



SELF-HELP GROUPS: A KEystone OF MICROFINANCE IN INDIA

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Abstract

An estimated of about 300 millions in India live in absolute poverty. They are unable to meet their most basic human needs of food, clothing, shelter and minimum health care. The emerging microfinance revolution with appropriate designed financial products and services enable the poor to expand and diversify their economic activities, increase their incomes and improve their social well-being. It has evolved over the past quarter century across India into various operating forms and to a varying degree of success.

One such form of microfinance has been the development of the self-help movement. Based on the concept of “self-help,” small groups of women have formed into groups of ten to twenty and operate a savings-first business model whereby the member’s savings are used to fund loans. The results from these self-help groups (SHGs) are promising and have become a focus of intense examination as it is proving to be an effective method of poverty reduction. This paper examines the concept of SHGs operating model, the state of SHGs today, their impact on civil society and how they need to be supported going forward.

Keywords: Micro Finance, SHG, Rural Women Empowerment.

Introduction

Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It has been recognised that micro finance helps the poor people meet their needs for small credit and other financial services. The informal and flexible services offered to low-income borrowers for meeting their modest consumption and livelihood needs have not only made micro finance movement grow at a rapid pace across the world, but in turn has also impacted the lives of millions of poor positively.

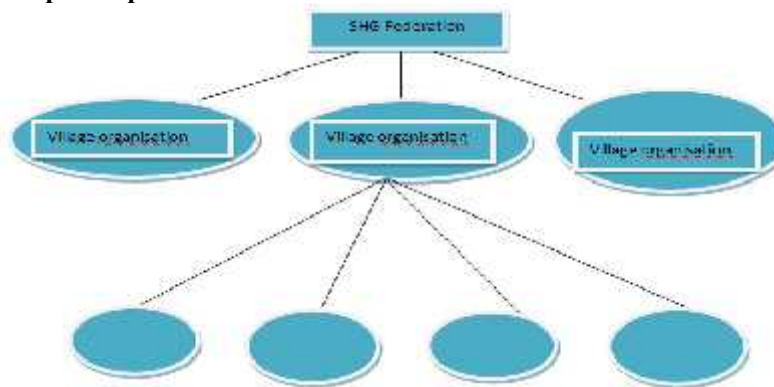
In India, Micro-credit programmes are run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB). The success of Micro-credit programme lies in diversification of services. Micro Finance Scheme of SIDBI is under operation since January, 1999 with a corpus of Rs. 100 crore and a network of about 190 capacity assessed rated MFIs/NGOs. Under the programme, total amount of Rs. 191 crore have been sanctioned upto 31st December, 2003, benefiting over 9 lakh beneficiaries. Under the programme, NGOs/MFIs are supposed to provide equity support in order to avail SIDBI finance. But they find it difficult to manage the needed equity support because of their poor financial condition. The problem has got aggravated due to declining interest rate on deposits. The Office of the Development Commissioner (Small Scale Industries) under Ministry of MSME is launching a new scheme of Micro Finance Programme to overcome the constraints in the existing scheme of SIDBI, whose reach is currently very low. It is felt that Government’s role can be critical in expanding reach of the scheme, ensuring long term sustainability of NGOs / MFIs and development of Intermediaries for identification of viable projects.

Self Help Groups

Self Help Groups (SHGs) form the basic constituent unit of the microfinance movement in India. A SHG is a group of few individuals – usually poor and often women – who pool their savings into a fund from which they can borrow as and when necessary. Such a group is linked with a bank – a rural, co-operative or commercial bank– where they maintain a group account. Over time the bank begins to lend to the group funded out of the savings generated by the group members themselves, are called “inter-loans”. The Role of NGOs in Microfinance: Self Help Groups are almost always formed with outside assistance. Developmental NGOs, often with considerable history of working in a particular area for projects like literacy, sanitation etc., take to organizing SHGs, bringing together people, explaining the concept to them, attending and helping coordinate a few of the initial group meetings, helping them maintain accounts and linking them with the banks. 9th December, 2012, Murlidhar A. Lokhande, Micro Financing Through Women Self- Help Groups And Its Socio-Economic Impact- A Case Study of Konkan Region of Maharashtra, Apjem Arth Prabhand: A Journal of Economics and Management to what extent, micro financing through women groups benefited the members and he concluded that micro financing through women self help groups had brought a positive change in the lives of the members. The study concluded that poor, discriminated and underprivileged women if join the groups, can come out of poverty.



Operating Model of Self Help Groups



Concept of Basic Self –Help Group (SHG)

The Self Help Group (SHG)-Bank Linkage Programme, in the past eighteen years, has become a well known tool for bankers, developmental agencies and even for corporate houses. SHGs, in many ways, have gone beyond the means of delivering the financial services as a channel and turned out to be focal point for purveying various services to the poor. The programme, over a period, has become the common vehicle in the development process, converging important development programmes. With the small beginning as Pilot Programme launched by NABARD by linking 255 SHGs with banks in 1992, the programme has reached to linking of 69.5 lakh saving- linked SHGs and 48.5 lakh credit-linked SHGs and thus about 9.7 crore households are covered under the programme, envisaging synthesis of formal financial system and informal sector.(NABARD)

SHG come in directly contact with the lending agencies members, Under the basic SHG model generally women are involve, and they are mobilizing and organizing into self help groups. The size of SHGs is neither too lager, as exceeding 20 nor too small as less than 10. Besides performing saving and loan activity, SHG a serve as a forum for the poor rural women to,

- Voice their opinions and take decisions
- Interact with one another on group issues
- Share their experiences
- Exchange ideas and raises their voice on various social issues
- Initiate to collective action on a wide range of social, personal and economic issues.

Each SHG selects its own leader, secretary and treasurer and hold regular meetings. Capacity building inputs are provided to SHGs by the NGOs, so that they become capable of functioning units in an independent and effective manner. Saving activity is compulsory feature of SHG activities. This saving activity permits accumulation of capital. The amount of money to be saved is fixed by the group members themselves.

After period of one or two months of consistent savings, the SHG start rotating their saving in the form of small internal loans for micro enterprises activity and other purpose including consumption, as may be decided by members. Most of the decisions making functions such as interest rates to be charged for internal loans, repayment schedule, fine for default etc. are left to the decision of the group.

Only those SHGs that have performed well in rotating internal savings, in the form of small internal loans are assisted with external funds through linkage with banks and other financial intermediaries. The NGOs act as promoters and catalysts, facilitating the establishment of the micro finance system that is capable of bring economic, social, political and personal empowerment to the poor clients.

Indian Micro Finance Sector

Indian microfinance sector is expected to grow nearly ten times by 2011 to a size of about Rs250 billion from the current market size of Rs27 billion, at a compounded annual growth rate of 76%. Microfinance in India started evolving in the early 1980s with the formation of informal Self Help Group (SHG) for providing access to financial services to the needy people who are deprived of credit facilities. National Bank for Agriculture and Rural Development, the regulator for microfinance sector, and Small Industries Development Bank of India are devoting their financial resources and time towards the development of microfinance. Microfinance has enormous growth potential as half the world's population earns less than US\$2 per day, which is insufficient to meet their basic needs. One of the fastest growing sectors of India, microfinance is spearheading intense competition among the largest players. By the end of March 2009, microfinance institutions expanded their outreach to 50 million households and about 38 million borrowers. These institutions are organized under three models:



SHG, Grameen model/Joint liability groups and Individual banking groups as in cooperatives. As of March 2009, both SHG bank linkage and MFIs have collectively disbursed US\$3.9 billion to the poor.

Impact of Micro Finance on Different Sectors

Vicious cycle of “Low income – low savings - low investment – low income” can be broken with the injection of credit in the cycle. “Credit intended for more investment – more income – more savings – more investment – more income is the result that is sought through the credit interventions.

The impact of Mf on the different sectors of the economy can be well understood with the help of following diagram.



Source: Nabard

The Need of Micro Financial Services

- Poverty Alleviation:** This is the first reason for making available micro financial services. Poverty alleviation can be accomplished through the promotion of sustainable livelihood, by providing easy and effortable access to credit and other complementary services required for promotion of livelihoods.
- Harnessing Talents:** Microfinance services help harness the talent leadership and entrepreneurial abilities of the poor. Microfinance services facilitate enterprise development and provide large employment generation in rural areas where poor can obtain employment.
- Women Empowerment:** Micro financial services mobilizing the women, organizing them into groups, building their capacity for self management at the grass root and enabling them to access wide range of services including credit saving, insurance and business development.
- Credit Delivery:** Microfinance services are needed to ensure effective delivery system. The system seeks to ensure rational allocation of resources in the form of subsidized credit in rural areas.

The Millennium Development Goals

The central theme of the Millennium Development Goals is reduction of poverty in all its forms by **2015 by 50%**.Fiscal measures of the state implemented through the financial system can play a significant role in reinforcing this objective. When it is concerning the poor, the importance of community based organizations and NGOs cannot be denied in reaching the financial services to the grass root level in order to alleviate poverty. Thus the State Governments, the formal financial system and community based organizations can be considered as the three pillars that have to work in synergy to achieve this formidable task.

Table 1: State-wise position of MFIs

S. No	No. Of MFIS	Share%
Andhra Pradesh	484	62
Bihar	44	6
Gujarat	8	1
Jharkhand	1	0
Karnataka	20	3
Kerala	18	2



Madhya Pradesh	15	2
Orissa	28	4
Maharashtra	15	2
Rajasthan	18	2
Tamil Nadu	101	13
Uttar Pradesh	5	1
West Bengal	30	4

Source: NABARD

Progress of SHGs

The conceptual thinking behind the SHG initiative is that self-help supplemented by mutual help can be a powerful vehicle in the upward socio-economic transition of the poor. Poor can save and are bankable. Collective wisdom of the poor and peer pressure are valuable collateral substitutes. NABARD has played a key role not only in promoting SHGs but also in standing behind the SHG-Bank Linkage Programme. The total refinance released by NABARD so far has amounted to Rs. 31.3 billion. The performance of the SHGs has been extremely encouraging. Repayments by members to SHGs have been exceedingly high and on-time payments have hovered around 98%. Many of the expectations behind the basic philosophy underlying the formation of SHGs seem to have been fulfilled.

Our experience so far has shown that the poor can organize themselves and do things to promote the well-being. It has also had a tremendous social impact. It has made women more self-confident. This impression is largely derived from my experience in Jalgaon District. Despite this encouraging picture, as of now the total disbursement of credit is very limited and per household credit made available is very small. If a serious impact on the economic conditions of the rural poor has to be made, a much larger flow of credit to support a much broader production base is required. It is in this direction the movement has to travel. Self-Help Groups have to graduate into promoting micro-enterprises.

The Evolution of Self-Help Groups at Three Levels

- At the first level households use microfinance to meet 'survival' requirements where small savings and loans serve as a buffer in the event of an emergency or to smoothen consumption or even service previous debt to give themselves more liquidity during lean times.
- At the second level, 'subsistence' needs are met through microfinance, where a household begins to utilize microfinance to diversify its basket of income-generating activities, or to meet working capital requirements in traditional activities.
- At the third level as households reach a stage where they can assume a higher degree of risk, microfinance would be used to invest in setting up an enterprise or facilitating entry into employment in one way or the other in order that the household becomes 'sustainable'.

SHG Bank Linkage Programme

The SHG-Bank Linkage Programme started as an Action Research Project in 1989. In 1992, the findings led to the setting up of a pilot project. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non-Government Organizations:

- SHGs were to facilitate collective decision-making by the poor and provide 'doorstep banking';
- banks as wholesalers of credit, were to provide the resources;
- NGOs were to act as agencies to organize the poor, build their capacities and facilitate the process of empowering them.

Impact of SHGs

With the structure and model of SHGs and SHG Bank Linkage firmly established, the nature of the impacts of SHGs can be more closely examined and evaluated. The latest published estimates from NABARD state that, to date of March 31, 2005, 1.6 million SHGs have benefited from approximately Rs 69 billion in financing (NABARD, 2005). There is no doubt that there has been greater outreach of financial services to the poor through SHGs. Of course the outreach has been good in South India. However, there outreach has been limited in the rest of the country.

Women's Micro-Enterprises

Considering the entrepreneurial environment, women's activities are very interesting as they offer a great source of knowledge and innovation. For example: there is no single type of female micro-entrepreneur, they differ in social background, educational level, experience and age. Another interesting factor is their strong social coherence that allows them to maintain strong communications-channels at all levels.



Businesswomen in developing and countries share the following general characteristics:

- They are concentrated in market sectors that have low barriers to entry and low levels of outside communication (transfer to other markets).
- They focus on trade, services, and light manufacturing activities.
- The owners have relatively little previous working experience.
- They use traditional technologies.
- Most employees are family-related
- They are often home based.
- Business growth strategies are affected by household responsibilities.
- Owners tend to have lower levels of education and literacy.
- Women start their enterprises with less professional work experience and knowledge of their sector than their male counterparts.

Women and Micro Finance

Although men, as well as women, face difficulties in establishing an additional enterprise, women have barriers to overcome. Among them are negative socio-cultural attitudes, legal barriers, practical external barriers, lack of education and personal difficulties.

In this context, credit for micro enterprise development has been a crucial issue over the past two decades. Research has shown that investing in women offers the most effective means to improve health, nutrition, hygiene, and educational standards for families and consequently for the whole of society. Thus, a special support for women in both financial and non-financial services is necessary.

Conclusion

It is concluded that micro finance has been playing a vital role in the development of India in respect of micro credit. Traditionally women have been marginalized. A high percentage of women are among the poorest of the poor. Microfinance activities can give them a means to climb out of poverty. Microfinance could be a solution to help them to extend their horizon and offer them social recognition and empowerment, Through Micro Finance with the utilization of Self Help Groups Linkage model most of the rural women are empowered to start their own business and improving the standard of living of the households and the main concept of openness and poverty elevation practices has been improved.

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