SELF HELP GROUPS (INDIA)

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Section-A

SUBJECT: ECONOMICS

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ABSTRACT

Microfinance 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 people 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 SHG operating model, the state of SHGs today, their impact on civil society and how they need to be supported going forward.

The rise of SHGs and more formal SHG Federations coupled now with SHG Bank Linkage have made this a dominant form of microfinance in addition to microfinance institutions (MFI). The policy environment in India has been extremely supportive for the growth of the microfinance sector in India. Particularly during the International Year of Microcredit 2005, significant policy announcements from the Government of India (GoI) and the Reserve Bank of India (RBI) have served as a shot in the arm for rapid growth. SHGs have spread rapidly due to their ease of replication. SHG Bank Linkage has provided the capacity for SHGs to increase their capital base to fund more members and bigger projects. Today, it is estimated that there are at least over 2 million SHGs in India. In many Indian states, SHGs are networking themselves into federations to achieve institutional and financial sustainability. Cumulatively, 1.6 million SHGs have been bank-linked with cumulative loans of Rs. 69 billion. In 2004-05 alone, almost 800,000 SHGs were bank-linked.

However, the state of SHGs identifies key areas of weakness which undermine the sustainability of SHG movement. Namely, areas such as financial management, governance and human resources range from weak to average quality for a majority of SHGs. While the spread of the movement is impressive, these are key areas that need to be addressed if any external intervention is to be effective. The formation of common-interest groups consisting primarily of women has had a substantial impact on their lives. The impact of SHGs on women’s empowerment and social security has been invariably an improvement from the status quo but
there is a need for support in several areas which are analyzed in this report. The status of women has generally improved as they have developed stronger confidence which has changed gender dynamics and their role in the household. In south India, significant improvements in fertility rates, female literacy, participation in development programmes and economic independence are evident. Women are able to fight for their rights and entitlements and have emerged as a force to be reckoned with. Further, SHGs are becoming more than just financial intermediaries, instead they have emerged into a more political and social unit of society.

More importantly, the penetration of microfinance to the poorest of the poor is still weak and needs a wider reach. The areas of support to further the SHG impact are varied and the report describes areas for NGO technical and government policy support. The need for a coordinated and comprehensive support strategy is imperative as the financial management issues of SHGs need to be addressed otherwise the benefits of the civil society impacts will be lost as SHGs will become overburdened and un-sustainable.
MAIN TOPIC : SELF HELP GROUPS (INDIA)

SUB TOPICS :

INTRODUCTION:-

A self-help group (SHG) is a village-based financial intermediary usually composed of between 10-20 local persons. Most self-help groups are located in India, though SHGs can also be found in other countries, especially in South Asia and Southeast Asia.

Members make small regular savings contributions over a few months until there is enough capital in the group to begin lending. Funds may then be lent back to the members or to others in the village for any purpose. In India, many SHGs are 'linked' to banks for the delivery of microcredit.

BASIS:
1. Self- Help is based on and built upon Self-respect and Self Determination
2. Self- help is not only Economic Independence, but also has a strong social aspect for bringing about social transformation.

➢ Concept of SHGs

- SHG is a small group of rural poor, who have voluntarily come forward to form a group for improvement of the social and economic status of the members.
- It can be formal (registered) or informal.
- The concept underlines the principle of Thrift, Credit and Self Help.
- Members of SHG agree to save regularly and contribute to a common fund.
- The members agree to use this common fund and such other funds (like grants and loans from banks), which they may receive as a group, to give small loans to needy members as per the decision of the group.

➢ Needs of SHGs

The rural poor are incapacitated due to various reasons, such as; most of them are socially backward, illiterate, with low motivation and poor economic base. Individually, a poor is not only weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today’s development process. However, in a group, they are empowered to
overcome many of these weaknesses. Hence, there are needs for SHGs, which in specific terms are as under:-

- To mobilize the resources of the individual members for their collective economic development.
- To uplift the living conditions of the poor.
- To create a habit of savings.
- Utilization of local resources.
- To mobilize individual skills for group’s interest.
- To create awareness about rights.
- To assist the members financially at the time of need.
- Entrepreneurship development.
- To identify problems, analyzing and finding solutions in the group.
- To act as a media for socio-economic development of the village.
- To develop linkages with institutions of NGOs.
- To organize training for skill development.
- To help in recovery of loans.
- To gain mutual understanding, develop trust and self-confidence.
- To build up teamwork.
- To develop leadership qualities.
- To use as an effective delivery channel for rural credit.

➤ Structure of SHGs

❖ Size of SHG

- The ideal size of an SHG is 10 to 20 members. (Advantage: In a bigger group, members cannot actively participate. Also, legally it is required that an informal group should not be of more than 20 people).
- The group need not be registered.

➤ Membership

- From one family, only one person can become a member of an SHG. (More families can join SHGs this way).
- The group normally consists of either only men or only women. (Mixed groups are generally not preferred, since it may obstruct free and frank discussions, opening up typical personal problems).
• Women’s groups are generally found to perform better. (They are better in savings and they usually ensure better end use of loans).
• Members should be homogenous i.e. should have the same social and financial background. (Advantage: This makes it easier for the members to interact freely with each other, if members are both from rich as well as poor class, the poor may hardly get an opportunity to express themselves).
• Members should be between the age group of 21-60 years.
• Members should be rural poor (By poor one should be guided by the living conditions, as given herein before; and this has no relation to poverty line. People living above poverty line (APL) can also form SHG like BPL.

➤ Functions of SHGs

To develop a group into a well-managed Self Help Group, the members should evolve rules and regulations, which are to be adopted, after discussions with all the members for compliance in full. Some illustrative guidelines for the formulation of such rules and regulations are given as under:-

➤ Meeting

• The group should meet regularly, ideally, the meetings should be weekly or at least monthly. (Advantage: They become closer if they meet regularly. This helps them to understand each other’s difficulties better).
• Compulsory Attendance: Full attendance in all the group meetings will make it easy for the SHG to stabilize and start working to the satisfaction of all.
• Membership register, minutes register etc. are to be kept upto date by the group by making the entries regularly. (Advantage: This helps you to know about the SHG easily. It also helps to build trust among the SHG members).
• Fixed day for meetings: The group should have a fixed day or date for the meetings.(Advantage: This will help the members to plan their routine works in advance).
• Commonplace: The group should fix a common place to conduct the meetings.

➤ Savings

➤ Savings should be deposited by all the members in the meeting itself. (Advantage: This will help to inculcate the habit of regular savings in the members. By depositing savings in the meetings before all members will avoid the element of distrust amongst members).
• No interest will be paid to the members for their money with the group.
- The members will not be encouraged to adjust their savings amount against their loan due to the Group. Only at extreme circumstances the Group shall consider to adjust.

Keeping of accounts

- Simple and clear books for all transactions to be maintained.
- If no member is able to maintain the books, the SHG may take outside help.
- All registers and account books should be written during the course of the meeting. (Advantage: This creates confidence in the minds of members who are unable to read and write).

Books to be maintained by an SHG

Minutes Book: The proceedings of meetings, the rules of the group, names of the members etc. are recorded in this book.

Savings and Loan Register: Shows the savings of members and that of the group as a whole separately. Details of individual loans, repayments, interest collected, balance etc. are entered here.

Weekly/Fortnightly/Monthly Register: Summary of receipts and Payments, updated in every meeting.

Members Pass books: Individual member’s pass books in which individual’s savings and loan balance outstanding is regularly entered.

Major functions of an SHG

Savings and Thrift:

- All SHG members regularly save a small amount. The amount may be small, but savings have to be regular and continuous habit with all the members.
- “Savings first-Credit later” should be the motto of every SHG member.
- SHG members take a step towards self-dependence when they start small savings. They learn financial discipline through savings and internal lending. (Advantage: This is useful when they use bank loans).

Internal lending:

- The SHG should use the savings amount for giving loans members.
The purpose, amounts, rate of interest, schedule of repayment etc. are to be decided by the group itself.
Proper accounts to be kept by the SHG.

**Discussing problems:** In every meeting, the SHG should be encouraged to discuss and try to find solutions to the problems faced by the members of the group. Individually, the poor people are weak and lack resources to solve their problems. When the group tries to help its members, it become easier for them to face the difficulties and come up with solutions.

**Planning:** The SHG should prepare plans for the future so that each member can collectively work for the achievement of the same. It should plan to get financial support from Government, Bank and NGO for its sustainability. It can take up some development programmes in the locality and all the members should involve themselves in implementation and monitoring of the programmes.

**CHARACTERISTICS OF SHG**
1. Small- homogenous group for face to face interaction and relationship. The membership of a group may range from 10-20. Ideal number of members would be between 15 -20.
2. Has a code of conduct –bye- laws / rules and regulations for effective administration and management of the group.
4. Mobilises Local Resources through regular savings.
5. Plans own Programme with own Resources

**PRINCIPLES OF SHG (Ingredients that make a SHG)**
1. Interaction / Meetings / Reflection / Analysis and Action
2. Regular Savings
3. Trust in one’s self and among members in the group
4. Consensus
5. Records
6. Access to Funds
7. Team management of Resources

There are mainly three types of SHGs in India:-
1. **All-Male**-comprising of only male members.
2. **All-Female**- comprising of only female members.  
3. **Mixed**- comprising of both male and female members.

Self-help Groups are a popular microfinance model that largely operates in the informal sector. A group of individuals come together to form a savings and credit group, and they are often bound together by nothing but a social contract. This structure can offer advantages (such as easy of setup and administration) but also exposes self-help groups to a variety of challenges and risks:

- **Research Question:-**  
  - **Challenges faced by self Help Groups in India**

1. **Security risk**- How can we overcome the security risks faced by the SHGs funds?  

Pooled savings are often guarded by a designated sub-group or individual, and while these individuals may be trustworthy, the money could still be easily misplaced, if not stolen altogether. Therefore, self-help groups may be encouraged to save the funds at a local microfinance bank or commercial bank. As the money enters the formal financial sector, these savings can earn an interest income as well.

2. **Risk of fraud**- How can we overcome the risk of fraud faced by recently formed SHGs?  

Well established self-help groups may not face the perils of fraud because their longevity relies on the adoption of good governance principles; however, recently-formed self-help groups are susceptible to fraudulent activity by the designated accountants or even by group member.

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For instance, group borrowers can claim that the loan was stolen, or group savers could insist they paid their dues in full, even though they were short on the weekly savings target.

This problem is partially addressed if a semi-formal accounting system is used and if self-help groups seek the help of credit bureaus, they can quickly identify members who were previously engaged in fraudulent activities in other SHGs.

3. ISSUE OF SUSTAINABILITY OF SHGS?

SHG-Bank Linkage

India has the world’s extensive banking infrastructure. There are about 60,000 retail credit outlets of the formal banking sector comprising 12,000 branches of district-level cooperative banks, over 14,000 branches of Regional Rural banks and over 30,000 rural and semi-urban branches of commercial banks; in addition to 1,12,000 cooperative credit societies at village level. There is at least one retail credit outlet on an average for about 5,000 rural people or every 1,000 households. This is an extensive and remarkable network that is present nowhere in the world and is capable of meeting the financial needs of the entire rural population. However, poor credit-deposit ratios (except in PACSs), unsustainable lending and high levels of NPAs, often cripple much of this infrastructure. Under the SHG-Bank linkage programme, In 2004, 16.7 million poor households were accessing credit through 35,000 branches of 560 commercial and cooperative banks. The GoI made linking SHGs with banks a national priority from 1999 and Nabard continues to nurture the expansion of the outreach of the programme by providing umbrella support to various stakeholders. The programme is growing at a pace of about 2.5 million households annually. It is the largest and fastest growing microfinance programme in the world in terms of its outreach and sustainability.

Considering that the SHG bank linkage program has been operating in India for the last 25 years, the sustainability of SHGs has not been paid much attention in studies so far. Most of the existing studies on the SBLP (Armendariz de Aghion and Morduch 2000, Puhazhendi and Satyasai 2000, Puhazhendi and Badatya 2002, Kropp and Suran 2002, Hannover 2005) have focused only on the performance and impact aspect of the SBLP on SHGs and SHG households. A sustainable SHG would be one that continues to function well over a long period of time. Moreover, the long-term performance depends on members’ overall socioeconomic development, including their empowerment. Hence, the analysis here on sustainability covers the performance of SHGs on various socioeconomic aspects.
and their dependency on self-help promoting institutions (SHPIs) for various developmental activities. A question was included in the survey about SHGs’ economic and social performance and overall success to determine whether they would be dependent on SHPIs for running the group in the future. The preliminary observation from the data suggests that the majority of socially and financially empowered SHGs could sustain their group without help from NGOs and banks. Socially and financially weak SHGs continued to depend on SHPIs. In this paper, we have discussed this issue from a gender perspective.

The performance analysis in a study\(^2\) suggests that all-female SHGs performed better in economic and social aspects. Further, within a particular SHG, all-female SHGs are not depending on SHPIs and are better off in terms of per capita savings and loan recovery than others. In order to validate our hypothesis, we have applied a binary econometric technique to measure the sustainability of SHGs.\(^3\)

From the data concluded, now, we can see that on the issue of sustainability of SHGs as explained by long-term performance, the econometrics results revealed that only female SHGs were sustainable. The factors that determine sustainability were loan recovery, per capita savings of SHG members, linkage with SHG federations, and formation and financing of SHGs by banks. The all-female SHGs were sustainable because they were more focused and united, adhere to basic objectives of groups, utilize borrowed funds for different productive activities, and are highly concerned about the well-being of their children and family members. Further, female SHG members took membership in the group as a means to educate themselves and confront social, political, and economic problems. On the other hand, members of all-male SHGs have ego problems, work for their own interest, and do not follow the basic objectives and goals of group formation. As a result, they are most irregular in loan repayments and perform badly in economic and managerial activities.

Thus, we can say that both ALL MALE SHGs and MIXED SHG are facing sustainability problems. So, they should thoroughly check out their lackness and they must infer the policies of ALL FEMALE SHGs by which they have successfully handled this problem and should make them part of their policies so as to cope up with this problem.

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\(^2\) [http://www.bim.edu/pdf/lead_article/Prof-sriraman.pdf](http://www.bim.edu/pdf/lead_article/Prof-sriraman.pdf)

CONCLUSION

Hence, we can say that in India, Self Help Groups or SHGs represent a unique approach to financial intermediation. India today has more poor people than have ever in human history lived in one country. If the SHG linkage movement is to achieve the level of market penetration, necessary to make a real impact on this problem and SHG’s are performing this job very well, so, it should be promoted.

This paper has outlined several areas of working with SHGs to further their impact on civil society. It should be noted though that the sustainability of SHGs to effect such change is directly linked to their financial sustainability. While this latter issue was not the intended focus on the report, any external intervention to SHGs should bear this issue in mind.

Research has shown that SHGs financial management is average or weak (APMAS, 2005).

Thus, it is vitally important that both government and NGOs work to bear all the costs in mind of interventions to make them sustainable otherwise the SHGs will be overburdened and destined to failure.

Government regulations could help manage this risk and increase the emphasis on sustainability of SHGs. There are key areas of SHG financial management that need to be improved such as internal controls, accounting, management stewardship, organizational efficiency and others. If the government were to enact policy that would regulate the quality of SHGs and tied this to their eligibility for SHG Bank Linkage, then this would help bring about a more measured and responsible growth to the movement.

Both for SHGs and SHG federations there is a need to aspire to attain standards following the
best practices. As the SHG federations are emerging as community owned microfinance institutions, there is a need for significant investment in providing institution building support. These SHG federations being bodies like corporations as they are registered under an appropriate legal form, must comply with the prudential and legal norms. There is a need for a well developed third party rating system for SHG federations before they are linked with financial institutions to act as an intermediary as they handle large volume of funds from the bank linkage and also undertake savings from their members.

There is a need for establishing a computerized MIS for SHGs and SHG federations to monitor their performance on a regular basis. SHG Federations must be able to publish their annual reports and share those with all their members.

Governance of SHG federations is a major challenge. For the SHG members to manage their own institutions with professional staff and large volumes of transactions will be difficult.

SHPIs must provide the needed support for the SHG federations to develop into sustainable institutions of the poor. Considerable investments would be needed to facilitate and sustain SHG federations across the nation.
REFERENCES


Academic Foundation, New Delhi.


Mumbai.


SIGNATURE-

FACULTY:

STUDENT: