Self-Help Groups in India – A Catalyst for Women Economic Empowerment and Poverty Eradication

Dr. Urmila Sharma (Managing Editor, Woman World),
Prof. Satish C. Sharma (Chairman & Managing Director and Honorary Professor (OB & HR), Maharaja Group of Colleges)
& **Ms. Priya Jha** (Student, M.B.A., Maharaja College of Management)

Abstract

Investing in women is a proven way to fight poverty. Women show a higher micro-loan repayment rate and consistently invest more of their earnings in their children and families than men. That is why nearly 70 percent of micro-loans donated through Micro, go to women entrepreneurs. Microfinance programmes like the **Self-Help Bank Linkage Programme (SHG)** in India have been increasingly hailed for their positive economic impact and the empowerment of women. This is based on the view that, women are more likely to be credit constrained, have restricted access to wage labour market and have limited decision-making and bargaining power within the household. This article argues that true women empowerment takes place when women challenge the existing norms and culture, to effectively improve their well-being.

The SHG movement in the state of Rajasthan has set the ground for a major change process which will be led by women and in the process will empower them – not just through the access and control of credit and finances but also by providing them with the space to express themselves, and challenge the socio-economic pressures that they have been suppressed by. Without overburdening the SHG, the introduction of the enterprise development process can effectively address livelihood issues as well. In the current scenario, where there are over 200,000 SHGs in the state, a structured and focused programme can make a significant impact on women and through them to the entire family.

Self Help Groups in India – A Catalyst for Women Economic Empowerment & Poverty Eradication

Microfinance – also called micro credit, micro lending, or micro-loans - is a highly successful economic development tool to fight global poverty. The term **"microfinance"** refers to the practice of providing financial services to people in impoverished countries who have no collateral, credit history, or access to traditional lending services.

Microfinance services can include:

- Small loans or group loans
- Micro Savings
- Micro Insurance

Investing in women is a proven way to fight poverty. Empowerment of women has become a significant topic of discussion in regards to development and economics. Entire nations, businesses, communities, and groups can benefit from the implementation of such programmes and policies that adopt the notion of women empowerment. Nowadays, women are challenging the existing norms and culture to effectively improve their feeling of well-being and self-confidence. According to our definition, the truly empowering activities are those that reflect the changes that women have effectively made to better their lives, by resisting the existing norms of the society.

Microfinance Enables Women Entrepreneurs To:

- Access basic healthcare, like medicines and regular check-ups.
- Buy nutritious food for their children, instead of relying only on what they can grow.
- Send their children to school and pay for educational supplies.
- Improve the living conditions for their families.
- Gain confidence and promote gender equality.

SHGs and Women Empowerment:

A majority of microfinance programmes target women with the explicit goal of empowering them. There are varying underlying motivations for pursuing women empowerment. The concept of SHGs is predominantly used in the case of economically poor people, generally women, who come together to pool their small savings and then use it among themselves. It has been experienced that, the SHGs are generally formed through the intervention of a facilitating agency; the pooled savings are then used to make small interest bearing loans among themselves. The members who borrow the money have to return the same in weekly, fortnightly or monthly instalments at predetermined rates of interest. The group is solely responsible for determining its periodical saving rate, internal lending policy as well as interest rates. This process helps group members imbibe the essentials of financial intermediation such as prioritising needs, fixing terms and conditions and maintaining accounts. Self-help groups are started by Non-Profit Organisations (NGOs) which generally have broad anti-poverty agendas. Self-help groups are seen as instruments for a variety of goals, including, empowering women, developing leadership abilities among poor people, increasing school enrolments, improving nutrition and the use of birth control. While the term 'Self-Help Group' or SHG can be used to describe a wide range of financial and non-financial associations, in India, it has come to refer to a form of Accumulating Savings and Credit Association (ASCA), promoted by Government agencies, NGOs or banks. The mechanism of lending through Self Help Groups (SHGs) has gained wide popularity over the last few years, and has been adopted as an important strategy by banks for lending to the poor.

'Self-Help Groups' (**SHG**) are village-based financial intermediaries usually composed of 10–20 local women. Microfinance programmes like, the Self-Help Bank Linkage Programme (SHG) in India have been increasingly hailed for their positive economic impact and empowering women.

A distinction can be made between different types of SHGs according to their origin and sources of funds. Several SHGs have been carved out of larger groups, formed under pre-existing NGOs for thrift credit or more broad-based activities. Some have been promoted by NGOs within the parameters of the Bank Linkage Scheme, but as part of an integrated developmental programme. Others have been promoted by banks and the **District Rural Development Agencies (DRDAs)**. Still, others have been formed as a component of various physical and social infrastructural projects. Some of the characteristic features of SHGs currently engaged in Micro Finance are given below:

- An SHG is generally an economically homogeneous group formed through a process of self-selection based upon the affinity of its members.
- Most SHGs are women's groups with membership ranging between 10 and 20.
- SHGs have well-defined rules and by-laws, they hold regular meetings and maintain records and savings and credit discipline.
- SHGs are self-managed institutions characterized by participatory and collective decision making.

NABARD's 'SHG Bank Linkage Programme':

The concept of linking SHGs to banks was launched as a pilot project by National Bank for Agriculture and Rural Development (NABARD) in 1992. The pilot envisaged, linking of just 500 SHGs to banks. By the end of March 1994, 620 SHGs had been linked to banks. The success of the pilot led to its transformation into the SHG Bank Linkage Programme with an ever-increasing number of banks and NGOs participating therein. From modest beginnings in 1992, the SHG Bank Linkage Programme spread rapidly and in just over a decade had emerged as the single largest microfinance programme in the world. At the end of March 2006, its coverage extended to 583 districts located in 31 States and Union territories. Over 22.38 lakh SHGs had been linked to banks and cumulative loans of Rs 11,397.54 crore disbursed under the first programme. Besides the participation of 4,896 NGOs and other agencies, a total of 44,362 branches of 547 banks were involved in lending under the programme. Women's groups formed over 90 per cent of the SHGs. Over a period of time, three different models of lending have emerged under the programme. In the first model, the bank takes the initiative in forming the groups, nurturing them, opening their savings accounts and then finally providing credit to them. In the second model, while facilitating agencies like NGOs, Government agencies or community based organisations take the lead in forming groups and nurturing them, they are provided savings and credit facilities by the banks. In the third model, the NGOs, which have promoted and nurtured the groups, also act as financial intermediaries. Under this model, the banks lend to these intermediaries for onward financing to the groups or their members. In some cases, the promoting NGOs organise the SHGs into federations, which then take on the role of financial intermediaries. Data published by NABARD reveals that the second model has proved to be the most popular. At the end of March 2006, 74 percent of the SHGs linked were under this model; the first and the third model accounted for 20 per cent and 6 per cent of the SHGs respectively.

Despite the phenomenal growth under the programme, certain areas of concern continue to persist.

First, the focus on achievement in terms of numbers has resulted in the qualitative aspects of the SHGs not getting the deserved attention. Second, there remains a strong regional bias towards the southern states. As at the end of March 2006, while Andhra Pradesh, the state with the largest share among the southern states, accounted for 26.2 per cent of the total SHGs and 38.1 per cent of the total loans disbursed, Rajasthan, the state with the largest share of SHGs in the northern region, accounted for only 4.4 per cent of the SHGs and just 2.1 per cent of the total loans disbursed. Third, the quantum of loan granted per SHG continues to be very low. In March 2006, the amount was Rs 37,582 for new loans and Rs 62,949 for repeat loans to existing SHGs. Considering that on an average an SHG has 14 members, the per capita loan amount in March 2006 was Rs 2,684 for new loans and Rs 4,496 for repeat loans. Fourth, the issue of sustainability of SHGs has also not been highlighted. Only since 2001, NABARD has been publishing data regarding the number of SHGs provided with repeat bank credit. These data reveal that the percentage of SHGs getting repeat bank credit has remained quite low, indicating that most SHGs have had access to bank credit on only one occasion.

NGO Strategies & Structures for Women Empowerment:

The objectives of SHG promotion in India by NGOs are expressed in a variety of ways with livelihoods and empowerment at the centre. Barring a few exceptions, these NGOs have been involved with Micro Finance (MF) along with health, education and natural resource management often, as part of an integrated approach. However, NGOs are under pressure to address the question of financial sustainability of their MF programmes, an issue that is increasingly being raised by international donors and domestic funding sources. It has become necessary for NGOs to demonstrate that their microfinance programmes can become operationally and financially self-sufficient. At the same time, NGOs are constrained by the question of which legal form (most NGOs have been working as registered not-for-profit societies) to adopt for continued operations in this sector. This is further tempered by the NGO objective of creating community owned and managed financial institutions built upon the SHG concept. These pressures have brought about a period of transition as NGOs struggle to discover the appropriate institutional structure, both for themselves and the community institutions promoted by them, given the conditions attached to various sources of funds and local and national legal and regulatory provisions.

For the flow of financial resources, the vision invariably involves a linkage between the informal SHGs and formal or mainstream structures of financial services delivery. However, there is a divergence between the long-term paths of SHG development envisaged by the different SHG promoters. While SHGs promoted by NGOs are part of a **"Microfinance Plus"** approach, two broad paths for long-term SHG involvement in financial intermediation can be identified: -

(i) SHGs linked directly to banks on a permanent basis;

(ii) SHGs/federations of SHGs linked to various types of MFIs.

PRADAN, an India based NGO (Non-Government Organisation). It is a voluntary organisation registered under the Societies Registration Act of India. In 1983, a few young professionals set up PRADAN, inspired by the belief that, well-educated people with empathy towards the poor must work at the grassroots to remove mass poverty. Soon, there were several score professionals in PRADAN, working in remote villages in many Parts of the country, helping poor families enhance their livelihoods through concrete action programmes. PRADAN believes that the path towards conquering economic poverty is through enhancing the livelihood capabilities of the poor and giving them access to sustainable income earning opportunities.

Gram Bharati Samiti was founded in 1984, and registered under the Rajasthan Societies Registration Act. In 1991 it became the first organisation in Rajasthan to recognise and react to the growing problem of HIV/AIDs among the population. GBS works to improve the living standards and environment of Rajasthan. Their work can be divided into three main categories:

- Women's empowerment
- The environment
- HIV/AIDs prevention and relief

They have organised financial federations of SHGs in village clusters to facilitate inter-group lending and larger and more reliable sources of funds than provided under SHG-bank linkage. **MYRADA** (whose federations are non-financial), on the other hand, has promoted a not-for-profit company to provide parallel and competitive financial services to the existing banking channels. Some NGOs have chosen to transform themselves into financial intermediaries or are in the process of setting up independent satellite MFIs under the NGO umbrella to act as intermediaries for SHGs or their federations. While the range of experimentation is high, the experience of these different models and evidence of their reliability is still very limited.

Outreach of SHG Bank Linkage

Data obtained from NABARD revealed that 245 SHGs were linked to banks in Rajasthan at the end of March 1998. These SHGs were spread over 12 districts of the State. However, 96 per cent of these SHGs (235) were from seven districts, *viz.,* Hanumangarh (95), Udaipur (74), Alwar (30), Ajmer (10), Sawai Madhopur (10), Jodhpur (8) and Chittorgarh (8). The remaining five districts accounted for only 10 SHGs amongst them. The study was based on secondary data. While secondary data were obtained from NABARD and controlling offices of banks.

Status of Linkage

Women's groups formed less than half (46 per cent) of the SHGs linked to banks by the end of March 1998, as compared to a share of 78 per cent at the national level. A majority of the SHGs (58 per cent) were formed by NGOs and linked to banks. The spread of SHGs, as well as existence of NGOs varied greatly among the districts. While there was an established NGO and a formal SHG federation in existence in Alwar district, in Ajmer district, there were no NGOs worth their name. In Hanumangarh district, all the SHGs had been promoted and financed by a single bank. NGOs, was adopted for linkage by banks in all the remaining districts. In Alwar district, while the NGO that had promoted the SHGs (PRADAN) had largely withdrawn from the area, an SHG federation called Sakhi Samiti had taken over its functions. The regular meetings of Sakhi Samiti went a long way in providing guidance and continuity to the SHGs. It was evident that the role and responsibility of the promoting organisation was very crucial to the sustainability of the SHGs. It was observed that where the promoting NGO was sincere and committed in its endeavors, the groups had a greater tendency to sustain and mature. However, where the NGO itself lacked the vision and long-term relationship with the SHGs, the groups disintegrated.

Emerging Issues

The large-scale disintegration of SHGs as brought out by the study portends a potential threat to the SHGs bank linkage programme. In order to ensure sustainability of SHGs, the quality of groups formed is of prime importance. Group formation needs to be handled in a professional manner by trained personnel. At the apex level, NABARD should focus on paying increased attention to the promoters of SHGs. In recent years, when Government agencies have ventured into group formation in big way, it is very important that their functionaries are also sensitized about the importance of group quality and sustainability. The banks should undertake due diligence of the promoting organisations before releasing the funds. An initial guideline enunciated by NABARD at the time of launching the Pilot Project stated that the group members should have a feeling of mutual help and should not have come together only for the sake of getting bank finance. This is still relevant and should not be lost sight of in the race to achieve the ever-increasing targets for forming SHGs. The amount and frequency of loans availed by SHG members may appear to be low but in relation to their savings; it varies between two to three times of the total savings. For the poor persons who have been exposed to bank finance for the first time in their lives, this amount could be considered adequate. However, for SHGs that continue to sustain beyond a certain time period, say five years, the amount of loan should increase considerably to enable members to graduate to the economic activity stage.

The time has come for NABARD to formulate a suitable policy for matured SHGs. Both banks and the promoting organisations have to be sensitized about the financial requirements of SHG members after the SHGs reach a degree of maturity. Such members of mature SHGs who desire to graduate to higher levels should have access to guidance and finance to enable them to increase the scale of their operation, either at the individual level or in the group. Smaller groups of up to five persons, out of the original SHG could be considered separately for financing within the scope of SHG lending.

Since the amounts involved in these loans at the individual level were not of much significance to the banks, there was a tendency not to take a serious note of irregularities in the repayment schedules of SHGs. However, as the loans to SHGs also had a tendency to slip into the irregular mode more often than not, bankers need to exercise care and caution while dealing with SHGs as they would in case of other borrowers. Besides conducting personal visit to the SHG and due diligence of the promoting NGO before sanctioning loans to the SHGs, the post sanction supervision and monitoring also requires to be carried out seriously. These tasks can be entrusted to the NGOs/ SHGs under the business facilitator and correspondent models in terms of guidelines issued by Reserve Bank of India (RBI) in January 2006.

Conclusion

"The self-help group model has been identified as a potential pathway to alleviating poverty. The number of poor women and men who are enrolling in SHGs all over rural India has been increasing remarkably. They are not only active in thrift and credit management but are also taking up other activities, such as natural resource management and development work, literacy, knowledge management, nutritional security etc. SHGs lay the foundation for self- reliance through building up of institutions, which have the capacity to generate employment opportunities for the rural poor, and the poorest, and lead to job-led economic growth." Women are amongst the poorest and the most vulnerable of the underprivileged and thus helping them should be a priority and investing in women's capabilities empowers them to make a choice which is a valuable goal in itself but it also contributes to greater economic growth and development.

References

1. Bali Swain R, 2006: Microfinance and Women's Empowerment, Sida Working Paper, Division of Market Development, Sida, Stockholm.
2. Cheston S and Kuhn L, 2002: 'Empowering Women through Microfinance', Draft, Opportunity International.
3. Fisher T and Sriram MS, 2002: Beyond Micro-Credit: Putting Development Bank into Microfinance, Vistar, New Delhi.
4. Karlan, H., 2001: Microfinance Impact Assessments: The Perils of Using New Members as a Control Group, Journal of Microfinance, December.
5. NABARD, 2005: Progress of SHG – Bank Linkage in India, 2004-2005, Microcredit Innovations Department, NABARD, Mumbai.
6. Puhazhendi, V. and Badatya, K.C., 2002: SHG Bank Linkage Programme for Rural Poor – An Impact Assessment, paper presented at the seminar on SHG bank linkage programme at New Delhi, micro Credit Innovations Department, NABARD, Mumbai.
7. Puhazhendi V and Satyasai KJS, 2001: 'Economic and social empowerment of rural poor through SHGs', Indian Journal of Agricultural Economics, Vol. 56. No. 3.
8. Sen, A.K. & Nussbaum M.C. (ed.), 1993: Capability and Well-Being, in the Quality of Life.