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## **SHG Models of Microfinance in Loaning Performance of SHGs: A Study on Barpeta District of Assam**

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### **Abstract**

*Microfinance in India mainly provides under the SHG models, which comprise three credit linkage models and have recorded tremendous growth in reaching poor people, forming SHGs, disbursing loans, savings, financial inclusion, women empowerment, etc. Again, disbursing loan without mortgage is the crucial feature, as why microfinance is very popular today, and that under SHG system 'peer-pressure' serves as the only collateral. Thus, this paper highlighted the 'loaning performance' towards SHGs in Barpeta District of Assam under SHG models from 2007-08 to 2011-12, on the basis of secondary and primary data. The study reveals that, the SHGs under model-III have been obtained more amount and frequent loans than SHGs under model-II in the district during the period of study.*

***Key words: Barpeta District, Loan/Credit, Performance, SHGs, SHG models.***

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**Introduction:** Microfinance, which originated from 'Micro-credit' or Small loans concept of the unorganized sector, now includes a range of financial services, mainly, the provision of thrift, credit, insurance, remittance services, etc. for the needy people, predominantly for the poor and women. Further, to extend the service of microfinance, various methodologies have been developed and among them, the group based financing systems are found to be more successful, as in those systems 'peer-pressure' served as collateral for recovery of credit. Thus, 'SHG models', the Indian home grown models, have dominated the sector in extending the service of microfinance in our country. Like 'Grameen Model' in Bangladesh, 'SHG models' in India have revolutionized microfinance services. More remarkably, the 'Bandhan' (i.e., MFI, West-Bengal) has recently become a Bank for the poor in our country. SHG Models, comprise three credit linkage models viz., Model-I, where banks form, nurture and finance the SHGs, thus the entire responsibility is vested upon the promoting banks. Model-II, where the task of selection, formation, promotion and nurturing of SHGs are vested with some Govt. and Non-Govt. agencies (i.e., with DRDA, Block Offices, NGOs, MFIs etc.) and banks directly finance the Groups after a certain period on fulfillment of some conditions. So, from credit-linkage point of view, model-I & II are alike. Under Model-III, banks, financial institutions, funding agencies, etc. provide bulk loans to NGOs/MFIs for on-lending to the SHGs. NGOs/MFIs act as intermediaries between banks and SHGs, and the entire responsibility of formation, nurturing and financing, etc. are vested with those intermediaries. This, model has been developed to extend the service of microfinance to the areas having poor banking infrastructures and networks. All these models are functional in India with different volume of service, but in Barpeta District of Assam, only Model-II and Model-III are operational and no such SHGs were found during the field survey, that are formed under Model-I, and that is also reported by the intermediaries.

In the provision of microfinance, the provision of 'credit' or 'loans' is the main provision and entire performance of microfinance sector, that we are witnessing today, is only by dint of 'loans' or 'credit' service. As such, success of microfinance programs is strongly relying to a greater extent on the supply or flow of loans in terms of quantum, frequency, affordability, re-payment, etc., of loans. Again, SHGs can initiate internal lending from its groups savings only after 2-3 months of regular savings by the group members. These loans are small in quantity and used mostly to meet

consumption needs, emergency needs like medical treatment, social ceremonies etc. (Feroze & Chauhan, 2011), and is insufficient to cope with the growing needs of the SHGs. Thus, needs for external financial assistance arises and SHGs after passing a certain period of time ranges from 2 to 6 months<sup>1</sup> in average, from its formation and in the practice of group savings and lending, become eligible for credit linkage and for loans from banks or from their NGOs or MFIs.

**Objective of the Study:**

1. To evaluate the loaning performance towards SHGs under SHG models in Barpeta District of Assam.
2. To evaluate the performance of SHG models in meeting loan demand and loan obtained by the SHGs in Barpeta District of Assam.
3. To analyze the frequency of loan obtained mode of loan re-payment and loan re-payment performance of SHGs under SHG models in Barpeta District of Assam.

**Hypotheses of the Study:**

1. There is no significant difference in amount of loan obtained by SHGs of Barpeta District from the State (Assam) average amount of loan obtained by SHGs.
2. There is no significant difference between loan obtained by SHGs and loan demanded by SHGs in Barpeta District.

**Methodology:** This study is based on both primary and secondary data and cover a period of five years from 2007-08 to 2011-12. Secondary data have been collected from reliable sources, viz., NABARD, RBI, CMF, DRDA, and Development Blocks, Barpeta District web-site, selected branch of ASOMI, Bandhan and RGVN. Again, for the collection of primary data, the entire district has been stratified according to intermediaries, viz., the Development Blocks, branches of ASOMI, branches of Bandhan and branch of RGVN. 11 Development Blocks, 3 branches of ASOMI, 3 branches of Bandhan and 1 branch of RGVN (i.e., the branches of ASOMI, Bandhan & RGVN  $\geq$  5 years as on 31.03.2012) have been considered for this study as intermediaries of SHGs in Barpeta District. Thus, we get 18 strata in the district. From the total SHGs of each stratum selection to the total Sample SHGs {i.e., a total of 260 sample SHGs have been taken for the purpose of data collection which is determined by using the software "MACORR Sample Size Calculator" (version 2000) developed by American Research Group Inc., at 95% confidence level and 6% confidence interval, for a population of 8,392 "active" SHGs of the District} has been made proportionately by lottery method.

**Area of the Study:** One the lower Assam District, Barpeta, covers an area of 3245 square K.Ms and is bounded by international border i.e., Bhutan Hills in the North, Nalbari District in the East, Kamrup and Goalpara District in the South and Bongaigaon District in the West. The District lies between latitude 26'5" North - 26'49" North and longitude 90'39' East - 91'17' East. It is one of the important districts of Assam; it got status of a district in 1983 headed by the Deputy Commissioner. The district has two sub-divisions, namely Barpeta and Bajali. There are five revenue circles in the Sadar Sub-division and three circles constitute the Bajali sub-division. Total population of the district is 1,693,190 comprising of 8,67,891 male and 8,25,299 female (Census, 2011), with extensive rural population, that near to 86 percent. The district having 11 Blocks and ranks fourth in population size among the districts in Assam.

**Loaning Performance:** 'Micro-credit' or the provision of 'small loan' is the backbone of microfinance and entire performance of microfinance is depends on this crucial factor and its active performance in 'loaning' has able to bring such progress in the microfinance sector. But, this service is not equally distributed and huge regional and states disparities are noticed in our country as regard micro-credit services to the SHGs, in terms of amount and frequency of credit and that discriminated in the results or outcome of microfinance services in the country (Roy, 2014). The loaning performance and their discriminating figures can be well understood from the report of 'Status of Microfinance in India-2011-12' of NABARD. The report reveals that, the average amount of loan disbursed to the SHGs in India in average was 144046 during the year 2012, which was in the highest

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<sup>1</sup>The eligible period to obtained external loans or bank loans is not uniformly followed, and it is varying from place to place and again among the NGOs or MFIs, who deals in microfinance in our country. But, it is generally ranges from 2 to 6 months periods in average.

priority state of Uttarakhand of ` 148155, in the same period. But, the average credit disbursed to the SHGs in Assam during the same period was only ` 66925 per SHG, which is much lower than the national average and stand to 46.46 percent of the national average amount of loan to SHGs. Such, huge disparities ultimately affect in the performance of SHG and why the performance and position of SHGs comparatively poor in the NER (North East Region). Again, among the NE states<sup>2</sup>, the average amount of credit disbursed in 2011-12, to the SHGs in Arunachal Pradesh was 121508; to the SHGs in Manipur was ` 65560; in Meghalaya was ` 70799; in Mizoram was ` 120035; in Nagaland was ` 72075; in Sikkim was ` 106995 and in Tripura was ` 121614. So, average amount of loans disbursed to the SHGs in Assam is also comparatively less from other states of this region. But, it is to mention here that, of the total SHGs disbursed credit in the NE region (i.e., 51003 SHGs), 54.92 percent of those SHGs are only belong to the State of Assam and the rest is spread-over among the other states of the region. Thus, for having maximum numbers of SHGs in Assam, that has reduced the average loan size. Again, the average credit disbursed to the SHGs in Barpeta District of Assam in 2011-12, was a bit higher than, that of Assam average and was ` 91173. The average amount of credit disbursed to the SHGs in Assam and in Barpeta District along with the selected intermediaries in the district during the period of study is given in table-1:

**Table-1 Average Amount of Credit Disbursed to SHGs, from 2007-08 to 2011-12.**

Sl. No./ Models	Particulars	Average Credit Disbursed to SHGs, from 2007-08 to 2011-12. Amount ( ` )
1.	To the SHGs in Assam <sup>3</sup> :	` 59,623 p.a.
2.	To the SHGs in Barpeta District <sup>4</sup> :	` 45,615 p.a.
<b>Under SHG Model-II</b>	To the SHGs under Blocks Intermediaries:	` 35,040 p.a.
<b>Under SHG Model-III</b>	To the SHGs under ASOMI Intermediary:	` 73,325 p.a.
	To the SHGs under Bandhan Intermediary:	` 1,44,278 p.a.
	To the SHGs under RGVN Intermediary:	` 46,200 p.a.

Source: 1. Status of Microfinance in India-2007-08 to 2011-12.

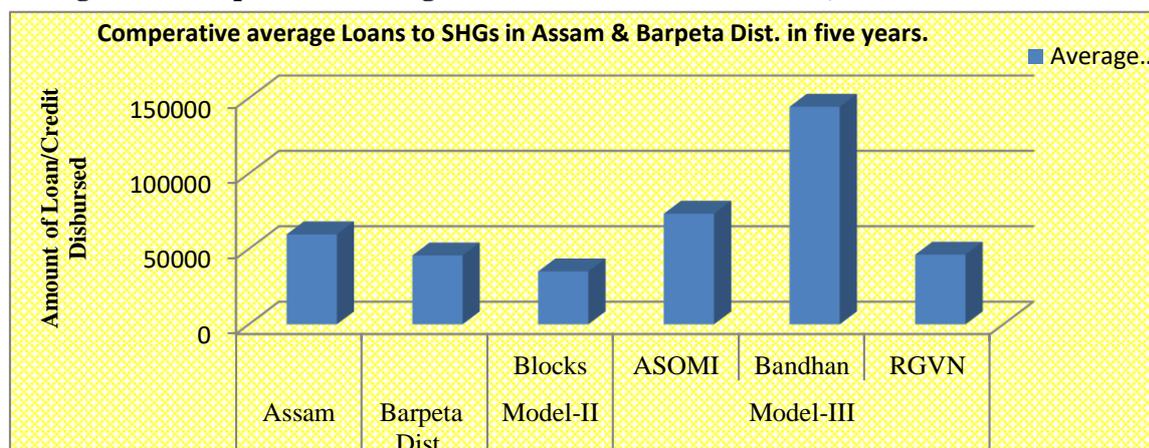
2. Field Survey.

It can be observed from the table that, the average amount of loan disbursed to the SHGs in the district is less than that of Assam average amount of loans given to the SHGs during the period of study. But, SHGs under model-II had been provided with very small amount of loans, which is the smallest average amount of loan in comparison to the other SHGs under model-III in the district as well as below the State and District average. Again, SHGs under MFI-Bandhan have been availed maximum amount of average loan to their SHGs, followed by SHGs under MFI-ASOMI and then by RGVN. Thus, SHGs under model-III are given more amount of credit, which in average was ` 87934 during the period of study and the same under model-II was only ` 35040. So, a huge disparity in terms flow of credit and service is found between these two models in the district, further, SHGs under model-III got more than double the average amount of credit, than SHGs under model-II, which ultimately effects on the performance factors of the SHGs under each model. During the period of survey, the SHGs also reported about their willingness towards working with SHGs, but limited amount of loan actually paralyzed their performance and spirits and a huge percentage of SHGs are found as defunct in the district, that mostly under model-II. The relative loaning performance can also be observed from following diagrammatic presentation:

<sup>2</sup> The average credit disbursed to SHGs in each of the states of NER is calculated from the NABARD report, Status of Microfinance in India, of 2011-12, page no. 38.

<sup>3</sup> The amount of Average Credit Disbursed to the SHGs in Assam has been obtained from the NABARD reports of 'Status of Microfinance in India', from 2007-08 to 2011-12.

<sup>4</sup> The Average Amount of Credit Disbursed to the SHGs in the Barpeta District is the average of Sample SHGs for this study, i.e., 260 SHGs, Covering Blocks, ASOMI, Bandhan & RGVN's SHGs in the district.

**Figure-1. Comparative Average Loans Disbursed to the SHGs, from 2007-08 to 2011-12:**

Source: Table-1.

So, it is model-III, which is performing better in extending loans to the SHGs in the district during the period of study than model-II, which is found comparatively in poor performance in loaning to their SHGs during the same period.

#### **Test of Hypothesis No-1:**

Null Hypothesis ( $H_0 : \mu = \mu_0$ ) Amount of Loan obtained by SHGs in Barpeta District does not differ significantly from State (Assam) average of Amount of Loan obtained the by SHGs.

Alternative Hypothesis ( $H_1 : \mu > \mu_0$ ) Amount of Loan obtained by SHGs in Barpeta District differs positively from the State (Assam) average of Amount of Loan obtained the by SHG Since  $IZI = 2.09$ , i.e.,  $> 1.645$  at 5% significance level, we reject the Null Hypothesis and accept the Alternative Hypothesis, i.e., performance of SHGs in Barpeta District is better than the State average of loan obtained by SHGs.

But, at 1% significance level, the result of the test is different. Since  $IZI = 2.09$ , i.e.,  $< 2.33$  at 1% significance level, we accept the Null Hypothesis, i.e., performance of SHGs in Barpeta District is not better than the State average of loan obtained by SHGs.

**Analysis of Frequency of Loans Obtained by SHGs:** The 'loaning performance' also depends on the frequency or times of loans delivered/given by the intermediaries to their SHGs, so an effort was made during the period of study to know about the frequency of loans or how many times an SHG obtained loan from their intermediaries during the period from 2007-08 to 2011-12, in the district. The finding of the same reveals that, nearly half of the total SHGs under model-II have obtained loan once during the periods of five years under study, which is 47.25 percent of total SHG and very close to that 41.74 percent SHGs have obtained loans twice in the whole period and only 11.01 percent SHGs have obtained loans for three times during the same period. Thus, loan service to the SHGs under model-II is not impressive and most of the SHGs are suffering from loans shortage, which is the life blood for the survival of the SHG. Again, the same under model-III is comparatively better as majority of the total SHGs under this model have obtained five loans (i.e., 38.10 percent of total SHGs under model-III), that means yearly one loan in average, where none of the SHGs under model-II had obtained more than three loans. Further, 4.76 percent SHGs have reported about obtaining more than five loans during the periods of five years under study. Only 14.29 percent of the total samples SHGs under model-III are with single loan and rest fall in the two to four times loans obtained category in the district. The detail about the frequency of loan position with model-wise break-up has been presented in the following table:

**Table-2. Frequency of Loan Obtained by the SHGs from their Intermediaries during 1-4-07 to 31-3-12.**

SHG Models & SHGs Intermediaries:		Frequency/Times of Loan obtained by SHGs of Barpeta District						Total SHG
		1 Times	2 Times	3 Times	4 Times	5 Times	More	
SHG Model-II	Blocks <sup>5</sup>	103	91	24	0	0	0	218
	%	47.25	41.74	11.01	0	0	0	100
SHG Model-III	ASOMI	0	2	2	4	11	0	19
	Bandhan	5	3	3	0	5	2	18
	RGVN	1	1	2	1	0	0	5
	Total	6	6	7	5	16	2	42
	%	14.29	14.29	16.67	11.90	38.10	4.76	100
Total (Model-II & III)		109	97	31	5	16	2	260
% (Model-II & III)		41.92	37.31	11.92	1.92	6.15	0.78	100

Source: Field Survey.

Thus, it is apparent that loans are more frequently disbursed to the SHGs under model-III than under model-II in the district and it can be said that, the SHGs under model-III had obtained loans more frequently than SHGs under model-II, which is very important for the sustainability of SHGs. Again, as the velocity of loans under model-III is more than that of model-II, it also recognizes the expertise, quality management, efficiency of the SHGs for the support system of the intermediaries under model-III.

**Analyzing Demand for and Supply of Loans of SHGs:** The amount of loan provided to the SHGs in Barpeta District during the period of study from 2007-08 to 2011-12, in an average was ` 45,615 p.a. and their demand for loans in the same period in an average was ` 72,793 p.a. Thus, a healthy gap of ` 27,178 p.a. in average, were found between demand for and amount of loan obtained by the SHGs in the District. The model-wise comparative average amount of 'loan demand for' and 'loans obtained' during the period of study is given in the following table to evaluate the loaning performance in Barpeta District.

**Table-3. Average Amount Loan Demand for Obtained by SHGs, from 2007-08 to 2011-12.**

Sl. No./ Models	Particulars	Average Amount Loans to the SHGs, from 2007-08 to 2011-12.		
		Loans Demanded (X):Amount ( ` )	Loan Obtained (Y):Amount ( ` )	Ratio: X/Y
1.	The SHGs in Assam <sup>6</sup> :	NA	` 59,623 p.a.	----
2.	The SHGs in Barpeta District <sup>7</sup> :	` 72,973 p.a.	` 45,615 p.a.	1.60:1
<b>Under Model-II</b>	The SHGs under Blocks Intermediaries:	` 58,546 p.a.	` 35,040 p.a.	1.67:1
<b>Under Model-III</b>	The SHGs under ASOMI Intermediary:	` 1,04,737 p.a.	` 73,325 p.a.	1.42:1
	The SHGs under Bandhan Intermediary:	` 2,19,444 p.a.	` 1,44,278 p.a.	1.52:1
	The SHGs under RGVN Intermediary:	` 54,000 p.a.	` 46,200 p.a.	1.17:1

<sup>5</sup> Information under Blocks SHGs in this table and all the further tables used in this chapter comprises 11 Development Blocks of Barpeta District, namely- Barpeta, Chenga, Guma Phulbari, Sarukhetri, Mandia, Gobardhana, Paka Betbari, Bhabanipur, Chakchaka, Rupshi, Bajali.

<sup>6</sup> The amount of Average Credit Disbursed to the SHGs in Assam has been obtained from the NABARD reports of 'Status of Microfinance in India', from 2007-08 to 2011-12.

<sup>7</sup> The Average Amount of Credit Disbursed to the SHGs in the Barpeta District is the average of Sample SHGs for this study, which 260 SHG, Covering Blocks, ASOMI, Bandhan & RGVN's SHGs in the district.

Source: 1. Status of Microfinance in India-2007-08 to 2011-12.

2. Field Survey.

So, it depicts from the table that, there is much gap exist between the average amount of loans demanded for and that obtained by the SHGs in the district, the gap amount among the blocks SHGs under model-II was ` 23,506 p.a. during the period of study and the same among the SHGs under model-III was ` 38,126 p.a. thus, despite of providing comparative higher average amount of loans annually, during the period of study to the SHGs under model-III, the gap of loans demanded remains high among the SHGs under model-III. Hence, the question arises is, the amount of loans obtained by the SHGs during the period are related to the amount of loans demanded for. To know the answer a correlation study has been made to show the relationship if any, between 'Loans demanded (in five years)' and 'Loans obtained (in five years)', by the SHGs in the District with help of Karl Pearson's Co-efficient of Correlation (r).

*Karl Pearson's Co-efficient of Correlation:*

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2 * \sum y^2}}$$

Where,  $\bar{x} = (X - \bar{X})$ ,  $\bar{y} = (Y - \bar{Y})$ ,

$\bar{X}$  = Arithmetic Mean of X,

$\bar{Y}$  = Arithmetic Mean of Y,

r = coefficient of correlation between X and Y,

Taking amount of Loans Demanded by SHGs as: x, and amount of Loans Obtained as: y

The result correlation comes,  $r_{xy} = 0.8934$

So, the variables are highly positively correlated, and the amount of loans obtained by the SHGs in the district is highly depended on their loans demands or we can say that, more amount of loan demands by the SHGs helps in obtaining more amounts of loans.

Again, whether the same condition is exists to SHGs, irrespective to the SHG models in the district or not? To know that, we can take help of model-wise correlation study. As such, SHG model-wise correlation study has been made as follow:

*Correlation among the amount of Loans demanded and Loans Obtained by the SHGs under model-II:* Taking the amount of loans demanded in five years by SHGs as: x, and that of loans obtained in the same period as: y, the result of correlation comes to,  $r_{xy} = 0.7600$  and the result of the same under model-III comes to,  $r_{xy} = 0.8602$ , in the same period under study. So, from the obtained results of 'r' it can be said the variables are more positively correlated under model-III, than model-II in the district during the period of study.

#### **Test of Hypothesis No-2:**

$H_0$ :  $\mu_x = \mu_y$  (i.e., There is no significant difference between loan obtained by SHGs and loan demanded by the SHGs in Barpeta District)

Alternative hypothesis:  $H_1$ :  $\mu_x \neq \mu_y$  (two-tailed) (i.e., There is a significant difference between loan obtained by SHGs and loan demanded by the SHGs in Barpeta District ) Level of significance  $\alpha = 1\% = 0.01$ , Level of significance.  $\alpha = 5\% = 0.05$

Since  $|Z| = 6.48$  is much greater than 3 (obviously greater than 2.58, the sig. value of Z at 1% level of significant & greater than 1.96, the sig. value of Z at 5% level of significant), it is highly significant. Hence data are inconsistent with the null hypothesis and we conclude that total amount of loan obtained and total amount of loan demanded differ significantly.

**Nature of Loan Repayment:** The acceptability of loans or credit by the beneficiaries and the recovery of loans to a greater extent depend upon its flexibility and procedures, where loan re-payment system or modes is a vital factor, because, it helps the SHG members for timely payments of loans. Because, the SHG members in general are the people who are in acute needs of money for their various urgent needs. So, they can't restore money for long and a re-payment system of long tenure/ interval ultimately leads them to defaulter. So, during the

course of field study an effort was made to know about the loan re-payment modes of the SHGs and the details about the same are presented in the following table:

**Table-4. Modes/Tenure of Loan Re-payment by the SHGs in Barpeta District of Assam.**

SHG Models & SHG Intermediaries:		Modes of Loan Re-Payment/Installment.					Total SHG
		Weekly	Fortnightly	Monthly	Quarterly	Otherwise	
SHG Model-II	Blocks	0	0	212	0	6	218
	%	0	0	<b>97.25</b>	0	2.75	100
SHG Model-III	ASOMI	19	0	0	0	0	19
	Bandhan	18	0	0	0	0	18
	RGVN	1	2	2	0	0	5
	Total	38	2	2	0	0	42
	%	<b>90.48</b>	4.76	4.76	0	0	100

Source: Field Survey.

It is clear from the table that, SHG under model-II re-pays its loan mostly on monthly installment basis and only 2.75 percent SHGs, which paid loans other-wise are actually the defaulter SHGs in regular payments and for them re-payment are made on the basis of understanding between SHGs and the Banks. But the re-payment system under model-III is different and most of the SHGs re-pay on weekly installment, leaving a small percentage of SHGs who pay either fortnightly or monthly. No such SHGs are found in the district that returned loan on quarterly basis under both the SHG models in the district.

**Loan Repayment Performance:** Repayment of loans is another important criterion for evaluation of performance of any programme or any credit delivery models. Microfinance is considered as champion in this regard due to its impressive repayment history across the globe. In case of group lending the responsibility of repayment lies on the whole groups, thus repayment rates are very high (Feroze & Chauhan, 2011). The earlier studies on loan repayment performance revealed that more than 80 percent recovery of external loans, further reported that the repayment performance of SHGs under banks (i.e. under model-II) was higher as to 90.80 percent, compared to NGOs/MFIs SHGs up to 82.10 (i.e., under model-III) across the different ages (Datta & Raman, 2001) (Mishra, 2002). Again, studies in the later periods reported even higher repayment of loans and that found quite satisfactory, as more than 96 percent of SHG households repaid their loans on time in all India level and that was highest in Andhra Pradesh as to 100 percent, followed by Assam 99.9 percent, in Karnataka 99.8 percent, in Maharashtra 96.9 percent, in Uttar Pradesh 92.9 percent and in Odisha 88.7 percent, (Ghosh, 2012). In Barpeta District, the repayment rate of loans of the SHGs are also very high, as the rates of total loans recovered in the district was 90.61 percent in 2007-08 and that gradually improved year after year to 92.25 percent in 2008-09; 93.16 percent in 2009-10; 97.11 percent in 2010-11 and 96.56 percent in 2011-12 under both the models. Again, the repayment rates of SHGs under ASOMI, Bandhan and RGVN, i.e., under model-III is found more than SHGs under model-II in the district during the period of study, that in average stands to 98.67 percent<sup>8</sup>, as reported by the intermediaries of district. The same under model-II as reported by the banks and block officials is around 76 percent in the district. Thus, in loans recovery performance, model-III is stand superior to model-II, and in some cases the recovery rates recorded to 100 percent as reported by the intermediary's deals in model-III.

<sup>8</sup> The loans recovery or repayment rates information of SHG models of the district have been obtained on consultation with intermediaries of microfinance which includes ASOMI, Bandhan, RGVN Branch managers, block officials, dealing bank officials etc. and as per their records and assessment the above repayments rates were found in the district.

**Conclusion:** Thus, SHGs under model-III have obtained more amounts of loan than SHGs under model-II in the district during the period of study. It also reveals that, SHGs demand for loans helps in obtaining more amount of loan as the value of  $r_{xy}$  comes to 0.8934, signifying, the variables are highly positively correlated and the position is neck-to-neck under both the models under study. Again, SHGs under model-III have obtained more and frequent loans than SHGs under model-II, as more than 38 percent SHGs under model-III have found with five loans, where none of the SHGs obtained that, under model-II during the period of study. Further, SHGs under model-III are mostly re-pays their loans on weekly installment basis, but SHGs under model-II are mostly re-pay in monthly installment basis. Again, in the recovery of loan, SHGs under model-III are more active than model-II. In-all, loaning performance of SHGs under model-III is better than under model-II in the district during the period of study.

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