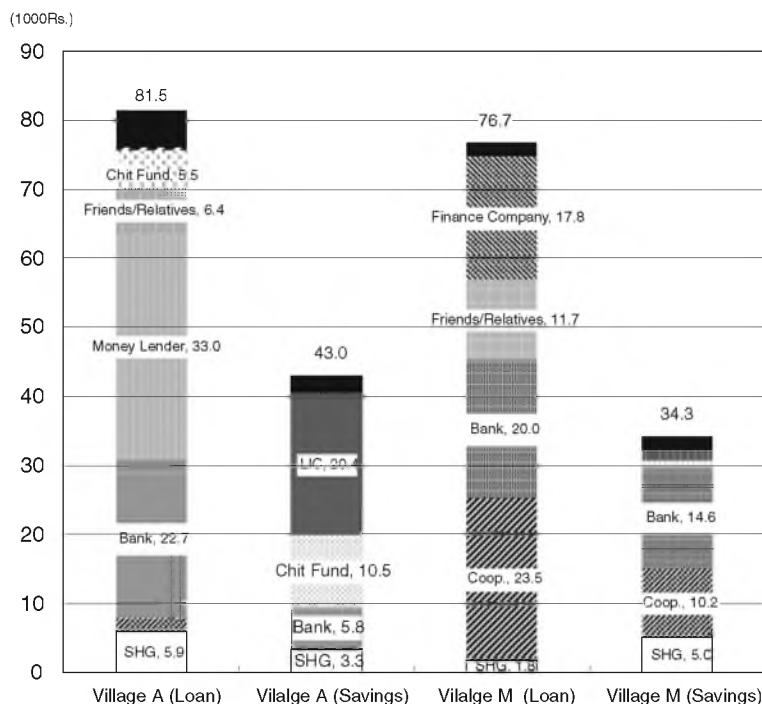


Fig. 3 Source wise average Loan and Savings of SHG Member Households (Outstanding). *Source* Survey conducted in 2010. *Note* LIC stands for “Life Insurance Corporation of India”

interest rate is applied for the loan provided by bank fund and the latter for the loan provided by members’ own savings, that is, internal loans. Unlike Village M where no interest is charged on loans from friends/relatives, loans are also charged high interest of 29 % on average in Village A. This suggests us that there is a big cultural difference regarding mutual credit among friends/relatives between the two survey villages, which even may be a difference between the north and south India. It is surprising that dominance of moneylenders in Village A has not changed very much since last 30 years or so (See [Table 7.2](#) of Walker and Ryan 1990), even after the remarkable development of the SHG Program and banks.

In this sense, the SHG Program in AP has had a very limited success on replacing usurious loans. Other financial institutions like banks, chit fund, and insurance (Life Insurance Corporation of India) are playing far bigger roles in Village A as loan sources and means of savings.

On the other hand, cooperative sectors, namely, Primary Agricultural Credit Societies (PACSBs) and District Central Cooperative Banks (DCCBs), are the major loan sources and means of savings in Village M reflecting the long history of strong cooperative movement in Maharashtra (Walker and Ryan 1990). Banks (commercial banks, regional rural banks) and finance companies have also

Table 11 Use of SHG loan

Purpose of loan	Village A		Village M	
	Number of outstanding loans (official purpose)	Share (%)	Number of outstanding loans (actual use)	Share (%)
Agriculture production	330	54.6	231	35.6
Purchase of livestock	164	27.2	118	18.2
Business	52	8.6	41	6.3
House construction/repair	15	2.5	39	6.0
Repayment of other loan	2	0.3	94	14.5
Ceremony/marriage	1	0.2	34	5.2
Education	2	0.3	19	2.9
House Expenditure	0	0.0	9	1.4
Medical Expenditure	0	0.0	8	1.2
Purchase of motor cycle	3	0.5	3	0.5
Purchase of assets (land, gold etc.)	1	0.2	13	2.0
Lending to others	0	0.0	9	1.4
Others	34	5.6	31	4.8
Total	604	100.0	649	100.0

Source: Survey conducted in 2010

Note (1) These are the data collected not from the surveyed households but from all SHGs in the two villages regarding their members' present loans. (2) In the questionnaire for Village M there was no question asking the difference of "official purpose" and "actual use". The question was only about "purpose of loan". (3) The answers to the question are free answers. (4) If one loan is used for multiple purposes, each purpose is counted as a separate loan up to two major purposes. (5) The shares of loans were calculated by numbers of loans not by amounts

appeared as major loan providers and means of savings. The role of the SHG Program as a source of loan is negligible as Fig. 3 clearly shows even for SHG member households. The SHG Program is playing a rather bigger role as means of savings as SHG's local name "Bachat Ghat (savings group)" rightly indicates.

(iii) The Use of Loan

Although SHGs have a very limited share in rural financial market, it may have an important effect on poverty alleviation depending on the ways loans are used. Therefore, before we conclude hastily that the impact of the SHG Program on poverty alleviation is negligible, we should discuss the qualitative aspects of this program.

Table 11 shows that how SHG loans are used in Village A and Village M. Notice that these data are the present loans of all SHG members in both villages.⁵ This table shows that the major uses of SHG loans in Village A are agricultural production (crop production), livestock purchase, repayment of other loans, business, house construction/repair, social ceremony, and so on. The major uses in Village M are agricultural production, house expenditure and ceremony/marriage. The share of loans used for house expenditure (purchase of food etc.) is high in Village M. Perhaps it is because bank loans are not easily available and sources of SHG loans in Village M are often members' own savings (internal loan). Amount of internal loans are usually little as the average amount of loan outstanding from SHGs 3,900 Rs shows. Therefore, internal loans do not satisfy villagers' credit need.

As seen above, the use of SHG loans is quite diversified and different between the two villages. However, apart from whether loans are used for productive purposes or consumption purposes, most of SHG loans are used for betterment of the members' life.

(iv) Interest Rates of SHG Loans

For loan seekers, interest rate is an important criterion for selection of loan sources. And the level of interest rates influences greatly the life of borrowers and the ways of loan use.

If interest rate is extremely high, it would trouble the borrowers' life because he/she has to pay a huge amount as interest at the time of repayment, which sometimes surpasses the principal and drives the borrower to lose important assets like land and impoverish him/her or even to commit suicide. And high interest loans usually cannot be used for investment purposes, because profits from investment in agriculture and businesses are usually not so high as to allow borrowers to pay 30 or 40 % of annual interest rates.

But if the interest is low, borrowers can easily repay the loan without trouble and can invest the loan for long-term investment such as buying agricultural land, tractors, installing a tube-well and starting new businesses etc.

⁵ The reason the data of the total SHG members in the two villages are shown here is that the number of loans from SHGs is very limited, especially in Village M. Therefore, we cannot understand correctly for what purposes SHG loans are used if we only use the data of the surveyed households.

Table 12 shows the interest rates of loans borrowed by the households at the time of the survey. Interest rates of loans are quite various depending on the sources and the village. In Village A, pawn brokers, money lenders, shopkeepers, and friends/relatives charge high interest rates of around 30 to 40 % annually. Among various loan sources, SHGs (Bank Fund) offer the cheapest loan along with banks and PACS. Even the interest rate of SHGs' internal loans is lower than most of informal loans. Another great merit of SHGs' internal loans is that the interest charged is distributed equally among all members as a profit of SHG. Therefore, it is easily understandable that SHG loan is highly appreciated among villagers.

SHG loans, however, have a totally different meaning in Village M. Surprisingly, the loan which charges the highest interest rate is SHGs in Village M. Common loan sources in this village are shopkeepers, friends/relatives, and banks and their interest is nil in case of borrowing from shopkeepers and friends/relatives and only 12.5 % for loans from banks. Interest rate of loans from PACS is even lower (6.5 %). Compared with these common loan sources, interest rate charged by internal loans of SHGs (24 %) is the highest level in this village. And lower interest loans from banks are not easily available as the number of loanees of SHG (Bank Fund) being only 3 as Table 12 shows. Relatively high interest rate of SHG

Table 12 Source wise interest rates of loans and the number of borrowers

Source of loan	Village A (70 HH)		Village M (89 HH)	
	Average annual interest rate (%)	Number of loanees (HH)	Average annual interest rate (%)	Number of loanees (HH)
SHG (Bank Fund)	12.0	43	14.0	3
SHG (Own Fund)	24.0	11	24.0	8
SHG (average)	14.4	48	21.3	11
Bank	11.6	27	12.5	49
PACS	12.0	8	6.5	11
Chit fund	24.0	16	n.a.	0
Pawn broker	42.0	8	n.a.	0
Finance company	18.0	1	14.0	5
Micro finance	20.3	8	n.a.	0
Dairy company/owner	n.a.	0	0.0	16
Money lender	33.3	43	n.a.	0
Friends/relatives	28.6	13	0.0	62
Shopkeeper	30.9	14	0.0	74

Source Survey conducted in 2010

Note "Average Annual Interest Rates" were calculated by simple averages of interest rate of each loan except "SHG (average)" which were calculated by average interest rate and numbers of loanees of "SHG (Bank Fund)" and "SHG (Own Fund)" (internal loans)

Table 13 Effect of the SHG program on life improvement

Question: Has your life improved by joining SHG ?

	Village A	Village M	Total
Yes, very much	10 (19.2 %)	2 (8.3 %)	12 (15.8 %)
Yes, but not much	24 (46.2 %)	16(66.7 %)	40 (52.6 %)
No change	17 (32.7 %)	4(16.7 %)	21 (27.6 %)
Life worsend	0 (0.0 %)	0 (0.0 %)	0 (0.0 %)
No answer	1 (1.9 %)	2 (8.3 %)	3 (3.9 %)
Total	52 (100.0 %)	24 (100.0 %)	76 (100.0 %)

Source Survey conducted in 2010

loans must be one of the main reasons, the SHG Program is not popular and some SHGs have collapsed because of default of SHG members in Village M. If this is true, relative high interest rate charged by SHGs is diminishing its own market as Stiglitz and Weiss argued the effect of “adverse selection” caused by high interest rate (Stiglitz and Weiss 1981).

It is true that there are moneylenders who charge 60 % of annual interest rate in village M. But fortunately very few people go for them nowadays. In our surveyed households, there was no borrower from such usurious money lenders.

(v) Effect of the SHG Program on Life Improvement

So the next question arises. If SHG loans are used for necessary purposes and interest rate is low in Village A, is the SHG Program improving the life of the members? If “yes”, to what extent? To this question one-fifth (19.2 %) of SHG member households in Village A answered that their life has improved “very much” due to the SHG Program (Table 13). If we include “Improved, but not much”, 65 % of member households answered that their life has improved at least to some extent due to the SHG Program.

Likewise, in Village M, 75 % of the total member households appreciate the effect of the SHG Program on their life. But the ratio of member households which answered that the SHG Program has improved their life “very much” is considerably lower (8 %) than Village A (19 %). Lower appreciation of members on this program in Village M may be attributed to the less chance of getting low interest bank loans and high interest rate charged for internal loans. Nonavailability of other services like subsidized gas, pension scheme and scholarship for children, which the SHG Program in AP offers to SHG members is probably another cause of low satisfaction from this program in village M.

However, it should be also noticed that no member household answered that her/his life has worsened because of joining the SHG Program. Readers of this chapter may think this answer is a matter of course. But we must remember that some microfinance providers in AP State have recently caused suicide of poor borrowers by putting heavy pressure on them for recovery of loans (Sriram 2010). The SHG Program in AP is a great success in that it realizes almost 100 % recovery without making such problems. The main reason of this success seems to

Table 14 Villagers' perception of the SHG program

	Village A	Village M
Number of SHG member households	52	24
Number of households wishing to continue SHG activities	51	23
Ratio of SHG HHs wishing to continue SHG activities (%)	98.1	95.8
Biggest reason SHG members wish to continue SHG activities		
Biggest reason	Low interest loan (47), Savings (2)	Savings (18), Safe savings (3), Easy procedure (1)
Second biggest reason	Savings (34), Pension (9), Subsidized gas (3)	Savings (3), Safe savings (2), Availability of loan (2)
Third biggest reason	Pension (17), Subsidized gas (16), Education scholarship (9)	
Biggest reason non SHG members don't wish to join SHGs	No money to save (9), Husband doesn't encourage (5)	Not interested (59), No money to save (3)

Source Survey conducted in 2010

Note Numbers in parentheses are the numbers of households answered

be that SHGs in AP are functioning as effective and flexible peer monitoring organizations ⁶(See Stiglitz 1990).

(c) Factors to improve the SHG Program

(i) Members' Perception of the SHG Program

How do villagers perceive the SHG program? As Table 14 shows, most of the present SHG members wish to continue SHG activities. This means that the SHG Program gives at least some benefit to most of members and the benefit they get is bigger than the cost they pay. And for most of members, the major benefits they get from this program are "low interest loan" and "means of safe savings" in Village A. Other than low interest loans from banks, monthly small savings of 50–100 Rs are also appreciated by most of members, because they can get fairly a big amount of money from own savings and the SHGs' profit when SHGs divide the savings and profit equally among members after several years of operation.

⁶ Information from SHG leaders of Village A and M revealed that collecting repayment of loans and savings regularly was the biggest problem of SHGs' management. Some borrowers and members cannot or don't want to repay and save regularly due to various reasons. In such cases, SHGs allow members to postpone the repayment of loans and monthly savings up to certain limit. But finally most of SHGs realize 100 % of repayment. This shows that at least existing SHGs are working as a flexible and strong recovery system.

In addition to these basic financial services, other poverty alleviation schemes of the AP Government like “pension scheme”, “subsidized gas”, and “scholarship for children’s education” are provided through SHGs as parts of Indira Kranti Patham Program. They are additional incentives for rural women to participate in the SHG Program. Thus, the SHG Program is considered as a beneficial program by most of rural households in Village A.

While positive feedback has been expressed in Village A, majority of villagers in Village M including the landless poor who do not have access to the formal financial institutions do not recognize the merit of joining the SHG Program. How does cultural and governance factors explain this observation? The main reason of the unpopularity of this program in Village M is that it is difficult to get low interest bank loans through SHGs. There is also a risk that they may lose their savings in SHGs due to collapse of SHGs. In Village M or more generally speaking in Maharashtra State, scarcity of bank loans from SHGs and weak management of SHGs seems to be the two sides of the same coin. Banks do not give loans to SHGs easily, because SHGs are not well managed and possibility of loan default is high as NPA (Nonperforming Assets) ratio of Maharashtra in Table 2 shows. And some SHG members do not want to repay their loans, because the chance to get the next bank loan is low and interest rate of internal loans (24 %) is much higher compared with other formal loans from PACS and bank loans (6.5–12.5 %). In addition, credit from friends and relatives are usually free of interest. Therefore, many SHG members try to escape from repayment of their loans. The bad culture nourished by frequent loan waivers (See Walker and Ryan 1990, Chap. 7) may be one of the reasons that SHG members try to escape from loan repayment. These various factors altogether deteriorate the management of SHGs. Thus, weak management of SHGs and less availability of loans from banks are making vicious circle in Village M and Maharashtra State, which loses interest and expectation of villagers for the SHG Program.

(ii) **Necessary Measures to Enhance the Effect of the SHG Program**

In the above analyses, we have examined the achievements of the SHG Program and found that it is generally considered to be a good and effective program for improvement of villager’s life in spite of its limited impact. So what measures are necessary to enhance its effect of poverty alleviation?

In Village A, more generally speaking in AP State, one necessary measure would be to enlarge its coverage, that is, to expand its membership to the poorer section of the society. Many poor people are still excluded from this program due to problems caused by defects of program design. Since many other anti-poverty programs are also delivered to the villagers through SHGs, exclusion of the poorest people from the SHG Program may widen the gap between the poorest and other section of the rural society. Therefore, inclusion of the poorest of the poor into this program by tuning up the program design is of urgent necessity.

Another effective measure would be to provide bigger and more frequent bank loans to meet the demand of SHG members. To the question asking the most expected measures for development of the SHG Program, 25 leaders among 47 SHGs answered “large and more frequent loans” in Village A. It is necessary to

widen the loan pipe and smooth the credit flow from banks especially to those villagers who do not have another access to formal finance, namely, the poor.

On the other hand, low participation ratio of the SHG Program in Village M suggests the importance of good management of SHGs and adequate support of banks or NGOs for this sake. Without experienced and well-functioning SHGs, there will be no scope that the SHG Program will develop in Village M, or generally speaking in Maharashtra. Existing SHGs in Village M are supported by a few voluntary “coordinators” in the village. But more systematic and firm support system like Indira Kranti Patham and SERP in AP seems to be the essential condition to extend the SHG Program especially to the poor.

5 Conclusion

Due to a strong initiative and elaborate support of the government, the SHG Program has spread rapidly to every corner of rural area and majority of rural households are now involved in this program in AP State. For the beneficiaries, this program provides not only cheap loan but also other various services like savings facility, pension scheme, subsidized gas, and scholarship for children's education. Although the amount of loans compared with their total credit need is very little, its interest rate is much lower than the loans from money lenders and friends/relatives. Thus, most of SHG members feel that the SHG Program is beneficial to them. However, the amount and frequency of SHG loans are far less than their need which drives villagers go for other loan sources including usurious money lenders and relentless micro finance.⁷ In order to solve the mismatch of credit demand and supply and to increase the effect of poverty alleviation, banks are expected to give bigger and frequent loans to SHGs. But this requires SHGs to enhance their capacity as effective financial intermediaries which have stronger assessing, monitoring, and enforcement power.

Moreover, many poor households are still excluded from the SHG Program due to poverty (lack of saving capacity) and age limit etc. In order to include these poor and aged households, the design of this program needs to be improved.

In Maharashtra State where Village M is situated, the SHG Program is not very active as in AP State, although most of present members appreciate the benefit of this program to some extent. The problems of the SHG Program in Village M suggest the factors causing its inactivity and the challenges this program is facing in Maharashtra. Lack or inadequate support system for the management of SHGs seems to be the main cause of inactivity and unpopularity of this program. Due to weak management of SHGs, many groups have dissolved and villagers' trust on

⁷ One of SHG leaders in Village A told the author that one micro finance institution has come and started lending in this village recently. Although it charges higher interest rate and weekly collection of loans is inflexible and relentless, some people have to borrow from it because loans from SHGs do not satisfy their credit need.

the SHG Program has been lost. These weak SHGs make the banks hesitate to give large and frequent loans to SHGs, which again reduces villagers' expectation toward the SHG Program. As a consequence, the program is thrown into the vicious circle of weaker management of SHGs and lack of impact especially on achieving poverty alleviation and more equitable development.

In conclusion, putting aside the discussion about efficiency and viability of the program, the SHG Program can be a more effective tool for delivering various financial services to the rural poor and for effective poverty alleviation. But the key factor for success of this program is the firm and well-functioning SHGs as financial intermediary institutions. In order to strengthen the management of SHGs, they need to be more sufficiently supported by banks/NGOs/government institutions especially with respect to capacity building on management, book-keeping, monitoring, and enforcement of loan repayment. As Geertz (1962) argued the role of ROSCAs in financial development, keeping the advantage of flexible informal self organizations, SHGs must learn the financial discipline, so that they can play more vital role to deliver formal financial services to the rural area especially to the rural poor.

In order to extend the SHG Program to areas/states/countries where it does not exist or has not developed well, experiences of AP and Maharashtra provide lessons on what works and what does not work. The different results of the AP and Maharashtra experiences reflect the differences in government policies, management of SHGs, culture, etc. If properly designed and implemented, the SHG Program will have a much bigger impact on inclusion of the poor, poverty alleviation, and equitable development not only in India but in South Asia where 500 million people still live in sheer poverty.

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