

**SHG- BANKING IN INDIA-
EMPIRICAL EVIDENCES OF BANKERS' PERCEPTION AND
PROBLEMS.**

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ABSTARCT

The article looks into the perceptions and problems of bank officers and employees regarding SHG – banking activities related to the SGSY and suggests policy prescriptions based on the findings.

Introduction

Promotion of self-employment is being prioritised as one of the main policy initiatives for economic and social development in most developed countries and in many less-developed nations. Self-employment is recognized as one means of bringing a person into the mainstream of the society as a productive and contributing individual. For self-employment, micro-enterprises were considered as a double edged weapon to play a significant role in increasing the income level of the poor as well as contributing to their social empowerment, especially for women. However, setting up and running micro-enterprises is easier said than done because the presence of a host of constraints. The most glaring problems, however seems to be inadequacy of finance relating to fixed and working capital and ignorance about the success of finance, margin money, collaterals, application of loan etc. (Brugger, 1995). The problem gets more compounded for women because “formal financial institutions are less receptive and welcoming to female entrepreneurs.” ILO observed in 1998 that collateral requirements, bureaucratic loan application and disbursement procedures, the time and resources necessary to visit the banks and discriminatory banking culture virtually exclude poor women clients.

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Kulshrestha (2000) identified that in spite of administration of many poverty alleviation programmes lack of capital was a serious constraint to development of women micro-entrepreneurs in rural areas. Kaladhar (1997) revealed that though micro enterprises generally have very small start up capital and they cannot provide collateral for loan and therefore micro-entrepreneurs depend on their friends / relatives or moneylenders for their credit needs. The moneylenders have traditionally provided credit to the rural poor, usually at excessively high rate of interest leading to considerable destitution and impoverishment of borrowers, including undesirable and illegal practices like bonded labour. The financial institutions did not have an adequate credit system for micro businesses, in place (both for saving and lending). However, the difficult procedures and requirements withheld the micro businesses from approaching traditional financial institution. Saving opportunities in FIs were very limited and it was seen that in many part of the country, saving with the moneylenders was prevalent.

This situation, being prevalent worldwide, warranted establishment of alternative sources of finance for sustainable development of micro enterprises and fuelled the emergence of microfinance programmes in over a hundred countries. “ In India group based programmes have engaged first and foremost as a mechanism to allow the poor access to financial services that they have historically been denied” (Sen, 2003). Such programmes have been administered for the last two decades in a variety of forms and have multiplied rapidly. The SHG approach of lending was introduced to banks as a new micro finance approach with innovativeness and flexibility. Presently, the SHG-based microfinance is the main form of microfinance in India and it is well integrated into the formal banking system in India. The group based microfinance schemes have been introduced by the banks to cater cost effective finance to micro-entrepreneurs, the bulk of whom are women living below the poverty lines. Banking for Self Help Groups or SHG- Banking has developed into a new segment of banking for commercial banks, regional rural banks and cooperative banks.

SHG- Banking – Features, Objectives and Advantages

Large-scale outreach of microfinance services to the poor in India have been made possible through SHGs and the existing decentralised formal banking network including several organisations in the formal and non-formal sectors through SHG-Banking. These banking services are made accessible to the poor, especially women at minimal costs and are flexible enough to meet their needs. SHG-Banking has been designed and is being operated as an annexe cubicle of well established traditional banking practices. Traditional banking mandates written contracts with individuals, a clear amorphous project and activity for loan use, compulsory legal identification of the borrower, provision of collateral, etc. whereas in SHG Banking, the most rigid requirements of the formal banking system have been overthrown; SHG-Banking is need based and multiple credit injection system with ‘bankers to the poor’ approach. SHG Banking is a novel approach in banking where the effectiveness of microfinance activities lies in the extent of outreach to the poor and creating a sustainable means of livelihood for them. The focus of SHG banking is to operate in the low income client market segment which was considered as un-bankable so far. It operates with a vibrant

and more unfettered service design and most flexible credit product design in order to fully meet the requirements of the low income strata, particularly of women.

The SHG-Bank linkage Programme has its origins in a Gesellschaft für Technische Zusammenarbeit (GTZ)-sponsored project in Indonesia. As a beginning in India, National Bank for Agriculture and Rural Development (NABARD), introduced a pilot project in Karnataka for linking 255 SHGs with formal banks. This BANK-SHG Linkage project was introduced after thorough discussion with the Reserve Bank of India, commercial banks and NGOs. NABARD provides refinance facilities to banks for collateral free loans to groups, progressively up to four times the level of the group's savings deposits. Thus "linked" SHGs became micro-banks and were able to access funds from the formal banking system. Similar linkages were provided after the Swarnajayanti Gram Swarozgar Yojana (SGSY) was launched for rural poor, especially women in 1999 and the Swarnajayanti Sahari Rozgar Yojana (SJSRY) in 1997 for urban poor women building up self employment generating micro-enterprises. The total number of SHGs linked to different banks under NABARD scheme have grown to 22,94,380 in 2006-07 from a miniscule 255 groups in 1999 showing a compounded annual growth rate of 92% and the linkage through the SGSY has grown from 2,92,426 in 1999-2000 to 25,01,623 groups in 2006-07 showing a compounded annual growth rate of 36% .

The linkages have been provided by the vast network of commercial banks, cooperative banks and regional rural banks in India. 209 co-operative banks, 191 regional rural banks and 44 commercial banks are involved as SHG-Banking partners, with 17,085 participating branches. There can be no doubt about the programme's outreach to the poor; but is it viable for the banks?

Seibel and Dave (2002) have shown that Non-performing loans to SHGs were 0%, testifying to the effectiveness of group lending to the very poor. In contrast, consolidated Non Performing Loan (NPL) ratios ranged from 2.6% to 18%; and of Cash Credit (CC) and Agricultural Term Loans (ATL) up to 55% and 62%, respectively. Returns on average assets of SHG Banking ranged from 1.4% to 7.5% compared to -1.7% to 2.3% consolidated. Other researchers and practitioners have studied various aspects of SHG-Bank Linkage programme and identified a list of emerging issues. Some of them, Wilson (2002), Harper (1998), Fernandez (1998), Jayaraman (2001) Tankha (2002), Karmakar (1999), Puhazhendhi & Satyasai (2000), Satish (2000), Dasgupta (2001), Sharme, Ahmed and Rashid (2002), Puhazhendhi & Badatya (2002) etc. have explored into viability, performance and prospects in the field of SHG- Bank Linkage system.

These studies have found that SHG-Banking system provides a new dimension for the formal bank branches and bank branch managers. They feel comfortable and safe in their job with the new flexible SHG- Banking practice. This group based microfinance system has created a new vistas for the bank staff and manager to interact with the rural vulnerable section specially women. Some studies have found SHG Bank Linkage Programme approach is free from all kind of deficiencies of the Government directed credit programmes. The frustration of the traditional ordinary bank staff has not been transferred into the SHG Bank Linkage Programme approach. Kropp & Suran (2002) observed that "a steady growth

in number of new SHGs, an increase of the amount of loans disbursed and an excellent loan recovery performance has created a new job satisfaction among the bankers.” It is a vital source of attainment of emotional needs of the bankers. Many bankers show great satisfaction to report about the socio-economic achievements of their groups. There are a number of indicators that highlight the relative advantages of SHG banking and show that the gap between formal bankers and rural poor has been bridged. These studies have shown that there has been externalisation of a part of the work items of the credit cycle i.e., assessment of credit needs, appraisal, disbursal, supervision and repayment, reduction in the formal paperwork involved and a consequent reduction in transaction costs and improvement in recoveries from groups.

However, very little empirical evidences have been provided to show how the bankers involved in SHG-banking perceive the system and the problems they face while operating in this new arena. This study is an attempt to dig out these evidences based on survey research.

Objectives, Scope and Methodology of the Study

The success of any programme depends largely on the participants who steer the course of actions necessary for implementation and operation of the programme. Micro- finance delivery in India largely depends on the active participation, enthusiasm, dedication and knowledge and awareness of bankers who are involved in making their banks effective financial intermediaries. These attributes of the bankers depend on their views and perception about the microfinance programme being operated and the problems they face while playing their role in the deliverance mechanism. Negative perceptions about microfinance programmes and hindrances in their normal operations can stand in the way of making SHG-banking effective. Landy and Becker (1987) opine that a person is motivated to work better for a programme when he or she is aware of what is important and the circumstances in which he or she works. According to psychologists Locke et.al (1981), the natural human inclination to set and strive for goals is useful only if the individual understands the particular goal, perceives it to be good and accepts it. The social information processing model of motivation argues that employees adopt attitudes and behaviours in response to the social cues received by them from others with whom they have contacts (Robbins, 2005). Banks involved in SHG- banking or planning to expand this activity to more branches therefore need to understand the problems and perception of their personnel. This study aims to delve into this aspect and find out what officers and employees of banks think about this emerging area of banking.

The main objective of this study is to gauge the perceptions and problems of bank officers and employees regarding SHG- Banking activities related to the SGSY and suggest policy prescriptions based on the findings.

For the purpose of the study a mix of interviews and administration of questionnaires were made to a random sample of 150 officers and employees working in 154 branches of various commercial and regional rural banks in 13 blocks in Jalpaiguri district and 5 blocks in Siliguri subdivision. The questionnaires having structured questions on a five point Likert scale was personally administered to the sample. Jalpaiguri and Siliguri was chosen as the

catchment area of the study because of the rapid growth of SHGs under SGSY and linkage of a large number of 1st and 2nd graded groups linked to these banks. Before administering the final questionnaire a pilot survey was made and various aspects were discussed with personnel handling SHG linkage operations. The number and nature of statements were finalised on the basis of the pilot survey and discussions. The banks covered under the study were Uttar Banga Kshetriya Gramin Bank, State Bank of India, Central Bank of India, United bank of India and other banks mentioned in the table below. Eighteen filled in questionnaires had to be rejected due to technical flaws and incompleteness. The final sample of respondents therefore stood at 132. The findings of the study are reported below.

Findings of the Study

(a) Growth of SHGs linked to Banks

The study has principally dealt with the empirics of perception and problems of bankers. Before reporting on these findings it would be pertinent to have a bird's eye view of the growth of SHGs linked to banks in the catchment area under study. Table I gives a comprehensive picture of growth of the SHGs linked to different banks with respect to the year of inception of SGSY and up to March 2007.

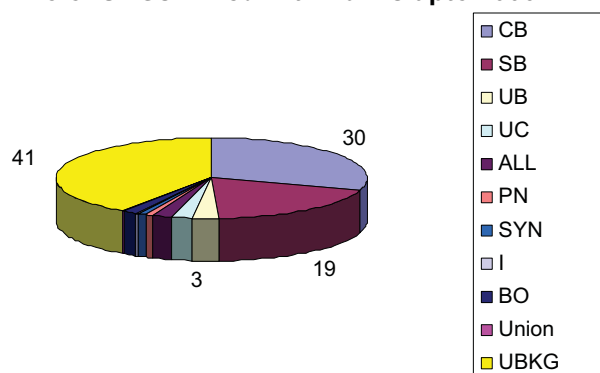
Table-1: SHGs linked with different banks under SGSY in Jalpaiguri District and Siliguri Subdivision (Cumulative figures)

Banks	No. of Branches linked with SHGs under SGSY	No. of SHGs linked in 1999-2000	No. of SHGs linked upto 2006-07	SHGs linked up to 06-07 (% of Total)	CAGR (%)	C/C and RF disbursed upto Dec 2006 (Rs. Lakhs)
CBI	46	11	5,739	29.68	144.4	4221.4
SBI	26	22	3,758	19.44	108.4	3248.4
UBI	14	8	554	2.87	83.2	817.1
UCO	4	4	441	2.28	95.7	465.2
ALLB	6	3	336	1.74	96.2	287.4
PNB	3	0	196	1.01	-----	264.8
SYND	1	0	174	0.90	-----	291.7
IB	1	0	25	0.13	-----	22.25
BOI	2	2	250	1.29	99.3	281.5
Union Bank	1	8	60	0.31	33.4	N.A.
UBKGB	50	54	7,803	40.35	103.4	8283.5
Total	154	112	19,336	100	108.4	

Compiled from reports of DRDCs of Jalpaiguri and Siliguri for different years.

Though the table is self explanatory, some points need to be highlighted. There is no doubt that the growth of SHGs linked to different banks have witnessed an exponential growth and the quantum jump in the linkages well signify the spread of SHG- Banking in this region. While Uttar Banga Kshetriya Gramin Bank is clearly the leader in terms of number of SHGs linked and having more than 40% of total SHGs under its wings, Central Bank of India is a close follower with about 30% of the SHGs linked to it. The following diagram gives a distinct view of the share of different banks in respect of number of SHGs linked in the region under the study.

No of SHGs linked with Banks upto 2006-



The compounded annual growth rates are also noticeable as they have surpassed the CAGR of all India growth rate by more than three times in five cases. The growth rates of other banks are also exceptionally high. These statistics are an indicator of how the SHG- bank linkage programme has caught up in these areas after the SGSY was launched. With respect to the Cash Credit and Revolving Fund disbursed, the figures in the table show that UBKGB is the leader in this respect also, the amount disbursed being nearly twice that of CBI and nearly 1.5 times of the cumulative amount disbursed by other commercial banks shown in the table. These figures therefore also indicate the superiority of regional rural banks over commercial banks in respect of linking of SHGs.

(b) Perception of Bank Personnel regarding operational and viability aspects of SHG linkages:

The perception of bank personnel, both officers and employees handling SHG banking have been measured by a series of 16 statements administered on a five point Likert's scale. The scale used for all the statements were Strongly agree, Agree, No opinion, Disagree and Strongly Disagree. Values of 2, 1, 0, -1 and -2 respectively were assigned to these points so as to have a quantitative measure of the perceptions of each of these statements. Scores of each statement were summated for all the respondents and the mean score reported. A value higher than zero for the mean score would denote a positive attitude of the bankers working with SHG- banking. To test the response it was hypothesised that the mean score for perception (MS_p) of each aspect related to the statements administered would exceed zero, the neutral value on the five point scale.

The hypothesis framed was as follows:

H_0 : Mean Score for Perception of Bankers (MS_{ip}) = 0

H_1 : Mean Score for Perception of Bankers (MS_{ip}) > 0 where (i= 1 to 16)

The results are reported below

Table-2: Perception of bankers regarding SHG- Banking under SGSY

Statements	Mean score	t- values
1. SGSY is a better micro-credit programme than previous credit programme like IRDP	1.76	21.515 ^a
2. Savings of SHGs have resulted in more deposit for banks	1.57	22.750 ^a
3. Recovery rates are excellent.	1.88	17.41 ^a
4. Establishing savings & credit linkage of SHGs with bank has resulted in better business for your branch	1.21	9.65 ^a
5. The amount financed through your bank are utilised properly for micro-entrepreneurial activities by SHGs	0.12	1.578 ^c
6. Previous IRDP defaulters are restricted from having finance under SGSY.	1.02	9.81 ^a
7. Beneficiaries understand all the operations and documents of savings credit linkage.	0.08	0.938
8. Only the group leaders / treasurers understand all the operations and documents of savings credit linkage.	0.80	5.405 ^a
9. It is difficult to explain the operation and maintenance documents to the SHG leader or treasurer.	0.80	6.557 ^a
10. The SGSY will prove to be a sustainable micro-credit delivery system in the long run.	0.76	8.920 ^a
11. SHG- banking operations are different from commercial banking activities	0.88	8.155 ^a
12. Frequent interactions with SHG members are essential for SHG- Banking	1.44	20.869 ^a
13. Special training programmes need to be conducted for personnel engaged in SHG- Banking	1.20	9.836 ^a
14. A separate cell needs to be created in each Bank branch for SHG- Banking	0.42	3.218 ^a
15. Experience in SHG- Banking will lead to better job opportunities in other MFIs	0.68	4.342 ^a
16. Your respect and social recognition has increased due to involvement in SHG- Banking	1.24	17.816 ^a

Note: a denotes significance at 1% level and c at 10% level.

Source : Field Survey

The table given above clearly and pertinently depicts the perception of the bankers regarding SHG banking. Responses regarding the increase in the amount of deposits and the recovery of loans by banks are very positive and significant at 1% level, indicating that the bankers believe that the banks are doing good business through SHG banking. This is complemented by the fact that the bankers also believe SGSY to be a better programme than IRDP. Moreover the fact that they have perceived SHG- Banking to increase their respect and social recognition is a positive signal in the direction that this recognition will motivate them to work better for programmes linked to SHG- Banking. However, the bankers are quite sceptical about the end use of their services which is identifiable from the response to the statement regarding establishing microenterprises from bank finances. Further, operational difficulties are perceived by the bankers from the fact that beneficiaries did not understand the documents and procedures very well and the group leaders required some amount of training for dealing with banking operations for SHGs. However, informal discussions with the officers and staff revealed that they were not very worried about this feature as they knew that they were dealing with women customers from the poorest sections of society and were denied the facilities of basic education for generations. They opined that with the passage of time and frequent literacy drives, these operational hurdles could be overcome. In addition to this, responses were significantly on the positive side regarding the fact that SHG- banking was quite different from normal banking operations and required further training for personnel engaged in SHG-banking activities and also frequent interactions with the beneficiaries. However, responses regarding opening up of special cells for SHG-banking and prospect of better job opportunities were only lukewarm, though statistically significant. On the whole, the responses of the bankers show an overall positive attitude towards the new dimension of banking that has emerged during the last decade. The other side of the coin, however, is not unblemished as operational difficulties and problems continue to pose hindrances for bank personnel engaged in SHG-banking operations. Discussions regarding the problems are made in the following section.

(c) Perception of Bank Personnel regarding problems related to SHG-Banking

The perception of bank personnel regarding the problems they encounter while handling SHG banking have been measured by a series of 6 statements administered on a five point Likert's scale. The scale used for all the statements were very high, and moderately high, no opinion, moderately low and very low. Values of 2, 1, 0 -1 and -2 respectively were assigned to these points so as to have a quantitative measure of the perceptions of each of these statements. Scores of each statement were summated for all the respondents and the mean score reported. A value higher than zero for the mean score would denote that bankers have a perception that the stated problem was serious and needed attention. To test the response it was hypothesised that the mean score for perception (MS_{pr}) of each aspect related to the statements administered would exceed zero, the neutral value on the five point scale. The hypothesis framed was as follows:

$$H_0: \text{Mean Score for Perception regarding problems of SHG- Banking } (MS_{pr}) = 0$$

H₁: Mean Score for Perception regarding problems of SHG- Banking ($MS_{ipr} > 0$)

where ($i= 1$ to 6)

The results are reported below :

Table-3: Perception of bankers regarding problems related to SHG- Banking

Statements	Mean score	t- values
1. Problem of staff shortage to cater to SHG work.	1.44	13.85 ^a
2. Knowledge gap of bank staff about SGSY.	0.94	11.25 ^a
3. Problems due to frequency of receiving guidelines from head office.	1.22	8.78 ^a
4. Problems of non co-operation from DRDC.	0.08	1.52
5 Problems of non co-operation from panchayats.	1.22	14.35 ^a
6. Extra workload due to SHG- Banking	1.42	13.65 ^a

a denotes significance at 1% level.

Source: Field Survey.

The commonly perceived problems as shown in the above table are significant in all the cases except problems regarding cooperation from DRDC. Shortage of staff assigned for SHG- Banking and extra work load are the most concerning problems. Discussions revealed that in many bank branches, there was staff shortages and extra work load even when there was no SHG- banking. The introduction of this new system has multiplied the problems. In many branches, especially in the rural areas, bank personnel had to handle both normal commercial banking activities and SHG-banking activities including visit to groups during formation and grading. Further many branches, especially in case of the RRB, majority of the branches under study had no computerised operating systems. Thus maintenance of SHG accounts, deliverance of cash credit and revolving funds, accepting pay-in and withdrawal slips of the groups at the same teller station posed hurdles in everyday operations. These difficulties were topped up with the number of guidelines, notices and circulars flowing in from the head office and the DRDC. The contents of these documents were always not comprehensible to all the staff and some of the respondents were even puzzled at the changes that were being made in the SGSY guidelines regarding cash credit, revolving fund etc. Many respondents stated that they did not find suitable time to read so many guidelines and circulars in details and carried on the work with the instructions served by the manager of the branch. On the other dimension, though the bank personnel did not perceive the DRDCs to be non-cooperative, they felt that there were grey areas regarding cooperation from Panchayats. Discussions revealed that the main problems were timely communication with these bodies, lack of understanding of banking operations by the members, faulty identification of beneficiaries etc.

Any phenomenon that brings in change in the operating system of an organisation carries with it the problems and associated constraints. The same is the case with SHG- Banking

which made its advent only eight years ago in relation to SGSY. However, if these problems can be addressed well in time and with proper consideration, the rough edges can be smoothed out gradually. The next section strives to put some suggestions in this context.

Suggestions and Conclusion

SHG- banking has resulted in the success of microfinance programmes through out India. The same story replicates itself in Jalpaiguri district and Siliguri subdivision. This is evident from the growth in number of SHGs linked to banks in these areas. Such a boom would not have been possible without the positive attitude and cooperation of the bankers. The bankers do have a positive outlook of banking for SHGs and this has been aptly corroborated by the findings of this study. Their positive outlook is bound to be a *sine quo non* for sustainability of this type of banking operations. However, roses do not bloom without thorns and problems can put spokes in the wheels of SHG-banking. Some of the suggestions given below may be able to address the problems encountered by the staff.

- Sensitisation and awareness programmes should be organised frequently for personnel handling SHG- banking operations so that they can conceive the objectives and rationale behind microfinance programmes and also grasp the nuances of the operations related to linkage of SHGs.
- Qualified microfinance practitioners can be employed by banks. In addition to making microfinance operations by banks smoother, the pressure on existing staff can be reduced and these qualified professionals can help the other staff to master the techniques of SHG- banking.
- Complaints of additional workload can be catered to by employing additional staff on contract basis and upgrading manual documentation and accounting systems to computerised systems.
- Where this is not possible it may be worthwhile to have a special banking day for SHG Banking. However, if for any reason the staff that were given the responsibility for SHG-banking activities, could not attend the special banking day and members of SHGs would have to wait for a week. This could adversely affect the group's economic activities and in the interval they may have to take recourse to moneylenders. This could lead to loosing confidence on the banking system. Depending on the number of SHGs linked to the bank and the number of staff available the management could arrange for special SHG-banking hours twice or thrice a week.
- Where SHG linkage operations are hampered due to the perception of heavy workload, management can conduct counselling sessions to the staff to convey to them that SHG banking under SGSY leads to a 'win- win' situation. On the one hand the SHGs benefit from higher level of group corpus and on the other hand the banks can benefit from excellent recovery and lower number of accounts due to opening of group accounts instead of small individual accounts.
- Where difficulties in interpretation of guidelines and circulars are common, there such information may be provided in audio- visual mode for better comprehension.

This suggestion was received from some bankers during the course of the survey. Moreover programmes can be organised by DRDC with the representatives of different banks and Government officials to bring uniformity and simplicity in the documents required for banking activities.

- Recognition for devotedness to SHG- banking can be given to employees in the form of awards, citations and highlighting performances in annual reports. This can act as a definite motivator for the bankers.
- Problems of dearth of cooperation from the local bodies can be resolved by forming joint action committees at the local levels consisting of the bankers and the panchyat members. This will increase the frequency of their interactions, lead to better communication and assure timely cooperation.

Microfinance and SHG-banking activities are multidimensional; therefore, strategies and policies often need to be framed not only on the basis of Government guidelines, but also on the basis of the local area characteristics, demographics and needs. The suggestions given above are broad based and need to be fine tuned according the requirements of each branch, number of SHGs linked to the branch and the staff working in the branch. A batch of motivated staff can be the pillars on which SHG- banking can sustain and facilitate microfinance systems to penetrate deep into the most poverty stricken segments of society.

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