

# Whither Graduation of SHG Members?

An exploration in  
Karnataka and Odisha

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स्वयं सहायता समूह सदस्यों के क्रमिक विकास की दिशा ?

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कर्नाटक और ओडिशा में एक अन्वेषण

**Whither Graduation of SHG Members?**

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An exploration in Karnataka and Odisha

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आर्थिक विश्लेषण और अनुसंधान विभाग

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## **LIST OF ABBREVIATIONS**

BPCL: Biju Pattanaik Club and Library  
BPL: Below Poverty Line  
BOG: Business Oriented Groups  
CD Ratio: Credit Deposit Ratio  
D. Kannada: Dakshina Kannada  
DCCB: District Central Co-operative Bank  
GOI: Government of India  
GRIND: Graduation Index  
HH: Household  
HDI: Human Development Index  
IB: Individual Banking  
ICT: Information Communication Technology  
IGA: Income Generating Activities  
JLG: Joint Liability Group  
KCCB: Khordha Central Co-operative Bank  
ME: Micro-enterprise  
MEIND: Micro-enterprise Dimension Index  
MFIs: Microfinance Institutions  
MEDP: Micro Entrepreneurship Development Programme  
MNREGA: Mahatma Gandhi National Rural Employment Guarantee Act  
MT: Million Tonnes  
NCAER: National Council of Applied Economic Research  
NGO: Non-Government Organization  
PACS: Primary Agriculture Co-operative Society  
RGCT: Rajiv Gandhi Charitable Trust  
RRBs: Regional Rural Banks  
REDP: Rural Entrepreneurship Development Programme  
SBAP: Savings Bank Account Penetration  
SBLP: SHG Bank Linkage Programme  
SHG: Self Help Group  
SHPI: Self Help Promoting Institution  
SIND: Savings Dimension Index  
SDP: Skill Development Programme

## प्राक्कथन

स्वयं सहायता समूह बैंक लिंकेज आधारित सूक्ष्म वित्त के मॉडलने समूह की मूल भावना का उपयोग करके वित्तीय रूप से और अधिक समावेशी राष्ट्र बनाने में उत्कृष्ट भूमिका निभायी है ।

यह परियोजना १९९० के प्रारंभ में एक छोटी प्रायोगिक परियोजना के रूप में शुरू की गयी थी जो आज संपूर्ण देश में लाखों वंचित महिलाओं की जिंदगी में वास्तविक बदलाव लाने के लिए सरकार और संपूर्ण बैंकिंग प्रणाली के पास एक स्थापित और प्रभावीनीतिगत साधन बन गयी है ।

तथापि हमारे जैसे विशाल और वैविध्यपूर्ण देश के सभी विकास संबंधी नीतिगत मामलों की तरह इस परियोजना की स्वीकार्यता और विस्तार की राह में आनेवाले तत्वों का समाधान किया जाता है । संगठनात्मक स्तर पर विकास एक ऐसा मुद्दा है जो हमारे लिए चिंता का विषय बना हुआ है, समूह प्रायः बचत समूह बने रहते हैं और बचत के ओर अधिक विकसित चरण या ऋण आधारित समूह की ओर या तो एक कदम भी नहीं बढ़ते या सीमित रूप में बढ़ते हैं ।

यह अध्ययन इस विशेष मामले पर गहराई से विचार विमर्श करने का प्रयास है। इसमें ओडिशा और कर्नाटक को शामिल किया गया है तथा उन कारकों की जाँच की गई है जो इस क्रमिक विकास में बाधक हैं । लेखक गण ने इस आधार पर कार्य किया है कि क्रमिक विकास एक बहु आयामी प्रक्रिया है, अतः क्रमिक विकास का आकलन किस सीमा तक किया जा सकता है, इसमें आकलन के लिए एक सूचकांक विकसित किया गया है । उन्होंने उन कारकों की भी खोज की है जो समूह और व्यक्तिगत स्तर पर क्रमिक विकासको निर्धारित करते हैं ।

इस अध्ययन में अपनायी गयी क्रिया विधि और अभिलिखित निष्कर्षों, दोनों दृष्टियों से नयी जमीन खोजी गई है, यह अध्ययन स्वयं सहायता समूह के सदस्यों के क्रमिक विकास को समझने में लाभकारी होगा तथा वे सार्थक तथा दीर्घजीवी जीविकोपार्जन को अपनाकर अपना बेहतर भविष्य बना सकेंगे ।

नाबार्ड में, हम समझते हैं कि स्वयं सहायता समूह आंदोलन को प्रासंगिक और प्रभावी बनाये रखने के लिए इसका निरंतर मूल्यांकन होते रहना चाहिए । हम नाबार्ड में सूचनाओं के प्रचार-प्रसार में विश्वास करते हैं, इस दिशा में यह अध्ययन एक और महत्वपूर्ण कदम होगा । यही नहीं, शिक्षाविदों, नीति निर्माताओं एवं इस कार्य में लगे हुए लोगों के लिए इस विषय पर उपलब्ध सहित्य में यह एक महत्वपूर्ण योगदान करेगा ।

राष्ट्रीयकृषि और ग्रामिण विकास बैंक  
मुंबई

डॉ. हर्ष कुमार भनवाला  
अध्यक्ष

## FOREWORD

The SHG-Bank linkage based model of microfinance has played a stellar role in leveraging basic group dynamics to build a more financially inclusive nation. The project, a small pilot initiated in early 1990s, has today graduated to an established and effective policy tool in the hands of the Government and entire banking system to make a real-time difference to the lives of millions of excluded women across the country.

The project, however, like all development policy tools in a vast and varied nation like ours, has to deal with factors which impede its acceptance and spread. One such issue which has been a matter of concern at an organisational level for us is the plateauing of “graduation” process - *groups continue to remain just savings groups with no or limited movement towards the more evolved stage of savings and credit based groups.*

The present study was an attempt to delve deeper into this particular issue. It covered Odisha and Karnataka and looked into the factors which impede this graduation process. The authors, working on the premise that graduation is a multi-dimensional process, developed an index to measure extent of graduation. They also explored the factors that determine graduation at group as well as individual levels. The study covers new ground in terms of both methodology adopted and the findings documented, and hence, will be useful for understanding the graduation of SHG members towards building a better future for themselves by pursuing meaningful and sustainable livelihoods.

At NABARD, we believe that there is a strong case for a continued assessment of the SHG movement to keep it relevant and effective. We at NABARD believe in dissemination of information. This study is yet another significant step in this direction and makes an important contribution to the literature on the subject for academicians, policy makers and practitioners.

**National Bank for Agriculture  
and Rural Development  
Mumbai**

**Dr Harsh Kumar Bhanwala  
Chairman**

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At the outset, our sincere thanks to all the Self Help Group members who have helped us in our field work. Without their cooperation this study would not have been possible.

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## कार्यपालक सारांश

### संदर्भ

दो दशक से अधिक समय से स्वयं सहायता समूह आंदोलन चल रहा है, कुछ वर्ष पहले नाबार्ड ने इसे पुनःप्रवर्तन करने का विचार किया और व्यक्तिगत एवं स्वैच्छिक बचत को बढ़ावा देने के साथ ही स्वयं सहायता समूह कार्यक्रम के अंतर्गत संयुक्त देयता समूह के गठन को बढ़ावा देने के लिए स्वयं सहायता समूह शुरू किया ताकि उद्यम सदस्यों को अधिक ऋण लेने में सहायता मिल सके। इस तरह इससे, स्वयं सहायता समूह उन स्थितियों में सुधार कर पायेंगे जहां वे अपनी बचत और वित्तीय अनुशासन पर प्रारंभिक ध्यान के स्थान पर ऋण समूह के रूप में विकसित हो पायेंगे। यह सर्वमान्य है कि बचत से सूक्ष्म उद्यम अपनाने की राह निकलती है। इस अध्ययन में, इस परिप्रेक्ष्य में, बचत और आय सृजन करनेवाली गतिविधियों / सूक्ष्म उद्यमों पर ध्यान केन्द्रित किया गया है क्योंकि क्रमिक विकास के ये दो आयाम हैं। आय सृजन करनेवाली गतिविधि / सूक्ष्म उद्यम में निवेश करने हेतु प्रस्तावित अध्ययन का उद्देश्य निम्नानुसार है :

- स्वयं सहायता समूह सदस्यों के बीच क्रमिक विकास की प्रक्रिया को समझना और संकल्पना करना;
- अध्ययन क्षेत्र में स्वयं सहायता समूह के सदस्यों के बीच क्रमिक विकास की सीमा का अनुमान लगाना;
- प्रक्रिया या बेहतर प्रथाओं का अध्ययन करना जिससे स्वयं सहायता समूह सदस्यों के क्रमिक विकास में मदद मिल सकें;
- क्रमिक विकास की अवधारणाओं की पहचान करना; और,
- क्रमिक विकास को आगे बढ़ाने के लिए नीतिगत विकल्पों और कार्यनीति तैयार करना।

हमारे निष्कर्ष चारजिलों अर्थात् खुर्दा, संबलपुर (ओडिशा), दक्षिण कन्नड और कोप्पल (कर्नाटक) सेचयनित 240 स्वयं सहायता समूह सदस्यों के नमूनों पर आधारित है। नमूना उत्तरदाताओं के साथ बातचीत के आधार पर स्वयं सहायता बनने से पूर्व और पश्चात की अवधि के आँकड़े एकत्रित किये गये। राज्य के आर्थिक रूप से विकसित और कम विकसित क्षेत्रों का प्रतिनिधित्व करनेवाले जिलों का चयनकिया गया।

### प्रमुख निष्कर्ष

**लोग अपने उद्यमों की सहायता करने के लिए बचत करते हैं।**

अधिकांश समूहों ने अपनी स्थापना के बाद से अपने मासिक बचत दर में परिवर्तन नहीं किया था। सदस्य की बचत दर का मॉडल मूल्य प्रति माह रु. 80 था, जो रु. 30 से रु. 200 के बीच थी। विकसित जिलों की तुलना में कम विकसित जिलों की बचत का स्तर अधिक है। स्वयं सहायता समूह के सदस्यों के व्यक्तिगत बचत बैंक खाता होने का औसत अनुपात 20 से 30 प्रतिशत के बीच है। स्वयं सहायता समूहों के लगभग 27 प्रतिशत सदस्यों को कोई भी व्यक्तिगत बचत बैंक खाता नहीं था। बचत बैंक खातों के मामले में विकसित जिलों की तुलना में कम विकसित जिलों का प्रदर्शन बेहतर था। अधिकांश: स्वयं सहायता समूहों

के सदस्यों ने उद्यम शुरू करने से पूर्व बचत बैंक खाते खोले। गैर सरकारी संगठन केंद्रित मॉडल III स्वयं सहायता समूहों के सदस्य अन्य दो मॉडल की तुलना में उद्यम शुरू करने के प्रयोजनों के लिए मुख्य रूप से बचत कर रहे थे। स्वयं सहायता समूह पूर्व स्थिति में उच्च आय वाले सदस्य, समूह में पद धारण करनेवाले सदस्यों, लिये गये कुल ऋण और विकास की स्थितियों का व्यक्तिगत बचत बैंक खाता खोलने के लिए सदस्यों के निर्णय पर सकारात्मक प्रभाव डाला है, निम्न सामाजिक समूह से संबद्धता और परिवारों का बड़ा आकार संभावित बाधाएं थी।

**सदस्यों को कम मिला जिसको वे समान रूप में आपस में बांट रहे हैं।**

अपने अस्तित्व की 4.4 वर्षों से अधिक अवधि (नमूने में स्वयं सहायता समूहों की औसत उम्र) के दौरान, स्वयं सहायता समूहों ने 1.33 (संबलपुर) से 2.47 (कोप्पल) ऋण सहबद्धता की। ओडिशा के स्वयं सहायता समूहों में, दूसरी सहबद्धता मिलना एक उपलब्धि थी, जबकि संबलपुर के केवल एक तिहाई स्वयं सहायता समूह ही इसे हासिल कर पाये और खुर्दा के तीन चौथाई में से लगभग 75 प्रतिशत समूहों ने दोया अधिक सहबद्धता प्राप्त की। ओडिशा के जिलों में पहले ऋण सहबद्धता के लिए अधिक समय, लगभग दो वर्ष का समय लगा जबकि कर्नाटक के समूहों को एक वर्ष से भी कम समय में ऋण सहबद्धता प्राप्त हुई। नमूने में स्वयं सहायता समूह के 4/5 सदस्यों को ऋणमिला है। स्वयं सहायता समूहों के सदस्य, औसतन प्रति समूह 13 सदस्य, कई ऋण अनुबंध करने की कोशिश कर रहे थे, कोप्पल में कुछ उधारकर्ताओं के मामले में यह संख्या 7 भी है। एक औसत स्वयं सहायता समूह सदस्य ने 34 महीने की अवधि में ऋण प्राप्त किया। कुछ अपवादों को छोड़कर समूहों के सदस्यों के बीच ऋण का समान वितरण एक नियम है। जरूरत के अनुसार वितरण से अक्सर स्वयं सहायता समूहों के कई सदस्य ऋण गतिविधि से वंचित रहते हैं। कुछ वैकल्पिक तंत्र हो सकता है जैसे समान वितरण के बाद सदस्यों के बीच पुनः ऋण देने लिए अनुमति देना, ऋण की मांग के अंतर को प्रतिबिंबित करने के लिए सदस्यों के बीच ऋण वितरण करना। बड़ी संख्या में सदस्यों ने उत्पादक उद्देश्यों के लिए ऋण का उपयोग किया और उनमें से काफी सदस्य उपभोग संबंधी आवश्यकताओं के लिए गैर-स्वयं सहायता समूह ऋणों पर निर्भर थे और इन निजी स्रोतों पर अधिक ब्याज प्रभावित किया जाता है क्योंकि औपचारिक ऋणदाता उपभोग नहीं देते हैं। इसके गंभीर परिणाम हुए।

**स्वयं सहायता समूह सदस्यता के कारण अतिरिक्त गतिविधियाँ शुरू की जा सकी।**

स्वयं सहायता समूह के सदस्यों ने मजदूरी से लेकर आय सृजन/सूक्ष्म उद्यमों तक की कई गतिविधियों को चलाया। स्वयं सहायता समूह की सदस्यता के कारण लगभग 40 प्रतिशत लोगों को पहलेकी तुलना में दो या अधिक अतिरिक्त गतिविधियों को चलाने में मदद मिली। खेती के बाद मजदूरी स्वयं सहायता समूह के सदस्यों की प्राथमिक गतिविधियां थी। अतिरिक्त गतिविधियां चलाने की प्रवृत्ति कम विकसित जिलों के सदस्यों के बीच अधिक थी। स्वयं सहायता समूह पश्चात अवधि में सभी घरों के बीच समान वितरण के साथ उच्च आय दर्ज की गई थी। कम विकसित जिलों ने आय के स्तर और वितरण में विकसित जिलों की तुलना में अच्छा प्रदर्शन किया था।

## स्वयं सहायता समूह की सदस्यता ने लोगों को क्रमिक विकास में मदद की ।

स्वयं सहायता समूह या उसके सदस्यों के क्रमिक के स्तर को दो आयामी सूचकांक के रूप में मापा जाता है । ये दो आयाम व्यक्तिगत बचत खाता और सूक्ष्म उद्यम है । क्रमिक विकास सूचकांक (GRIND) 0.447 था जो 0.256 की बचत आयाम सूचकांक (SIND) और 0.565 के सूक्ष्म उद्यम आयाम सूचकांक (MEIND) के कारण है । क्रमिक विकास कर्नाटक के जिलों की तुलना में ओडिशा जिलों में अधिक था और पुराने समूहों में अधिक था । स्वयं सहायता समूह के सदस्यों का औसत क्रमिक विकास सूचकांक 0.226 था । बचत आयाम के मामले में पिछाडकर भी अधिक सदस्य क्रमिक विकास के लिए सक्षम थे । अर्थात् यद्यपि बचत महत्वपूर्ण थी, गरीब लोग ऋण सहायता से सूक्ष्म उद्यमों के मामलों में क्रमिक रूप से विकसित हो सकते हैं । स्वयं सहायता समूहों की सदस्यतासे लोगों की क्रमिकरूप से विकसित होने में निश्चित तौर पर मदद मिली है और यह कम विकसित जिलों में और अधिक है ।

## आगे का रास्ता क्या है ?

वर्तमान अध्ययन ने उन व्यक्तिगत कारकों, स्वयं सहायता समूह से संबंधित पहलुओं और अन्य सामाजिक और आर्थिक संबंधीकारकों की पहचान की है जिन्होंने क्रमिक विकास की प्रक्रिया में मदद की है । क्रमिक विकास की प्रक्रिया को आगे बढ़ाने की दिशा में यह पहला कदम है । हमारे विश्लेषण से पता चला है कि सामान्यतः ज्ञातकारक सभी सदस्यों में विकास के स्तर में अंतराल को स्पष्ट करने में सक्षम नहीं हैं । अर्थात् सदस्यों का विकास उन बाहरीकारकों की तुलना में अन्य से प्रभावित होता है जिनके बारे में हम आमतौर पर सोच सकते हैं । ये परिणाम सदस्यों की अलग अलग क्षमताओं की उजागर कर उसे बढ़ावा दिये जाने के संकेत भी देते हैं । यह बढ़ावा दिये जाने के कार्य को और अधिक जटिल बनाता है ।

बचत, क्रमिक विकास के सूचकांक को सकारात्मक तौर पर प्रभावित करती है । इसके अलावा, अधिक संचित बचत वाले सदस्यों में अतिरिक्त गतिविधि शुरू करने की संभावना अधिकदेखी गई । विशेष रूप से गरीब लोगों के लिए अपनी बचत को बढ़ावा के लिए उनके आत्म नियंत्रण की परीक्षा के लिए लालच, आपात् स्थिति आदि के रूप में कई बाधाएं हो सकती हैं । लेकिन, नियमित रूप से छोटी राशि को बचाने के लिए उन्हें समझाने से उनके कर्ज के बोझ को कम किया जा सकता है ताकि वे एक दिन ऋण मुक्त भी हो सकता है । उधार, न तो क्रमिक विकास के पीछे एक सकारात्मक कारक के रूप में उभारा, न ही इसने सदस्यों को अतिरिक्त गतिविधियों को चलाने के लिए प्रेरित किया । हालांकि, गैर उपभोग प्रयोजनों ऋण के उपयोग ने क्रमिक विकास के उच्च स्तर को प्रोत्साहित किया । स्वयं सहायता समूह पूर्व स्थिति में उच्च आयवाले सदस्य दूसरों से आगे थे ।

पैमाना, उत्पादन का एक प्रमुख मुद्दा है क्योंकि यह उद्यम की व्यवहार्यता और निरंतरता को निर्धारित करता है। स्वयं सहायता समूह के सदस्यों या उनके परिवार के सदस्यों द्वारा शुरू किए गए अधिकांश उद्यम बहुत छोटे हैं और परिवार को पर्याप्त आय देने के लिए सक्षम नहीं हैं। इस प्रकार, गुंजाइश भी एक महत्वपूर्ण मीटर हो जाती है। उत्पादकों को उत्पादक संघों में संगठित करना इन दो मुद्दों से उभरने का रास्ता है जबकि इसकी अपनी कठिनाइयां हैं। बचत और वित्तीय अनुशासन पर आधारित मजबूत स्वयं सहायता समूहों का निर्माण अधिक से अधिक सदस्यों को विकसित करने के लिए सहायक होगा।

इसलिए, जिले में चल रहे अन्य विभिन्न प्रयासों की पहचान करना महत्वपूर्ण कदम है, जो क्रमिक विकास की प्रक्रिया से गुजरने के लिए सदस्यों को तैयार करते हैं। अच्छे परिणाम प्राप्त करने के लिए प्रयासों में सामंजस्य एक महत्वपूर्ण घटक है। स्वयं सहायता समूह के क्रमिक विकास के स्तर का निर्धारण करने में प्रशिक्षण एक महत्वपूर्ण कारक के रूप में उभरा है। फिर नाबार्ड द्वारा चलाये जा रहे ग्रामिण उद्यमिता विकास कार्यक्रम (आरईडीपी), कौशल विकास कार्यक्रम (एसडीपी), क्लस्टर विकास कार्यक्रम अथवा भारत सरकार या अन्य एजेंसियों के माध्यम से चलाए जा रहे कार्यक्रमों को समन्वित तरीके से चलाया जाना चाहिए। अक्सर, क्षमता निर्माण कार्यक्रमों के दोहराव के कारण गैर सरकारी संगठनों द्वारा क्लाइंट से बनाए गए कुछ स्वयं सहायता समूहों को बेहतर मौका मिलता है। यहां तक कि विकास एजेंसियों के पास पुनः जांच के लिए कोई डेटाबेस नहीं होता है। विशिष्ट पहचान संख्या के साथ स्वयं सहायता समूहों पंजीकृत करने एवं उसके अनुरक्षण का समय आ गया है, जिससे स्वयं सहायता समूहों को बढ़ावा देने, ऋण से जोड़ने और स्वयं सहायता समूहों और उनके सदस्यों के विकास के प्रयासों को कारगर बनाया जा सके।

इस प्रकार हमें निम्नलिखित पर ध्यान देने की जरूरत है, **ऋण** - आवृत्ति और राशि; **बचत** - वह उत्पाद जो स्वयं सहायता समूहों के सदस्यों के लिए उपयुक्त हो तथा और अधिक बचत करने के लिए उन्हें प्रोत्साहित करता हो, सदस्यों द्वारा **ऋण साझा करने** के लिए रचनात्मक तंत्र; **सूक्ष्म बुनियादी ढांचे** जो छोटे निवेश को व्यवहार्य और फलदायी बना सकते हैं और, सभी कार्यक्रमों और प्रक्रियाओं में सामंजस्य।

## **EXECUTIVE SUMMARY**

### **Context**

SHG movement completed over two decades by now. A couple of years ago NABARD thought of revitalising it and introduced SHG II with an aim to encourage individual and voluntary savings and also to encourage JLG formation within the fold of SHGs to enable enterprising members to upscale their credit off-take. In a way, this may help to correct the situation where SHGs grew into credit groups deviating from their initial focus on savings and financial discipline. It is well accepted that savings lead the way to undertaking microenterprises. This study, given this context, focussed on the savings and income generating activities/micro-enterprises as two dimensions of graduation. Borrowing to supplement one's savings for investing in IGA/ME is considered an intermediary step.

The objectives of the study were as follows:

- ❖ to understand and conceptualise the process of graduation among SHG members;
- ❖ to measure extent of graduation among SHG members in the study area;
- ❖ to study the processes or best practices that can help graduation of SHG members;
- ❖ to identify the determinants of graduation; and,
- ❖ to chart out policy options and strategies for up-scaling the graduation

A sample of 240 SHG members selected from four districts i.e., Khordha, Sambalpur (Odisha), Dakshina Kannada and Koppal (Karnataka) formed the basis for our findings. Data for pre- and post-SHG periods were captured based on interviews with sample respondents. Districts were selected to represent financially developed and less developed areas of the state.

### **Major Findings**

#### **People save to support their enterprises**

Most of the groups did not change their monthly saving rate since their inception. Modal value of member's saving rate was Rs.80 per month, the range being Rs.30 to Rs.200. Less developed districts have a higher level of saving compared to developed districts. Mean proportion of

members in an SHG having individual savings bank account ranged between 20 to 30 per cent. About 27 per cent of the SHGs did not have any member having individual S/B account. Less developed districts fared better compared to developed districts in terms of S/B account penetration. SHG members opened S/B accounts, laudably, more for pro-entrepreneurial purposes. Members of NGO centred Model III SHGs were saving predominantly for pro-entrepreneurial purposes compared to other two models. Members with higher income in pre-SHG situation, holding office in the group, total loan availed and development status have positive influence on decision of members to have individual savings bank accounts. Affiliation to lower social group and higher family size were likely deterrents.

### **Loans - too few and far between, are shared equally**

During the period of their existence over 4.4 years (average age of SHGs in the sample), SHGs obtained 1.33 (Sambalpur) to 2.47 (Koppal) credit linkages. Among Odisha SHGs, getting 2<sup>nd</sup> linkage itself was a feat which hardly 1/3<sup>rd</sup> of Sambalpur groups could manage while almost 3/4<sup>th</sup> of Khordha groups could get just 2 linkages. About 75 per cent of the SHGs in Dakshina Kannada and Koppal received two or more linkages. Time to first credit linkage was longer, nearing even two years, in Odisha districts though Karnataka groups got in less than a year. About 4/5<sup>th</sup> of the SHG members in the sample could get loans. SHG members, 13 per groups on an average, had been trying to contract multiple loans, the number going to even 7 in case of some borrowers in Koppal. An average SHG member obtained one loan in 34 months period. Equal distribution of loans among members is the rule in the groups barring a few exceptions. Distribution according to the need often led to exclusion of several of SHG members from borrowing activity. There can be alternative mechanisms, such as allowing relending among members after equal distribution, to render loan distribution among members to reflect differential loan demand. Sizeable proportion of members tapped loans for productive purposes even as considerable proportion of them depended on non-SHG loans for consumption needs that too from private high interest charging sources as formal lenders do not purvey consumption loans. This has serious implications.

### **SHG membership enabled additional activities**

SHG members undertook multiple activities ranging from mere wage labour to income generating/ micro-enterprises. Membership in SHG helped about 40 per cent of the people in taking up two or more additional activities than before. Farming followed by wage labour were primary activities

among SHG members. Tendency for taking up additional activities was higher among members from less developed districts. Higher income with more even distribution across households was recorded during the post-SHG period. Less developed districts did well in income level and distribution compared to developed districts.

### **SHG membership helped people graduate**

Graduation level of an SHG or its members is measured as a two dimensional index, individual savings account and micro-enterprises being the two dimensions. The graduation index (GRIND) was 0.447 which was due to savings dimension index (SIND) of 0.256 coupled with micro-enterprise dimension index (MEIND) of 0.565. The graduation was higher in Odisha districts compared to Karnataka districts and higher for older groups. Average graduation index of SHG members was 0.226. More members were able to sublimate to graduation even as they lagged behind in terms of savings dimension. That is, though savings were important, the poor could graduate in terms of micro-enterprises with loan support. Membership in SHGs has given definite edge to people in graduating and more so in less developed districts.

### **What's the way ahead?**

The present study identified personal factors, SHG related aspects and environment related factors that helped graduation process. This is the first step towards up-scaling graduation process. Our analysis revealed that commonly known factors are not able to fully explain the variation in graduation levels across members. That is, graduation of members is influenced by extraneous factors than we usually can think of. This result also suggests differential ability of members to respond to stimuli. This makes the task of up-scaling a little more complex.

Savings positively influenced graduation index. Also, members with higher accumulated savings showed higher probability of starting additional activity. People, especially poor, may have several hurdles such as temptations testing their self-control, emergencies, etc., for increasing their savings. But, convincing them to save even a smaller amount regularly, can reduce their debt burden so much so that they can one day become even debt free. Borrowings did not emerge as a positive factor behind graduation. Nor it stimulated members to take up additional activities. However, using loan for non-consumption use encouraged higher level of graduation. Members with higher incomes in the pre-SHG situation had an edge over others.



Scale is a major issue in organising production as it determines the viability and sustainability of an enterprise. Most of the enterprises taken up by SHG members or their family members are very small and may not be able to give the family enough income. Thus, scope too becomes an important parameter. Organising producers, into producer associations, is one way out to overcome these two issues, though it has its own difficulties.

Building strong SHGs based on savings and financial discipline can help more and more members to graduate. The important step, hence, is to identify various other concurrent ongoing efforts in a district that can prepare members to undergo the graduation process. Convergence in efforts is an important driver to achieve good results. Training emerged as an important factor in determining the level of graduation of an SHG. Then, imparting training to SHG members through ongoing programmes, say, Rural Entrepreneurship Development Programme (REDP), Skill Development Programme (SDP), Cluster Development Programme run by NABARD or related programmes of GOI or other agencies, should be done in a coordinated manner. Often, due to duplication of capacity building programmes, a few SHGs promoted by NGOs with clout get better chance. Even development agencies would not have any database to crosscheck. May be it is high time a registry of SHGs with unique identity number may be maintained to streamline efforts to promote, credit link and graduate the SHGs and their members.

Thus, we need to work on **credit** – frequency and amount; **savings** – products that suit SHG members and incentivise them to save additionally; creative mechanisms for **sharing loans** by members; **micro-infrastructure** that can render small investments viable and fructuous; and, **convergence** across programmes and processes.

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## CHAPTER I INTRODUCTION

[This chapter covers:

- ❖ *objectives, growth and spread of SHGs - various models that emerged - impact on social and economic aspects - brief review of literature -expected outcomes and extent of their achievements – SHGs maturing – and members graduating*
- ❖ *objectives, scope and organisation of the report]*

### **SHG-BANK LINKAGE PROGRAMME (SBLP)**

**T**he much acclaimed SHG-Bank Linkage Programme (SBLP) is now two decade old. Aimed at ‘reaching the unreached’ and ‘improving access of weaker and other sections of the society to institutional finance’, the SBLP has been a **frontal attack on financial exclusion**<sup>1</sup> through social engineering with a tag line, ‘*banking with the poor.*’ Over time, the programme has taken deep roots and could meet the needs of unbanked sections of the people (Basu and Srivastav, 2005). As Indian microfinance model was based on the existing banking infrastructure, the programme could take off without calling for any major legal hurdles and institutional restructuring (Satish, 2005). Several innovations have taken place and various models have been experimented with and standardised. Prominent models are: Model I. Promoted, guided and financed by banks (Banks – SHGs); Model II. Promoted by NGOs/Government agencies and financed by banks (Banks – NGOs as SHPIs - SHGs); and, Model III. Promoted and provided financial intermediation by NGOs and financed by banks (Banks-NGOs as SHPIs and MFIs – SHGs)

The SHG bank linkage programme witnessed **significant growth** since its inception. As on March 2013, a total of 73.18 lakh SHGs were having Rs.8217.25 crore savings with banks. Further, a total of Rs. 39375.30 crore loan amount was outstanding against 44.51 lakh SHGs, leading to greater financial outreach for poor as the programme covered 95 million households as on 31 March 2013.

<sup>1</sup>Financial exclusion has been a major issue in the rural areas especially after the Financial Sector Reforms (FSR) initiated in 1991. In spite of a remarkable spread of formal banking network across the country and several initiatives of various governments, about 51.4% of farmer households are unable to access either formal or informal sources of financial services. Only 27% of farmer households are able to access credit from formal sources (59<sup>th</sup> Round NSSO Report). Further, 64% of population in North Eastern, Eastern and Central regions is financially excluded. Only 19.7% of the population is having access to formal sources of finance in these regions.

<sup>1</sup> Shetty (2012) gives a comprehensive review of studies on microfinance in India.

## **IMPACT OF THE SBLP PROGRAMME**

The SBLP is a home grown programme that has **pushed India to a respectable position in the global micro-finance** scenario besides attracting the attention of international academia. Lot of theoretical as well as empirical **research has been focussed on micro-finance in India**<sup>1</sup>. Major conclusions are: positive impact of linking SHGs to banks on income and broadening financial markets through provision of credit and other financial services to small scale entrepreneurs and thereby on reduction of poverty (Aghion & Morduch 2000); contribution to attaining the Millennium Development Goals (Littlefield, Morduch and Hashemi, 2003); favourable impact on household income, labour market activity, health and education (Hulme and Mosley, 1996; Khandker, 1998; Littlefield, Morduch and Hashemi, 2003); and, helpful role in ushering in women's empowerment (Littlefield, Morduch and Hashemi, 2003 and Garikipati, 2006).

Pursued with missionary zeal by all the stakeholders under the leadership of NABARD, the SBLP **has brought change in rural lives** as shown by several **impact studies**, notably, Puhazhendhi and Satyasai (2000), Puhazhendhi and Badatya (2002), EDA Rural Systems and APMAS (2006), NCAER (2008), to mention a few. These studies demonstrated a positive impact of SHG on the socio economic conditions of SHG members. Based on a wider sample, Puhazhendhi and Satyasai (2000) concluded that the average value of assets per household improved significantly during the post - SHG period. The average value of borrowing also exhibited a significant increase in the post - SHG period. With regard to social aspects, the SHGs have contributed significantly in raising the self-confidence of SHG members. Evidence from three eastern states also corroborated these findings (Puhazhendhi and Badatya, 2002). As the SHG movement progressed and more and more SHGs have been formed and linked to the banking system, second generation issues such as sustainability, financial aspects, community actions, issues of social harmony and social justice cropped up and subsequent studies focussed on these aspects (The EDA rural system and APMAS, 2006).

*India has a two-decade old experience with microfinance through SHG bank linkage programme (SBLP) which has been well researched by Indians as well as foreign scholars. The SBLP has made significant impact on rural lives. How many SHG members could really take off beyond meetings and savings has been the question.*

The problem of financial exclusion of rural masses from institutional fold has been purportedly due to higher transaction and default risk costs to financing institutions for reaching them for purveying small ticket loans. SHG linkage

### *Whither Graduation of SHG Members?*

has been put forth as a **cost effective alternative to reduce transaction costs and reduce default risk** through joint liability and peer pressure mechanism. In this context, some studies examined the viability and sustainability of SHG lending by banks. Meissner (2006), for example, found that the financial return ratios for regional rural banks are more favourable in case of SHG lending than normal lending operations as the financial risks are significantly less in the case of the former.

Another class of studies have focussed on issues of MFIs, different models and impact on poverty. A study by EDS rural systems classified microfinance model in India into SHG model, Grameen model and Individual Banking (IB). Among these three models, SHG model predominates, having a presence amongst 62% clients. The findings of the study highlighted that provision of financial services by MFIs was beginning to fill the gap between formal banks and informal moneylenders. The study also shed light on the fact that the direct effect of micro-finance on poverty reduction is prominent in case of Grameen model vis-a-vis the other two models of micro-finance. Chakravarti (2004) studied the impact of microfinance programme on poverty alleviation and suggested that micro-finance had the potential to become an important mode for providing financial services in rural areas.

Driven by success, the **issues of scaling up microfinance** came up for

*SHG member becoming an entrepreneur is what has been commonly considered graduation. This study seeks to conceptualise graduation, construct an index and measure the extent and identify the factors that can promote graduation process.*

debate even as the progress was in leaps and bounds. Initially, the progress of SBLP was skewed in favour of southern states and made very slow progress in needy states (Satyasai, 2002). The direction for scaling up was to cover other than southern states and increase the numbers everywhere. Presently, it is envisaged to link 10 lakh SHGs annually over the next five

years. In the context of scaling up of SHG linkage programme, Basu and Srivastav (2005) viewed that though the micro-finance can meet the needs of poor in the short run, graduating microfinance clients to formal financial institutions alone can scale up the programme in the medium run. One view is that microfinance is an interim financing option before the clients can access formal loans on commercial terms. The question is, whether there are lenders to lend to SHGs or their members since reliability, convenience, continuity, and flexibility are required by low-income customers. In fact, the notion of graduating is not built into the concept of microfinance in India (Basu, 2006). While loans by individuals from SHG route help them move up in the income ladder, real jump is likely only when they can access credit and other financial products on their own, as even micro-enterprises need



### *Whither Graduation of SHG Members?*

sizeable investment and working funds. An SHG member acquiring such **ability to start his/her own enterprise or income generating activity** can be considered a graduate of microfinance system. Since every member cannot reach graduation stage in a given time though graduation is a coveted outcome, it is of interest to all stakeholders in micro-finance to know the process of graduation and the factors that can promote it. **The present study seeks to measure the extent of graduation, study the process involved and identify the factors that can promote graduation process.**

#### **OBJECTIVES**

The objectives of the study are as follows:

- ❖ to understand and conceptualise the process of graduation among SHG members
- ❖ to measure extent of graduation among SHG members in the study area
- ❖ to study the processes or best practices that can help graduation of SHG members;
- ❖ to identify factors responsible for graduation and to study what distinguishes graduates from others; and,
- ❖ to chart out policy options and strategies for up scaling the graduation process.

#### **ORGANISATION OF THE REPORT**

The report is organised into eight chapters. The Chapter I covers objectives, growth and spread of SHG bank linkage model and brief review of literature. The Chapter II explains analytical framework adopted for the study. The third and fourth chapters throw light on profile of the study area and profile of sample SHGs as well as SHG members, respectively. Chapter V elaborates the extent of graduation among SHGs and factors leading to graduation. Strategies for up scaling graduation process were discussed in Chapter VI while the last chapter summarises and documents conclusions.

## CHAPTER II

# ANALYTICAL FRAMEWORK

[This chapter deals with:

- ❖ *conceptualisation of graduation- the indicators and the index-factors contributing to graduation*
- ❖ *sampling design*
- ❖ *analytical tools – survey, questionnaires, techniques]*

### GRADUATION PROCESS - CONCEPTUALISATION



Over a year to one and a half years, SHGs pass through different stages of development before entering growth and expansion stage (Table 2.1). Role of an SHPI (mostly NGOs have played this role) is crucial and keeps changing from pre-formation stage where they have to play initiators or promoters and identify the poor, to growth and expansion stage when they need to play advisory/managerial/consultative/ institution builder's role. In the last phase, bank linkages are strengthened, group or individual assets are created and cluster development is targeted. Perhaps, during this stage members may find it necessary to have direct linkage with the bank on one-to-one basis through individual savings and/or loan accounts as a supplementary or alternative source of finance for their activities.

**Table 2.1. Stages of SHG development**

Stages of development	Time period	Role of NGOs/SHPIs	Focus of activities
Pre-Formation	1-2 months	Initiator/ Promoter	Identifying the poor through rural appraisal methods.
Formation	2-6 months	Facilitator	Motivation to form groups, select leaders, issue and collection of small loans, etc.
Stabilization Phase – I	7-12 months	Advisory/ Managerial	Leadership stabilisation, giving training, augment savings, handle group transactions, stabilising the process of repaying the loans
Phase – II	12-18 months	Advisory/ Managerial	Income generation programmes, bank linkage etc.
Growth and Expansion	Above 18 months	Advisory/ Managerial Consultative/ Institution building	Strengthen bank linkages, creation of assets for groups and members, attempt at cluster development.

### *Whither Graduation of SHG Members?*

Before the SHG movement in the country, banking services were not reaching many people. The first step in SHG journey is opening savings bank account for the group. Often, getting access to individual savings bank account in due course is considered a landmark event and is considered graduation *per se*. While it can be argued that saving products are very much needed by the poor also and access to a formal savings bank account opens new vistas for them, experience does not prove to support

*Savings, instead of credit, to be the focus area and SHGs would be seen as vehicles for saving, accessing pensions and other transfers and getting a loan when needed under SHG II.*

it. As part of the drive to financial inclusion, no-frills accounts were opened on a massive scale and the feedback shows that sizeable proportion of these accounts are dormant or inoperative. Indigenous savings instruments do cater to the saving needs of the people and SHG members continue to depend on them (Gadenne and Vasudevan, 2007) in spite of access to savings products of banks. It may be mentioned in this context that SHG II, a re-engineering process to remove fatigue in the existing movement and is mooted widely of late is, in fact, savings oriented as opposed to the current obsession with credit. Savings (group as well as individual), instead of credit, will be the focus area and SHGs would be seen as vehicles for saving, accessing pensions and other transfers and getting a loan when needed (Srinivasan, 2011).

However, traditional loan products available to people from local private money lenders were usurious. And, access to formal finance was a distant dream for large masses who were cut off from formal banking system due to lack of credit worthiness, high transaction cost of reaching them,

*The poor have problems in accessing institutional credit and if those who are cut off from formal credit are brought into the fold of formal credit agencies the graduation process commences. The poor need multiple doses of credit before they cross poverty line.*

perceived default risk, etc. Introduction of SHGs is expected to help banking system 'reach the unreached' and SHG members gain experience in borrowing and the credit cycles together with other members of the group. They would learn the procedures for accessing formal loans as also deploying them for alternative uses. Members, in the process, are

expected to be transformed into well informed and preferred clients for the banks. Thus, the graduation process commences, when a person totally

### *Whither Graduation of SHG Members?*

cut off from formal credit is now brought into the institutional fold on his/her own strength. How easy or difficult this task is and how long it takes, depends on the initial conditions of these members. Often, the poor are too vulnerable and operate with very small means to be able to graduate in a single go. Bangladesh's BRAC talks of such people as the ultra-poor who need special subsidised bridge loans to bring them to such a level where they can be linked to mainstream microfinance. In Indian context, such people with predominant consumption needs are allowed to access SHG loans for satiating those needs and gradually start using the loans for productive purposes. Several studies brought out this shift in credit use by SHG members (Gadenne and Vasudevan, 2007). Even IRDP experience showed that poor needed several rounds of credit before they can ultimately cross the poverty line.

Here, the assumption is that getting access to individual loans from formal credit institutions in itself signifies evolution of members. However, it can be argued that it is only the means and not the end by itself. The end obviously is coming out of poverty or improving living standards obviously through supporting existing family ventures or starting their own income generating or microenterprise activities. It is in this context, Badatya *et al* (2006) discussed the process of graduation (Table 2.2). The study clearly brought out the role of SHGs in helping their members to start microenterprises<sup>1</sup>. It charted out the proportion of SHGs that passed through each stage/activity and the time of passing the stage. Starting with group formation and opening of savings account with the bank which was completed in the first month by 2/3<sup>rd</sup> of the SHGs, the study found that about 28 per cent of SHGs entered the 8<sup>th</sup> stage, i.e., thinking process on assisting family ventures. In other words, 28 per cent of SHGs graduated in 12 months from their formation.

<sup>1</sup>There is no single satisfactory definition of microenterprise in the literature. Badatya *et al* (2006) defined a given economic activity as micro-enterprise if any capital asset was acquired and considered all others as income generating activities (IGA). Thus, same activity was classified as microenterprise for one member and IGA for the other. This remains a methodological issue in the study.

*Whither Graduation of SHG Members?*

**Table 2.2. Process of graduation experienced by SHGs members in 12 Month Period (%)**

Activity	Period (months)												
	1	2	3	4	5	6	7	8	9	10	11	12	
1 Group formation and opening of saving account	67												
2 Development of group ethics/ coherence, group dynamics	69												
3 Training on socio empowerment, solving social problems					27								
4 First credit linkage with banks							48						
5 Fulfilling consumption needs from bank loan/internal saving								51					
6 Development of greater control and ownership of their groups.							45						
7 Concerns on social/women's issues, development issues								44					
8 Thinking process on assisting family ventures													28

Source: Badatya *et al* (2006)

While 28 per cent of SHGs might have graduated in a year, it does not mean that all the members of these SHGs must have graduated too. Initial conditions of each and every member are important in enabling them to graduate as the group progresses. Also, response to stimuli varies from member to member. Thus, it is more useful to study graduation at member level. Some studies tried to classify SHGs which completed 3 years of existence as matured SHGs. Mere age, however, cannot be taken to characterise a matured SHG. In fact, an SHG can be considered mature if it can facilitate increased investment in income generating activities or human capital as well as mechanisms for consumption smoothing or asset building. Maturity or otherwise of SHGs can be an explanatory factor for understanding graduation process of members.

The foregoing discussion suggests that graduation is a multi-stage and multi-dimensional phenomenon. In the initial phase, SHGs should possess an active savings account in banks. Then, NGOs start to impart training to build-up group coherence and capabilities among SHG members. Gradually, the group develops its group ethics and group dynamics. In the next phase, SHG Members get access to bank credit through credit

*Graduation is a multi-stage and multi-dimensional phenomenon. Savings and enterprise dimensions are two dimensions considered in our scheme.*

### *Whither Graduation of SHG Members?*

linkage programmes of banks. Members may utilise their initial tranche(s) of loan for consumption purposes, as consumption smoothing is necessary before taking up any productive activity. Subsequently, with the increase in the number of credit linkages, the purpose of loan changes from consumption to income generating activities (IGAs) / Micro-enterprises (MEs). In the final phase, SHG members become capable enough to start their own MEs/ IGAs and have their own individual bank accounts. Hence, irrespective of age of SHGs, if the members of SHGs have traversed all the three phases, we may consider the respective SHG members as matured SHG members. In other words, graduation of SHG members can be referred to as the stage where they start income generating activities on their own on a sustainable basis.

It is interesting to study how members develop through their participation in SHGs. Long term effects of micro-credit on development have been a subject of interest and occupational choice is an important lever in bringing around the development. Ahlin and Jiang (2005) gave a succinct theoretical model following occupation choice framework of Banerjee and Newman (1993). They found that the key to micro-credit's long term effects is the 'graduation rate', the rate at which the self-employed build up enough wealth to start full-scale firms. Micro-credit in the model is supposed to improve credit market that opens up self-employment options to some members who otherwise work on wages or subsist. The authors distinguish between 'winner graduation' originating due to supernormal profits and 'saver graduation' resulting from accumulation of normal returns and conclude that micro-credit can bring an economy from stagnation to full development via 'saver' graduation if the saving rate and normal returns in self-employment are jointly high enough. This stresses the positive role of savings of members.

How members diversify their occupation as they move along in an SHG with absorption of successive loan doses, thus, becomes an interesting research question. Badatya *et al* (2006) attempted to study this question at some length. According to them, some members have undergone even up to four shifts in their occupation from their primary occupation. Such shifts were more frequent among agricultural labourers i.e., wage labourers, ultimately opening a petty shop or a small hotel. It was also found that people with traditional skills such as carpentry, pottery have diversified less compared to agricultural labourers/*beedi* rollers who do not have skills and resources. This brings out the role of training/ capacity building among SHG members. To sum, SHGs have enabled members to diversify their occupations and take up new IGAs or set up new micro-enterprises (Guha, 2010).

## *Whither Graduation of SHG Members?*

### **GRADUATION INDEX**

The present study tries to conceptualise the graduation process on the above lines, measure the extent of graduation among members of various SHGs and study the factors behind such graduation. Three sets of factors may be behind the graduation of members, *viz.*, member-centric, SHG-centric and institutional/socio-economic/policy-centric.

Graduation index (GRIND) is constructed as a combination of two dimension indices: Savings Dimension Index (SIND) and Micro-enterprise Dimension (MEIND). A generic expression used for computing a dimension index ( $Z_i$ ), a la Human Development Index (HDI), is as below:

$$\text{Dimension Index (Zi)} = \frac{(A_i - \min_i)}{(\max_i - \min_i)}$$

where,  $A_i$  = actual value of  $i$  th dimension;

$\max_i$  and  $\min_i$  = maximum and minimum values, respectively, of  $i$  th dimension

Each dimension index is, in turn, a combination, using equal or differential weights, of a few related indicators. Indicators used for each of the dimension indices are different for computing indices for SHGs and for SHG members. Graduation Index is computed from SIND and MEIND using the following formula:

$$\text{GRIND} = w_1 \cdot \text{SIND} + w_2 \cdot \text{MEIND}$$

where,  $w_1$  and  $w_2$  = weights assigned &  $w_1 + w_2 = 1$

#### **GRIND for SHGs**

SIND for SHGs is computed using the proportion of members having individual saving bank accounts (PSAVERS) as an indicator and proportion of members having income generating activity/micro-enterprise after joining SHG in total (PIGA). Then,

$$\text{Graduation index of SHG} = \text{GRIND}_g = w_1 \cdot \text{PSAVERS} + w_2 \cdot \text{PIGA}$$

We considered appropriate to assign relatively higher weight to MEIND and, hence,  $w_1$  and  $w_2$  are taken as 0.33 and 0.67, respectively<sup>1</sup>.

*Whither Graduation of SHG Members?*

**GRIND FOR SHG MEMBERS**

SIND for SHG members is constructed using the following indicators:

1. *Holding individual savings bank account* ( $S_1$ ) - takes a value of 1 if a member is having an independent SB account and 0 otherwise;
2. *Ownership of SB account* ( $S_2$ ) – takes a value of 1 if owned by the member and 0 if owned by family member;
3. *Purpose of SB account* ( $S_3$ ) – takes value of 1 if purpose of opening the account is for pro-entrepreneurial purposes like for saving, for taking loan, existing business or non-farm activity and 0 if the purpose is for remittance, MGNREGS job card, etc. Length of holding SB account also is taken into account as a very recently opened account should get lower weight and vice versa.

The three indicators are combined using the following formula:

$$\text{SIND} = w_1 \cdot S_1 + w_2 \cdot S_2 + w_3 \cdot S_3 \cdot \text{SBAGE}$$

where,  $w_1 = w_2 = w_3 = 0.333$ ;

SBAGE= length of holding SB account, in years.

MEIND for members is computed using the following indicators:

1. *Additional activity* ( $E_1$ ) – takes value of 1 in case the member has taken up additional activity after joining SHG and 0 otherwise;
2. *Existing activity* ( $E_0$ ) – takes a value of 1 if the member is continuing his existing activity and nurturing it (as indicated by borrowing) and 0 otherwise.

<sup>4</sup>The weights are based on own judgment and may influence the index in favor of those pursuing micro-enterprises.



### *Whither Graduation of SHG Members?*

Wage labour and beedi rolling activities are not reckoned with here as they do not involve any entrepreneurial skill or intent. And,  $E_1$  and  $E_2$  are combined using the following formula<sup>1</sup>:

$$\text{MEIND} = \frac{(0.67 E_1 y + 0.33 E_0)}{(1+y)}$$

where,  $y = Y_1/Y_0$

$Y_1$  = post-SHG income, (Rs.)

$Y_0$  = pre-SHG income, (Rs.)

SIND and MEIND for members are combined to construct GRIND for members ( $\text{GRIND}_m$ ) as given below:

$$\text{GRIND}_m = w_1 \cdot \text{SIND} + w_2 \cdot \text{MEIND}$$

It is felt appropriate to assign higher weight to MEIND relative to SIND and hence,  $w_1$  and  $w_2$  are assigned values of 0.33 and 0.67, respectively.

### **SAMPLE DESIGN**

The study was undertaken in two states of Odisha and Karnataka, covering two districts in each. Graduation of members can be at different place in a financially developed area. Hence, two districts – one financially developed and the other less developed were selected from each of the state. Financial development of a district is measured based on two indicators, i.e., population served per banking outlet branches of commercial

*Final sample consisted of 240 members from 60 groups drawn from 20 villages. This covers 4 districts from Karnataka and Odisha.*

banks, Regional Rural Banks, Cooperative Central Banks, Cooperative Agricultural and Rural Development Banks, Primary Agricultural Cooperative Credit Societies) and total priority sector lending by banks per capita. A combined rank based on rankings of these indicators is calculated. One district each from top and bottom halves is randomly selected for detailed study. The combined ranking is given in Annexure tables 1 & 2. Khordha and Sambalpur districts sampled from Odisha

### *Whither Graduation of SHG Members?*

represented financially developed and less developed districts, in the same order. Dakshina Kannada and Koppal districts of Karnataka represented the financially developed and less developed districts, respectively.

Care was taken to include sampled SHGs representing different SHPIs (NGOs/Banks/government), models, age groups, social groups. The sample design followed is tabulated in Table 2.3.

**Table 2.3. Sample design of the study**

S. No.	Region	State	Districts	No of Villages	Total No of SHGs	SHG members
1	East	Odisha	Khordha	5	15	60
			Sambalpur	5	15	60
2	South	Karnataka	Dakshina Kannada	5	15	60
			Koppal	5	15	60
Total		2	4	20	60	240

In Koppal and Dakshina Kannada districts of Karnataka it was found that of the three models of SHGs, Model II was prominent. The SHGs of Model III were not found in Koppal district; therefore, SHG members of Model I & II were selected for the study. Similarly, in the absence of Model I in Dakshina Kannada, SHG members of Model II & III were selected. To get an overall picture of the selected districts, one *taluk* from each selected district was randomly chosen. A total of 30 SHGs, i.e., 15 from each district, were selected for the study. The SHGs under Model II are found in both the districts. While 8 SHGs under Model I and 7 SHGs under Model II were selected in Koppal, 7 SHGs under Model II and 8 SHGs under Model III were selected from Dakshina Kannada. The Self Help Promoting Institutions (SHPI) were DCCB, Koppal (Model I) and Olekar NGO and Sarvodaya NGO (Model II) in Koppal and DCCB/RRB (Model II) and Navodaya Trust (Model III) in Dakshina Kannada.

In Odisha, Model II is the most common one. In Sambalpur, only Model II groups could be selected and in Khordha, 3 SHGs from Model I and 12 from Model II could be selected. The final sample has younger groups (less than 3 years age) and older ones (3 years and above) in 1:2 ratio.

<sup>5</sup> Though one can obtain higher income even with existing enterprise of self or family, we have assigned higher weight equivalent to the ratio of post- to pre-SHG income for only those members who took up additional activity.

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As it was observed that due to the launch of various programmes such as Financial Inclusion, MGNREGA, Indira Awaas Yojana (IAY), etc., most of the respondents had personal bank accounts. In the absence of any information on members without personal savings account, 4 members from each group were selected randomly. Thus, the number of SHGs and SHG members selected for the study from each state were 30 and 120, respectively. The details of the ultimate sample are presented in Table 2.4.

**Table 2.4. Age-wise and model-wise classification of sample SHG units**

District	Age	Model			Total
		I	II	III	
Koppal	<3	2 (8)	1 (4)		3 (12)
	>3	6 (24)	6 (24)		12 (48)
	Total	8 (32)	7 (28)		15 (60)
Dakshina Kannada	<3			2 (8)	2 (8)
	>3		7 (28)	6 (24)	13 (52)
	Total		7 (28)	8 (32)	15 (60)
Karnataka	<3	2 (8)	1 (4)	2 (8)	5 (20)
	>3	6 (24)	13 (52)	6 (24)	25 (100)
	Total	8 (32)	14 (56)	8 (32)	30 (120)
Sambalpur	<3		5 (20)		5 (20)
	>3		10(40)		10 (40)
	Total		15 (60)		15 (60)
Khordha	<3	1 (4)	4 (20)		5 (24)
	>3	2 (8)	8 (28)		10 (36)
	Total	3 (12)	12 (48)		15 (60)
Odisha	<3	1 (4)	9 (40)		10 (44)
	>3	2 (8)	18 (68)		20 (76)
	Total	3 (12)	27 (108)		30 (120)

@ Figures in brackets are the number of respondents selected for the study

## **SCOPE OF THE WORK**

The study seeks to document the process, experience and role of SHGs in their members graduating from being SHG account holders to individual bank customers and entrepreneurs. It does not cover SGSY groups and JLGs.

## **TOOLS AND TECHNIQUES**

A questionnaire was designed to collect data on various parameters like age of a SHG, average number of members per group, distance from nearest bank, member's age, literacy level, occupation of members, loan size, end use of loans, repayment frequency, number of defaults on loan repayment, if any, per capita income, total family income, size of a family (no of dependants), health status of family members, literacy level of family members, knowledge of availability of various income generating opportunities, land holding pattern of SHG members, access to mobile phones, improvement, if any, in asset position before and after becoming the SHG member, increase in savings of SHG members, increase, if any, in the number of days of employment, increase in consumption expenditure, changes in borrowing and saving patterns, changes in social impact (like the attitude towards women, opportunity to meet government officials), Individual costs involved in becoming SHG member, total cost of SHG formation in which the person concerned is a member, interest cost of loans which were available to the SHGs, quality of management of the SHG concerned (instances of fund mismanagement by SHG leadership, level of confidence about accounting practices of the SHG, frequency of the number of SHG meetings), awareness amongst SHG members about flexible banking products for rural clients being promoted by banks (in case banks in local geography are offering them - like doorstep banking, interest rates of the saving and credit products of the banks, technology, if any), awareness and usage of other financial products like insurance, confidence and perception levels of the SHG members with regard to choice of a bank account over SHG accounts and reasons behind such choice.

The survey was carried out in two stages. In the first stage the SHGs were selected and studied. In the second stage, the questionnaires were canvassed to the selected sample SHG members who had graduated to individual account holders in banks and also those who had not.

The data, pertaining to the reference year 2010-11 collected through the questionnaire was subjected to statistical analysis. The analysis endeavoured to provide a comparison of various indicators/parameters of

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behaviour between graduates and non-graduates. The availability of opportunities for the two distinct groups, w.r.t. parameters like keeping the occasional small surpluses in the form of thrift, access to consumption loans to meet emergency needs and hassle free access to financial services and products, including loans for micro-enterprise activities were examined. The analytical tools used comprised univariate, bivariate and multivariate tabulations and other statistical tools.

The factors encouraging graduation were picked up from three sets of variables, i.e., (i) specific to SHG members, (ii) pertaining to SHGs to which the members belong, and, (iii) policy, institutional and infrastructural factors that influence the SHG member performance.

#### **THE MODEL**

Multiple regression framework is attempted which helps us estimate impact of various factors on the graduation level. (The following model was tried for SHG-wise data).

SHG level

$$\text{GRIND}_g = f(W_i, Z_i, \varepsilon)$$

Where,  $\text{GRIND}_g$  is graduation index for SHG as a group. Two sets of explanatory factors are considered: 1) variables pertaining to SHGs,  $W_i$ ; and, 2) variables representing environmental factors like development status or state,  $Z_i$ . And,  $\varepsilon$  is the residual term.

Several specifications were tried and finally a few important variables are tested for their influence. Description of variables used is given in Table 2.5.

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**Table 2.5 Description of variables**

VARIABLE	DESCRIPTION	EXPECTED SIGN	EXPLANATION
GRIND <sub>g</sub>	Graduation index for SHG		Dependent variable
STATE	Dummy variable for state. Takes value of 1 for Karnataka and 0 for Odisha	+/-	It can be either way depending on which state pursues interventions. Since Karnataka has long history of SHGs, the sign is likely to be positive.
DEVELOP	Dummy variable for district. Takes value of 1 for developed districts (Khordha and D. Kannada) and 0 for less developed districts (Sambalpur and Koppal)	+/-	<i>Prima facie</i> , we expect financially developed district to provide conducive environment for graduation process. It can also be argued that low level of financial development may create higher demand for SHGs. Also, less developed districts may attract intensive interventions by government and non-governmental agencies because of which we may expect inverse relation.
BPL	Proportion of BPL membership in an SHG (%)	+	If more BPL members are there, there is likelihood of other interventions to flow to members fostering graduation.
BPL*STATE	Slope dummy	+/-	Included to test the influence of interaction of STATE and BPL variables.
AGEDUM	Dummy variable taking value of 0 for younger (less than 3 years) groups and 1 for older (3 years or more) ones	+	Older groups are likely to perform better
SAVE	<b>Saving intensity per month (i.e., savings/member-months)</b>	+	Higher the saving rate better should be graduation level
TNGDS	Training person days i.e., <b>no of trainings x no of members trained x no of days trained</b>	+	Training is expected to provide entrepreneurial ideas and momentum
MDLDM2	Model dummy taking value of 1 for Model II and 0 for others	+	Likely to be positive because of NGO and bank's presence in the model.
MDLDM3	Model dummy taking value of 1 for Model III and 0 for others	+/-	It can be either way. Presence of NGO can be positive feature and lack of direct involvement can be negative force. To be tested.
BORPERMEM	Borrowing per member (Rs.)	+	Higher the borrowing, better should be the graduation level

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#### SHG Members

##### (A) Determinants of graduation

Determinants of graduation of SHG members were also explored using multiple regression framework, but with a different set of variables.

$$GRIND_m = f(X_i, W_i, Z_i, \epsilon)$$

where,  $GRIND_m$  is graduation index for SHG member as an individual. Three sets of explanatory factors are considered : 1) variables pertaining to SHG members,  $X_i$ ; 2) variables pertaining to SHGs,  $W_i$ ; and, 3) variables representing environmental factors like development status or state,  $Z_i$ . And,  $\epsilon$  is the residual term.

(B) Determinants of member's ability to take up additional activity. Also, we seek to explore why a few members take up additional activity while others do not using logit model of the form:

$$Y = \ln[p/(1-p)] = \beta_0 + \sum \beta_i X_i + \epsilon$$

Where,  $p$  is the probability that  $Y$ , binary dependent variable, has the value one and  $X_i$  are explanatory variables.  $ADLACT$  is taken as the binary dependent variable taking value of 1 if a HH takes up additional activity and 0 other wise.

Marginal impact of explanatory variables is given by the following expression:

$$\delta p(Y)/\delta X_i = \beta_i \cdot \exp(Z) / [1 + \exp(Z)]^2$$

where,  $Z$  is the sum of coefficients multiplied by the means of the respective variables plus the constant term.

(C) Determinants of member's choice to open SB account.

Logit model similar to the one in "B" above was used. The dependent variable was  $SAVCYN$  taking "1" for those who opened SB account and "0" otherwise.

The variables tried for analysis of graduation at member level are given below.

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VARIABLE	DESCRIPTION	EXPECTED SIGN	EXPLANATION
GRIND <sub>m</sub>	Graduation index	Dependent variable	Expressed in per cent
MEIND <sub>m</sub> ADLACT	ME dimension index dummy indicating if an HH took up additional activity; takes value of 1 if a HH takes up additional activity and 0 other wise.	Dependant variable for logit model	Expressed in per cent It is an important indicator in MEIND <sub>m</sub> .
SAVACYN	Dummy variable taking value 1 if a member has individual savings account		Dependent variable
SIND <sub>m</sub>	Savings dimension index(Expressed in per cent) for SHG member	+	if used as explanatory variable
SC	dummy variable taking value 1 for SC/ST household and 0 otherwise	-	Social status may be a deterrent
SCBPL	dummy variable taking value 1 for SC/ST and BPL household and 0 otherwise	-	Social and economic backwardness may be a deterrent
SSCYN	dummy variable taking a value of 1 if the HH has one or more members with 10th or higher and 0 otherwise	+	Educated members may have advantage
MMBAGE	age of the member	+	Older member may have a greater motivation/need to graduate
EARNERS	number of earners in household	-	More the number of earners, less will be the incentive to go for additional activities
DEPRAT	Dependency ratio – proportion of dependants total number of members in HH	+	Higher proportion of dependants may spur adoption of economic activity
FLYSIZE	number of members in HH	+	Larger families may need more revenue generating options and may contribute to labour supply
POWER	dummy variable taking a value of 1 if the HH has electricity in post-SHG period and not in pre-SHG period and 0 otherwise	+	Getting electricity connection may hasten graduation
POWER1	dummy variable taking a value of 1 if the HH has electricity in post-SHG period irrespective his having it in pre-SHG period and 0 otherwise	+	Having electricity may hasten graduation
MOBILE	Dummy variable taking a value of 1 if the member has mobile in post- and pre-SHG period	+	Having mobile connection first time may influence graduation process.
MOBILE1	Dummy variable taking a value of 1 if the member has mobile in post- as well as in pre-SHG period	+	Having mobile connection overtime may influence graduation process.



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VARIABLE	DESCRIPTION	EXPECTED SIGN	EXPLANATION
OFFICE	dummy variable taking a value of 1 if the member is office bearer of SHG and 0 otherwise	+	If member is an office bearer of the SHG, he may graduate faster
TTSAVE	total savings accumulated (Rs.)	+	Higher savings may lead to higher level of graduation
LOANNO	number of loans availed by the member	+	More number of loans may hasten the graduation
TTLOAN	total amount of loan availed by the member (Rs.)	+	Adequate and timely loans are known to have hastened the graduation process
WHYLOAN	Dummy variable for purpose of loan taking value 1 for non-consumption loans and 0 otherwise	+	Use of loan for productive use will positively influence graduation process
TRNGYN	dummy variable taking a value of 1 if the member has received training and 0 otherwise	+	Training may positively influence graduation by improving human capital
ROLE	index of empowerment of member to play better role	+	Member playing higher roles in family and community and having mobility may graduate faster
AWARE	index of awareness of member about SHG functioning -overall	+	Awareness levels about group functioning and its transactions may be able to use the information to get better off
EMPOWER	index of empowerment of member	+	Combined index of ROLE and AWARE
SHGAGE	age of SHG, in years	-	Given that younger groups are comparatively more enthusiastic about savings, we may expect negative relation
AGEDUM	dummy for age of SHG taking value 1 for older groups (3 or more years) and 0 for younger groups (< 3years)	-	- do-
MODEL2	dummy variable for model taking value of 1 for Model II and 0 otherwise	+/-	Model may influence the graduation process
MODEL3	dummy variable for model taking value of 1 for Model III and 0 otherwise	+/-	-do-
DEVELOP	dummy for development status of district – takes value of 1 for developed district and 0 for less developed district	+	Developed district is supposed to have better linkages
STATE	Dummy taking value 1 for Karnataka and 0 for Odisha	+/-	Depends on the proactive nature of the state
PREINC	Income (Rs.) in pre-SHG period	+/-	If positive, it means bias towards high income individual
INCOMEGR	Growth of income between pre- and post-SHG situations	+	Income growth is likely to positively influence graduation and facilitate opening individual savings a/c.

## CHAPTER III PROFILE OF THE STUDY AREA

[This chapter covers:

- ❖ General profile
- ❖ Banking, microfinance and developmental profile of the sample districts]

**T**his chapter presents profile of the study area. We discussed the general profile covering demographic and occupational pattern, banking profile covering details of banking network and microfinance profile giving details of SHGs bank linkage programme.

### GENERAL PROFILE

Table 3.1 presents demographic as well as development profile of the sample districts of two states. As expected, developed districts in both the states are witnessing higher literacy rate than under- developed districts. In terms of sex ratio, Sambalpur district is performing better than Khordha district. However, in Karnataka, Dakshina Kannada is exhibiting higher sex ratio than Koppal. As depicted in the following table, the net sown area as a percentage of geographical area is much higher in sample districts of Karnataka than those of Odisha.

**Table 3.1 Demographic as well as development profile of the sample districts**

Sl. no	Item	Khordha	Sambalpur	Odisha	D. Kannada	Koppal	Karnataka
1	Population('000')	1877	928	36804	1898	1196	52733
	i) Rural	1072	682	85.00	1168	998	66
	ii) Urban	806	254	15.00	729	198	34
2	Scheduled Caste Population (%)	13.54	17.04	16.50	6.91	15.48	
3	Scheduled Tribe Population (%)	5.18	34.50	22.21	3.32	11.59	6.6
4	Sex Ratio (females per 1000 males)	902	970	972	1022	983	964
5	Overall Literacy Rate	79.59	67.25	63.08	83.35	54.10	67.04
6	Cropping intensity (2002-03)	161	124	166	119.96	123.70	121.00
7	Net sown area as percentage of total geographical area	44.98	25.37	33.98	83.36	80.84	82.43

Source: Census of India (2001). HDI report (2004), Perspective Planning Commission, New Delhi., Odisha Agriculture Statistics 2011-12.

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Table 3.2 is depicting occupational profile of the sample districts. Occupational distribution in the sample districts reveals that 92,000 workers in Sambalpur district and 208,000 workers in Koppal district are cultivators. The number of cultivators is higher in above two districts than their counterparts in Odisha and Karnataka, respectively. More number of agricultural labourers are concentrated in less developed districts than developed districts in both the states.

**Table 3.2. Occupational profiles (in '000)**

Particulars	Khordha	Sambalpur	D. Kannada	Koppal
Cultivators	80	92	50	208
Agricultural Labourers	94	98	43	235
Workers engaged in Household Industries	5	18	200	18.29
Other workers	NA	106	654	151.1

Source: PLPs 2013-14

Table 3.3 and Table 3.4 depict the distribution of land holdings pattern in sample districts of Odisha and Karnataka, respectively. In terms of number of holdings, 67 per cent in Khordha and 42 per cent of farmers in Sambalpur are possessing less than one hectare of land. In the state of Karnataka 73 per cent of farmers in Dakshina Kannada and 28 per cent of farmers in Koppal possess less than one hectare of land.

**Table 3.3. Distribution of land holdings in Odisha**

Classification of Holding	Khordha				Sambalpur			
	Nos.	% to Total	HA	% to Total	Nos.	% to Total	HA	% to Total
< 1 Ha	77078	67	36614	32	39997	42	20798	11
>1 to < 2 Ha	26513	23	35570	31	42514	44	58669	30
>2 Ha	11480	10	40945	36	13021	14	114207	59
Total	115071	100	113129	100	95532	100	193674	100

Source: PLP 2013-14

**Table 3.4. Distribution of land holdings in Karnataka**

Classification of Holding	D. Kannada				Koppal			
	Nos.	% to Total	HA	% to Total	Nos.	% to Total	HA	% to Total
< 1 Ha	155528	73	57482	30	57358	28	33885	7
>1 to < 2 Ha	37523	18	52036	27	71046	34	102698	23
>2 Ha	20253	9	83667	43	80074	38	318921	70
Total	213304	100	193185	100	208478	100	455504	100

Source: PLP 2013-14

### CROPPING PATTERN

The major crops grown in the sample districts were paddy, coarse cereals including minor millets, pulses and groundnut. The sample districts of Karnataka, together accounted for 8.63 per cent of the total 1514 thousand hectares of paddy land and 9.94 per cent of paddy production. Groundnut was found to be a major commercial crop cultivated in Koppal. The horticultural crops in the sample districts accounted for only 0.69 per cent of the total area under horticulture crops in the State. Table 3.5 presents the details of area, production and productivity of the major crops grown in the sample districts.

**Table 3.5. Details of area, production and productivity of the major crops grown in Karnataka.**

Particulars	Paddy	Coarse cereals*	Pulses	Groundnut	Horticultural crops#
<b>Karnataka</b>					
- Area (000 Hectares)	1514	5372	2087	850	17005
- Production (000 MT)	3802	10302	971	501	
- Yield (Kg/ Hectare)	2511	1918	465	589	
<b>Koppal</b>					
- Area (000 Hectares)	75	236	64	42	20
- Production (000 MT)	245	412	21	30	
- Yield (Kg/ Hectare)	3257	1747	336	722	
<b>Dakshina Kannada #</b>					
- Area (000 Hectares)	55	..	3.39		98
- Production (000 MT)	61	..	1.39		
- Yield (Kg/ Hectare)	1100	..	411		

\* Includes minor millets # Plantation crops dominate the cropping pattern

Source: NABARD's PLPs and Karnataka at a Glance, 2009-10, Directorate of Economics and Statistics, Govt. of Karnataka.

As shown in the Table 3.6, paddy is major crop produced in both the districts of Odisha. It is to be noted that in majority of crops, the yield per hectare is higher in Sambalpur than Khordha district. This may be happening due to the presence of higher urbanization in the Khordha district than in Sambalpur. Hence, due to the availability of other sources of income, people may be inclined to get involved in other non-farming activities in the developed Khordha district.

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**Table 3.6. Details of area, production and productivity of the major crops grown in Odisha**

Particulars	Paddy	Total cereals*	Pulses	Groundnut	Horticultural crops#
<b>Odisha</b>					
- Area	4005	4479	2004	255	533
- Production (000 MT)	5895	6695	921	435	—
- Yield (Kg/ Hectare)	2197	1495	460	1707	—
<b>Khordha</b>					
- Area (000 Hectares)	96.81	97.92	32	4.03	20
- Production 000 (MT)	152	154	15	6	—
- Yield (Kg/ Hectare)	2339	1572	466	1444	—
<b>Sambalpur</b>					
- Area (000 Hectares)	137	143	53	0.91	20
- Production (000 MT)	248	260	25	1.31	—
- Yield (Kg/ Hectare)	2710	1821	476	1440	—

# Total of fruits and vegetables, condiments and spices and flowers

Source: Odisha Agriculture Statistics 2011-12, Directorate of Economics and Statistics, Govt. of Odisha.

**BANKING PROFILE**

Banking profile of sample districts in Odisha and Karnataka is given in Table 3.7 and Table 3.8 respectively. As depicted, developed districts in both the states are performing better than less developed districts in terms of level of branch penetration. In Odisha, Khordha district is exhibiting higher CD ratio than Sambalpur whereas in case of Karnataka, Koppal (less developed district) is witnessing much better performance (in CD ratio) than Dakshina Kannada.

**Table 3.7 Banking profile of Odisha**

SI No	Agency	Khordha		Sambalpur	
		Branches	CD Ratio	Branches	CD Ratio
1	CB	346	77	95	13
2	RRB	50	53	24	55
3	DCCB	18	164	11	51
4	PACS/LAMPS	168		46	
5	PCARDB	2			
6	Others, if any	9	7		
	Total	593	72	130	15.53

Source: PLP 2013-14 Agenda Papers March 2013

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**Table 3.8 Banking profile of Karnataka**

SI No	Agency	Dakshina Kannada		Koppal	
		Branches	CD Ratio	Branches	CD Ratio
1	CB	407	55	60	145
2	RRB	19	66	42	90
3	DCCB	35	121	6	88
4	PACS/LAMPS	266		82	
5	PCARDB	5		4	
6	Others, if any	1	Nil	1	—
	Total	733	57.86	195	107.67

Source: PLP 2013-14

**MICROFINANCE PROFILE**

While commercial banks have been very active in SBLP in general at country level, relatively smaller proportion of their branches (less than 50 per cent) have been involved in microfinance linkage programme in the sample districts of Odisha. In sample districts of Karnataka, the performance of commercial banks is slightly better than Odisha (more than 50 %). RRBs topped the agencies in terms of involvement of their branches which is more than 90 per cent. Even the cooperative banks have exhibited better performance in terms of proportion of branches participating in the linkage programme (Table 3.9).

**Table 3.9. Microfinance profile of sample districts**

S. No.	Particulars	Khordha	Sambalpur	Dakshina Kannada	Koppal
1	Total number of Blocks in the district	10	9	5	4
2	No. of Blocks where SHGs exist	10	9	5	4
3	No. of Blocks where SHGs are credit linked	10	9	5	4
4	No. of NGOs in the district	383	53 (appr.)	21	65
5	No. of NGOs participating in the linkage programme	46	15	21	30
7	No. of branches participating in linkage programme				
	CBs	102(37.4)	37 (50.0)	263(64.3)	65(100)
	RRBs	45(91.8)	22 (95.7)	19(100)	48(100)
	Coops.	12(75)	9 (60.0)	34(100)	06(100)
8	No. of banks acting as SHPIs	0	0	....	None
9	No. of Government/other agencies participating	6	6	....	1

Source: PLP-2013-14

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### **SHG BANK LINKAGE PROGRAMME**

Khordha has more than double the SHGs formed in Sambalpur (Table 3.10). While almost all the SHGs promoted were women SHGs in both the districts, relatively more number of SHGs are promoted and credit linked in Khordha district than in Sambalpur district. Similarly in the state of Karnataka, Dakshina Kannada, has performed better than Koppal in terms of number of SHGs credit linked. Average loan size per SHG is higher in Koppal than Dakshina Kannada.

**Table 3.10. Salient feature of SHG-BLP in sample districts**

Sr. No	Particulars	Khordha	Sambalpur	Dakshina Kannada	Koppal
1	No. of SHGs promoted	37891	12699		13985
2	No. of SHGs credit linked	24233	14894	73710	6745
3	Amount of Bank loan availed (Rs.lakh)	14419	7404.01	56051.44	5290.25
4	Percentage of women SHGs	98%	98%	90%	95%
5	Percentage SHGs credit linked in total	64%	—	—	48.23%
6	Average loan per SHG credit linked (Rs.)	59501	49710	76000	78000

Source: DCC & DLRC meeting Agenda Papers for the period ending March 2011-12, 2012-13 & PLP 2013-14

The SHG-BLP has made meaningful progress in providing platform to rural women. As a result of the programme, relationship, understanding and fellow-feeling among members has improved. It was observed that members were helping each other at the time of need. The participation rate of the members in different social and economic functions has increased in the post-SHG period. There was no change of leadership, however, in most of the groups. There were innovations in the programme. For example, one PACS in Koppal formed Business Oriented groups on the lines of JLGs (See Box 1 below).

#### **Box 1. Business Oriented Groups**

Having faced the competition from MFIs in the state, the Primary Agricultural Cooperative Society, Kinnal in Kopp from, Karnataka started financing "Business Oriented Groups" (BOG) in addition to the normal SHGs which go through the cycle of thrift before getting credit linked. Here the BOGs comprise of select members of 3-4 existing SHGs who are in need of higher quantum of loan. This new group is formed and, based on actual requirement of individual members, individual loans are issued. The PACS have initiated these new types of SHGs to counter the threat posed by the MFIs, who were trying to dismantle the SHGs formed by PACS. The members of the Business Groups also continue to be the members of the parent SHGs. The members are also happy that they are getting the required loan amount from the PACS at relatively lower rate of interest. For the Business Groups, PACS charges an extra 3% interest, i.e., 2% towards risk fund and 1% towards service charge. Further, the PACS, Kinnal has appointed animators for supervising these groups and is paying their salary out of the extra interest charged to members. This is similar to JLGs within SHG concept introduced in SHG2.

## CHAPTER IV PROFILE OF THE SAMPLE SHGS AND MEMBERS

*[This chapter presents for Odisha & Karnataka state:*

- ❖ *Profile of sample SHGs*
- ❖ *Profile of sample members]*



efore we understand extent of graduation, it is imperative to understand the basic characteristics of SHGs and members studied. To help this, the present chapter deals with the profile of sample SHGs and members

### PROFILE OF SAMPLE SHGs

The average age of SHGs in the sample ranged from 3.45 years in Sambalpur to 5.37 years in D. Kannada. The groups were predominantly populated with members below the poverty line (BPL) except Koppal where BPL members accounted for only 21.42 per cent. Sambalpur, a backward district, has higher loan per SHG of Rs.102,111 compared to Khordha with an average loan of Rs.73,557, in spite of lower average age of SHGs of 3.45 years compared to 4.12 years in Khordha (Table 4.1). The reasons may include higher average savings per month in Sambalpur (Rs. 64) and cutting short of time lines due to learning from developed districts like Khordha. One more reason can be the longer distance of SHG from bank of 18.53 km compared to 8.56 km in Khordha. Perhaps, the farther location from bank must have prompted SHGs and possibly the bank too, to negotiate higher loan amount as a strategy for reducing transaction costs for both parties. The trend was reverse, however, in Karnataka where the SHGs in developed D. Kannada received higher loan of Rs.193,601 compared to Rs.159,452 for SHGs in Koppal district, notwithstanding higher saving rate of Rs.91 per month compared to Rs.72 in D. Kannada.

*Average membership of sample SHGs ranged between 11 in Dakshina Kannada to 17 in Koppal with 12 in both Odisha districts. About 83 per cent of SHGs in Karnataka and 67 per cent in Odisha were older ones with 3 years or more of operation.*



*Whither Graduation of SHG Members?*

**Table 4.1. Overall sample SHG profile**

Particulars	Khordha	Sambalpur	Dakshina Kannada	Koppal
Average age of SHGs (years)	4.12	3.45	5.37	4.70
Average Savings per month (Rs)	52	64	72	91
Average Loan Per group (Rs)	73,557	102,111	193,601	159,452
Average number of times loan taken	2.00	1.33	2.07	2.47
Average percentage of BPL per SHG (%)	89.01	82.78	66.09	21.42
% of members having individual S/B accounts	29.82	22.17	20.04	30.25

Importantly, about 30 per cent of members among SHGs in Khordha and Koppal reported individual savings bank (S/B) accounts compared to 20 per cent in case of D. Kannada.

Tables 4.2 to 4.3 give the distribution of SHGs in the sample districts according to age and model. Two-thirds of the groups in the districts are of above 3 year category. Model II has been the dominant channel for promoting SHGs in Khordha while it emerged the sole model in Sambalpur. In D. Kannada Model II and III were more or less equal in proportion, while in Koppal it were the first two models that were equally dominant with about 47 per cent of the share each in the sample.

**Table 4.2. Stratification of the sample according to age of SHGs**

Age group	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
>3	10 (66.7)	10 (66.7)	11 (73.0)	9 (60.0)	40 (66.7)
<3	5 (33.3)	5 (33.3)	4 (27.0)	6 (40.0)	20 (33.3)
Total	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)

**Table 4.3. Stratification of the sample according to the model**

Model	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
I	3 (20.0)			7 (46.7)	10 (16.7)
II	12 (80.0)	15 (100)	7 (46.7)	7 (46.7)	41 (68.3)
III	-	-	8 (53.3)	1 (6.7)	9 (15.0)
Total	15 (100)	15 (100)	15 (100)	15 (100)	60 (100)

### *Whither Graduation of SHG Members?*

Overall size of an average group is around 13 members in the overall sample with very little age-related differences (Table 4.4). There is no discernible pattern in group size across models too. Koppal groups were larger (16 members) compared to groups in other districts.

**Table 4.4. Classification of average size of SHG according to model and age**

Age group	Model	District				
		Khordha	Sambalpur	Dakshini	Koppal	Overall
<3	I	11.00			18.00	16.25
	II	13.00	11.20	11.50	14.67	12.50
	III			10.50		10.50
<3 Total		12.60	11.20	11.00	16.33	13.05
>3	I	12.00			16.25	14.83
	II	11.88	12.40	10.80	13.75	12.15
	III			12.67	20.00	13.71
>3 Total		11.90	12.40	11.82	15.56	12.83
Overall		12.13	12.00	11.60	15.87	12.90

Meetings were held regularly on monthly basis in almost all the sample groups in Odisha with a lone exception in Khordha where fortnightly meetings were held (Table 4.5). In Karnataka groups, weekly meeting was the rule.

**Table 4.5. Frequency of meeting in the sample SHGs**

Frequency of meetings	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Total
Monthly	14	15			29
Fortnightly	1				1
Weekly			15	15	30
Total	15	15	15	15	60

The attendance to the group meetings was very good in Odisha with majority having above 90 per cent (Table 4.6). In Koppal district of Karnataka also the attendance was quite good with 14 out of 15 SHGs recording above 80 per cent attendance in meetings. D. Kannada groups recorded relatively poor attendance with only 2/3<sup>rd</sup> of them having above 80 per cent.

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**Table 4.6. Attendance in the group meetings in sample SHGs**

Attendance	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Total
90-100	15	14	5	11	45
80-90		1	5	3	9
70-80			2		2
60-70			3	1	4
Total	15	15	15	15	60

Table 4.7 and 4.8 tell us how the agenda and decisions during the meetings are taken. The groups by and large followed healthy and democratic approach while finalising the agenda for meetings through consensus or through majority mandate. Only in 5 SHGs in Sambalpur the agenda was finalised by leaders. While the decisions in the meetings were taken through consensus in all Khordha groups, in other three districts about 1/3<sup>rd</sup> to 1/2 of the groups followed consensus approach with the remaining groups taking decisions by majority opinion.

**Table 4.7. Distribution of SHGs according to basis for finalising agenda for group meetings**

Who decides agenda of the meetings	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Total
Group members by consensus	1	10	7	2	20
Leaders		5		5	
Majority of member	14		8	13	35
Total	15	15	15	15	60

**Table 4.8. Distribution of SHGs according to basis for taking decisions by the groups**

How is the decision taken?	District				
	Khordha	Sambalpur	D.Kannada	Koppal	Total
By consensus	15	10	8	7	40
By majority	5	7	8	20	
Total	15	15	15	15	60

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Regular audits were conducted in all the groups of Khordha and majority groups in D. Kannada. Sambalpur record was poor with only 20 per cent of the groups going for regular audits (Table 4.9)

**Table 4.9. Distribution of SHGs according to regularity of auditing**

Regular group auditing: Yes/ No	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Total
No	-	12	3	7	22
Yes	15	3	12	8	38
Total	15	15	15	15	60

Table 4.10 gives data on average savings and borrowings of sample SHGs. Average loan obtained by a group was Rs.127,319 in the overall sample which was about 2.57 times the average saving of Rs.49,490. Loan was 4.63 times savings in D. Kannada, maximum among the sample districts. The minimum ratio is 1.41 times the savings in Khordha. SHGs from Karnataka districts had higher average loans compared to Odisha districts. The older groups, in general, had higher average savings and loans compared to younger ones, except Sambalpur where the trend was otherwise.

**Table 4.10. Average borrowings and savings of SHGs, age- wise**

District	Average of cumulative savings (Rs)		Average of amount of Loan to SHG (Rs)		Total Average of cumulative savings (Rs)	Total Average of Loan to SHG in (Rs)	Loan as multiple of savings
	<3	>3	<3	>3			
Khordha	25890	65173	44170	88250	52079	73557	1.41
Sambalpur	29831	23463	131400	58300	25586	82667	3.23
D. Kannada	21320	49287	63975	240738	41829	193601	4.63
Koppal	35893	106848	70780	218566	78466	159452	2.03
Overall	28962	59754	77922	152018	49490	127319	2.57

There were groups which received more than two linkages in all districts except Sambalpur where maximum of two linkages were received (Table 4.11). In all, mere 18 per cent of the groups received beyond two linkages. While a lone group (i.e., 6.8 %) in Khordha district received five linkages, about 20 per cent groups in D. Kannada and 33 per cent groups in

*Obtaining 2nd credit linkage itself was a feat which only 1/3rd of Sambalpur groups could manage while almost 3/4th of Khordha groups could get 2 linkages. And, it took 20 to 23 months (620 to 695 days) for the group, on an average, to get the first linkage in Odisha districts as against 10 to 11 months in case of Karnataka districts.*

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Koppal received 3 linkages. A lone group in D. Kannada received 4 linkages.

**Table 4.11. Number of credit linkages obtained by sample SHG**

No of credit linkages	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Total
1	3	10	4	4	21
2	11	5	7	5	28
3			3	6	9
4			1		1
5	1				1
Total	15	15	15	15	60

Average loan amount during the first linkage is higher (by about 53%) in Sambalpur compared to Khordha. In Karnataka, Koppal exhibited better performance (by 5 %) compared to D. Kannada (Table 4.12) in terms of the loan amount during the first linkage. Subsequent average loan doses were higher in general, though increments tapered down with every successive linkage.

**Table 4.12. Average loan amount in each bank linkage received by SHG (Rs/SHG)**

Number of the credit linkage	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
1.00	33667	49200	82188	77508	58656
2.00	74259 (121)	149600 (204)	225598 (174)	127705 (65)	135091 (130)
3.00			243693 (8)	240537 (88)	241589 (79)
4.00			265000 (9)		265000 (10)
5.00	185500 (150)				185500 (-30)
Overall	73557	82667	193601	159452	127319

Note: Figures in the brackets are percentage increase in loan amount over the previous linkage

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Table 4.13 gives number of training person days each group received in the sample districts. An average group in the sample received 41 person days of training at the time of the survey. Khordha and Sambalpur received higher number of days of training followed by Koppal. The groups in D. Kannada received lowest number of days of training.

**Table 4.13. Average number of training person days in the sample**

Age group	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
<3	90.60	21.20	0.00	50.00	42.95
>3	46.50	67.20	11.27	38.22	40.13
Overall	61.20	51.87	8.27	42.93	41.07

### **PROFILE OF SHG MEMBERS**

The average family size of the SHG member households was 4.7 persons (Table 4.14). Sambalpur SHG members had smallest families (3.8 per household) while Khordha group members had large families with 5.5 members. Majority of SHG member households had a family of 4 to 6 in all the districts. Sambalpur groups had 45 per cent of the members with smaller families of up to 3 members.

**Table 4.14. Distribution of SHG members according to size of the family**

Family size	Khordha	Sambalpur	D. Kannada	Koppal	Total
3 & less	11.7	45.0	21.7	15.0	23.3
4 to 6	70.0	55.0	76.7	68.3	67.5
7 & above	18.3	0.0	1.7	16.7	9.2
Total	100	100	100	100	100
Average size	5.5	3.8	4.3	5.0	4.7

Social group-wise classification of sample members revealed that about 55 per cent belonged to SC, ST or backward classes (Table 4.15). In Odisha, these three categories together accounted for highest share in total with above 60 per cent in Khordha and above 90 per cent in Sambalpur. While Scheduled Tribes (STs) dominated Sambalpur SHGs with a share of around 48 per cent.

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**Table 4.15. Distribution of member households according to social group**

Social Group	Khordha	Sambalpur	D. Kannada	Koppal	Total
SC	5.0	20.0	8.3	8.3	10.4
ST	11.7	48.3	13.3	3.3	19.2
BC	45.0	23.3	10.0	21.7	25.0
General	38.3	8.3	68.3	66.7	45.4
Total	100.0	100.0	100.0	100.0	100.0

Table 4.16 reveals that at least half of the members had literacy levels above primary in both the districts of Odisha while 3/4<sup>th</sup> to a little above half of the members in D. Kannada and Koppal had primary level of education only with the remaining being illiterates.

**Table 4.16. Distribution of households according to level of literacy**

Level of education	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Illiterate	8.3	20.0	26.7	45.0	25.0
Primary	36.7	31.7	73.3	55.0	49.2
Secondary	51.7	48.3	0.0	0.0	25.0
Above Secondary	3.3	0.0	0.0	0.0	0.8
Total	100.0	100.0	100.0	100.0	100.0

Table 4.17 summarises the status of improvements in asset holding of SHG members in the study districts. About 67 to 80 per cent of the members reported that their asset holding improved in respect of one or more assets. Majority members (minimum 50 %) reported improvement in other assets such as consumer durables like TV and bicycle. Around 1/3<sup>rd</sup> of members reported improvement in livestock in Khordha while much less proportion in other districts reported improvement in this regard. While about 27 per cent of the members in Sambalpur reported improvement in land holding. Significant proportion (17 to 22%) of members from Karnataka districts too reported improvement in land holding.

**Table 4.17. Proportion of SHG members reporting improvement in asset holding**

Asset	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Land	8.3	26.7	16.7	21.7	18.3
Farm machinery	5.0	3.3	5.0	6.7	5.0
Livestock	31.7	10.0	3.3	13.3	14.6
Other assets like consumer durables	61.7	68.3	51.7	50.0	57.9
One or more assets	70.0	80.0	66.7	71.7	72.1

### Whither Graduation of SHG Members?

About half of the SHG members in the sample were having base activity of offering wage labour (Table 4.18). Higher proportion of members (75 to 80 %) in Sambalpur and D. Kannada were depending on wage labour. Majority of SHG members in Khordha were dependent on wage labour but pursuing farm activities (38%) followed by non-farm activities (28%) and a combination (20%). Members of Koppal groups pursued non-farm sector activities in other than wage labour based activities. *Beedi* rolling is one predominant activity in the sample. In fact, most households in the sample are pursuing multiple activities which is explored in detail in a later chapter.

*Average family size was 4.7. More than half of the members were from vulnerable groups including OBCs. One fourth of the sample members were illiterates. Most had primary education. One or the other assets of over 70 % members improved after joining SHGs. Mobile penetration improved and more impressively in Odisha. Base activity was wage labour for half of the sample.*

**Table 4.18. Distribution of SHG members according to broad activity**

Base activity	Sector	Khordha	Sambalpur	D.Kannada	Koppal	Total
Wage Labour	<b>Total</b>	<b>13.3</b>	<b>75.0</b>	<b>80.0</b>	<b>38.3</b>	<b>51.7</b>
	Farm	1.7	0.0	8.3	3.3	3.3
	Non-farm	0.0	3.3	8.3	8.3	5.0
	Mixed	11.7	71.7	63.3	26.7	43.3
No wage labour	<b>Total</b>	<b>86.7</b>	<b>25.0</b>	<b>20.0</b>	<b>61.7</b>	<b>48.3</b>
	Farm	38.3	13.3	8.3	18.3	19.6
	Non-farm	28.3	1.7	11.7	30.0	17.9
	Mixed	20.0	10.0	0.0	13.3	10.8

About 83 to 90 per cent of the sample SHG households possessed at least one mobile phone and about 10 per cent of HH in Khordha district have more than one phone (Table 4.19). Compared to pre-SHG situation the mobile penetration increased very sharply from 42.1 to 86.7 per cent, on an average. The increment was on high note in Odisha compared to Karnataka. Since mobile technology is a very powerful tool for getting a variety of information useful for business performance and expanding the scope for market access, one can conclude that SHG members are better equipped now to improve their performance than what they were before joining SHG, especially in the context of Odisha.

**Table 4.19. Ownership of mobile phone**

District	Pre-SHG	Post-SHG	Increment (percentage points)
Khordha	13.3	88.3*	75.0
Sambalpur	16.7	83.3	66.6
D. Kannada	61.7	85.0	23.3
Koppal	76.7	90.0	13.3
Overall	42.1	86.7	44.6

\*10 per cent of the sample own more than one mobile



## CHAPTER V

### EXTENT OF GRADUATION AMONG SHGS

*[In this chapter, we discuss....*

- ❖ *savings and borrowing practices among SHGs*
- ❖ *status of different indicators of graduation among SHGs across different models, geographical locations and development contours*
- ❖ *index of graduation]*



Graduation has been defined in this study as a two-dimensional process, having been able to open an individual savings account and ability to change activity profile to augment one's income, being two dimensions. There is an intermediary step where one avails loans from SHGs first and from other agencies like banks and MFIs, for supporting enterprises of family members and then one's own activities. In this chapter we discuss the dimensions of graduation as well as the intermediary step. We also discuss the graduation index constructed using different indicators under each of the two dimensions considered. The methodology adopted for calculating graduation index was discussed in Chapter II.

#### **SAVINGS PRACTICES AMONG SHGs**

Savings form the core of the SHG movement. Members are mandated to contribute savings periodically to the group to inculcate the habit of savings among them. Only after a few months of continuing this practice, the group is credit linked and bank loans are sanctioned in certain multiples of savings accumulated by the members.

#### **SAVING RATE**

Average monthly saving rate given in Table 5.1 and distribution of SHGs according to saving rate per month given in Table 5.2 bring out an interesting trend. Average saving rate is higher in Karnataka districts compared to Odisha districts. Financially backward district (Sambalpur) has higher proportion, i.e., 86.67 per cent of SHGs with higher saving rate of Rs.50 or Rs.100 per month compared to about 60 per cent of SHGs in Khordha (including one lone case of Rs. 55 per month). Average saving rate per month, hence, is

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higher at about Rs.64 in Sambalpur compared to about Rs.52 in Khordha. The average saving rate is Rs.91 and 72 in Koppal and D.Kannada districts, respectively. Saving rate in the overall sample is Rs.70, lower by Rs.4 compared to average saving rate prevailed initially. Pattern seems to be that saving rate is higher in less developed districts compared to developed districts. Modal saving rate is lowest at Rs.30 in Khordha and highest at Rs.80 in Koppal districts.

**Table 5.1. Saving rate per month in sample districts**

District	At the time of formation	At present	Modal Value
Khordha	62	52	30
Sambalpur	72	64	50
D. Kannada	71	72	40
Koppal	90	91	80
Developed district	67	62	40
Less developed district	81	77	80
<b>Overall</b>	74	70	80

**Table 5.2. Distribution of sample SHGs according to saving rate**

Saving per month now (Rs.)	Khordha	Sambalpur	D. Kannada	Koppal	Overall	Developed districts	Less developed districts
30	6	2			8	6	2
40			6		6	6	0
45		1			1	0	1
50	5	7			12	5	7
55	1				1	1	0
60			1		1	1	0
80			4	12	16	4	12
100	3	5	1	2	11	4	7
120			3		3	3	0
200				1	1	0	1
<b>Total</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>60</b>	<b>30</b>	<b>30</b>

Table 5.3 reveals that younger groups have higher average saving rate (Rs.90) compared to older ones in Sambalpur while older groups had a saving rate of Rs.50 per month. In Khordha, though a developed district, the rate is still lower at Rs.30 for half of the older groups. The trend in D.Kannada district is not different. In Koppal, most of the older as well as younger groups adopted saving rate of Rs.80 per month with one older group collecting Rs.200 per month.

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**Table 5.3. Range and pattern of savings by SHG members in sample districts, age-wise**

Saving per month now (Rs)	Sambalpur		Khordha		Odisha		Kannada		Koppal		Karnataka	
	<3 years	>3 years	<3 years	>3 years	<3 years	>3 years	<3 years	>3 years	<3 years	>3 years	<3 years	>3 years
30		2	1	5			1	7				
40										6		6
45		1						1				
50	1	6	3	2			4	8				
55			1				1					
60										1		1
80					5	7			2	2	7	9
100	4	1		3	1	1	4	4	1		2	1
120									1	2	1	2
200						1						1
Total	5	10	5	10	6	9	10	20	4	11	10	20
Average	90	51	47	55	83	33	69	53	95	64	88	78

Table 5.4 presents distribution of groups according to initial and present saving rates. In all, 15 groups revised their saving rate over time of which 13 revised upwards while two reduced it. Largest upward revision was from Rs.80 to Rs.200 by one group.

**Table 5.4. Distribution of sample SHGs according to change in saving rate adopted, overall**

Saving per month - Initial (Rs.)	Saving per month (Rs.)										Overall	Sum of numbers to right of the diagonal
	30	40	45	50	55	60	80	100	120	200		
30	7			1							8	1
40		6				1	5	1			13	7
45			1								1	0
50	1			10				1			12	1
55					1						1	0
60								1			1	1
80							11		2	1	14	3
100				1				8			9	0
120									1		1	0
Overall	8	6	1	12	1	1	16	11	3	1	60	13

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District-wise picture given in Table 5.5, reveals that 10 groups (33%) in Karnataka sample and 3 (10%) in Odisha enhanced saving rate. Six groups in D. Kannada and 4 groups in Koppal enhanced their saving rate. There is no change in the saving rate in 75 per cent of the groups since inception. One group in Sambalpur reduced the rate from Rs.100 per month to Rs.50 and another in Khordha, from Rs.50 to Rs.30 per month, due to difficulty expressed by members, mostly labourers, to contribute the amount.

**Table 5.5. Distribution of sample SHGs according to change in saving rate adopted**

District	Saving per month - Initial (Rs.)	Saving per month- now (Rs.)										Overall	Sum of numbers to right of the diagonal	
		30	40	45	50	55	60	80	100	120	200			
Khordha	30	5			1								6	1
	50	1			4								5	0
	55					1							1	0
	100								3				3	0
Sambalpur	30	2											2	0
	45			1									1	0
	50				6				1				7	1
	60								1				1	1
D. Kannada	100				1				3				4	0
	40		6				1	3					10	4
	80							1		2			3	2
	100								1				1	0
Koppal	120									1			1	0
	40							2	1				3	3
	80							10			1		11	1
	100								1				1	0
Total		8	6	1	12	1	1	16	11	3	1	60	13	

Often, members may have surplus income which they would like to save apart from mandatory savings to be parked with the group. It is quite logical to think that it is this additional savings which would help in investment in enterprises/ income generating activities by the members and/or by their family members. While it is true that these savings may not by themselves be sufficient for such investment, they can reduce cost of capital. Also, to the extent they help build assets, the ability of the people to offer collateral enhances (Chakrabarti and Ravi, 2011). One channel through which such surpluses can be mobilised is savings bank accounts with formal banking institutions.

### Whither Graduation of SHG Members?

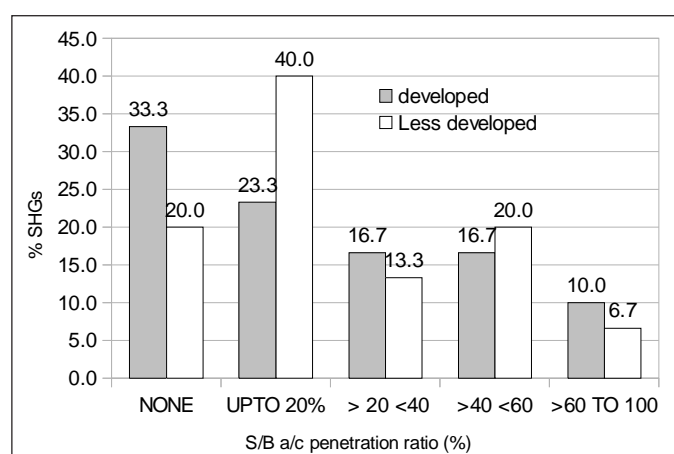
Table 5.6 gives distribution of SHGs according to savings bank account penetration (SBAP) ratio i.e., proportion of members having individual savings bank account. About 1/4<sup>th</sup> of the groups did not have any members with individual savings bank accounts. Up to 20 per cent of the members had individual savings bank accounts in about 1/3<sup>rd</sup> of the sample SHGs. Notably, 8.3 per cent of the groups had savings bank account penetration ratio of 60 to 100 per cent.

**Table 5.6. Distribution of sample SHGs according to proportion of members having individual saving a/c**

Savings bank account penetration ratio	Sambalpur	Khordha	Koppal	D. Kannada	Overall
None	26.7	6.7	13.3	60.0	26.7
Low (Up to 20%)	33.3	46.7	46.7	0	31.7
Medium (20 to 40)	13.3	26.7	13.3	6.7	15.0
High (40 to 60)	26.7	6.7	13.3	26.7	18.3
Very high (60 to 100)	0	13.3	13.3	6.7	8.3
Overall	100.0	100.0	100.0	100.0	100.0

Distribution of SHGs according to savings bank account penetration ratio in developed and less developed districts is presented in Figure 5.1. Less developed districts had higher proportion (80%) of SHGs with individual savings bank accounts. About 40 per cent of SHGs in these districts had low SBAP ratio (i.e., upto 20%) which was higher than the proportion (23%) in developed districts. In high SBAP class also the proportion of SHGs was higher in case of less developed districts.

**Figure 5.1. Distribution of SHGs according to S/B account penetration ratio**



### *Whither Graduation of SHG Members?*

#### **SHG MEMBERS**

Among the sample SHG members 60 per cent possessed individual savings bank accounts (Table 5.7). Karnataka districts on an average had higher proportion of SHG members with individual SB accounts. Koppal followed by Khordha had higher SBAP ratio of over 70 per cent.

**Table 5.7. Proportion of respondent households having individual SB accounts**

District	Respondents not having SB a/c	Respondents having SB a/c	Total
Khordha	30.0	70.0	100
Sambalpur	68.3	31.7	100
Odisha	49.2	50.8	100
D. Kannada	35.0	65.0	100
Koppal	26.7	73.3	100
Karnataka	30.8	69.2	100
Overall	40.0	60.0	

Table 5.8 gives disaggregated view of SB account penetration according to ownership. While in Karnataka districts individual accounts were held by SHG members themselves in all cases, in 57 per cent of Odisha sample SHG members held the SB account in their own name. Sambalpur sample showed higher proportion of SHG members having SB account in their own name compared to Khordha sample.

**Table 5.8. Proportion of SHG members having individual savings accounts, according to ownership.**

District/State	Proportion of SHG members having individual S/B accounts in the name of		
	Self	Family member	Total
Khordha	52.4	47.6	100
Sambalpur	68.4	31.6	100
Odisha	57.4	42.6	100
D. Kannada	100.0		100
Koppal	100.0		100
Karnataka	100.0		100
Overall	81.9	18.1	100

*Whither Graduation of SHG Members?*

Model I had higher SBAP ratio of 71 per cent compared to lowest in Model III (Table 5.9). Most of the accounts were held by members themselves. Members of older groups accounted for higher number of individual bank accounts. Also, developed districts were likely to have higher proportion of SHG members opting for individual savings accounts held either by self or by members of the household as data (Table 5.10) showed.

**Table 5.9. Penetration of individual saving accounts among SHG members, model –wise**

Model	% members having individual savings a/c	Composition as per ownership	
		family members	self
I	70.5	29.0	71.0
II	56.7	18.3	81.7
III	62.5	0	100

**Table 5.10. Penetration of individual saving accounts among SHG members, age-wise**

District Category	Age group	SBAP ratio (%)	% held by family members	% held by self
Developed	less than 3 years	62.5	16.0	84.0
	3 years & More	70.0	28.6	71.4
Less Developed	less than 3 years	56.8	0.0	100.0
	3 years & More	50.0	15.8	84.2
Overall	less than 3 years	59.5	8.0	92
	3 years & More	60.3	23.4	76.6

It is not enough if a member opens a savings account. The sufficient condition for the account to trigger the entrepreneurial development is its usage in terms of regularity and purpose. Tables 5.11 to 5.13 give information on distribution of savings bank accounts according to purpose they are intended for. On the whole, 1/3<sup>rd</sup> of the accounts opened by SHG members were meant for the purpose of saving and another

- *No change in monthly saving rate*
- *Mode: Rs.80 pm, range: Rs.30 to Rs.200.*
- *Avg SHG -20 – 30 % of members have S/B a/c*
- *27 % SHGs – no member has S/B account*
- *S/B accounts for pro-entrepreneurial purposes*

### *Whither Graduation of SHG Members?*

1/4<sup>th</sup> of them were for either with loan expectation alone or for saving plus loan expectation (Table 5.11). About 3/4<sup>th</sup> of the accounts were for pro-entrepreneurial purposes covering business/non-farm sector use, saving or loan purposes

Interestingly, slightly higher proportion (77.3%) of SHG members from less developed districts opened SB accounts for pro-entrepreneurial purposes compared to developed districts, where 70.3 per cent of accounts were for such purposes. In fact, business, non-farm activity and loan expectations together, as opposed to saving as a purpose, accounted for 34.9 per cent of the accounts in less developed districts compared to 21.0 per cent in developed districts. Pure saving as a purpose was less popular in less developed districts, compared developed districts. Notably, remittance was one of the prominent purposes for opening savings account in developed districts compared to less developed districts.

**Table 5.11. Purpose of saving accounts, district category-wise**

Purpose of having individual S/B A/c	SHG Member		
	Developed	Less Developed	Overall
<b>Pro-Entrepreneurial purpose</b>	<b>70.3</b>	<b>77.3</b>	<b>73.5</b>
Business & non farm activity	12.4	22.8	17.0
Saving	34.6	28.8	32.0
Savings and loan expectation	14.8	13.6	14.3
Loan expectation	8.6	12.1	10.2
<b>Other Purposes</b>	<b>29.7</b>	<b>22.7</b>	<b>26.5</b>
Compulsion by bank	0.0	0.0	0.0
For NREGS job card	6.2	13.6	9.5
Remittance	23.5	9.1	17.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Members of older groups had pro-entrepreneurial intentions behind opening SB accounts (Table 5.12) with 76.6 per cent of the accounts opened for such purposes compared to a proportion of 67.4 per cent in case of younger groups. About 30 per cent of the accounts of older groups and about 22 per cent of younger groups were for other than saving purpose, either alone or in combination with loan expectation. Pure saving as a purpose was less popular among older groups compared to younger groups.



*Whither Graduation of SHG Members?*

**Table 5.12. Purpose of saving accounts, Age-wise**

Purpose	SHG Member		
	less than 3 years	More than 3 years	Overall
<b>Pro-Entrepreneurial purpose</b>	<b>67.4</b>	<b>76.6</b>	<b>73.5</b>
Business & non-farm activity	16.3	17.3	17.0
Saving	34.7	30.6	32.0
Savings and loan expectation	10.2	16.3	14.3
Loan expectation	6.1	12.2	10.2
<b>Other Purposes</b>	<b>32.6</b>	<b>23.4</b>	<b>26.5</b>
Compulsory	0.0	0.0	0.0
For NREGS job card	16.3	6.1	9.5
Remittance	16.3	17.3	17.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

SB account holders in groups belonging to Model III, where NGOs promoted SHGs and acted as financial intermediaries also, opened accounts for pro-entrepreneurial purposes only (Table 5.13). In other two models, only 2/3<sup>rd</sup> of the account holders opened SB accounts for such purposes. Pure saving motive is predominant among the purposes followed by loan expectation alone or in conjunction with saving motive. In fact, pure saving motive was predominant in models where NGOs are involved in forming and nurturing SHGs. Remittance was a major *raison d'être* for opening savings accounts in Model I, where banks promoted and financed SHGs.

**Table 5.13. Purpose of saving account, Model-wise**

Purpose	Model			Overall
	I	II	III	
<b>Pro-Entrepreneurial purpose</b>	<b>68.7</b>	<b>69.5</b>	<b>100.0</b>	<b>73.5</b>
Business & non farm activity	18.8	18.9	5.0	17.0
Saving	15.6	36.8	35.0	32.0
Savings and loan expectation	12.5	11.6	30.0	14.3
Loan expectation	21.9	2.1	30.0	10.2
<b>Other Purposes</b>	<b>31.3</b>	<b>30.5</b>	<b>0.0</b>	<b>26.5</b>
Compulsory	0.0	0.0	0.0	0.0
For NREGS job card	0.0	14.7	0.0	9.5
Remittance	31.3	15.8	0.0	17.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Whither Graduation of SHG Members?*

**WHO GOES FOR INDIVIDUAL SAVINGS ACCOUNT?**

In spite of coming closer to banking system and the drive for no frills accounts, not many members ended up having functional and individual savings account. We conducted an econometric exercise to understand what might be the factors behind a member going for an individual savings bank account. The results of logit model used are given in Table 5.14.

**Table 5.14. Results of logit model to find factors behind members' choice to open savings bank account**

Variable	OVERALL		KARNATAKA		ODISHA	
	Coefficient	Marginal Effect	Coefficient	Marginal Effect	Coefficient	Marginal Effect
Constant	-2.39243*** (-2.41900)	-0.56056	-2.43045 (-1.47500)*	-0.47617	-0.91521 (-0.38900)	-0.22849
SC	-0.56906* (-1.62900)	-0.13333	0.88605* (1.30000)	0.17359	-0.72336* (-1.29900)	-0.18060
MODEL2	-0.02791 (-0.07500)	-0.00654	0.62111* (1.33700)	0.12169	-0.85406 (-0.87700)	-0.21323
PREINC	0.00022*** (2.01100)	0.00005	0.00043 (1.14600)	0.00008	0.00032** (1.94800)	0.00008
INCOMEGR			-0.00512 (-0.29900)	-0.00100		
MMBAGE	0.05891*** (3.13300)	0.01380	0.06569*** (2.33600)	0.01287	0.02359 (0.78400)	0.00589
DEPRAT	-0.00416 (-0.45700)	-0.00097			-0.01006 (-0.61600)	-0.00251
FLYSIZE			-0.30103** (-1.82300)	-0.05898		
WHYLOAN	-0.49700 (-1.256000)	-0.11645			-0.48542 (-0.64300)	-0.12119
TTLOAN	0.00006*** (2.534000)	0.00001	0.00003* (1.51900)	0.00001	0.00011*** (2.07700)	0.00003
SAGEDUM	-0.26730 (-0.81900)	-0.06263	-0.05508 (-0.11000)	-0.01079	-0.19853 (-0.39000)	-0.04957
OFFICE	0.57031** (1.69800)	0.13362	0.43933 (0.95900)	0.08607	0.90194* (1.52400)	0.22518
DEVELOP	0.79881*** (2.30800)	0.18716	-0.29089 (-0.52300)	-0.05699	1.78355*** (2.32600)	0.44528
MOBILE	0.08266 (0.22700)	0.01937	0.43164 (0.69300)	0.08457	-0.14387 (-0.19700)	-0.03592
AWARE	-0.12989 (-0.94000)	-0.03043			-0.23697 (-0.63200)	-0.05916
$\chi^2$ (Chi square)	45.11***		18.26**		39.89***	
Number of observations	240		120		120	
Pseudo R <sup>2</sup>	0.14		0.12		0.24	
Predicted P(Y =1 x)	0.23		0.20		0.25	

Note: \*\*\* highly significant (less than 5%), \*\* significant (5 to 10%), \* moderately significant (10 to 20%)  
Figures in brackets are "t"- values

### Whither Graduation of SHG Members?

The results for pooled sample show that the probability of a member having individual savings bank account was 0.23. The fit is good as the Chi-square value is high and significant. Relatively older members having higher pre-SHG income who contracted higher loan amounts have higher probability of opening own savings account. Further, members holding office in a group and hailing from developed districts had

- Who goes for individual S/B a/c ?
- positive influence
- Members with higher incomes in pre-SHG situation,
  - holding office in the group,
  - total loan availed
  - development status
- Negative influence
- Affiliation to lower social group
  - larger family size

shown higher propensity to open savings accounts. Social affiliation to SC/ST category proved disadvantage for opening savings bank account though not to a significant level, statistically. In Odisha also, the same set of factors influenced members' ability to open SB accounts except that member's age did not matter at all. In Karnataka, social affiliation, member's age, loan amount availed positively influenced the choice to go for an SB account. Other factors that showed significant influence in pooled model did not matter here. Family size mattered as larger families reduced members' chance of going for individual accounts. Members of Model II SHGs showed higher probability of having own SB accounts. The estimated probability of having own SB account was only 0.20 compared to 0.25 in Odisha.

### BORROWING ACTIVITY OF SHG MEMBERS

Borrowing behaviour of SHG members was studied in terms of number of loans, purpose and extent of taking loans outside SHG fold and tabulated below. Table 5.15 gives distribution of respondents based on number of loans taken. The tendency for multiple loans was prominent in Karnataka compared to Odisha districts. SHG members of Koppal availed 6 to 7 loans though such members formed 3.4 per cent of the sample from the district. At the same time, about 47 per cent of SHG members in D.Kannada and 32 per cent in Koppal could not access any loans. Odisha sample revealed that all members could get loans from their SHGs though most of the members could get two loans.

**Table 5.15. Distribution of respondents according to number of loans availed**

No of loans availed	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Total
1	25.0	66.7	16.7	15.0	30.8
2	58.3	33.3	26.7	25.0	35.8
3	10.0	0.0	6.7	11.7	7.1
4	0.0	0.0	1.7	13.3	3.8
5	6.7	0.0	1.7	0.0	2.1
6	0.0	0.0	0.0	1.7	0.4
7	0.0	0.0	0.0	1.7	0.4
No loans	0.0	0.0	46.7	31.7	19.6
<b>Total</b>	100.0	100.0	100.0	100.0	100.0
<b>Loans/member</b>	2.05	1.33	1.05	1.75	1.55

*Whither Graduation of SHG Members?*

Table 5.16 gives distribution of SHG members according to broad purpose of loans taken by them. Overall, SHG members borrowed from their groups for agriculture (35.2%) followed by business/services (21.8%) and consumption (18.7%) purposes. About 44 per cent of borrowers in D.Kannada borrowed for consumption followed by about 31 per cent for business/service. In Khordha too consumption was the major borrowing purpose accounting for 1/3<sup>rd</sup> of the borrowers. The pattern in Sambalpur and Koppal was different. About 92 per cent of the borrowers took loans for agriculture in Sambalpur. Business/service, accounting for about half of the borrowers, and allied sectors like dairy, sheep, etc., accounting for 1/3<sup>rd</sup>, were two major purposes in Koppal.

**Table 5.16. Distribution of members according to broad purpose of loan**

Broad purpose	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Agriculture	13.3	91.7	12.5	2.4	35.2
Allied sectors	13.3	1.7	9.4	31.7	13.0
Business/service	11.7	6.7	31.3	51.2	21.8
Manufacturing	15.0			7.3	6.2
Consumption	31.7		43.8	7.3	18.7
Agriculture/ Consumption	15.0		3.1		5.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Average loan amount taken by an SHG member in the sample as a whole was Rs.10811 (Table 5.17). Average loan amount for different purposes had shown lot of variation with maximum amount (Rs.18204) availed for business/services and minimum (Rs.5672) for agriculture/consumption. Inter-district variation was glaring with Koppal recording a highest average loan of Rs.19951 and Khordha with lowest loan amount of Rs.6209. Members from Karnataka districts could access higher amounts compared to Odisha sample.

**Table 5.17. Average loan per borrowing member, purpose-wise**

Broad purpose	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Agriculture	9292	6748	12750	3000	7345
Allied sectors	4923	19500	20333	18375	16220
Business/service	8009	10000	15400	24500	18204
Manufacturing	4276			12333	6291
Consumption	6398		13236	13333	9635
Agriculture/ Consumption	4746		14000		5672
<b>Overall</b>	<b>6209</b>	<b>7178</b>	<b>14541</b>	<b>19951</b>	<b>10811</b>

### Whither Graduation of SHG Members?

There was no visible pattern across purposes and understandably so as borrowing from SHG is usually a supplementary source of finances of households. Also, the loan amount in the table above was per borrowing respondent. Often, borrowers have accessed more than one loan and on the whole an average SHG member in the sample took 1.9 loans (Table 5.18). SHG members from Koppal took maximum number of loans for business/service followed by manufacturing. Sambalpur sample had lowest number of loans per member.

- 3/4th of SHG members got loans
- Using for productive purposes
- Considerable proportion of SHG members depend on non-SHG loans for consumption and farming needs.
- Average loan amount in Karnataka districts was higher than that in Odisha districts.
- An average borrower got 1.9 loans and borrowing members were 85.

**Table 5.18. Average number of loans per borrower, purpose-wise**

Broad purpose	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Agriculture	3.5	1.3	2.8	2.0	1.6
Allied sectors	1.5	2.0	2.3	2.4	2.3
Business/service	2.0	2.0	2.2	2.9	2.5
Manufacturing	2.0			2.7	2.2
Consumption	1.7		1.4	2.3	1.6
Agriculture/ Consumption	3.0		3.0		3.0
Manufacturing/consumption	2.0				2.0
<b>Total Result</b>	<b>2.1</b>	<b>1.3</b>	<b>2.0</b>	<b>2.6</b>	<b>1.9</b>

Besides SHG loans, members had also tapped loans from other sources like banks, cooperatives and MFIs (in Karnataka sample). Table 5.19 presents data on distribution of non-SHG loans in the sample. Major purposes behind such loans were agriculture and consumption, with near equal proportion of around 37 per cent in the total. Predominantly, Sambalpur members borrowed for agriculture while consumption had high share (73 to 86 %) in all other districts.

**Table 5.19. Distribution of number of loans other than from SHGs, purpose-wise**

Broad purpose	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Agriculture		64.3	18.0		37.7
Agriculture & allied activities		2.3			1.2
Allied activity	7.3	2.3			2.3
Business/service		2.3	9.3	8.5	3.8
Consumption	85.5		72.7	83.1	36.8
Manufacturing	7.3				1.2
Miscellaneous		28.9		8.5	17.0
Total	100.0	100.0	100.0	100.0	100.0
Number of borrowing members	14	45	11	12	85

### SHARING OF LOANS

Here, a word on internal lending is in order. Most SHGs were sharing the bank loan equally among the members. Though a few groups expressed that loans were distributed according to needs, in practice equal distribution is the rule. Prescribed norm for SHGs is distribution of loans according to the needs based on micro-investment plan of members.

*Equal distribution of loans among members is the rule in the groups barring a few exceptions. Distribution according to the need often led to exclusion of several of SHG members from borrowing activity. There can be alternative mechanisms, such as allowing relending among members after equal distribution, to render loan distribution among members to reflect differential loan demand.*

Equal distribution assumes that all members have similar economic conditions and attributes, which is not true. It is observed that in groups promoted by Rajiv Gandhi Charitable Trust (RGCT) in Uttar Pradesh, such system is being followed. In fact, in the early days of SHG formation, lendable resources will be less and have to be rationed across members. Since, equal distribution results in members getting too small an amount and hence, underfinancing for a few and over-financing for others, assuming that all members do not have same loan needs at a given point in time. But, it was observed in RGCT groups and even D. Kannada groups in the present study that some of the members are excluded for quite a longer period, depriving them of opportunities for bettering their incomes. At the same time, other members can avail loans and move ahead. As we know, office bearers (leaders) of SHGs have better chance of obtaining loans and other benefits on priority basis adding another dimension to the problem of inequality in access to funds. Groups following equal sharing of loans are found largely in Andhra Pradesh and slowly spreading in other states. The basic instinct behind such arrangement is impatience of members to grab the opportunities thrown open by SHGs and not to be left behind their own peers and the feeling that the loans negotiated by SHG have resulted from group action and hence, entire group has a rightful share (this argument is put forth especially for sharing subsidies obtained for group loans). It is further observed that in a few groups in Andhra Pradesh, after equal loan sharing, members with higher loan demand borrowed from fellow members with smaller loan requirements, paying higher interest than they paid on their share of loan, but often less than the market rate. This was an informal practice outside the group's control. We feel that equal sharing of loans may be considered a market driven solution for the problem of total exclusion of some of the members. In equal sharing of loans coupled with internal relending, borrowers are paying premium on amount rightfully belonging to other members and re-lenders receive a small price for waiting for their turn. Alternatively, loan turns can be auctioned among members who can offer a price (interest rate) that reflects their demand for loan. The excess interest charged from the members can be distributed among the members who had to wait for their turn to avail loan. There can be a variety of other ways possible depending on varying assumptions and scenarios. Depending on the mechanism adopted, there will be a redistribution of potential benefits from membership in SHGs to a varied extent.

## Whither Graduation of SHG Members?

### ACTIVITY PROFILE

Income generation is the prime goal of activities pursued by all households. It is expected that borrowings, to the extent utilised for productive purposes, and savings help in investment and asset building at household level. Membership in SHGs facilitates this process by augmenting financial resources available with the member households. Often, poor households cannot manage their families with a single source of income. They need multiple avenues for income generation involving multiple members of the family.

In the pre-SHG situation, about half of the sample households pursued single activity while about 42 per cent pursued two activities (Table 5.20). A smaller proportion (6.3 %) had 3 activities. A few year after joining SHG, the proportion of members pursuing single activity declined to about 25 per cent while proportion of members pursuing multiple activities increased to 75 per cent compared to 48 per cent in pre SHG situations.

**Table 5.20. Distribution of respondents according to number of activities undertaken (%)**

No. of Activities	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Pre SHG Situation					
1	76.7	46.7	30.0	55.0	52.1
2	21.7	41.7	60.0	43.3	41.7
3	1.7	11.7	10.0	1.7	6.3
Total	100.0	100.0	100.0	100.0	100.0
Post-SHG Situation					
1	43.3	8.3	28.3	18.3	24.6
2	50.0	68.3	50.0	61.7	57.5
3	6.7	23.3	21.7	20.0	17.9
Total	100.0	100.0	100.0	100.0	100.0

Sample respondents have been pursuing various activities in different combinations. Primary activity is supplemented with one or more other activities. Tables 5.21 and 5.22 give distribution of sample respondents based on primary activity pursued in pre- and post SHG situation, respectively. During pre-SHG situation, farming, wage labour and *beedi* rolling are three major activities with about 34, 28 and 16 per cent of the SHG members pursuing them, in the sample as a whole. *Beedi* rolling is the major activity pursued by 40 per cent of the members in Sambalpur and about 23 per cent in D.Kannada. Farming pursued by half of the members and manufacturing, by about 37 per cent of members are major activities in Khordha. Farming is dominant activity in Koppal also with 42 per cent following it as a primary activity. Labour is major activity in D.Kannada

*Whither Graduation of SHG Members?*

**Table 5.21. Primary activity wise distribution of respondents, pre-SHG situation (%)**

Pre SHG Activity Primary	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Beedi Rolling	0.0	40.0	23.3	0.0	15.8
Dairy	0.0	5.0	0.0	3.3	2.1
Farming	50.0	23.3	20.0	41.7	33.8
Labour	8.3	30.0	43.3	28.3	27.5
Manufacturing	36.7	1.7	3.3	15.0	14.2
Misc	0.0	0.0	0.0	0.0	0.0
Not specified	0.0	0.0	0.0	0.0	0.0
Service/business	5	0.0	10.0	11.7	6.7
Grand Total	100.0	100.0	100.0	100.0	100.0

In post-SHG situation, in comparison with pre-SHG situation, there is a small relative shift towards manufacturing (to 17.5 from 14.2 per cent). This increment is on account of relative shift in proportion of members taking up manufacturing activity from 36.7 to 51.7 per cent in Khordha district. This gain in Khordha is compensated by loss, of similar magnitude, in share of farming in the district. Other than this, there is not much change in the primary activity profile over time.

**Table 5.22. Primary activity wise distribution of respondents, post-SHG situation (%)**

Post SHG Activity Primary	District				
	Khordha	Sambalpur	D. Kannada	Koppal	Overall
Beedi Rolling	0.0	36.7	25.0	0.0	15.4
Dairy	0.0	3.3	0.0	3.3	1.7
Farming	41.7	21.7	20.0	41.7	31.3
Job	1.7	3.3	1.7	1.7	2.1
Labour	0.0	31.7	41.7	28.3	25.4
manufacturing	51.7	1.7	1.7	15.0	17.5
Service/business	5.0	1.7	10.0	10.0	6.7
Grand Total	100.0	100.0	100.0	100.0	100.0

It is observed that most people continued with whatever activities they have been undertaking before joining SHG. In the sample as a whole, only 37.5 per cent SHG members undertook additional activities (Table 5.23). Interestingly, higher proportion of members added additional activities to their mix in less developed districts compared to developed districts. D.Kannada lagged behind all other three districts in taking up additional activities. This might possibly be due to concurrent promotional interventions running in the districts with emphasis on less developed districts. This needs further exploration.



*Whither Graduation of SHG Members?*

**Table 5.23. Proportion of respondents who have taken up additional activity in post-SHG situation vis-à-vis pre-SHG situation (%)**

If additional activity	District Category		
	Developed	Less Developed	Overall SHG
Not taken up	70.8	54.2	62.5
Taken up	29.2	45.8	37.5
Total	100.0	100.0	100.0

Augmenting household income is the main intention behind taking up multiple activities. In the sample as a whole, an average SHG member household could earn Rs.63576 per annum which is about 34 per cent higher compared to its pre-SHG income level of Rs.47376 (Table 5.24). Member households from developed districts have relatively lower income levels in both pre- and post-SHG situations, vis-à-vis those from less developed districts up to 22 per cent. In terms of growth of income over time also less developed districts fared a little better, however insignificant it may, statistically be.

**Table 5.24. Annual household income of SHG members (Rs.)**

Particulars	Pre- SHG	Post - SHG	% Increase
Khordha	39984	64236	60.7
Sambalpur	57216	87852	53.5
D. Kannada	45216	47568	5.2
Koppal	47100	54660	16.1
<b>overall</b>	<b>47376</b>	<b>63576</b>	<b>34.2</b>
Developed districts	42600	55908	31.2
Less developed district	52164	71256	36.6

Table 5.25 presents income distribution of SHG members and Figure 5.2 and Figure 5.3 show income distribution graphically. There was a clear shift in income distribution towards higher income classes in post-SHG situation compared to pre-SHG situation. While there was concentration of 45 per cent of households in 3000 to 4000 class and one class interval on either side, in post-SHG situation the concentration of households was 4000 to 5000 income class accounting for 28 per cent of households. In all higher income classes too, the proportion of members is consistently higher in post-SHG situation over pre-SHG situation.

*Whither Graduation of SHG Members?*

**Table 5.25. Distribution of respondents according to income**

Monthly income (Rs.) slabs	SHG Member	
	Pre	Post
≤ 1000	0.8	0.0
>1000 ≤ 2000	3.8	1.7
>2000 ≤ 3000	22.1	7.5
<b>&gt;3000 ≤ 4000</b>	<b>45.0</b>	24.6
<b>&gt;4000 ≤ 5000</b>	16.7	<b>27.9</b>
>5000 ≤ 6000	5.8	17.1
>6000 ≤ 7000	2.5	7.5
>7000 ≤ 8000	1.3	6.3
>8000	2.1	7.5
Total	100.0	100.0

The pattern is clearly discernible in the graph (Figure 5.2) below. Dotted lines represent pre-SHG situation and solid lines, post-SHG situation. The peak shifted to next higher income class and the distribution was flatter in post-SHG situation.

**Figure 5.2. Distribution of respondents according to income**

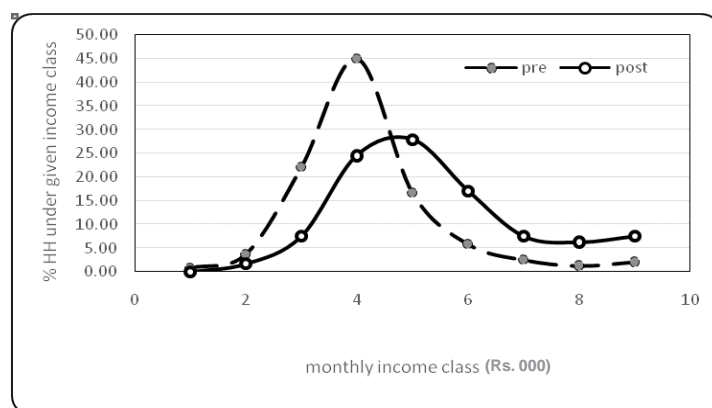
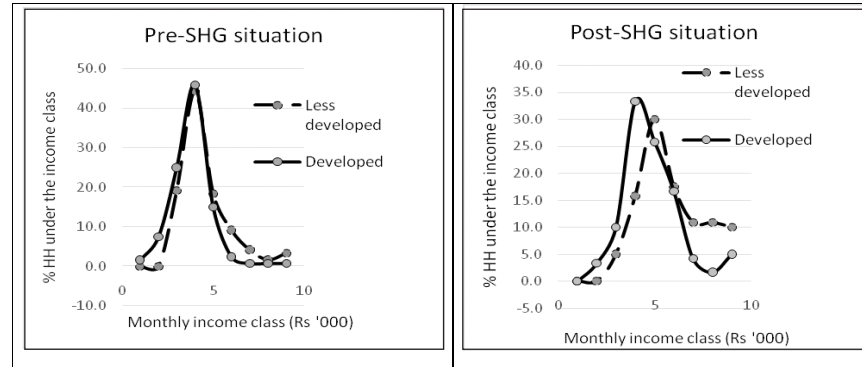


Figure 5.3 presents graphical view of income distribution in developed and less developed situations. Interestingly, in developed area, the peak did not shift to different income class though the distribution is more equitable than earlier. Pre-SHG distribution is more or less similar for developed and less developed areas with near equal peak in Rs.3000 to Rs.4000 income class which accounted for 40 to 45 per cent of members. In contrast, in post-SHG situation, the peak for less developed areas shifted towards higher income class i.e., Rs.4000 to Rs.5000 and flatter distribution to the right of the peak reflecting better income distribution in post-SHG situation.

## Whither Graduation of SHG Members?

**Figure 5.3. Distribution of respondents according to income**



### GRADUATION INDEX

In the foregoing analysis, we discussed different dimensions of graduation process and income distribution separately. In what follows we discuss the summary measure, graduation index, developed by combining all those dimensions. We calculated two dimension indices and one combined index. Savings related indicators were combined into savings index (SIND) and economic activity (micro-enterprises) related indicators are combined into ME Index (MEIND). These two dimension indices are combined to derive graduation index (GRIND). The weights adopted and procedure, were discussed in Chapter II. Savings Index will be higher for members with own savings account, having it in one's own name and using it for savings or pro-entrepreneurial purposes. ME index will be higher for members who took up additional activity compared to pre-SHG situation, maintained the activity level over time duly weighed with ratio of post-SHG incomes to pre SHGs. Labour, *beedi* rolling which were more or less externalities and did not need any entrepreneurial traits are not given any weightage in the index. The indices lie between zero and one. While the basis was common for calculating indices for SHGs and individual respondents, the indicators were defined differently to suit the context.

### SHGs

The average value of graduation index for the sample SHGs was 0.447 with Savings and ME indices being 0.256 and 0.565 (Table 5.26). The value of Graduation index varied between 0.266 for D.Kannada and 0.682 for Khordha. The higher value of the graduation index for Khordha was on account of higher ME index. The activity profile of sample households examined earlier revealed that Khordha had recorded increased proportion of households pursuing manufacturing as a primary activity.

*Whither Graduation of SHG Members?*

**Table 5.26. Average savings, ME and graduation indices for sample SHGs, district-wise**

District	Savings Index	ME Index	SHG Graduation Index
Khordha	0.298	0.875	0.682
Sambalpur	0.222	0.624	0.489
D. Kannada	0.200	0.359	0.266
Koppal	0.303	0.401	0.350
Overall	0.256	0.565	0.447

Data shows that older groups showed higher ME and Graduation indices compared to younger groups (Table 5.27). The pattern was consistent across districts. Savings index, however, showed inverse relation with respect to age of the groups, mainly due to the strong inverse relation in Sambalpur and to some extent Khordha.

**Table 5.27. Average savings, ME and graduation indices for sample SHGs, district-wise and age-wise**

District	Savings index		ME index		Graduation Index	
	Young	Old	Young	Old	Young	Old
Khordha	0.324	0.286	0.867	0.880	0.685	0.681
Sambalpur	0.497	0.084	0.116	0.878	0.241	0.613
D. Kannada	0.000	0.231	0.333	0.363	0.220	0.273
Koppal	0.200	0.328	0.111	0.473	0.239	0.378
Overall	0.313	0.237	0.394	0.622	0.386	0.467

Model II had shown better performance in terms of graduation index as well as ME index over Model I and III (Table 5.28). Savings index was higher in Model I. Model III had much lower savings, ME and graduation indices compared to other models. Perhaps, involvement of banks directly, as in Model I, or as a financial intermediary, as in Model II, appears to be working better for graduation.

**Table 5.28. Average savings, ME and graduation indices for sample SHGs, model wise**

Model	Savings index	ME index	Graduation Index
I	0.305	0.581	0.463
II	0.249	0.602	0.487
III	0.221	0.354	0.219
Overall	0.256	0.565	0.447

### *Whither Graduation of SHG Members?*

#### **SHG MEMBERS**

The graduation index and its components were also computed at household level. Savings index on an average is 0.097 and varied between 0.056 in Sambalpur and 0.124 in Koppal (Table 5.29). Index for SHG members in developed area was not much different from that in less developed area.

**Table 5.29. Average savings index for sample respondents**

District	SHG Members
Khordha	0.101
Sambalpur	0.056
D. Kannada	0.105
Koppal	0.124
Overall	0.097
Developed area	0.103
Less Developed area	0.090

Distribution of members according to savings index (Table 5.30) shows that 2/5<sup>th</sup> of the SHG members did not graduate in terms of savings dimension. About 37 per cent had an index value of up to 0.10 while a little below 20 per cent of SHG members had an index value above 0.10 and up to 0.40. Developed districts have larger proportion (27 %) of members with a savings index value of greater than 0.10 compared to 20% in case of less developed districts. A few members (1.6 %) have very high value of index of 0.80 in developed areas.

**Table 5.30. Distribution of savings index in study area**

Savings Index	SHG Member		
	Developed	Less Developed	Overall
0	32.5	47.5	40.0
Up to & 0.1	40.8	32.5	36.7
> 0.1 to 0.2	9.2	2.5	5.8
> 0.2 to 0.3	5.8	5.8	5.8
> 0.3 to 0.4	9.2	7.5	8.3
> 0.4 to 0.5	0.8	2.5	1.7
> 0.5 to 0.6	0.0	1.7	0.8
>0.6 to 0.7	0.0	0.0	0.0
>0.7 to 0.8	0.0	0.0	0.0
>0.8 to 0.9	0.8	0.0	0.4
>0.9 to 1	0.8	0.0	0.4
Total	100.0	100.0	100.0

### *Whither Graduation of SHG Members?*

The ME index was higher for SHG members with a value of 0.290 at the overall level as well as for all districts (Table 5.31). The difference was negligible in Koppal, though. The difference was highest in Sambalpur (by 0.132) followed by D.Kannada and Khordha. Less developed district has better index, comparatively.

**Table 5.31. Average ME index for sample respondents**

District	ME index
Khordha	0.299
Sambalpur	0.282
D. Kannada	0.211
Koppal	0.367
Overall	0.290
Developed area	0.255
Less Developed area	0.324

Distribution of members according to ME index given in Table 5.32 showed that about 1/3<sup>rd</sup> of SHG members had ME index value between 0.30 and 0.40 and another 27 per cent, had between 0.20 and 0.30. About 13 per cent did not graduate in terms of entrepreneurship. Only 1/5<sup>th</sup> of the members had index value of above 0.40. Less developed areas were ahead of developed areas as they have about 27 per cent of members above 0.40 compared to only 12.5 per cent, in case of the latter.

**Table 5.32. Distribution of ME index in study area**

ME Index	SHG Member		
	Developed	Less Developed	Overall
0	20.8	5.0	12.9
Up to & 0.1	0.0	0.0	0.0
> 0.1 to 0.2	10.8	5.8	8.3
> 0.2 to 0.3	20.0	34.2	27.1
> 0.3 to 0.4	35.8	28.3	32.1
> 0.4 to 0.5	6.7	21.7	14.2
> 0.5 to 0.6	4.2	5.0	4.6
>0.6 to 0.7	0.8	0.0	0.4
>0.7 to 0.8	0.0	0.0	0.0
>0.8 to 0.9	0.0	0.0	0.0
>0.9 to 1	0.8	0.0	0.4
Total	100.0	100.0	100.0

Combining these above two indices with weights of 33 per cent for savings and 67 per cent for ME indices, we calculated graduation index presented in Table 5.33. The index ranged between 0.176 for D.Kannada and 0.287 for Koppal with an average of 0.226 for SHG households as a whole.

*Whither Graduation of SHG Members?*

**Table 5.33. Graduation index for sample respondents**

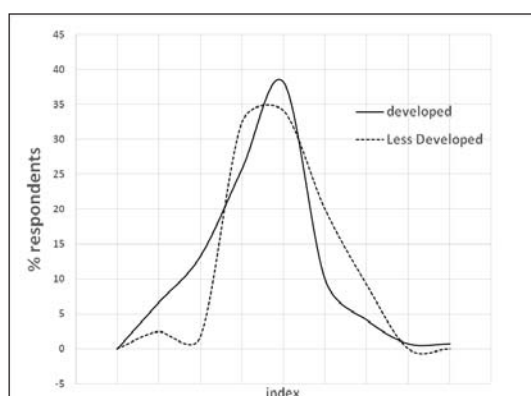
District	Graduation Index
Khordha	0.234
Sambalpur	0.207
D. Kannada	0.176
Koppal	0.287
Overall	0.226

Table 5.34 and Figure 5.4 present distribution of sample according to graduation index. The peak was in 0.20 to 0.30 index class for SHG members. Less developed districts were ahead with around 30 per cent of them having an index of above 0.30 compared to 16 per cent in case of developed districts.

**Table 5.34. Distribution of Graduation index in study area**

Graduation index	SHG Member		
	Developed	Less Developed	Overall
0	6.7	2.5	4.6
Upto & 0.1	13.3	1.7	7.5
> 0.1 to 0.2	25.8	32.5	30.8
> 0.2 to 0.3	38.3	34.2	35.8
> 0.3 to 0.4	10.0	20.0	15.4
> 0.4 to 0.5	4.2	9.2	5.0
> 0.5 to 0.6	0.8	0.0	0.4
>0.6 to 0.7	0.8	0.0	0.4
Total	100.0	100.0	100.0

**Figure 5.4. Distribution of respondents according to graduation index.**



## CHAPTER VI

# WHY ONLY A FEW SHGS/MEMBERS COULD GRADUATE?

*[This chapter discusses results of analysis:*

- ❖ *to find out determinants of graduation levels across SHGs and their members]*

**T**he discussion in the previous chapter brought out patterns in savings habits, borrowings and entrepreneurial activities among SHGs and members. We also measured the extent of graduation in that chapter. Average levels of indices have been estimated with reference to age and development status which gave some hint about the possible impact of such factors. However, since they are at aggregate level which may mask the underlying patterns, it is better to analyse unit level data. It is learnt that only a few SHGs and their members could achieve certain level of graduation. Thus, it is imperative to understand why some SHGs and members graduated while others could not. In this chapter we analyse this aspect.

### **DETERMINANTS OF GRADUATION – AT SHG LEVEL**

Several variables were tested in various specifications. Multiple linear regression model is fitted. Possible variables, their expected influence on the dependent variable, Graduation Index, are discussed in the chapter on analytical framework. The model selected and estimated considering signs, levels of significance and fit is presented in Table 6.1. The model was a reasonably good fit given its R-square value of 0.60 and a highly significant F-value. Of the 8 explanatory variables included in the model, five were statistically significant, mostly at 5 per cent level and had expected signs except for the borrowing per member which needs further probe. Developed districts tended to have significantly higher level of graduation index by about 0.092 points. Older groups had higher graduation levels compared to younger groups by a margin of 0.140 points.



*Whither Graduation of SHG Members?*

**Table 6.1. Estimated graduation model for SHGs**

Variable	Coefficient	t-ratio	P[ T >t
Constant	0.100915	0.593	0.5557
STATE	0.155922	0.878	0.3838
DTDUM	0.091582 <sup>*</sup>	1.766	0.0835
BPL	0.004044 <sup>**</sup>	2.014	0.0493
BPLST	-0.004655 <sup>**</sup>	-2.145	0.0368
AGEDUM	0.140091 <sup>***</sup>	2.796	0.0073
TNGDS	0.000476	1.608	0.1140
MDLDM3	-0.124296	-1.630	0.1092
BORPRMEM	-0.000006 <sup>**</sup>	-2.066	0.0439
R-squared.	0.603269	Mean index	0.447
n	60	S.D.	0.2355
F[ 8,51]	9.69 <sup>***</sup>	C.V. %	52.70

Note: \*\*\* highly significant (less than 5%), \*\* significant (5 to 10%), \* moderately significant (10 to 20%)

Interestingly, higher proportion of BPL population in an SHG was associated with higher level of graduation. This is counter-intuitive as we generally expect BPL households to be laggards in entrepreneurial skills due to lower access to resources. Perhaps the result may be the fallout of other parallel interventions targeting BPL households. It leads to the conclusion, perhaps, that graduation is possible with convergence of other efforts rather than through SHG route alone. Dummy variable for the state (0 for Odisha and 1 for Karnataka) was not significant in its impact which means that there was not much difference between the two states as far as graduation levels of the groups are concerned. But, significant and negative slope dummy, BPLST, indicates that the impact of BPL proportion was lower in Karnataka, and significantly so compared to Odisha. Study on the differential policies and strategies targeting BPL population adopted by the states are needed to understand this result better.

Variable measuring training input, TNGDS, which captures training coverage, frequency and duration was positive though significant at 11.40 per cent. This is an encouraging result justifying, and perhaps buttressing the need for strengthening, our training efforts. Model III, i.e., NGO centric promotion of SHGs, appeared to be associated with lower levels of graduation in comparison with other models. Again, here too, the confidence we can place on the result is a bit on lower side.

## **DETERMINANTS OF GRADUATION – AT SHG MEMBER LEVEL**

Determinants of graduation level of SHG members are explored using multiple linear regression framework. Explanatory variables representing member's attributes, SHG related and environmental or external factors were included in the model. The results for entire sample, pooled for Karnataka and Odisha, are given in Table 6.2. Member related attributes like family size (FLYSIZE), age (MMBAGE) and

### *Determinants of graduation*

#### *Positive factors*

- *family size (FLYSIZE), age (MMBAGE)*
- *Savings*
- *Purpose matters*
- *Pre-SHG income*
- *Low level of development*

#### *Negative factors*

- *social affiliation acted as deterrents to graduation.*
- *Borrowings*

social group affiliation (SC) had highly significant influence on graduation index. While the family size and member's age had positive influence, social affiliation acted as a deterrent to graduation. A member belonging to SC, ST groups was likely to be about 4 percentage points behind others in terms of graduation index. Savings showed positive influence on graduation level with a statistical significance at 8.9 per cent. If a member has to improve her/his graduation index by 5.7 percentage points, she needs to have at least Rs.10,000 of accumulated savings. Intriguingly, both at group as well as member level, loans taken showed negative influence on graduation but not at all significantly in case of member level analysis. We believed that higher borrowings should enhance graduation levels too. Perhaps, the clue lies in the proper use of borrowings. We captured purpose of loan use with a dummy variable, WHYLOAN, that takes value of 0 if used for consumption expenditure and 1 otherwise. This variable turned out to be moderately significant (at 19 % level). A member using the loan for non-consumption purposes is likely to have graduation index of 2.1 percentage points higher than the one using for consumption purposes. PREINC, income levels of households in pre-SHG period influenced graduation levels significantly indicating that members with higher income levels to start with had advantage over others in graduating. MODEL2 has negative influence on graduation level though only moderately significant, statistically. Age of SHG (also indicating length of association of members with the SHGs) did not show any impact at all. Two variables representing external factors, namely, DEVELOP – representing development status of the district, and MOBILE1- representing penetration of ICT have significant influence on graduation index. Members from less developed districts have done better with about 4.4 percentage points ahead of their counterparts from developed districts. The result is counter-intuitive but not difficult to be appreciated as more efforts of government and other development agencies are focussed on less developed areas and economic agents in those areas too are eager to grab opportunities as part of their survival strategies.

*Whither Graduation of SHG Members?*

**Table 6.2. Determinants of graduation level**

Variable	Coefficient	t-ratio	P[ T >t
Constant	4.73408	0.96900	0.33340
FLYSIZE	1.11921***	2.63500	0.00900
MMBAGE	0.23666***	2.99800	0.00300
PREINC	0.00090**	1.82200	0.06970
SC	-3.94611***	-2.41100	0.01670
TTLOAN	-0.00005	-0.61800	0.53690
TTSAVE	0.00057**	1.70900	0.08880
WHYLOAN	2.11951*	1.30200	0.19410
MODEL2	-2.28777*	-1.46500	0.14420
SHGAGE	-0.38155	-1.10800	0.26920
DEVELOP	-4.39981***	-2.74100	0.00660
MOBILE1	6.29749***	2.78000	0.00590
POWER1	-1.65646	-0.76000	0.44810
No of observations	240		
R-squared=	0.24		
F-value (12,227)	5.97***		

Note: \*\*\* highly significant (less than 5%), \*\* significant (5 to 10%), \* moderately significant (10 to 20%)

**WHO TAKES UP ADDITIONAL ACTIVITY?**

One of the key indicators entering the graduation index is the taking up of additional activity by a member. What motivates a member to take up additional activity is an important inquiry that can yield certain insights into process of graduation itself. For this, we fitted logit model to know: what are the factors that prompt a member to take up additional activity. The results for pooled sample are given in Table 6.3.

We tested the influence of different categories of variables as we did in earlier analysis. The overall fit was good with statistically highly significant  $\chi^2$  (chi square) value of 39.781 and a pseudo R<sup>2</sup> value of 0.126. Predicted probability that a member from the sample would take up additional activity is 0.23. Accumulated savings of members emerged as a major determinant of a member taking up additional activity. An accumulated savings of Rs.10,000 would increase the probability

- Positive influence for taking up addl activity:*
- *Accumulated savings*
- *higher Savings Dimension Index (SIDX)*
- *Members of younger groups*
- *less developed districts*
- Negative influence*
- *amount of loan taken— is it due to risk aversion?*

### *Whither Graduation of SHG Members?*

of member taking up additional activity by 0.7 points. Members with higher Savings Dimension Index (SIND) are likely to start additional activity. However, amount of loan taken, as has been observed earlier, has negative influence on the probability of taking up additional activity. Members belonging to younger groups are more likely to go for additional activity compared to those from older groups. Analysis at SHG level revealed that older groups tend to have higher levels of graduation. Analysis at members' level reveals that members of younger groups too are competitive to graduate. Demonstration effect and eagerness to grab the opportunities and develop may explain this. As can be predicted from earlier results, members from less developed districts were more likely to take up additional activity compared to their counterparts in less developed districts.

**Table 6.3. Results of logit model to identify factors behind taking up additional activity, Overall**

Variable	Coefficient	b/St.Er.	P[ Z >z]	Mean of X	Marginal Effect
(Dependent Variable: ADLACT = 1 if additional activity taken up and 0 otherwise)					
Constant	-0.97271	-1.14500	0.25230		
AWARE	0.06847	0.50200	0.61600	2.34896	0.01545
DEPRAT	0.00320	0.36100	0.71820	49.89883	0.00072
MMBAGE	0.00301	0.17500	0.86100	35.72083	0.00068
SC	0.33014	0.92000	0.35770	0.28750	0.07447
SIDX	1.39566*	1.35700	0.17470	0.096605	0.32233
TTLOAN	-0.00003**	-1.82300	0.06840	8693.74490	-0.00001
TTSAVE	0.00031***	3.45300	0.00060	3607.68330	0.00007
WHYLOAN	0.25230	0.64700	0.51740	0.65417	0.05691
MODEL2	-0.32622	-0.84400	0.39840	0.68333	-0.07359
OFFICE	0.19026	0.58900	0.55580	0.30833	0.04292
SAGEDUM	-1.50566***	-4.08600	0.00000	0.65000	-0.33965
DEVELOP	-0.82262***	-2.41800	0.01560	0.50000	-0.18557
MOBILE	0.63157**	1.66900	0.09510	0.51667	0.14247
$\chi^2$			39.781***		
Pseudo R <sup>2</sup>			0.126		
No of observations			240		
Predicted P(Y =1 x)			0.23		

Note: \*\*\* highly significant (less than 5%), \*\* significant (5 to 10%), \* moderately significant (10 to 20%)

### *Whither Graduation of SHG Members?*

We have run the model separately for Odisha and Karnataka to see if the determinants differ across the states. Results of logit model for Odisha and Karnataka samples are given in Table 6.4 and Table 6.5, respectively. Savings emerged the major factor behind taking up additional activity in Odisha. Perhaps, members here need to be trained in proper utilisation of loans taken as loans coupled with savings may have to be invested for starting new activities. Also, activities started spontaneously without proper investment plan and using loans for consumption may not be sustainable in the long run. Awareness of members about SHG affairs had negative influence against expectations. That is, members' awareness of SHG affairs did not improve the chance of their taking up additional activity. Possessing mobiles also was not a factor behind members going for additional activity and in fact, these two were negatively associated. Members holding office in SHGs showed higher propensity to take up additional activities. This is in tune with what is generally observed in SHGs in different parts of India that SHG leaders corner benefits more frequently and much ahead of other members. Members of younger groups showed higher chance of pursuing additional activity.

**Table 6.4. Results of logit model to identify factors behind taking up additional activity, Odisha**

Variable	Coefficient	b/St.Er.	P[ Z >z]	Mean of X	Marginal Effect
(Dependent Variable: ADLACT = 1 if additional activity taken up and 0 otherwise)					
Constant	5.00354	2.02600	0.04280		
AWARE	-0.64400*	-1.60700	0.10810	3.16458	-0.16009
EARNERS	0.07890	0.18700	0.85130	2.26667	0.01961
FLYSIZE	0.07281	0.43700	0.66240	4.68333	0.01810
SC	0.43031	0.68800	0.49110	0.42500	0.10697
TTSAVE	0.00062***	2.50200	0.01230	3140.96670	0.00015
TTLOAN	-0.00002	-0.29900	0.76480	6693.32300	0.00000
WHYLOAN	-1.26128**	-1.81500	0.06950	0.85000	-0.31353
MODEL2	-0.38107	-0.46300	0.64300	0.90000	-0.09473
OFFICE	0.86634*	1.50200	0.13310	0.21667	0.21536
SHGAGE	-0.47534**	-1.74200	0.08140	3.69249	-0.11816
MMBAGE	-0.00963	-0.33400	0.73820	34.80000	-0.00239
DEVELOP	-0.13014	-0.16400	0.86940	0.50000	-0.03235
MOBILE1	-2.46513***	-2.36400	0.01810	0.91667	-0.61279
$\chi^2$			43.633***		
Pseudo R <sup>2</sup>			0.267		
No of observations			120		

Note: \*\*\* highly significant (less than 5%), \*\* significant (5 to 10%), \* moderately significant (10 to 20%)

### *Whither Graduation of SHG Members?*

In Karnataka, the trend was reverse, where members of older groups have better chance of pursuing additional activity (Table 6.5). The probability of members taking additional activity was lower if the member is from SHGs under Model II. Also, members from less developed district had higher chance of going for additional activity.

Use of loans for productive purpose also had positive influence on probability of taking up additional activity. There was no direct association between members accumulating savings and availing loans and their pursuing additional activity. This had a serious implication as the coefficients was significant too. That is, members availing loans and/or accumulating savings were not the ones pursuing additional economic activities and vice - versa. There was a clear cut de-link between the means and the end. This means having and availing loans are not sufficient conditions for SHG members to take up additional activity.

**Table 6.5. Results of logit model to identify factors behind taking up additional activity, Karnataka**

Variable	Coefficient	b/St.Er.	P[ Z >z]	Mean of X	Marginal Effect
(Dependent)					
Constant	-0.12074	-0.07600	0.93970		
AWARE	0.03838	0.20200	0.83980	1.53333	0.00670
EARNERS	-0.17423	-0.48600	0.62710	2.11667	-0.03041
FLYSIZE	0.09398	0.47700	0.63360	4.67500	0.01640
MMBAGE	-0.00189	-0.07300	0.94200	36.64167	-0.00033
SC	-0.07731	-0.10800	0.91370	0.15000	-0.01350
TTLOAN	-0.00006***	-2.09100	0.03660	10694.16700	-0.00001
TTSAVE	-0.00058**	-2.61500	0.00890	4074.40000	-0.00010
WHYLOAN	1.35783***	1.97100	0.04870	0.45833	0.23702
MODEL2	-0.82089*	-1.42600	0.15380	0.46667	-0.14329
OFFICE	-0.08578	-0.17100	0.86420	0.40000	-0.01497
SHGAGE	0.47489***	2.74200	0.00610	5.03461	0.08290
DEVELOP	-3.24068***	-3.85800	0.00010	0.50000	-0.56569
MOBILE1	1.06674	1.17200	0.24110	0.87500	0.18621
$\chi^2$			39.668		
Pseudo R <sup>2</sup>			0.265		
No of observations			120		

Note: \*\*\* highly significant (less than 5%), \*\* significant (5 to 10%), \* moderately significant (10 to 20%)

## CHAPTER VII

### HOW TO UPSCALE GRADUATION OF MEMBERS?

*[This chapter covers:*

- ❖ Views of banks and NGOs
- ❖ Can there be convergence of other developmental efforts?]

**G**raduation of SHG members is a coveted goal. But, it is a long drawn and difficult process. Perhaps, it is more difficult to stay where one reaches than to reach there. As the discussion in previous chapters indicated, it is rather difficult to explain why only a few SHG members could graduate. Members responded differentially to different stimuli. But it is certain that no single strategy can work in isolation and interventions need to be integrated. Enterprise oriented training proves valuable. Factor analysis showed that SHG route alone is not able to push a member to graduation decisively. We may need to plan for convergence of other interventions with SHG movement such that membership in SHGs can be perceived by members as fool proof route for development. Otherwise, existence of SHGs becomes perfunctory and renders whatever graduation achieved ephemeral.

In this chapter, we present a brief account of banks and NGOs operating in the study area and their experiences with SHGs in general and graduation and related issues in particular. We also give some of our suggestions based on the study findings.

#### **BANKS OPERATING IN STUDY AREA**

##### ***Odisha***

All three types of agencies, viz., commercial banks, cooperatives and regional rural banks were involved in SHG credit linkage. In the study area of Khordha district, officials from two branches of Neelachal Gramya Bank (NGB Tulasipur & NGB Baghamari), one branch of Khordha Central Co-operative Bank (KCCB-Rajsunakhela), one branch of State bank of India, Kalapathar were interviewed. In case of Sambalpur district, interviews were conducted with officers of SBI, Lapanga branch, Rengali block and Utkal Gramya Bank (UGB), Shasapur branch, Maneswar block.

### *Whither Graduation of SHG Members?*

Co-operative bank in Odisha did not seek the services of NGOs for nurturing and forming SHGs. As the co-operative banks themselves had strong grass root level network in rural areas, they undertook the responsibility of forming and nurturing of SHGs. Further, majority of SHG members were also members of Primary Agricultural Co-operative Societies.

In Khordha Central Co-operative Bank (KCCB), total loan disbursed to SHGs stood at Rs 111.93 lakh as on 31 March 2011. During the year 2011, a total 704 SHGs were formed by KCCB, of which 355 SHGs were credit linked as against 254 SHGs in the year 2010. Interest rates charged to SHGs vary between 10-12 %. The loan recovery rate was more than 90 per cent for SHG loans.

As on 31 March 2011, total loan outstanding to SHGs was Rs 12.38 lakh as against 16.33 lakh in the previous year. In the year 2011, total number of credit linked SHGs increased from 52 to 60 over previous year in Neelachal Gramya Bank, Tulasipur. The banks charged interest rates of 10-14 % per annum for the credit extended to SHGs. The loan repayment in SHG portfolio was observed to be around 90%. Similarly, NGB, Baghamari branch's SHG portfolio had a loan repayment rate of over 80 %. In the year 2011, total 15 SHGs were credit linked with NGB, Baghamari.

In SBI, Kalapathar, a total of 120 SHGs were formed of which 75 SHGs were credit linked. The loans were hardly 1.6 times the savings as the total saving by SHGs summed up to Rs 51 lakh against loan outstanding of Rs 80 lakh. The branch recorded recovery rate of around 60 per cent, much lower compared to other bank branches covered during our survey. Multiple membership of SHG members was one of the major factors for lower loan repayment rate in the branch. Shortage of manpower, as reported, was causing inadequate monitoring of loan assets and thereby leading to higher bad loans. Overloaded bank executives are unable to identify multiple membership in SHGs and local intermediaries who form SHG's with fraudulent intent.

Progress in credit linkage in Sambalpur district was extremely disappointing as only 5 SHGs were credit linked by UGB, Shasapur and 3 by SBI, Lapanga in the year 2011. The banks charged an interest rate of 11-13 per cent for SHG loans. Both the bank branches witnessed an impressive loan recovery rate (more than 90 %). Banks provided loans to SHGs based upon their repayment behaviour and account operations.



## *Whither Graduation of SHG Members?*

### **Karnataka**

The study team interacted with Pragathi Grameena Bank (PGB), Raichur DCC Bank, Koppal and DCC Bank, Mangalore and collected their views on SHGs and graduation. A gist of the discussions was given below :

#### ***Pragathi Grameena Bank, Koppal Regional Office***

Credit linkage by Pragathi Grameena Bank (PGB), Koppal Regional Office in Koppal district progressed at the annual rate of 25 per cent over three previous years. During the year 2010-11, the average loans (Rs 62656) formed about 1.5 times the average savings (Rs 41018). The recovery performance of the SHGs, during the last four years, was in the range of 85-90 per cent. The SHG members did not have any individual savings bank account with the bank.

#### ***Raichur DCC Bank, Koppal***

The progress of SHG bank linkage by Raichur DCC Bank, Koppal was good with 182 out of 336 SHGs formed over last three year period were linked. The recovery performance of the SHGs, during the last four years, was in the range of 85 – 90 per cent. On an average, one member from every second SHG formed had opened a savings bank account with the bank.

DCCB felt that training provided by the SHPI to the SHG members were limited to account keeping and no effective training was given for taking up productive activities. Further, most of the SHG members use loan money for satisfying their consumption needs, i.e., house renovation, marriage, buying television, etc. As a result, the bankers apply a cautious approach while lending to SHGs. So the quantum of loan to a group does not show any increment over the previous year. Therefore, SHPI should provide proper training to SHG members on a variety of subjects such as awareness, skill formation, market and what the members can do for improving their standard of living before they approach the bank for credit linkage.

#### ***DCC Bank, Mangalore***

The credit linkage by DCCB, Mangalore was quite impressive and in respect of opening individual savings bank accounts too, the bank had done good work with at least one member from each SHG formed opening the S/B account. The recovery performance of the SHGs was above 98 per cent during the last four years.

### *Whither Graduation of SHG Members?*

It was reported from the bank that initially bank was lending to the SHGs based on the savings of the group. At present, the bank also looking into the scope for income generating activities in the localities before sanctioning any loan to the SHGs. The bank had taken services of an SHPI, i.e., Navodaya Grama Vikas Charitable Trust for the SHG programme.

#### **BANKS' VIEWS/SUGGESTIONS**

- ❖ The standards of account keeping by groups need to be improved. Periodic training programmes relating to account maintenance and capacity building should be conducted to improve the performance of SHG operations.
- ❖ Banks are facing manpower shortage.
- ❖ Capacity Building and better market information are essential to promote entrepreneurship among SHG members. The SHG members should be given effective training on income generating activities based on the local needs.
- ❖ More number of trainings, exposure visits to successful SHGs should be organized for SHG members. Success stories of other groups/districts/state should be shared

#### **NGOS OPERATING IN STUDY AREA**

##### ***Odisha***

The study team interacted and collected information from four NGOs in Sambalpur and Khordha districts in the state of Odisha.

##### ***BPCL (Biju Pattanaik Club and Library), Begunia***

As against 39 SHGs formed in the year 2008, the agency formed 3 SHGs as a SHPI in the year 2010. A total of 12 SHGs were credit linked with bank in the year 2010. The agency also conducted various training programmes on areas related to account keeping and other capacity building of SHG members at regular intervals. Over 48 members were imparted training in the year 2010. The interest rates charged by the constituent SHGs vary between 24-48 percent per annum. Being a SHPI, the agency also conducted monthly auditing activities and events for promoting IGA/MEDP activities amongst SHG members.

### *Whither Graduation of SHG Members?*

#### ***United Sports Association, Dhalapathar***

The NGO helped in formation of 12 SHGs during the year 2010. The agency organised various training programmes on agarbatti preparation, poultry, goatry and dairy related activities. During the year 2010, total 120 members were imparted training on various activities.

#### **SARC, Sambalpur**

A total of 56 SHGs formed by the NGO during the year 2011 as against 40 SHGs in the previous year. Similarly, the total number of SHG's which were provided with bank credit linkage increased from 59 in the year 2009 to 125 in the year 2011. In addition to that, the NGO conducted various training programmes on account maintenance, capacity building, federation and co-operative management and exposure visit for SHG members. With regard to business operations, total savings of SHGs by 31 March 2009 was Rs15.54 lakh and loan outstanding to SHGs was Rs 25 lakh as on 31st March 2009. The Loan recovery rate was observed to be more than 95 percent. As on 1 May 2010, the outstanding saving balance of the SHGs increased to 25 lakh and outstanding loan balance increased to Rs 60 lakh.

#### ***Adarsha, Sambalpur***

The NGO has helped in forming 32 SHGs during the year 2011. A total of 13 SHGs were credit linked with bank. Being a SHPI, the NGO organizes training programme periodically for SHG members. Most of the trainings were directed towards capacity building, account keeping related operations of SHGs. So far the NGO has trained 36 SHGs and 396 SHG members. Amongst the members, a total of 317 members have reportedly taken up productive activities. The loan repayment rate for the SHGs was more than 90 per cent.

#### ***Karnataka***

##### *Sri Guru Education & Welfare Society, Vijaya Nagar, Koppal*

Between 2007-08 and 2010-11, Sri Guru Education & Welfare Society, Vijaya Nagar, Koppal had formed a total of 208 SHGs and credit linked 189 SHGs. The major areas of training given to SHG members were SHG concept, Book writing, Account Keeping and Cushion work. During the last four years, it has given training to 3,441 members drawn from 158 SHGs. Further, 338 members out of the total 3,441 members have taken up income generating activities after training.

### *Whither Graduation of SHG Members?*

According to Sri Guru Education & Welfare Society, Vijaya Nagar, they did not get adequate support from banks and training establishments for effective training to the SHG members. Further, most of the SHG members do not continue full time for proper training. The members come for training and they want to go home early without completing all the training modules. Fund support is another constraint for effective training of the members.

#### **Navodaya Grama Vikas Charitable Trust (NGVCT), Kodialbail, Mangalore**

Navodaya Self Help Group project was set up under the auspices of SCDCC bank, Mangalore in January 2000 and the Navodaya Grama Vikas Charitable Trust (NGVCT) was started in October 2004. At present, the NGVCT has formed 24,109 SHGs in 5 districts, i.e., Dakshina Kannada, Udupi, Dharwad, Uttara Kannada and Shimoga in Karnataka. The agency worked as an intermediary in formation of SHGs (Model II: Bank -SHPI-SHG) and also forms SHGs and lends them by availing credit from bank (Model III: Bank-NGO-SHG). Thus, the agency has two types of SHGs. During the period between 2007-08 and 2010-11, the agency has formed a total of 82,031 SHGs and linked 7,322 SHGs to formal banks. The agency has been giving valuable trainings to SHG members. During the period between 2007-08 and 2010-11, the agency has provided training on book keeping, account maintenance, farm and non-farm activities to 840 members drawn from 280 SHGs. Further, out of the total 840 members, 122 members had been gainfully working in various farm and non-farm activities. The major income generating activities undertaken by some of the SHG members were fish processing, coir rope making, jasmine cultivation, tailoring unit and candle making.

The agency has introduced "Chaithanya Insurance Scheme" for the medical coverage of the Navodaya SHG members. Under the scheme, a member pays a premium of Rs.175 per year. According to the policy, the insured will get a benefit of Rs.5000 for medical treatment. In case of death by accident, the family members of the insured will get a benefit of Rs.25,000 as insurance compensation. Further, the policy offers maternity benefit of Rs.10,000 to pregnant women for two deliveries. Under this scheme, the other members of the family of the insured can also avail the benefit. The LIC of India, with the help of the agency, has also launched *Jeevan Madhur*<sup>1</sup>, a micro insurance product for the SHG members.

#### **Views/suggestions of NGOs**

- ❖ More training programmes needed to encourage SHG members for taking up various economic activities.
- ❖ The level of marketing skills and access to market information among SHG members need to be improved.
- ❖ Credit bureau and resource centre at grassroots level need to be established to gather and collate information about the credit history of loan applicants. A credit bureau would facilitate better credit assessment, and, thus, ensure loan recovery.

## **WHAT IS THE WAY FORWARD?**

The interviews with bankers revealed that bankers were obsessed with loan operations and credit recovery. Their major concern was manpower shortage. Their suggestions include exposure visits and training of SHG members that can help taking up micro-enterprises. NGOs also aired similar views about the training needs. Imparting marketing skills was another need identified that can help micro-enterprises to grow. From the account of operations of the bankers and NGOs in the study area and their views, it is difficult to tell, however, if enough initiative has taken place in encouraging SHG members to take up income generating activities or micro-enterprises. Except a couple of agencies which made efforts to train SHG members in good numbers and provided credit, the initiatives remained too few and far between. Trainings were mostly on SHG book keeping or accounting related and very few were on income generation activities or skill building.

Women are to be organised into groups not as an end in itself but to enable them to improve the living standards of their families. Over two decades of SHG, mobilising and organising members remained the primary focus of the movement. Motivating them to take up better livelihood options was not the focus. By mere forming groups, ensuring meetings and saving would not improve

*Though training was reported as important intervention, hardly any training with a focus on any activity was imparted by NGOs/banks. Organising women into groups is not an end in itself. Personal achievements, strong will, motivation, self-confidence, risk taking and profit orientation go into making of a successful entrepreneur. And, the good news is that these can be imparted.*

the lives unless the membership in the group motivates them to identify opportunity what others cannot see, develop or refine the need/urge to achieve, learn to take moderate risks, get empowered to take decisions about the enterprise and the family. It was widely held that women often respond well to improve the lives of their families and working through women for development yields good response and results. At the same time, studies on entrepreneurship reveal that uneducated and untrained women in developing nations face significant challenges and social barriers in undertaking economic activities. Important personality aspects such as personal achievements, strong will, motivation, self-confidence, risk taking and profit orientation are important for an entrepreneur to be successful (Talib and Murtaza, 2002). Thus, every member of SHG cannot be assumed to become an entrepreneur or take up an income generating activity automatically. We cannot assume same level of achievement motivation among all the members to become entrepreneurs. Research shows that presence of need for achievement has a strong correlation with the successful micro-enterprise (Wadhera and Koreth, 2012) and achievement motivation can be measured, trained and developed (McClelland and Winter, 1969 and Pareek and Rao, 1974). Thus, training on various aspects of entrepreneurship including motivation may help in micro-enterprise promotion. Our results and discussions with bankers and NGOs also emphasize importance of training.

### *Whither Graduation of SHG Members?*

When we encourage women to take up micro-enterprises or income generating activities, we can hardly afford to fail. For failure, besides pushing the entrepreneur out of the activity, demotivates other potential entrepreneurs. Worst of all, similar programmes in future fail to inspire people anymore. Indifference of people is the worst enemy of any developmental effort. Though we appreciate that all poor cannot, and hence, need not take up self-employment (Mahajan, 2007), the fact is, unless potential entrepreneurs are converted into actual entrepreneurs and the latent human potential is unleashed, employment opportunities do not expand to take care of the huge annual entry of people into labour force.

The present study underlined that there were personal factors, SHG related aspects and environment related factors that helped a member to graduate to be a micro-entrepreneur. Our analysis revealed that known factors are not able to fully explain the variation in graduation levels across members. That is, graduation of members is influenced by extraneous factors than we usually can think of. This result also suggests differential ability of members to respond to stimuli. This makes the task of up-scaling a little more complex.

Members with higher incomes in the pre-SHG situation had an edge over others which is in line with the finding of Hulme and Mosely (1969). Perhaps, this must be working through likely positive link between initial income level and savings. Larger accumulated savings improved the probability of starting additional activity and thereby enabled a member to graduate. People, especially poor, may have several hurdles such as temptations testing their self-control, emergencies, etc., for increasing their savings. But, convincing them to save even a smaller amount regularly, can reduce their debt burden so much so that they can one day become even debt free. Thus, appropriate customisable savings products may be needed. Voluntary savings concept introduced in SHG II may be pursued seriously through proper incentives. As of now there is no incentive for the members to voluntarily park their surplus with the group.

*Savings, borrowings and training are important. Scale and scope need attention which can be taken care of through better organisation of people. Convergence of programmes is important to conserve limited resources. A registry with a unique ID for each SHG is recommended to ensure the interventions do not go to only a few privileged SHGs.*

Scale is a major issue in organising production and, of course, marketing as it determines the viability and sustainability of an enterprise. Most of the enterprises taken up by SHG members or their family members are very small and may not be able to give the family enough income. Thus, scope too becomes an important parameter. Organising producers, into producer associations, is one way out to overcome these two issues, though it has its own difficulties.

### *Whither Graduation of SHG Members?*

Borrowings did not emerge as a positive factor behind graduation. Nor it stimulated members to take up additional activities. However, using loan for non-consumption purposes encouraged higher level of graduation. This result only corroborates one of the five fatal assumptions about microfinance which Mahajan was talking about (Mahajan, 2007). He contends that minimalist strategy focusing only on credit, as against integrated approach that can be called

*We need to work on:*

- **credit** – frequency and amount; savings – suitable products and incentives
- creative mechanisms for **sharing loans** by members
- **micro-infrastructure** that can render small investments viable and fruitful
- **convergence** across programmes and processes.

‘livelihood finance’ where other services including infrastructure too are provided, would not lead to micro-enterprise promotion. Integrated approach with proper coordination and effective service delivery mechanism are needed in this regard as pointed out by earlier experiences (Satyasai and Chandra, 2009 and Satyasai and Mohanty, 2011). Also, several programmes run concurrently and often with similar purposes but conflicting approaches. There were instances where well-functioning SHGs were broken to form other special purpose groups. Also, there were occasions where SHG norms were flouted, leading to formation of a weak institution, in a hurry to show good ‘progress’ of the scheme in question.

The important step, in view of the above, is to identify various other concurrent ongoing efforts in a district that can prepare members to undergo the graduation process. Convergence in efforts is an important driver to achieve good results. Training emerged as an important factor in determining the level of graduation of an SHG. Then, imparting training to SHG members through ongoing programmes, say, Rural Entrepreneurship Development Programme (REDP), Skill Development Programme (SDP), Cluster Development Programme run by NABARD or related programmes of GOI or other agencies, should be done in a coordinated manner. Often, due to duplication of capacity building programmes, a few SHGs promoted by NGOs with clout get better chance. Even development agencies would not have any database to crosscheck. It is high time a registry of SHGs with unique identity number may be maintained to streamline efforts to promote, credit link and graduate the SHGs and their members.

Thus, we need to work on **credit** – frequency and amount; **savings** – products that suit SHG members and incentivise them to save additionally; creative mechanisms for **sharing loans** by members; **micro-infrastructure** that can render small investments viable and fruitful; and, **convergence** across programmes and processes.

<sup>1</sup> This policy suits SHGs as the premium due dates match with periodicity of savings. Details available at: [http://www.licindia.in/jeevan\\_madhur\\_plan\\_010\\_features.htm](http://www.licindia.in/jeevan_madhur_plan_010_features.htm)



## CHAPTER VIII

### SUMMARY AND CONCLUSIONS

*[This chapter summarises the discussion so far:*

- ❖ *context, objectives*
- ❖ *major findings and policy implications]*

#### CONTEXT

**T**he context of this study was SHG II launched by NABARD recently intended to revitalise the SHG movement of 20 years. Overtime, SHGs grew into credit groups though their initial focus was on savings and financial discipline. It is well known that poor have difficulty in saving for variety of reasons such as lack of self-control in the face of temptations, shocks like medical emergency, difficulty in thinking clearly about future and present, and so on. But, poor continue to remain so if they do not save. They have to save by all means, to grow out of poverty. SHG II is expected to bring focus back to savings. In this study, we focussed on the savings with specific reference to individual savings accounts for SHG members or their family members. Though being capable of opening an individual savings bank account with a formal financial institution is considered graduation of SHG members often, we considered it as only one dimension of graduation, the other one being ability to start one's own income generating activity (IGA) or micro-enterprise (ME). Borrowing to supplement one's savings for investing in IGA/ME is considered an intermediary step. This led us to define graduation as a two dimension process and construct a graduation index (GRIND) – as a weighted average of Savings Dimension Index (SIND) and ME Dimension Index (MEIND).

The objectives of the study are as follows:

- ❖ to understand and conceptualise the process of graduation among SHG members;
- ❖ to measure extent of graduation among SHG members in the study area;
- ❖ to study the processes or best practices that can help graduation of SHG members;
- ❖ to identify factors responsible for graduation and to study what distinguishes graduates from others; and,
- ❖ to chart out policy options and strategies for up-scaling the graduation process.



### *Whither Graduation of SHG Members?*

A sample of 240 SHG members selected from four districts i.e., Khordha and Sambalpur of Odisha and Dakshina Kannada and Koppal of Karnataka states formed the basis for our findings. Data for pre- and post-SHG periods were captured based on interviews with sample respondents. Districts were selected to represent financially developed and less developed areas of the state.

## **MAJOR FINDINGS**

### **SHGs and Members**

Average membership of sample SHGs ranged between 11 in Dakshina Kannada to 17 in Koppal with 12 in both Odisha districts. About 83 per cent of SHGs in Karnataka and 67 per cent in Odisha were older ones with 3 years or more of operation. While Model II, with NGO playing the role of promoter as well as financial intermediary between the groups and the bank, was a prominent one in both Odisha and Karnataka accounting for 90 and 47 per cent, respectively, of the sample groups. Model III where NGO played the role of promoter and financier accounted for about 27 per cent of groups in Karnataka and none in Odisha. Model I where bank promotes (with some third party help) and finances the groups accounted for 10 and 27 per cent of groups in Odisha and Karnataka, respectively.

Hardly 7 per cent of SHGs could get more than 2 linkages in Odisha and groups in Sambalpur could not get beyond 2 linkages, though the average age of SHGs there was not far below that of SHGs in Khordha. In fact, getting 2<sup>nd</sup> linkage itself was a feat which only 1/3<sup>rd</sup> of Sambalpur groups could manage while almost 3/4<sup>th</sup> of Khordha groups could get 2 linkages. And, it took 20 to 23 months (620 to 695 days) for the group, on an average, to get the first linkage in Odisha districts as against 10 to 11 months in case of Karnataka districts.

### **Savings Pattern**

Modal value of member's saving rate was Rs.80 per month in the sample at the time of the survey, the range being Rs.30 to Rs.200. Developed districts have a modal value of Rs.40 compared to Rs.80 in less developed districts. Most of the groups did not change their monthly saving rate since their inception. Hardly 13 cases, 10 out of which was from Karnataka sample, out of 60 groups increased their saving rate. In fact, there were instances of reducing it over time on member's demand as they could not stretch themselves to such a higher monthly contribution. It can be debated if the tendency to stick to saving rate fixed at the time of group formation and/or

### *Whither Graduation of SHG Members?*

lowering it is due to lack of capacity to save more or lack of willingness of members to commit higher amounts lest they find it difficult to meet emergencies. Savings bank account penetration (SBAP) ratio, proportion of members in an SHG having individual savings bank account to total, was zero in about 27 per cent of the SHGs. High (40 to 60 %) and very high (above 60%) ratio was found in 18.3 and 8.3 per cent of SHGs, respectively. Majority of SHGs have SBAP ratio of 20 per cent or less in the overall sample as well in individual districts except Dakshina Kannada where very exceptionally high proportion (60 %) of SHGs was in zero SBAP class and about 27 per cent of SHGs were in high SBAP class. In the sample as a whole, less developed districts have about 80 per cent of the SHGs have individual savings bank accounts compared to 67 per cent in case of developed districts.

Interestingly, major chunk of the individual accounts among sample households is in the name of the SHG member and higher proportion (71 %) of members under Model I is having individual accounts. Age of SHG did not have any influence on SBAP ratio. One should give due credit to the SHG members as they opened SB accounts more for pro-entrepreneurial purposes. One-third of the SB accounts by SHG are opened with pure saving motive. Remittance has been prime motive, among non-entrepreneurial reasons, for SHG members. Members of NGO centred Model III SHGs are saving predominantly for pro-entrepreneurial purposes compared to other two models. Members with higher income in pre-SHG situation, holding office in the group, total loan availed and development status had positive influence on decision of members to have individual savings bank accounts. Belonging to lower social group and higher family size were likely deterrents.

### **Borrowing Pattern**

SHG members had better access to loans as 4/5<sup>th</sup> of them could get loans. SHG members had been trying to contract multiple loans, the number going to even 7 in case of some borrowers in Koppal. On the whole, an average SHG member could avail 1.55 loans in an average span of 4.36 years, i.e., one loan in 34 months. Most of the SHGs in Odisha distributed loans equally irrespective of differential need. Most of the Dakshina Kannada groups distributed loans according to need compared to Koppal groups and hence, several of SHG members from Dakshina Kannada remained excluded from borrowing activity. About 3/4<sup>th</sup> of SHG members were tapping loans for productive purposes in the overall sample. It was disturbing to note that considerable proportion of SHG members were dependent on non-SHG loans for consumption needs and equally sizeable proportion availed non-SHG loans for farming needs. As consumption loans were not available from

### *Whither Graduation of SHG Members?*

formal sector agencies, both these trends have serious implications due to heavy interest burden that these non-SHG loans impose on members. Average loan amount in Karnataka districts was higher than that in Odisha districts. Average loan in Koppal was three times that in Khordha.

### **Activity Profile**

Sample HH had taken up multiple activities ranging from mere wage labour to income generating/ micro-enterprise. Relatively higher proportion of members took up two or more activities in post-SHG situation compared to pre-SHG period. Farming, followed by wage labour are primary activities among SHG members. About 38 per cent of the SHG members took up additional activity, after joining SHGs. Less developed districts reported higher proportion of HHs taking up additional activity. Income growth was 34 per cent between pre- and post-SHG periods. Level of income apart, the distribution of incomes across households was even in post-SHG period compared to the pre-SHG situation as shown by flatter histograms with rightward shift in the peak. Income level higher and distribution was even in less developed districts compared to developed districts.

### **Extent of Graduation**

Graduation level of an SHG or its members was measured as a two dimensional index, individual savings account and micro-enterprises being the two dimensions. The SIND, savings dimension index, for SHGs is 0.256 which coupled with micro-enterprise dimension index, MEIND, of 0.565 gave rise to graduation index, GRIND, of 0.447. The graduation and micro-enterprise indices were higher in Odisha districts compared to Karnataka districts. As can be expected, older groups had higher GRIND and MEIND values compared to younger groups. Models with bank involvement fared better compared to Model III. At disaggregated level, 2/5<sup>th</sup> of the SHG members did not graduate in terms of savings dimension. However, proportion of non-graduate members in terms of MEIND and GRIND was lower. That is, more people were able to sublimate to graduation even as they lagged behind in terms of savings dimension. The result suggests that though savings are important for the poor, they can graduate in terms of micro-enterprises with loan support. Membership in SHGs had given definite edge to people in graduating and more so in less developed districts.

### **HOW TO UP-SCALE?**

### *Whither Graduation of SHG Members?*

There are personal factors, SHG related aspects and environment related factors that help graduation process. Identifying them was the first step towards up-scaling graduation process. Our analysis revealed that known factors were not able to explain the variation in graduation levels across members. That is, graduation of members was influenced by extraneous factors than we usually can think of. This result also suggests differential ability of members to respond to stimuli. This makes the task of up-scaling a little more complex.

Savings positively influenced graduation level, measured as an index. Also, members with higher accumulated savings showed higher probability of starting additional activity. People, especially poor, may have several hurdles such as temptations testing their self-control, emergencies, etc., for increasing their savings. But, convincing them to save even a smaller amount regularly, can reduce their debt burden so much so that they can one day become even debt free. Borrowings did not emerge as a positive factor behind graduation. Nor it stimulated members to take up additional activities. However, using loan for non-consumption use encouraged higher level of graduation. Members with higher incomes in the pre-SHG situation had advantage.

Scale is a major issue in organising production as it determines the viability and sustainability of an enterprise. Most of the enterprises taken up by SHG members or their family members were very small and may not be able to give the family enough income. Thus, scope too becomes an important parameter. Organising producers, into producer associations, was one way out to overcome these two issues, though it had its own difficulties. Building strong SHGs based on savings and financial discipline can help more and more members graduate.

The important step, hence, is to identify various other concurrent ongoing efforts in a district that can prepare members to undergo the graduation process. Convergence in efforts is an important driver to achieve good results. Training emerged as an important factor in determining the level of graduation of an SHG. Then, imparting training to SHG members through ongoing programmes, say, Rural Entrepreneurship Development Programme (REDP), Skill Development Programme (SDP), Cluster Development Programme run by NABARD or related programmes of GOI or other agencies, should be done in a coordinated manner.

Thus, we need to work on **credit** – frequency and amount; **savings** – products that suit SHG members and incentivise them to save additionally; creative mechanisms for **sharing loans** by members; **micro-infrastructure** that can render small investments viable and fruitful; and, **convergence** across programmes and processes.

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**Annexure Table 1. Karnataka District Banking Profile - 2006-07**

Sno	District	No. of Branches	Priority Sector Lending by Banks (Rs.Crore)	Population / Branch	Rank	PSL/ Capital (Rs)	Rank	Combined Rank
1	Bangalore Urban	142	491.59	46035		752		
2	Kodagu	201	620.39	2721	1	11342	1	1
3	Dakshina Kannada	514	1610.1	3691	3	8488	2	2
4	Udupi	297	647.68	3744	5	5824	3	3
5	Chikmagalur	292	484.64	3908	6	4248	6	4
6	Uttara Kannada	415	527.29	3258	2	3900	10	4
7	Hassan	416	742.28	4139	10	4311	5	6
8	Shimoga	372	874.53	4417	12	5323	4	7
9	Dharwad	399	615.25	4020	9	3836	11	8
10	Gadag	263	275.6	3692	4	2838	16	8
11	Belgaum	1061	1275.28	3972	7	3026	14	10
12	Davangere	336	708.01	5324	16	3958	9	11
13	Bagalkot	358	598.9	4615	14	3625	12	12
14	Bijapur	402	596.2	4512	13	3287	13	12
15	Mysore	479	1071.68	5514	19	4058	7	12
16	Haveri	359	347.66	4006	8	2418	20	15
17	Bellary	352	812.55	5756	21	4011	8	16
18	Mandya	419	419.96	4203	11	2385	21	17
19	Raichur	304	488.5	5487	17	2929	15	17
20	Chitradurga	272	416.29	5577	20	2744	18	19
21	Bidar	314	245.51	4780	15	1636	26	20
22	Koppal	186	338.6	6425	25	2833	17	21
23	Tumkur	471	596.56	5488	18	2308	24	21
24	Bangalore Rural	304	472.24	6188	24	2511	19	23
25	Kolar	413	588.37	6140	23	2320	22	24
26	Chamarajanagar	160	179.55	6025	22	1863	25	25
27	Gulbarga	471	726.13	6645	26	2320	23	26
			mean	4779		3782		
			median	4563			3156	

*Whither Graduation of SHG Members?*

**Annexure Table 2. Odisha District Banking Profile – 2006-07**

Sno	District	No. of Branches	Priority Sector Lending by Banks (Rs.Crore)	Population / branch	Rank	PSL/ capital (Rs)	Rank	Combined Rank
1	Ganjam	497	479.35	1042	1	9254	1	1
2	Khordha	409	1094.07	4589	4	5829	2	2
3	Kalahandi	162	177.89	3148	3	3488	5	3
4	Balasore	390	394.97	5187	8	1952	7	4
5	Cuttack	413	987.48	5668	13	4218	4	5
6	Sundargarh	145	400.15	6455	15	4275	3	6
7	Jajpur	221	138.29	4783	6	1308	14	7
8	Angul	198	327.55	5758	14	2873	6	7
9	Gajapati	300	57.27	1727	2	1106	19	9
10	Boudh	69	52.2	5406	10	1399	12	10
11	Jagatsinghpur	199	134.76	5317	9	1274	15	11
12	Puri	327	159.35	4593	5	1061	20	12
13	Subarnpur	100	66.99	5420	11	1236	16	13
14	Dhenkanal	154	180.73	6922	18	1695	9	13
15	Bargarh	150	256.21	8973	20	1903	8	15
16	Bhadrak	186	188.35	7161	19	1414	11	16
17	Deogarh	55	25.77	4982	7	941	25	17
18	Nabarangpur	33	84.43	16061	25	1593	10	18
19	Nayagarh	70	119.31	12343	23	1381	13	19
20	Bolangir	244	112.16	5471	12	840	26	20
21	Keonjhar	160	192.86	9763	21	1235	17	20
22	Sambalpur	145	88.04	6455	15	941	24	22
23	Mayurbhanj	215	253.3	10340	22	1139	18	23
24	Kendrapara	201	101.73	6473	17	782	27	24
25	Rayagada	53	84.36	15679	24	1015	22	25
26	Nuapada	33	55.47	16061	25	1047	21	25
27	Koraput	67	119.06	17627	28	1008	23	27
28	Malkangiri	31	36.64	16290	27	726	28	28
29	Jharsuguda	85	85.8	19094	29	529	29	29
30	Kandhmal	41	45.66	32537	30	342	30	30
			mean	9044.13		1926.81		
			median	6455.17		1254.85		