



Self-Regulatory and Self-Governance Frameworks of Microfinance Programme in Kerala

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Abstract

We assess the constitution, mode of operation, and self-governance and self-regulatory frameworks of Self-Help Groups (SHGs) Federation in a microfinance programme in a Coastal region in Kerala. This article uses the individual data of 100 microfinance participating households and the data of 15 credit delivery groups in the Evariantic Social Action Forum (ESAF)-MFIL/ESAF-SHG federation in Kerala, India during 2011 and 2019. The data collected from the Trikkunnappuzha, a coastal region of Kerala and the family members of SHGs are mainly Fishermen. This study shows that formation of sample SHGs have been carried out by the field staff (credit officers) of ESAF-MFIL, by utilizing local information networks to mobilize members of new SHGs. This study also shows that SHGs operate with the help of a hierarchy of organizations, namely, branches of ESAF-MFIL and tiers of ESAF-SHG federation. We find that the presence of SHG members in the weekly meetings of SHGs and the participation of members in the discussions at the meetings are crucial for ensuring the smooth functioning of SHGs. We also find that members' compliance with the 'rules' and 'norms' of SHGs, and various other governance attributes are important for the smooth operation of SHGs and delivery of financial services by an MFI. We also find that various governance attributes, such as attendance of respondents, maintenance of transparency, awareness of members about the bye-laws of the group, equal treatment of SHG members, verification of accounts, maintenance of accounting standards of SHGs, responsiveness of SHGs and consensus among the members, are interdependent and crucial in the operation of sample SHGs.

Keywords: Local information network, Self-governance, Self-regulation, SHG, Social performance

JEL Classification: C35, D31, O16, O17

1 Introduction

There are various modes of governance such as self-governance, co-governance, hierarchy governance, which determine the day-to-day governance of an organization. Norms and principles of governance are the main objects of governance, which determine the 'interactions' among the participants in the governance processes. Social relations can be an interaction in an informal group or in a social organization. These interactions are enforced on the basis of trust among the members of the organizations, who are the participants in the governance processes. We can also find social interactions in families, friends, neighbours and informal groups such as Self-Help Groups (SHG). Interactions in SHG members can influence relations, behavior of members and outcomes such as access to credit, mobilization of savings. We find such pattern in our study.

We examine the social performance of a microfinance programme. The Social Performance Task Force (SPTF) defines social performance as effective translation of an organization's social mission and reflecting it into practices. It includes those dimensions in which the members of an organization hold their organization accountable¹. Thus, social performance refers to arrangements/systems and individual behaviour within an organization as well as direct and indirect impact of the organization's activities on various stakeholders. Therefore, understanding of an organization is crucial for social performance assessment.

A detailed examination of the structure, system and culture of an organization is essential to carry out social performance assessment. Therefore, we examine the organization's history, track record, regulatory status, ownership and governance. We have also examined the status of the clients before and after the microfinance intervention. However, we could not include various social performance variables in our analysis, due to lack of availability of data. In this article, we examine the nature of the self-regulatory and self-governance frameworks of SHGs, since SHGs are social organizations that are important stakeholders in the microfinance business process. The analyses help us to obtain

¹ Prior to this, Imp-Act (2005) defines social performance as the effective translation of an MFI's mission into practice, in line with commonly accepted social values (see IFAD, 2006; www.sptf.info and www.Imp-Act.org).

further insights into the social performance of microfinance, such as the mode of self-regulation, constitution, functioning and operation of microfinance programmes at their bottom (or SHG) level.

The SHGs operate within their self-regulatory framework and are self-governed. The self-regulatory framework is mainly enforced through the 'rules' and 'norms' of the SHGs, which often specify what a member of SHG 'should do' and 'should not do' to ensure the smooth functioning of SHGs. In contrast, self-governance refers to 'best practices', which are ensured by enforcing the self-regulatory framework, and which facilitate the SHGs in managing their operations. Self-governance is practiced by following 'group cohesiveness', 'equal treatment' of its members, stipulating 'participation' (or attendance) of members in SHG meetings, ensuring 'responsiveness' (responding to the needs of its members), and laying down 'transparency' and 'accountability' in SHG operations.

In this article, we assess the self-regulatory and self-governance frameworks of ESAF-MFIL microfinance programme and SHG Federation of ESAF in Kerala, which is the main stakeholder in the financial operations of ESAF-MFIL. ESAF-MFIL comes under the small finance bank (RBI, 2017).

The rest of the article is organized as follows. Subsection 1.1 provide a brief profile of the sample region. In subsection 1.2, we provide general profile and income distributional aspects of sample respondents. Subsection 2 provides review of literature. The section 3 describes the data and methodology used for the study. The profile and organizational structure of ESAF-MFIL and ESAF-SHG federation have been described in the section 4. In Section 5, we discuss the constitution, mode of operation and self-regulatory framework of sample SHGs. In Section 6, we assess the self-governance of sample SHGs. and article concludes in the seventh section.

The profile of sample region, socio-economic and sample family household characteristics are described below:

1.1 Profile of the Sample Region

This article is based on a sample survey conducted in Trikkunnappuzha in Kerala. According to India Human Development Report 2011, among all Indian states, Kerala holds first rank in Human Development Index (HDI) with a score of 0.79, and the highest literacy rate of 93.91% with a female literacy of 91.98%. Kerala outperforms other Indian states in all Human Development Indicators, except per capita income (Planning Commission, 2011). The state is industrially backward, with a low Credit-Deposit (CD) ratio^{2,3}. The state suffers from large scale unemployment among the educated population and deceleration of agricultural sector (Government of Kerala, 2005).

The Thrikkunnappuzha branch is in Alappuzha district of Kerala. The branch is in a coastal area, mostly they are fishermen, and the region is socially and economically backward. The Thrikkunnappuzha regions have high population of Hindus. Therefore, the proportions of Hindus in the samples from these regions are high. All the three sample branches are located in backward regions and are serving borrowers of 5-8 Gram Panchayaths.

1.2 General Profile and Income Distributional Aspects of Sample Respondents

A profile of the sample respondents is presented in below Table 1. As indicated in the table, 100 female respondents, each representing a distinct household, were selected for the current study. The average family size of these households was 4.3 in 2019, compared to 4.5 in 2011 and 4.36 in 2006. The literacy rate among the respondents was found to be 96.33%. Furthermore, the religious composition of the respondents in 2019 was as follows: 10% were Muslims, 76% were Hindus, and the remaining 14% were Christians. The work participation rate was 35.67% during 2005-06, which increased to 73.67% during 2010-11, which declined to 64.9% during 2018-2019. The work participation rate is much higher than the work participation rate for females in Kerala⁴. Among 100 sample respondents' family working members, 107 were workers during 2005-06. Among them, 35 (11.7%) workers were casual labourers in agriculture and non-agriculture sectors, 4 (1.3%) respondents were engaged in animal husbandry and farming, 64 (21.3%) respondents were engaged in household industry and other self-employment activities, and 4 (1.3%) respondents were engaged in other services. Among 100 sample respondents' family working members, 221 were workers during 2010-11. Among them, 155 (51.7%) were working as casual labourers in agriculture and non-agriculture sectors (mostly fishermen), 18 (6%) members were engaged in animal husbandry and farming, 28 (9.3%) respondents were engaged in household industry and other self-employment activities and 20 (6.7%) members were engaged in other services. Among 100 sample respondents' family working members, 239 were workers during 2018-19. Among them, 185 (50.27%) were working as casual labourers in agriculture and non-agriculture sectors (mostly fishermen), 15 (4.07%) members were engaged in animal husbandry and farming, 16 (4.34%) members were engaged in other services. This shows occupational mobility among the respondents' family members in the sample region.

² Kerala accounts for 3.75% of the total industrial employment of the country with a total fixed capital of 1.69% (Government of Kerala - Economic Review, Kerala, 2005).

³ The CD ratio of scheduled commercial banks in Kerala was 72.02% in 2011, 63.6% in 2010 and 48% in 2004. However, this ratio was 75.13% in India in 2011 (Government of Kerala - Economic Review, 2011).

⁴ In 2001, the female work participation rate was 15.9% in rural Kerala. In 1991, the female work participation rate in Kerala was 16.9% in rural areas (see GOI, Census reports 1991; 2001).

Thus, our study shows that there has been a considerable increase in the number of casual labourers during 2005-06, 2010-11 and 2018-19. However, decline in self-employment activities has also been reported during the same period. The increase in the number of casual labourers can be attributed to the implementation of the MGNREGA programme (central government sponsored wage employment guarantee scheme called Mahatma Gandhi National Rural Employment Guarantee Act). The MGNREGA programme was not implemented in the sample region during 2005-06.

Table 1: General Profile of Sample Respondents

S.No.	Items	#/Value in 2006*	#/Value in 2011	#/Value in 2019
1	No. of Sample Respondents (All Female)	100	100	100
2.	No. of Households that the 300 Respondents come from	100	100	100
3.	Average Size of the Households of the Respondents	4.36	4.5	4.3
4.	Degree of Literacy among the respondents	96.33%	96.33%	96.33
5.	Religious Classification of Respondents:			
	a) Muslim	20 (20%)	20 (20%)	10 (10%)
	b) Hindu	68 (68%)	68 (68%)	76 (76)
	c) Christian	12 (12%)	12 (12%)	14 (14)
6.	No. of Workers among Respondents' family	107	221	239
7.	Work Participation Rate for Respondents' family	35.67%	73.67%	64.9%
8.	Distribution of Workers by Occupational Categories:			
	a) Casual Labour (Agriculture & Non Agriculture)	35 (11.7%)	155 (51.7%)	185 (50.27%)
	b) Animal Husbandry/Farming	4 (1.3%)	18(6%)	15 (4.07%)
	c) Household Industry/Other Self-Employment	64 (21.3%)	28 (9.3%)	16 (4.34%)
	d) Other Services	4 (1.3%)	20 (6.7%)	23 (6.25%)
	TOTAL	(100%)	(100%)	(100%)

Source: Baseline Data and Sample Surveys 2011 and 2019.

* The baseline data for the year 2006 are collected from ESAF sample branches.

2 Review of Literature

Various scholars have studied the impact of several microfinance programmes, which analyze by comparing the programme participants lives status in 'pre' and 'post' implementation phases of the programme⁵. However, a few researchers have studied constitution, mode of operation, and self-governance and self-regulatory frameworks of microfinance programmes at micro level.

EDA Rural System and APMAS (2006) study 214 SHGs from 108 villages of India, using interviews and focal group discussion method. The study shows that 40% of sample groups have poor record of account keeping, as the financial statement is not being prepared regularly by the SHGs. Only 28% of the SHGs prepare income, expenditure, balance sheet, and portfolio statements. The members of SHGs know approximate figures of total saving and total SHG loans outstanding. However, they are not able to provide information regarding profit and loan outstanding.

NCAER (2008) uses pre-SHG and post-SHG status of participants in microcredit. The study uses recall method to collect data on members' status during the pre-SHG stage. The study finds that quality of account keeping and cash management are important factors to determine the intensity of saving services. However, the study suffers from selection bias and memory bias of sample respondents. Therefore, the impact of the programme cannot be measured reliably. Hartarska and Nadolnyak (2007) examine whether the presence of MFIs has enhanced the access to credit for microenterprises in Bosnia and Herzegovina. They find that high access to credit encourages microenterprises to reduce their reliance on internal funds for investment.

3 Data and Methodology

We have used both primary and secondary data to assess the self-governance framework of the SHG Federation and collected data from 100 sample respondents of ESAF-SHG federation, which are perating under three branches, namely Thrikkunnappuzha in Alappuzha. We have collected baseline data from the records of SHGs, primary data were collected from the sample respondents during 2010-11 and 2018-19.

To assess self-governance framework of the SHG Federation, we consider variables such as (1) Participation of sample respondent in SHG activities, (2) Level of transparency in the SHG, (3) Responsiveness of the SHG towards members' demands, (4) Level of consensus orientation of the members of the SHG, (5) Level of maintenance of equity in the SHG, (6) Members' Awareness, (7) Maintenance of accounting standards in SHG, and (8) Effectiveness.

⁵ See Duvendack et al. (2011), Gaile and Foster (1996), Goldberg (2005), Odell (2010), and Sebstad and Chen (1996) for detailed reviews of various studies.

4.1 Profile and Organizational Structure of ESAF-MFIL and ESAF-SHG federation

ESAF was established in 1992 as non-government organization (NGO) in Kerala by a group of social entrepreneurs and is registered under Travancore Cochin Literal and Scientific Charitable Societies Act of 1955⁶. It was conceived in response to the growing unemployment among the educated youth of Kerala and aimed to provide career guidance for unemployed youth in Kerala.

ESAF considered microfinance as an effective tool of poverty alleviation and employment generation for the marginalized sections of the society. Thus, ESAF started its Micro Enterprise Development program in Thrissur district of Kerala in 1995, to provide microfinance services to the poor in society. 20% of ESAF's operations are in the most backward districts of India, while 85% of its operations are located in rural areas. It focuses strongly on women, with 99% of its target market being female, which indicates its social orientation. ESAF has 6 main subsidiaries, out of which two, namely ESAF-MFIL and ESAF-SHG Federation, are involved in provision of microfinance services (ESAF-MFIL, 2012).

ESAF-MFIL was a non-deposit taking NBFC until 2017, which has one corporate office, with more than 18 operational areas (5-6 branches in each area) and 96 branches in Kerala⁷. It is a leading Indian MFI, which covers 3.26 lakh (or 3,26,000) borrowers and operates in various states such as Chhattisgarh, Gujarat, Jharkhand, Madhya Pradesh, Maharashtra and Tamil Nadu, besides Kerala. The MFI has witnessed tremendous growth of its clients, increasing its outreach from 46,677 borrowers in 2006 to 2,53,000 borrowers in 2010, with a 50% CAGR in gross loan portfolio (ESAF-MFIL, 2012). ESAF became a small finance bank in 2017 and served 3.25 million depositors, total asset worth Rs. 94.69 billion with a Rs.66.06 billion worth loan advances during 2019 (ESAF, 2020).

ESAF-SHG federation was established as a public trust, which is completely owned by the members of SHGs. It operates in a democratic manner, ensures members' participation and loan disbursement without delay. The SHGs facilitate delivery of financial services to their members by making a linkage between their members and ESAF-MFIL. For instance, the SHGs help ESAF-MFIL in reaching their clients (i.e. members of SHGs) through information dissemination regarding the credit worthiness of clients. Moreover, SHGs help ESAF-MFIL in decentralizing book keeping, accounting and entry in pass books. Furthermore, SHGs facilitate savings mobilization and payment of insurance premium of their members, besides providing a social space for their women members to meet and discuss issues that affect them in day-to-day life (thus helping ESAF to attain its social mission). Also, SHGs help ESAF-MFIL to enforce credit contracts through group lending, joint liability and peer pressure, by ensuring repayment of loans.

The ESAF-SHG federation has a three-tier organization structure, which is managed and administered through a network of branches and area offices of ESAF-MFIL. The organizational structure of SHG-federation is described next.

4.1.2 Self-Help Group (SHG)

The lower-most tier of ESAF-SHG federation consists of Self-Help Groups or SHGs. Each SHG, also called "*Sangam*", is owned and managed by 10 to 25 women members. The membership of SHGs can vary from one SHG to another. The SHGs are organized as clusters which elect their own leaders, who represent them in the Branch Advisory Committee (BAC) of SHGs and in the state level committee or apex federation. The network consisting of SHGs, BAC and state level committee is referred to as the ESAF-SHG federation.

4.1.3 Branch Advisory Committee (BAC)

The second (or middle) tier of ESAF-SHG federation is constituted as the Branch Advisory Committee (BAC), which is a cluster formed by federating 50-80 SHGs in a convenient geographical area of ESAF-MFIL branches. The BAC is constituted with Area Manager of ESAF-MFIL as a member, Branch Manager of ESAF-MFIL as a convener, a special invitee from the head office of ESAF-MFIL and the elected members of SHGs acting as president and secretary of BAC.

4.1.4 The State Level Committee (Apex Federation)

The third (or upper) tier of ESAF-SHG federation is constituted at the state level which functions as an apex federation. The apex federation consists of a state level committee of 9 members such as a chairman, 3 elected members from SHG members, 3 other members who are experts in social work and 2 other members who are nominated by Managing Director of ESAF-MFIL. The apex federation takes policy decisions, and provides advice and suggestions regarding the operation of the lower and middle tiers of the federation (i.e. SHGs and BAC). Nevertheless, ESAF-MFIL has control over the operation of ESAF-SHG federation, since the BAC and apex federation are not constituted only with the members of SHGs, but also include staff of ESAF-MFIL. However, the inclusion of outside experts in the apex

⁶ ESAF is also registered under Foreign Contribution Regulation Act, 1976 (<http://www.esafindia.org/home/about-esaf-india.html>).

⁷ Out of ESAF-MFIL's total business, 73% is in Kerala, 13% in Tamil Nadu and remaining in the rest of India. As on 31st March 2012, ESAF-MFIL had 147 branches and was projected to grow to 175 branches in a year's time (ESAF-MFIL, 2012).

federation ensures that the opinions of these experts are utilized in the decision-making process of the ESAF-SHG federation.

4 Constitution, Mode of Operation and Self-Regulatory Framework of Sample SHGs

We examine the constitution, mode of operation and self-regulatory framework of the sample SHGs in this section.

4.1 Constitutions of Sample SHGs

The sample SHGs have been formed by women from the families of a particular locality, especially families which know each other. The ESAF-SHG federation would identify the socio-economic status of a member family prior to enrolling them in a SHG⁸. The sample SHGs are constituted with almost identical socio-economic status (not necessarily from the same religion).

The formation of a sample SHGs is carried out by the field staff (credit officers) of ESAF-MFIL of the respective localities. The field staff visits the villages and interacts with different people such as workers in the field, visits various local places and meets the women in the houses of potential members, social activists in the locality, Anganawadi staff and ward members of the Gram Panchayath, etc. Often, these sections of society possess good understanding of the nature of poverty in the locality and financial requirements of various people in the locality. The ESAF-SHG federation utilizes these '*local information networks*' to mobilize members of new SHGs by gathering information about potential members. The field staff contacts and informs the potential borrowers about the objectives of ESAF-MFIL and ESAF-SHG federation.

Most sample groups receive knowledge regarding the ESAF-SHG federation from the field staff, their neighbours and various other people from their locality. Some members learn about the federation from their relatives, Anganawadi employees, or the ward members of Gram Panchayath. The potential members of SHGs thereafter meet the field staff of ESAF-MFIL in the locality or the field staff of ESAF-MFIL interacts with potential members, using the above mentioned local information networks. The field staff advice the potential members of SHGs and take initiative to hold a meeting on a specified date and time, while the potential members arrange a place for the meeting, usually the potential members' houses.

The number of members in a SHG should initially be at the required minimum of 10 members. Thereafter, the group can expand by admitting new members. The branch manager of ESAF-MFIL introduces their organization, its objectives, as well as rules and norms of the SHG for its potential members. Thereafter, the SHG must conduct regular weekly meetings. The members of a SHG can be from any religion and followers of different political parties, but none of these factors should adversely affect the operation of groups.

The SHGs are democratically organized, self-governed and self-regulated social organizations. Therefore, the office bearers of SHG are in principle elected democratically in subsequent meetings. However, in most of the sample cases, the highly literate members, and those who made the initial effort to form the SHG, are selected as office bearers. The SHG has a President, Secretary and Treasurer, who administer the day-to-day affairs of the group without receiving any emoluments. In most of the sample cases, the formation and holding of the posts was mainly meant to satisfy the official formalities.

4.2 Mode of Operation and Self-Regulatory Framework of SHGs

Microfinance operation of SHGs begins with the mobilization of members' weekly savings (thrift, which is compulsory to pay) and collection of loan repayment installment by the Treasurer of the SHG at the venue of the weekly meeting of SHG. The mobilized saving and loan repayment amounts are deposited in the name of each depositor of SHG by the field staff of ESAF-MFIL. In case of absence from a SHG meeting, members often pay their saving and loan installment either from home or neighbour or their work place. In the initial stage of SHG formation, the sample members hold meetings regularly. However, most of the sample SHGs report that the attendance in SHG weekly meetings has declined over the time period. Our survey result also shows that the average attendance of respondents is not high during the last six months.

A SHG meeting starts with a prayer and welcome speech by any member of the group, followed by the president's address. Thereafter, the secretary of SHG presents the previous meeting's report, which is amended or/and approved. Subsequently, the treasurer collects weekly savings of members and scheduled repayments of outstanding loans. Thereafter, further activities such as sanctioning of new loans are discussed and finalized. The secretary then prepares the minutes of meeting and all members who are present sign the minutes to ensure democratic governance of the SHG. Finally, the treasurer or any other member gives a vote of thanks and the SHG meeting ends with the National Anthem. The members of the SHG can discuss any matter related to their family issues, social issues, financial issues and other issues related to the member and the SHG. The possible remedies and solutions to such problems are also discussed in the SHG meeting. The issues include the saving performance of members, repayment status of loans, new demands for loans and issues related to insurance.

⁸The ESAF-SHG federation has designed an application form; the potential members of SHG are identified by assessing social and economic status of family households, such as level of income, source of income, religion and caste, literacy level of family members and dwellings of the family households.

We consider the data for the last three months regarding the discussions of respondents in SHG meetings. We observe that among 100 sample respondents, 72 members have raised financial issues at least once, whereas any members have not engaged in the discussion of family related issues at least once⁹. Similarly, 72 members have discussed social issues at least once, while 90 members have raised other issues (issues related to other members in the locality, regional issues, local political issues, etc.) at least once. All the above facts reveal the necessity to ensure regular SHG meetings and participation of members to conduct SHG activities. Therefore, we assess the attendance of respondents in the SHG meetings.

The discussions and participation of SHG members in the meeting often act as a source of *'free flow of information'* regarding the socio-economic status of members' family households. Thus, the weekly SHG meetings helps the SHG in *'screening of new loan applications'*, know the *'creditworthiness of borrowers'* and *'peer monitoring'*. The screening of new loan applications and examination of creditworthiness help to ensure that *'adverse selection problems'* do not arise among the SHG members, while peer monitoring is crucial to ensure that *'moral hazard problems'* do not take place among the SHG members.

During the questionnaire survey, the presidents of sample SHGs reveal that occasionally some disagreements arise among members regarding entry of repayment in the members' passbooks. However, these disagreements are solved through negotiation and discussion in the SHG meetings, often with the help of field staff of ESAF-MFIL.

The sample SHGs choose an internal regulatory mechanism that matches their needs and facilitates exchanges such as savings and credit to the member borrowers. Some features of the self-regulatory framework of SHGs are provided below:

1. The members of SHGs supervise and regulate SHG activities, and select borrowers in weekly SHG meetings.
2. The SHGs conduct weekly meetings and take collective decisions.
3. All members of SHGs are entitled to their opinion in SHG meetings.
4. The members of SHGs set the rules regarding qualification of memberships, election of office bearers of SHGs, procedures for decision-making of SHGs, penalties for defaulters of loan, etc.
5. The SHG diagnoses problems in the group and devises realistic methods for solving such problems.

The sample SHGs operate within a self-regulatory framework, which has a few limitations. SHGs as informal organizations suffer from the enforcement of *'rules'* and *'norms'*, as they do not hold any legal powers. Thus, the members of SHGs have an incentive to obey the rules and norms when they expect benefits from the SHG activities. The SHGs are decentralized organizations, and external regulation is difficult and highly costly compared to its benefits. Therefore, SHGs operate as self-regulatory organizations. However, the SHGs are indirectly controlled by ESAF-MFIL, as the officers of ESAF-MFIL act as office bearers in BAC and state level apex federation of ESAF-SHG federation.

We examine the self-governance framework of sample SHGs in the following section.

5. Self-Governance of Sample SHGs

The governance framework of SHGs shows that these organizations are self-governed, in a democratic manner. Hence, in principle, every member of the organization has an equal involvement in the management of SHGs. The collective responsibility of group members is essential to administer and operate a SHG. To assess the self-governance framework of sample SHGs, some governance traits are included in the present study, which include (1) participation of respondents in SHG meetings/activities, (2) transparency in the operation of SHG, (3) responsiveness of SHG office bearers towards members' requirements regarding loan demand, (4) consensus of members of SHG in its operation, (5) maintenance of equality of its members in the activities of SHG, (6) members' awareness regarding the activities of SHG, and (7) maintenance of accounting standards in SHG. The selection of these governance indicators for present study is inspired from World Bank governance indicators for assessing the governance of a country, which includes participation, transparency, responsiveness, consensus orientation and equity (Kaufman et al., 1999a, 1999b; World Bank, 1992). The definition of different governance variables are given below:

To measure the level of participation of SHG members, the attendance of SHG members in weekly SHG meetings during the last six months is considered. Participation of all members in SHG activities is important for the SHG's operation. The level of transparency in a SHG is assessed by asking the SHG members whether information is freely accessible to them. The level of responsiveness of a SHG is measured by asking the SHG members whether the SHG responds positively and promptly to their needs (financial services). Members' awareness regarding bye-laws and rules of a SHG helps in the governance of the SHG, because the bye-laws and rules of the group define what a member can or cannot do regarding the affairs of the SHG. Awareness is measured by whether the member knows the bye-laws and rules of the SHG.

The consensus of members of SHG is considered as an indicator of good governance. This is measured by examining whether the members are involved in any disputes. The lack of disputes in the SHG can be treated as consensus among the SHG members. Similarly, equality in SHG can be considered as a trait of good governance. Equality is measured by asking the SHG members whether they are treated equally. However, due consideration is given to the poorest members of the SHG with respect to the decision of the majority. The verification of accounts by the members and maintenance

⁹ Family related issues include unfair treatment of family members and domestic violence in the member's family. This often helps the SHG members to raise their voice against various injustices.

of accounting standards by the SHG are taken as signs of good governance. The SHG members are asked whether they verify their accounts and whether the SHG follows accounting standards, by examining the account book of SHGs and pass books of members.

ESAF-MFIL provides loans to the Joint Liability Group (JLG) members on the basis of joint liability (JL)¹⁰. Since the members of SHGs come from different families, there can be disputes regarding sharing of JL of loan, in case any member defaults on the loan. Therefore, consensus among members is essential to the smooth functioning of SHGs and to ensure that the members repay the loan as per the repayment schedule. In case of loan default, the entire JLG suffers as further loans to the group from ESAF-MFIL are repudiated. Therefore, the group ensures 'peer monitoring' to assure that loans are used for their intended purpose. The weekly meeting of the SHG is crucial in ensuring peer monitoring by the group.

We consider last 25 meetings (approximately six months of functioning) of sample SHGs in our study. Our sample survey shows that on average, approximately 38% attendance was reported in last 25 SHG meetings. However, there is variation in the attendance level of different occupational groups. Among all the occupational groups, those engaged in service sector reported only 22% attendance (on average). The unemployed members of the group reported 46.8% average attendance in group meetings. The self-employed members reported 45.6% average attendance. The employment features of the self-employed shows that they enjoy much freedom in their job. Those employed in the service sector have limited number of leaves and also have high opportunity costs of attending the group meeting. Therefore, their attendance in weekly SHG meetings is low.

Table 2 below shows the bi-serial correlation between participation of members, their annual saving and income. The result shows that Participation has a positive correlation with saving and negative correlation with income. For instance, We find statistically significant positive correlation ($r = 0.265$, p value = 0.000) between annual savings of respondents and their attendance level in the weekly SHG meeting.

Table 2. Correlation of Participation with Saving and Income of Respondents

Indicators	Correlation Coefficient (r)	Participation
Saving of Respondents	R	0.073**
Income of Respondents	R	-0.032

Source: Researcher's calculation from Sample Survey data, 2019.

**Correlation is statistically significant at 5% level of significance (2-tailed).

Our survey results of various governance attributes show that among all sample respondents, 42% feel that they are treated equally by their SHGs, while 96% of sample respondents report that their SHGs maintain transparency. However, only 44% of sample respondents are aware of the bye-laws of their SHGs, while only 55% verify their accounts. In the sample, 99% of SHGs maintain accounting standards. Similarly, 48% of respondents have not engaged in any form of group dispute, whereas 50% of respondents feel that their group responds timely to the needs of its members. We measure the association between various governance attributes.

The result in Table 3 shows the level of association of governance attributes with each other. Our results show that all the governance variables have statistically significant association. The measure of association between various governance attributes is measured by Cramer's V (Cramer's phi) (Agresti, 1996). Our result shows that 'redundant' association among all the governance attributes. For instance, we find that equal treatment of members by SHG and transparency have statistically significant 'redundant' association, with Cramer's V = 0.821¹¹. We observe that awareness of respondents about bye-laws of SHG and equal treatment of members by SHG have 'redundant' association, with Cramer's V = 0.817.

There is statistically significant 'redundant' association (Cramer's V = 0.824) between equal treatment of members by SHG and account verification of members. Equal treatment of members by SHG and accounting standards of SHG also have statistically significant 'redundant' association (Cramer's V = 0.825).

Among all the results, there is a very high relationship between account verification and awareness of the members of SHGs, as Cramer's V = 0.911. Similarly, account verification and transparency of SHGs have 'redundant' relationship as Cramer's V = 0.874. There is also very high association with transparency of SHGs and following of accounting standard by SHGs.

¹⁰ In JL, the borrowers share the credit contract of each member mutually. In case of loan default by one member, the entire JLG is responsible for the repayment of the defaulted loan; otherwise the entire JLG will not receive any funds from the ESAF-MFIL.

¹¹ $0 \leq$ Cramer's V ≤ 0.15 shows "very weak" association, $0.15 <$ Cramer's V ≤ 0.2 shows "weak" association, $0.2 <$ Cramer's V ≤ 0.25 shows "moderate" association, $0.25 <$ Cramer's V ≤ 0.3 shows "moderately strong" association, $0.3 <$ Cramer's V ≤ 0.35 shows "strong" association, $0.35 <$ Cramer's V ≤ 0.50 shows "very strong" association and $0.50 <$ Cramer's V ≤ 1 shows "redundant" association between the variables.

Table 3. Measure of Association (Cramer's V) between Various Governance Attributes

Indicators	Measure of Association	Equality	Transparency	Awareness	Account Verification	Accounting Standards	Consensus
Equality							
Transparency	Cramer's V	0.821**	1				
	Sig.	0.000					
Awareness	Cramer's V	0.817**	0.875**	1			
	Sig.	0.000	0.000				
Account Verification	Cramer's V	0.824**	0.874**	0.911**	1		
	Sig.	0.000	0.000	0.000			
Accounting Standards	Cramer's V	0.825**	0.880**	0.887**	0.884**	1	
	Sig.	0.000	0.000	0.000	0.000		
Consensus	Cramer's V	0.818**	0.866**	0.871**	0.871**	0.866**	1
	Sig.	0.00	0.00	0.000	0.000	0.000	
Responsiveness	Cramer's V	0.800**	0.801**	0.802**	.807**	0.800**	0.801**
	Sig.	0.000	0.000	0.000	0.000	0.000	0.000

Source: Researcher's calculation from Sample Survey data, 2018

** and * show Statistically significant at 1% and 5% level of significance respectively

We asked the sample respondents regarding their level of satisfaction regarding the microfinance programme (ESAF-MFIL), the results of which are provided in Table 4 below:

Table 4. Level of Satisfaction of Respondents Regarding the Microfinance Programme (ESAF-MFIL)

Level of Satisfaction	No. of Respondents	In %
Fully Satisfied	48	48.00
Partially Satisfied	23	23.00
Unsatisfied	25	25.00
Could not Answer	4	4.00
Total	100	100

Source: Sample Survey.

The data shows that 48% of sample respondents are 'fully satisfied' with the microfinance programme, while 23% of the respondents say that they are 'partially satisfied' with the programme. Only 25% of the respondents are 'unsatisfied' with the programme, while 4% of the respondents could not answer the question.

6. Conclusion

The formation of SHGs has been carried out by the field staff (credit officers) of ESAF-MFIL, by utilizing local information networks to mobilize members of new SHGs. This has been achieved mainly through visiting villages and interacting with the different people such as workers in the field, visiting women in the houses of potential members, social activists in the locality, Anganawadi staff and ward members of the Gram Panchayath, etc. Often, these sections of the society have good knowledge regarding the nature of poverty in the locality and financial requirements of various individuals in the locality. These local information networks help in the flow of information regarding potential members of SHGs.

In short, the constitution of sample SHGs appears to depend on the elements of local information networks, while the operation and self-regulatory framework of SHGs depend on the elements of informal networks as well as the capability of SHGs to enforce rules and norms of the ESAF-SHG federation and ESAF-MFIL.

SHGs help ESAF-MFIL to ensure the repayment of loans through group lending and joint liability. The weekly meetings of SHGs help in the screening of new loan applications, peer monitoring and identifying the creditworthiness of borrowers. Screening and monitoring of borrowers thus ensures that adverse selection and moral hazard problems do not arise among the members.

Our study has shown that group members often repay their loan amount either from their home or workplace, suggesting that regular participation of members in the SHG meetings is important for the credit officers (field staff) to collect the loan amount during the group meetings. The regular participation of group members in SHG meetings can also influence their saving habits positively.

Various governance attributes, such as attendance of respondents, maintenance of transparency, awareness of members about the bye-laws of the group, equal treatment of SHG members, verification of accounts, maintenance of accounting standards of SHGs, responsiveness of SHGs and consensus among the members, are crucial in the operation of sample SHGs. Even though attendance in SHG meetings is important to the operation of SHGs, attendance of sample respondents in the SHG weekly meetings was approximately 40%. However, the attendance of self-employed and unemployed respondents was high, suggesting that the self-employed respondents enjoy much freedom in their job, while the unemployed have low opportunity costs in participating in the SHG weekly meetings.

The access to information helps to increase awareness regarding the accounts of SHG members, and the functioning and accounting standards of SHGs. Our study has also found that some confrontation among members related to entry of their repayment in pass books has been resolved through negotiation and discussion within the group. In some cases, the groups have received the help of field staff and branch managers of ESAF-MFIL to resolve the disputes of their members. Most sample respondents are satisfied with the microfinance programme.

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