

## **Formation and Functioning of Self Help Groups: Micro Evidence from Himachal Pradesh**

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*The study shows successful functioning of self help groups formed by rural females in terms of indicators such as frequency of meetings held, attendance in the meetings, the proportion of members borrowing from groups, amount borrowed, amount saved, proportion of groups linked to banks, and so on. The average amount borrowed, both per group and per member, for different purposes did increase significantly over time. Of the total amount borrowed in the process of internal loaning, the consumption purposes and non-agricultural activities each accounted for around two-fifths and remained nearly unchanged over time. More than four-fifths of groups had got linked to the banks. Regarding purposes of loan from banks, the amount borrowed for agricultural activities in successive rounds of bank linkages remained nearly unchanged in comparison to that borrowed for non-agricultural activities which registered significant increase. The results of logit regression further revealed that while number of years of acquaintance among members and the proportion of group members belonging to near-landless category reduced the probability of a group defaulting in repayment, the proportion of members belonging to low income group actually raised it. The results, however, did not support the hypotheses that social cohesion of the groups in terms of similar caste affiliations of the members and their small size enhance the probability of high repayment performance.*

### **I Introduction**

The rural financial markets in poor agrarian economies are considered risky, default prone, costly and non-viable because of, *inter alia*, the lack of collateral security, under development of complementary institutions, synchronic financial demands, covariant risks and widely scattered borrowers requiring credit frequently and in small amounts. These features in conjunction with imperfect information, manifested in adverse selection and moral hazards, engender enforcement problem resulting in low repayment rates (Besely 1994). In these agrarian settings, the formal financial institutions avoid lending to the poor in as much as in their case the costs are too high, risks are too great, saving propensities too low and many of them have no worthwhile collateral to offer. Further, these institutions also follow inflexible lending procedures and policies, which result in high transaction costs in financing a large number of small and

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