

Growth and Disparity of Micro Finance through Self-Help Groups in India

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ABSTRACT

Self-help groups are voluntary associations of people with common interests formed to achieve collective social and economic goals. Such groups are organised for mutual help and benefit. The initial operations of SHGs start with collecting savings from members. These groups inculcate the habit of thrift among the members. The Self-help groups provide economic benefits to the women by providing income generating activities. It is an attempt is made to study the progress of microfinance through self-help groups with some goals such as: to study the progress of the formation of self-help groups in India. It expressed the progress of microfinance through the SHG Bank linkage programme in India. To study the regional variation in the progress of self-help groups in different regions of India. It analyzes the variations in savings balance in different regions of India and explores the variations in loan disbursements in different regions of India. The most important observation that can be noted is that the number of microfinance institutions is rising enormously. The SHG Bank Linkage programme has played an important role in the progress of the disbursement of credit to SHGs. It is found that except for the central region in all other regions, there is a rising trend in the regional share of the progress of SHGs under the SHG-Bank linkage programme. However, there was a higher level of disparity in the physical spread of progress of SHGs in the different regions of the nation in 1999-00. It shows that the performance of SHGs in the southern region is better than the performance in other regions so far as the average savings balance per SHG is concerned.

Keywords: Micro Finance, SHG-Bank linkage, Different regions

JEL Classification Codes: G21

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I. INTRODUCTION

The concept of SHG services the principle, 'by the women, of the women and for the women'. Self-help groups are voluntary associations of people with common interests formed to achieve collective social and economic goals. Such groups are organised for mutual help and benefit. It is formed democratically without any political affiliations. They may comprise of 15–20 women and/or men, although they generally consist exclusively of women members. In India, more than 90 per cent groups are formed by women and are done at micro or group level. The initial



Suggested Citation:

Jena, N. M. (2023). Growth and Disparity of Micro Finance through Self-Help Groups in India, *Journal of Studies in Dynamics and Change (JSDC)*, 10(3). 15- 25.

DOI: <https://doi.org/10.5281/zenodo.10693987>

Published on: 01 July 2023

operations of SHGs start with collecting savings from members. These groups inculcate the habit of thrift among the members. By collecting small saving huge amount can be raised. These groups advance loans to the needy members. The total funds owned by the group are thus circulated in the form of loan among the members.

The identification, formation, and nurturing of groups is carried out by NGOs, other development agencies or banks with the promoters inculcating habit of thrift among members. Once the groups are trained and strengthened, they are linked to nearby banks, usually within six months of formation. Banks provide collateral-free credit in increasing proportion to the group's accumulated savings. All the initiatives such as selection of borrowers for availing credit, identification of activity, unit cost volume of loan, management of finance and procedures for repayment are undertaken by the poor at the group level. Briefly, SHGs can be stated 'as a plan by the people, of the people for the people. It reflects the real people's participation in the process of development at micro level.

Socio-Economic Empowerment through SHG

The economic contribution of women has been found to be related to her role and status in the society. The Self-help groups provide economic benefits to the women by providing income generating activities. Economic independence facilitates in bringing about sexual equality and increase in women's income translates more directly into family well-being. SHGs improve the equality of status of women as participants, decision-makers and beneficiaries in the social, democratic, economic and cultural spheres of life. SHGs ensure the equality of status of women as participants, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life.

Genesis of SHGs in India

Over the decades of planned development, the shift of emphasis of women's programmes from purely welfare oriented approach to a more pragmatic and development oriented one has recognized woman as a productive worker and contributor to the economy. The formal financial institutions have failed to perform their role of supplying institutional credit to the women folk in our country for undertaking the income generating activities. As a result, a large segment of poverty stricken people and particularly the women who constitute a significant number still remain outside need for the emergence of a new institution to tackle the situation.

The origin of SHG is from the brain child of Grameen Bank of Bangladesh, which was found by the economist, Prof. Mohammed Yunus of Chittagong University in the Year 1975, to provide micro-finance to rural women. In Bangladesh, micro-finance has been established as a most powerful instrument to tackle poverty.

The SHGs in India were formed by Mysore Resettlement and Development Agency (MYRADA), a NGO in 1985 due to breakdown of the large cooperatives organized by MYRADA. By 1986-87, there were nearly 300 SHGs in MYRADA's projects. MYRADA then approached NABARD form an action research project on self-help groups which funded the research. Within the same timeline, Asian and Pacific Regional Agricultural Credit Association (APRACA) weighed options and agreed on further action for effectively increasing credit access for the poor. In India, NABARD and a member of APRACA, carried out an elaborate study which gave useful insights into the dynamics of group organization, saving potential and repayment ethics of the poor. Encouraged by the results of the study and action research

project of MYRADA, NABARD, in consultation with the Reserve Bank of India (RBI), Commercial Banks and NGOs, launched a pilot project in 1991–92 for linking of SHGs with banks. Thus, the micro finance activity is the result of NABARD'S work that started in February 1992 through an initial pilot project promoting 500 SHGs. RBI had advised Commercial Banks in July 1991 to extend finance to SHGs as per NABARD guidelines. Subsequently, the linkage project was extended to RRBs and Cooperatives.

Development interventions in the rural areas by Voluntary Agencies (VAs) or, as they came to be known, Non-Governmental Organisations (NGOs) dates back to the pre-independence days. These interventions emanated from the prevailing situation of mass poverty, due to high levels of illiteracy, social discrimination and the inability of the official delivery mechanism to reach the benefits of social and economic development to the weaker sections of the society. The role of VAs/NGOs, which was initially confined to the social aspects of development, was enlarged to help the poor and weaker sections of the rural society in their economic pursuits. This foray by the VAs/NGOs in to the economic development could also be attributed to the inability of the formal credit institutions to cover a larger section of the rural poor, despite the expansion in the network of the bank branches in the rural areas. The institutionalization of the rural credit delivery system had facilitated the building up of a vast network of credit infrastructure and helped in weaning away a substantial proportion of the borrowing households from the usurious moneylenders. The proportion of rural households borrowing from formal institutional sources increased from a meager 3 per cent in 1951 to more than 61 per cent by 1981. Notwithstanding this favourable shift in the dependence on institutional sources of credit, the dependence of non-cultivator households, who constituted the rural poor, on non-institutional sources of credit continued to be very high in 1981. Nearly 64 per cent of the non-cultivator households were dependent on informal sources of credit in 1981 (RBI, 1987).

Despite a large network of rural banking branches in India and the inability of those credit institutions, a large number of poor especially women continued to remain outside the formal banking system. Thus there is a need of an alternative model to finance this section of society. It has prompted a number of VAs/NGOs to enter the rural credit scene for organising the poor into informal groups for mutual help and benefit. Many of these groups have provided credit support through their credit institutions. Hence first micro finance institution in India, Shri Mahila SEWA Sahakari Bank was set up as an urban cooperative bank in Ahmadabad soon after Self Employed Women's Association (SEWA-an NGO) was formed in 1974. It was exclusively meant for women and has been providing banking services to the poor women employed in the unorganized sector particularly hawkers, vendors, domestic servants etc. Friend's of WWB (FWWB), Ahmadabad, an affiliate of Women's World Banking (WWB), New York, is networking with NGOs giving financial assistance to women groups. The Working Women's Forum, Chennai has been organising Women Co-operative Societies in Tamil Nadu since 1980 for pursuing income-generating activities and facilitating their empowerment. So also Shreyas in Kerala has started micro finance operations from 1988. MYRADA, an NGO based in South India, is engaged in promoting SHGs and has done pioneering work in providing access to credit through linking with formal credit institutions through the Credit Management Groups (CMGs) promoted by it. PRADAN- Professional Assistance for Development Action has developed solutions to the problems of the rural poor through collaboration and jointly working with the rural community⁹ⁱ. These agencies were instrumental in promoting informal structures of the poor to help



them save and promote self-reliance in financing their needs through the concept of Self-Help Groups (SHGs).

An official beginning of micro finance in India can be noticed during 1986-87 when National Bank for Agriculture and Rural Development (NABARD) initiated certain research projects on Self-Help Groups (SHGs) as a channel for delivery of micro finance. Besides it, NABARD increased popularity of micro finance innovations as a viable tool for extending credit to the poor. The National Bank's involvement with Self-Help Groups (SHGs) came about in 1986, when the Sixth General Assembly of Asia-Pacific Rural and Credit Association (APRACA) at Kathmandu in Nepal considered a proposal for Promotion of Linkages between Banking Institutions and Self -Help Groups in Rural Savings mobilisation and Credit Delivery to the Rural Poor. As a consequence, the National Bank conducted an All-India Survey of the existing SHGs operating in the country, gained insights into the dynamics of group formations and their operations, the role NGOs/ VAs play in organising and promoting SHGs and organised workshops and National Consultations to share the experiences and to chalk out the future strategy for specialised micro-finance programmes. Based on the feedback obtained, the National Bank launched a pilot project in 1992 for linking 500 SHGs with Commercial Banks. Linking of SHGs with banks has evolved as a cost effective and transparent supplementary credit system for reaching the unreached rural poor with advantage to both the banks and the rural poor. Besides building mutual trust and confidence between the banks and the rural poor, the linkage is expected to promote the thrift and inculcate credit discipline among the rural poor.

The pilot project was further extended to Regional Rural Banks (RRBs) and Co-operative Banks in 1993 and is now considered by the Reserve Bank of India (RBI) as a regular component of priority sector lending. Under the linkage programme, three models have emerged. In the first two linkage models, the NGOs act either as a facilitator (Model 1) or as a facilitator and financial intermediary (Model 2) while the third model is a direct linkage programme between the National Bank, banks and SHGs, without any role for the NGOs. However, experience shows that models envisaging a role for NGOs are more popular among the rural poor.

The basic philosophy underlying the “SHG-Bank Linkage Programme (SBLP)” promoted by NABARD is to establish synergy between the banks, which have the financial strength and the NGOs, who have the ability to mobilise the poor and build-up their capacity to avail loans from the banks. The linkage improved the outreach of the formal banking system and at the same time reduced the transaction cost to both the small clients as well as the banks. The concept of SHG provides the poor with means for “economic and social empowerment”. The groups are formed on voluntary basis characterised by small size, usually limited to less than 20 members per group with homogeneity in terms of socio-economic conditions and levels of living.

II. REVIEW OF LITERATURE

A study conducted by NCAER in 2008, sought to assess the impact of the SHG Bank Linkage Programme (SBLP) on the socio-economic conditions of individual SHG members by comparing their pre and post SHG scenarios across six states in five different regions of India. It concluded that the SBLP has positive impact on members by increasing their access to financial services (and reducing household poverty) as well as empowered women through an increase in their self-confidence.

Salomo et. al (2010) did a research on Sustainability of SHG Federation Structures covering 12 SHG federations in six different states of India. It opined that federating is needed for ensuring outreach, member ownership and governance, bottom up structured and linked multi-level systems, reduced dependency on external advisory and financial support, ability to face different environmental and socio-economic circumstances, and legal and regulatory framework.

A report on SHG Federations: Development Costs and Sustainability, by Girija Srinivasan and Tankha reported that the absence of savings and appropriate legal framework are the severe constraints on the financial viability of federations of SHGs (Srinivasan G., 2010).

According to NABARD's publication Status of Microfinance in India 2011-12 there are disparities in the geographical spread of SHG bank linkage programme and credit deepening (NABARD, 2012). As on March 2012, out of 33 states, 22 states and union territories have less than 50% of SHGs having a savings bank account have a loan outstanding to banks; another 10 states have 50 to 80 per cent of SHGs with loan outstanding; and only one state, namely Andhra Pradesh, has 80% per cent of SHGs with loan outstanding to banks.

Almost 40% of SHGs are weak in terms of maintenance of records as these systems were too complicated for members to maintain. With regard to lending practices, a fair amount of equity was practiced. However, some were found to be lending to non-members. The study indicated high levels of defaults in the prepayment of loans in South India due to the supply led-approach. The repayment of loans given to member from their savings was a major concern. Half of the SHGs under the study were operating in profits. However, due to high default and low interest rates, the financial value of the members' savings could not be maintained. The study concludes that while there is a need to focus on quality rather than on quantity, expectations pinned on SHGs need to be realistic. Also, fundamental to the sustainability of SHGs is the feeling of ownership of members about the group.

III. OBJECTIVES

In this paper an attempt is made to study the progress of micro finance through self-help groups with the following objectives:

- To study the progress of formation of self-help groups in India
- To study the progress of micro finance through SHG Bank linkage programme in India
- To study the regional variation in progress of self-help groups in different regions of India
- To study the variations in savings balance in different regions of India
- To study the variations in loan disbursements in different regions of India

IV. DATA AND METHODS

The data for the present study have been taken from the various reports of NABARD, the apex institution extending support to self-help groups. The findings of NABARD published through its publications of 'Status of Micro Finance' in various years have been utilised to prepare this paper. Analysis is made on the basis of the progress of the number of the self-help groups formed throughout the nation as well as the different regions. Attempt has also been made to study the regional variations in shares of different regions in formation of self-help groups as well as the progress in savings balance and loans disbursed to self-help groups in India.



The percentage of growth of number of SHGs, Savings balance and loan disbursed has been computed by using the formula:

$$G = [(X_N - X_{N-1}) / X_{N-1}] \times 100$$

where G represents growth rate,
 X represents number of SHGs or
 Average Savings balance or
 Average Loan disbursed and N represents the year

V. ANALYSIS AND RESULTS

NABARD's efforts at improving the access of the rural poor to formal banking service through SHGs gathered momentum over the years. One decade as at end 2001-02, the informal delivery strategy through SHGs developed by NABARD has expanded into the largest Micro-Finance Programme (MFP) in the world, in terms of its outreach. The programme registered a significant growth both in terms of coverage and the outreach of credit to the poor.

The beginning of financing SHGs started with a modest number of 255 SHGs being linked during 1992-93, a cumulative total of 151.38 lakh SHGs were linked with banks by March 2017. In recent periods it is observed that 12.28 lakhs self-help groups have been financed in year 2007-08. The number has been increasing each year. In 2016-17 only it has reached highest at 18.98 lakhs which has been financed by SHG Bank Linkage Programme of NABARD. Thus the cumulative total number of SHGs financed through this programme has reached the peak level of 151.38 lakhs (Table 1).

The disbursement of bank loans to SHGs was only ₹ 0.29 crore in 1992-93. But the cumulative disbursement in 2016-17 has reached the level of ₹ 61581.30 crore. It is found that the level of bank loan was ₹ 8849.26 crores in 2007-08. But it reached Rs. 20586.36 crores in 2012-13. There has been an increasing trend in extending bank loans to SHGs throughout the period and it has reached the level of Rs. 38781.16 crores in 2016-17 with an increase of 88.38 per cent within these recent five years.

Again it is located that this growth of financing SHGs by banks has been possible due to the refinance opportunity to the banks by NABARD. It can be noticed that it has extended its refinance assistance to the banks from a meager level of ₹ 0.27 crores in 1992-93. But in 2015-16 the level of assistance has reached its peak level of ₹ 6906.03 crore, which has come down to ₹ 5659.51 cores in 2016-17. Thus the cumulative refinance amount has reached the level of ₹ 38781.16 crores in 2016-17.

Table 2 expresses the regional spread of physical progress of SHGs under SHG-Bank Linkage programme. It is observed that despite good progress in total coverage, the Southern region continued to lead the other regions since the beginning of the linkage programme. The share of the Southern region was 68.59 per cent in 1999-00. But it gradually declined to the level of 43.43 per cent in 2016-17. Still it maintains its lead position over the whole period. The share of the Eastern region also increased from 8 per cent in 1999-00 to 22.77 per cent in 2016-17. The share of Central region declined from 13.29 per cent in 1999-00 to 9.89 per cent in 2016-17. The share of Northern region also increased from 2.81 per cent in 1999-00 to 5.33 per cent in 2016-17. Similar trend is located in North eastern and western region. In case of north eastern region the progress is from mere a share of 0.02 per cent in 1999-00 to 5.28 per cent in 2016-17. In western region the share of 6.96 per cent in 1999-00 has increased to 13.30 per cent in

2016-17. The progress of Northern and North-Eastern region is found to be very slow. The only region in whose share has declined is the central region. Hence it is found that except the central region in all other regions there is rising trend in regional share of the progress of SHGs under SHG-Bank linkage programme.

Table 1: Progress in SHG Bank Linkage Programme

Year	No. of SHGs Financed by Banks (in lakhs)		Bank Loan (Rs. Crore)		Refinance (Rs. Crore)	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1992-93	0.002 (NA)	0.002 (NA)	0.29 (NA)	0.29 (NA)	0.27 (NA)	0.27 (NA)
1997-98	0.057 (71.27)	1.43	11.92 (106.23)	23.76	10.74 (115.23)	21.39
2002-03	2.56 (29.46)	7.17	1022.33 (87.42)	2048.67	622.47 (61.43)	1412.71
2007-08	12.28 (11.04)	36.26	8849.26 (34.69)	16999.90	1615.50 (24.95)	7061.99
2012-13	12.20 (6.27)	84.16	20586.36 (24.50)	39375.30	3916.64 (27.47)	20585.36
2013-14	13.66 (11.97)	97.82	24017.36 (16.66)	42927.52	3745.84 (4.36)	24017.36
2014-15	16.26 (31.40)	114.08	27582.31 (14.84)	51545.46	4493.67 (19.96)	27582.31
2015-16	18.32 (12.67)	132.40	37286.90 (35.18)	57119.23	6906.03 (53.68)	37286.90
2016-17	18.98 (5.00)	151.38	38781.16 (4.007)	61581.30	5659.51 (18.04)	38781.16

Source: Annual Report, 2000-2001, NABARD; SHG-Bank Linkage, Status of Microfinance, Various Years, NABARD

Note: The figures in parenthesis represent the percentage growth

Table 2: Regional Spread of Physical Progress of SHGs under SHG-Bank Linkage Programme (in percentage)

Region	1999-00	2013-14	2014-15	2015-16	2016-17
Northern	2.81	4.92	4.69	4.98	5.33
North Eastern	0.02	4.26	4.34	5.44	5.28
Eastern	8.19	19.78	19.81	21.51	22.77
Central	13.29	9.23	10.62	10.32	9.89
Western	6.96	12.07	12.23	12.88	13.30
Southern	68.59	49.75	48.32	44.87	43.43
All India	100*	100*	100*	100*	100*

Source: SHG-Bank Linkage, Status of Microfinance, Various Years, NABARD

Note: As data was not available for repeat finance SHGs, the grand total may not tally with disaggregated totals

Table 3: Average Savings Balance per SHG (in Rs.)

Regions	Average Savings Balance per SHG			
	2012-13	2013-14	2014-15	2015-16
Northern	6175	7810	11440	10865
North Eastern	4159	4017	4427	5069
Eastern	5827	9471	14608	17231
Central	7549	8889	10079	9888
Western	8210	7680	10383	12160
Southern	10080	14352	24449	26302
All India	8217	8703	12564	17324

Source: SHG-Bank Linkage, Status of Microfinance, Various Years, NABARD

Table 4: Average Loans Disbursed per SHG (in Rs.)

Regions	Average Loans Disbursed per SHG				
	2012-13	2013-14	2014-15	2015-16	2016-17
Northern	109113	117269	97777	126746	123294
North Eastern	71606	79125	84056	84375	98134
Eastern	70570	50783	93690	84709	95194
Central	108895	93092	101536	141272	82864
Western	100803	98404	120279	167636	139311
Southern	105161	235718	213083	258996	272962
All India	94358	175768	118403	203495	204314

Source: SHG-Bank Linkage, Status of Microfinance, Various Years, NABARD

So far as the findings in average saving balance is concerned, in all the Regions there is an increasing trend in the recent period from 2012-2013 to 2015-16. In the northern and central regions only there is continuous rise in saving balance up to 2014-15, in which it reached its peak level of year then it declines in 2015-16. The only region in which has very low average saving balance is the north eastern region. The progress of eastern and southern region is found to be very high which are ₹26302 and ₹17231 respectively. The southern region only has higher average savings balance than the all India level of average savings balance. All India level of average savings balance has increased from the level of ₹8217 in 2012-13 to the level of ₹17324 showing an increasing trend. Among the various regions, North eastern region maintains lowest average saving balance in all the years in the recent period. It is noticed that all India level of savings balance has been continuously increasing to reach its peak level of ₹17324. But southern regions have highest level average saving balance in 2015-16 at the level of ₹26302.

Average loans disbursed per SHG have been shown in Table 4. It is found that the average loan disbursed per SHG is highest in Southern region in recent five years except the starting year of 2012-13. In all other regions it lies in between ₹70570

and ₹108895 in 2012-13. Except the southern region, almost all the other regions have less average loans disbursed per SHG than the all-India level. The lowest level of average loans disbursed is found in eastern region in 2012-13 and 2013-14. But in year 2014-15 and 2015-16 it reached lowest in the North Eastern region. In year 2016-17 it is lowest in central region.

All these show that there is unequal distribution of SHGs among different regions of the nation. But its progress in covering the number of households under SHGs has reached 151 lakhs which is not less significant. Thus the micro finance movement in India has been progressing in a positive direction in delivering the financial services to the needy and under privileged section of our society. Although the level of penetration is high in southern region, there is diversification of MFIs to other regions at a rate of growth which is higher than the rate of growth in southern region.

No doubt, micro finance in India has grown at a tremendous pace in recent years in reaching the rural households across the country. It has become an important alternative to traditional lending in terms of reaching the poor. The SHG-Bank linkage supported by NABARD and growth of MFIs has emerged as the two most prominent means of delivering micro finance services in India. Although the growth of micro finance movement has been impressive, the large concentration of SHGs in Southern region calls for certain measures to extend the provision of micro finance services to other regions of the nation.

VI. CONCLUSION

Most of the studies on micro finance conclude that micro credit contributes to poverty reduction. But it is very difficult to identify the core poor (Dunford, 2006). Khandekar (2005) points out that the extremely poor benefit more from micro finance than the moderately poor. On the other hand, Hulme and Mosley find that it is the better off poor stands to benefit more than the core poor. Hence it needs more empirical research on impact of micro finance on poverty alleviation.

In the present study, the following conclusions can be reached from the findings stated above.

- The most important observation that can be noted is that the number of micro finance institutions is rising enormously. Many new institutions are coming up every now and then
- The SHG Bank Linkage programme has played an important role in progress of disbursement of credit to SHGs. It is because the refinance opportunities of NABARD through its SHG-Bank linkage programme has encouraged the commercial banks to provide loans to SHGs, which can be located from the growth of disbursement of loans to SHGs
- It is found that except the central region in all other regions there is rising trend in regional share of the progress of SHGs under SHG-Bnk linkage programme. But, there was higher level of disparity in the physical spread of progress of SHGs in the different regions of the nation in 1999-00. The absolute range as a measure of dispersion was 68.57 in 1999-00. It has reduced to a level of 38.15. Although in recent years the disparity among the regions has declined, there is necessity of measures to reduce disparity further by encouraging the progress of SHGs in regions having low number of SHGs
- Regarding the average savings balance per SHG, it can be concluded that the southern region takes its lead position among all the regions of the nation. Almost all other regions have lower average savings balance per SHG than that of the



same at national level. It shows that the performance of SHGs in southern region is better than the performance in other regions so far as the average savings balance per SHG is concerned

- So far as the average loans disbursed per SHG is concerned it can be noticed that the southern region dominates in recent years. The performance is same as in case of the average savings balance. The average loans disbursed is again highest in southern region recent years. Even it is higher than that of the national average loans disbursed to SHGs. There is also disparity in average loans disbursed in recent years among other regions of the nation. Therefore it needs intervention measures to reduce inter-regional disparity

The Malegam Committee (2011) has identified some specific areas of concern. The recommendations include restricting the membership to only one SHG, disallowing more than two MFIs to lend a single borrower, fixation of a minimum period of moratorium between the loan disbursement and recovery, varying the tenure as per the amount of loan, establishment of a credit information bureau, avoidance of coercive methods of recovery, preparation of a draft Customer Protection code to be adopted by all MFIs, grievance redressal procedures and compulsion of MFIs to observe a specified Code of Corporate Governance. Implementation of these recommendations will help in the progress of Microfinance movement in India.

However, micro finance movement in India has promoted regular saving as a habit even among the poorer households through SHGs. It also teaches the clients to adopt discipline in their social life through its persuasion in timely repayment of loan along with maintaining the regular saving habits. More particularly in case of women, it helps in creation of confidence in performing the official works through the training and capacity building programmes among the members of SHGs. Its contribution in confidence building among the members is highly significant. Regular saving, timely repayment, work to earn income, ability to control household and husband's expenditure particularly in case of women members of SHGs helps in living their life in an improved manner, which is the call of the day as living the life in a better way can only optimize the social welfare.

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