

CORROBORATION OF EMBOLDENED SHG MOVEMENT IN INDIA

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Self-help group is a small, economically homogenous, affinity group of rural poor which is voluntarily ready to contribute to a common fund to be lent to its members as per group decision, which works for group solidarity, group awareness and social and economic empowerment in the way of democratic functioning. The SHG movement became a silent revolution in many parts of the world. The concept of SHGs follows the principle “by the women, of the women and for the women”. “All for all” is the principle behind the concept of self help group (SHG). It is a mini voluntary agency for self-help at the micro-level, has been in focus for the weaker sections particularly women for their social defense. Self-help group has got great potential in increasing awareness on day-to-day affairs, promoting savings habit, developing self and community assets, increasing the income level, increasing social power etc. The concept of SHG generates confidence, self-security and self-reliance. It also promotes democratic culture and provides women with opportunities to imbibe norms of behavior that are based on mutual respect. Hence they were able to foster concern even in internal lending of loans based on the individual needs and priorities. It provided a firm base for dialogue and cooperation in program with other institutions like government departments, cooperatives, financial and Panchayati Raj institutions.

The self-help groups engaged not only in productive economic activities but also in social empowerment and capacity building of rural women. Health education, medical facilities, literacy, alternative agricultural practices, leadership qualities and team building are other activities of SHG. Various studies have revealed that SHGs ensured “we feeling” among the members achieving the group cohesiveness and accorded a social identity to the rural women. It also enabled them for collective bargaining while keeping up their dignity.

In promoting self-help groups both governmental and non-governmental agencies are involved. SHGs have been designed to benefit women especially in rural belt towards providing them social status and identity. Hence, the central government had invited the state government to become involved in the SHG movement.

SELF-HELP GROUPS IN GLOBAL CONTEXT

The emergence of self-help groups can be seen as a response to industrialization, the breakdown of the kinship system, and the decline of the community (Katz & Bender, 1976; Humm, 1997; Kessler et al. 1997), although alternative views see it as a reflection of an ineffective, inefficient and dehumanizing formal system of care (Gartner & Riessman, 1977). Currently, the increasing interest in providing services that are family-centered is also considered a factor contributing to the increased number of self-help groups (Rosenbaum et al., 1998). Despite the variety of explanations for the self-help phenomenon, the consensus is that there is a need for a new model to supplement and complement professional services, and that self-help groups are growing at an unprecedented speed worldwide. For example, about two percent of Canadians belonged to self-help groups in 1987 (Gottlieb & Peters 1991), approximately 10 percent of Israel's population, was estimated to have some type of involvement in a self-help group (Ben-Ari & Azaiza, 1995), and Self-help groups serve as an important resource for patients with cancer in the Hong Kong Chinese community (Mok & Zhang, 2001). In the United States, self-help group participation amounted to 10 million in 1996 (Kessler et al., 1997) and it was recently noted that more Americans try to change their health behaviors through self-help than through all other forms of professional programs combined (Davison et al., 2000). The proliferation of self-help groups in various countries can be seen as an initial indication of its effectiveness, because groups will cease to exist without value. The self-help movement is becoming a global phenomenon. In some countries, self help groups already exist for every medical condition listed by the World Health Organization (Riessman, 2000), and they are serving people who encounter almost every physical, behavioral and emotional problem (Humphreys, 1997; Kessler et al., 1997). In spite of the rapid growth of self-help groups in India, the full potential of utilizing self-help groups remains untapped. One of the reasons may be attributed to the lack of systematic research and solid methodological foundations. Little was known about how helpful self-help groups are to members, and what kind of social impact they have brought about. The research component of the self-help phenomenon has clearly been left behind by the self-help movement itself. Theoretically and empirically, the effectiveness of self-help groups has been widely documented in global context. The "helper-therapy principle" postulated by Riessman (1965) pointed to the process by which helping others has a therapeutic effect on the helper, and the self-help group provides context for members to gain unique benefits that may arise from helping someone who has the same problem as the helper. Rappaport (1993) asserted that self-help groups, which offer venue for shared experience, emotional support and social learning, can help constitute a social identity. Along the same line of thinking, Yalom (1995) contended that self-help groups provide a unique

opportunity for growth, social experimentation and change. Past research has also identified several major outcomes of self-help groups. These include emotional support, acceptance, empathy, affirmation, spirit of hope, and sharing of feelings; provision of factual information and sharing of experiential knowledge; development of a sense of community; and individual and collective empowerment (Gottlieb, 1982; Kurtz, 1988; Borkman, 1976; Levy, 1979; Gartner & Riessman, 1977; Katz & Bender, 1976; Gidron et al, 1991; Jacobs & Goodman, 1989; Bennett et al., 1996; Humphreys & Rappaport, 1994).

SELF-HELP GROUPS IN INDIAN CONTEXT

Self-help groups (SHGs) are fast emerging as powerful tool of socio-economic empowerment of the poor in our rural areas. The self-help group is a small body formed by the people for meeting their specific objectives, particularly credit. However local literature shows that self-help groups have been developed for a wide range of populations, including the mentally ill and their families, persons with disabilities and their care-givers etc. SHGs are initially formed on the foundation of the accumulated endowment of bonding social capital already existing in the community. The social capital produced by the SHG as it matures through creation of new ties and linkages, strengthens the community's cooperative capacity to the achievement of group government. When the SHGs grow they begin to articulate the community demands as they become aware of their rights and therefore attitude of the government bureaucratic officials changes and they become more responsive to the needs of the community i.e., with the maturity of SHG the state-society relationship begin to change at the local level towards the better. In this way, SHGs which were originally established to produce economic benefits for members eventually became an associational framework for collaborative actions that produce public goods. As a result a range of other community-level organizations emerge where often members of the SHGs are recruited. Role of SHGs in strengthening local governance and political democracy can be described by the fact that a number of SHG members are being elected in the Panchayati Raj system in India, the lowest tier of local democratic governance.

The working group (RBI, 1996) has commented thus on the progress of SHGs in India:

1. SHGs helped to generate and collect small thrift amounts from a cross section of people hitherto considered incapable of saving. The essential difference between thrift and savings was that while thrift was generated out of deferred consumption, the savings were generated out of surplus.
2. SHGs have facilitated the rural poor in fulfilling their credit requirements, both for emergent consumption needs as well as for small production requirements.
3. SHGs have been able to meet successfully the credit requirements of the rural poor as per their choice, unlike in the case of borrowing under other programs of formal credit institutions.

4. The high recovery rates of the SHGs are in sharp contrast to the poor recovery performance of banks in respect of various activities under rural credit. Since credit/finance was seen as management of the participants' own funds and enterprises, a feeling of ownership and responsibility was generated.

5. The entire cycle of assessing need, disbursement, recovery, monitoring, and supervision shifted closer to the scene of action under SHGs, and therefore the transaction cost of the loans was relatively less.

In self help groups it is assumed that all poor households need to save and have the inherent capacity to save small amount regularly; easy access to credit is more important than cheap subsidized credit which involves intricate bureaucratic procedures, the poor are the best judge of their credit needs and are good users and re-payers of credit when formed in group. A notable feature of SHG is that before its linkage with any financial institution, credit discipline is imbibed among the member by way of SHG with banks has improved the socio-economic condition of its member by way of positive impact on income, saving, and self-confidence. The impact is more pronounced in the case of SHGS linked through NGOs. This and many other aspects of rural credit delivery system need to be studied in a greater depth. SHGs have proved to be successful in addressing the interests of women in a sustained manner. They are extremely useful in generating savings, ensuring successful delivery of credit to individual women and effecting recovery. In addition, they serve as an ideal mechanism for bringing women out of their homes, making them more articulate and honing their leadership qualities and their skills as motivators. Women led SHGs in Andhra Pradesh have won laurels for their exemplary performance.

ORIGIN OF SHGs IN INDIA

To bridge the gap between the formal and informal systems, Mohammad Yunus started a research project in Bangladesh in 1979 and established Grameen Bank (GB) in 1983. The lending programme of GB depended basically on external fund although the members' savings fund had increased substantially over time. In 1984, the prime conclusion in the third international symposium on the mobilization of personal savings in developing countries organized by the United Nations was that "the means of improving the performance of the non-institutional sector were policies directed to enhance its links with the institutional financial sector". In the final resolution the participants agreed that internal savings must provide the basis for credit programmes, state control of interest rates must be relaxed in favour of market or near market rates, for effective service financial services need to be more decentralized, both formal and informal financial institutions are necessary to be more promising than separate development.

In 1984, the Federal Ministry of Economic Co-operation of the Federal Republic of Germany undertook rural finance in developing countries resulting in groups (SHGs), different from Grameen Bank Model (SHPI) as a financial intermediation between the rural informal sectors and formal financial institutions. The agency for technical series of studies and workshops developed a new policy for promoting Self Help Groups and Self Help Promotional Institutions and microenterprises.

At the Asia and Pacific Regional Agricultural Credit Association (APRACA) regional workshop in May 1986 in Nanjing, the participants decided on a coordinated programme for the Promotion of Linkages between Banks and SHGs for "rural savings mobilization and credit delivery to the rural poor."

The project "Linking Banks and SHGs" started in 1988 in the Central Bank of Indonesia through involvement training and consultancy services to the SHGs and intermediaries. Indonesia as a pilot project of SHPI which would provide some case additionally acts as financial support.

INDIAN INITIATIVES

The first official interest in informal group lending in India took shape during 1986-87 when National Bank for Agriculture and Rural Development (NABARD) supported and funded an action research project on "Savings and Credit Management of Self Help Groups" of Mysore Resettlement and Development Agency (MYRADA). In 1988-89 NABARD undertook a survey of 43 non-governmental organizations (NGOs) spread over 11 states in India to study the functioning of SHGs and possibilities of collaboration between the banks and SHGs in the mobilization of rural savings and improving the delivery of credit to the poor. Micro financing by non-formal financial organizations had already started. Self Employed Women's Association (SEWA) owned by women of petty trade groups was established on co-operative principle in 1974 in Gujarat. Working Women's Forum (WWF) started promoting working women's co-operative societies in Tamil Nadu since 1980. Shreyas in Kerala actively got involved in micro finance operations since 1988 with the objective of promoting people's co-operatives, habits of thrift and self managing people's bank.

Encouraged by the survey results, NABARD impressed upon Reserve Bank of India (RBI) to come out with a circular on July 24, 1991 advising the Commercial Banks (later on Regional Rural Banks (RRBs) and Co-operatives also) to extend credit to the SHGs under the pilot project of NABARD with 500 SHGs to be covered during 1991-92. During the project period, the Association of Sarva Seva Farms (ASSEFA), Chennai, promoted 214 groups, mobilized Rs.1.4 million of thrift and disbursed credit of Rs.2.3 million; People's Rural Education Movement (PREM), Berhampur promoted 829 groups, mobilized Rs.1.9 million of thrift and disbursed credit of Rs.1.9 million; Professional Assistance for Development Action (PRADAN), Madurai,

promoted 313 groups, mobilized Rs. 1.3 million of thrift and disbursed credit of Rs.3.9 million; Community Development Society (CDS), Alappuza promoted 350 groups, mobilized Rs.2 million of thrift and disbursed credit of Rs.4.7 million. The results were thus quite encouraging.

To formalize the mechanism further, RBI constituted a working group in November 1994 to review the functioning of NGOs and SHGs and make suitable recommendations for expanding their activities and deepening their role in the rural sector. Accepting the recommendation, in April 1996, RBI advised the banks that lending to the SHGs should be considered as an additional segment under priority sector advances and integrated with the mainstream credit operation.

SHGs became a regular component of the Indian financial system since 1996. These SHGs are small, informal and homogeneous groups of 10-25 members each. The groups have been recommended to be informal to keep them away from bureaucracy and corruption, unnecessary administrative expenditure and legal requirements. The upper size of SHG however has been made mandatory at 20 because any group larger than this would need to be registered under Registration Act in the Indian legal system. Secondly, groups are supposed to foster true (direct) democratic culture where all the members participate actively in debate and decision-making process, which is easier only in small groups. Groups are expected to be homogeneous so that the members do not have conflicting interest and all the members can participate freely without any fear.

The SHGs after being formed (generally by an external agency) start collecting a fixed amount (rarely variable amount) of thrift from each member regularly (generally monthly). For about six months, SHG only collects thrift; no loan is given to any member. Because, first, the working fund generated out of small thrift is negligible in the initial period; and secondly, it tests the patience and tries to instill mutual trust among the members. During this period the group opens a savings account with a bank, which would like to extend credit. After accumulating a reasonable amount of resource, the group starts lending to its members for petty consumption/small business needs. Claimants may be large, but resource is small. This forces them to take appropriate decision to identify the neediest person with reference to endowment level and the purpose of the loan. A free and fair discussion removes the element of subjectivity from the decision-making process, makes the borrower understand the value of the credit and the importance of repayment and accountability to the group. The repayment of the loan along with interest and regular thrift enlarge the working fund and hence increase the scope of lending. Notwithstanding this, the working fund generated by the group may not be adequate to meet all types of credit needs of all the members. The group then approaches the bank where it has opened the savings account. If the bank is satisfied with the group about genuineness of demand for credit, credit handling capacity of the group members, behavior within the group,

accounting system and maintenance of the records etc., then it extends a term loan of small amount to the group. The group in turn continues to take decision as in the past, the only difference being it has now a higher amount of resource. In addition, the group member is jointly liable to the bank for repayment of the loan. The group's responsibility in monitoring the members therefore increases. This joint liability however provides incentives or compels the group to undertake the burden of selection, monitoring and enforcement that would otherwise fall on the lender.

This joint liability, decision-making process and peer pressure at the group level are the most important safeguards for the banks to do business with the poor, illiterate and informal groups. There is a huge demand for credit in small amounts for consumption, health, education, marriage, petty production, petty trade, etc., for very short to long durations which do not match with the supply menu of banks which consists of large amount of loan for production purposes but not for very short periods. It is not the rigidity of the banks but their constraints due to high transaction costs and risk because of asymmetric information that they extend such credit to individual borrowers. Individual borrowers, on the other hand, face the problems of absorbing large amounts of credit for some unwanted purpose. Loan contract therefore does not take place between an individual small borrower and a formal lender basically because of mismatch of demand and supply of credit. Instead when the bank extends credit to the SHG -

- (i) the transaction cost for the financing bank is minimized because the group takes the decision to borrow on behalf of the members and also the responsibility to repay;
- (ii) the transaction cost of the individual member is reduced because the member transacts at the group level only;
- (iii) the mismatch between demand and supply is reduced because the bank extends credit in lump sum amount and the group uses the amount according to its own needs; also repayment pattern of the members to the group and of the group to the bank need not be the same.

When both lender (bank) and the borrower (SHG) grow in mutual trust and the borrower honors the previous contracts, the lender expresses its willingness to extend higher amount of credit and even provides cash credit facility implying more flexibility and lesser interest burden for the borrower; the SHG in turn increases its capacity to manage higher amount of finance, develops entrepreneurial and communication skills, co-operative sense and finally income and employment generating confidence. A sustainable financial relationship between the banks and the poor (SHG) people develops for their mutual benefit.

Either because of the efforts of the SHPI or demonstration effect, more groups start forming and functioning. A linkage among the groups also evolves. Some of the old leaders themselves take the role of facilitators for promoting other groups. The role of SHPI worker in a particular area

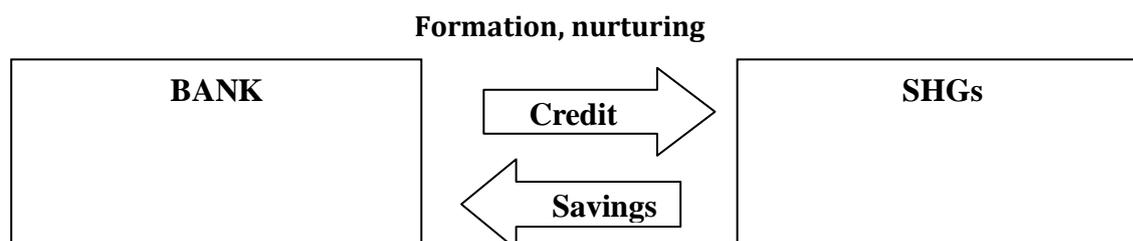
then declines. He/she is not available for promotion of groups in other villages/areas. In some cases a number of nearby groups are federated. This federation is nothing but a coordinating mechanism and is not expected to assume any hierarchical role. Crucial decision-making process for sanctioning loan to individual members remains with the SHG. The federation basically aims at channelizing funds from surplus to deficit SHGs, promoting more SHGs, acting as facilitator for weak SHGs and performing entrepreneurial jobs like helping the SHGs for backward and forward linkage and liaison with external agencies for the benefit of groups. The SHGs pay some membership fee for the sustenance of federation. Banks may sometimes find it more convenient and economical to deal with the federation rather than individual SHGs. The federation may have strong hold over the SHGs, if the latter surrender substantial amount of management rights over their resources to the former which is against the principle of SHG promotion-a concept different from the existing co-operative structure. The peer pressure, which is inversely proportional to the distance, is much less at the federation level than at the village or group level. Nevertheless, the federation has an important role in SHG framework, more as a development rather than a financial intermediary for the financing institutions.

MODELS OF SHG BANK LINKAGE

On the basis of the modes of formation, nurturing and credit linkage, SHGs are basically categorized into three models, mentioned as follows:

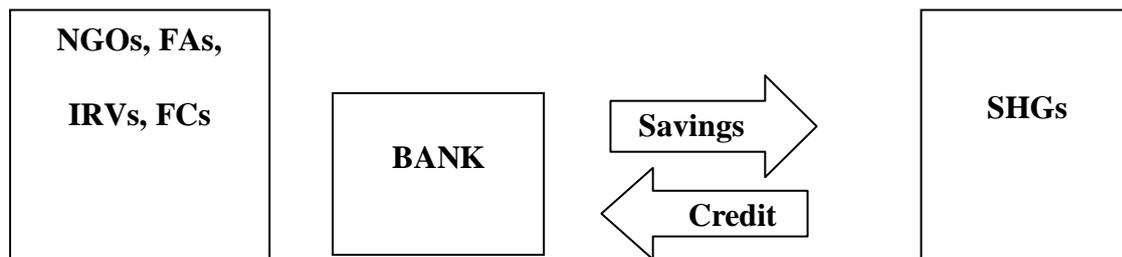
MODEL I: SHGS FORMED AND FINANCED BY BANKS

In this model, financing banks themselves form and nurture the SHGs. They organize the poor to form a SHG, train the members on record keeping, thrift, managing credit, etc. and also supervise the working of the group. Up to March 2004, 20 percent of SHGs financed were from this category.



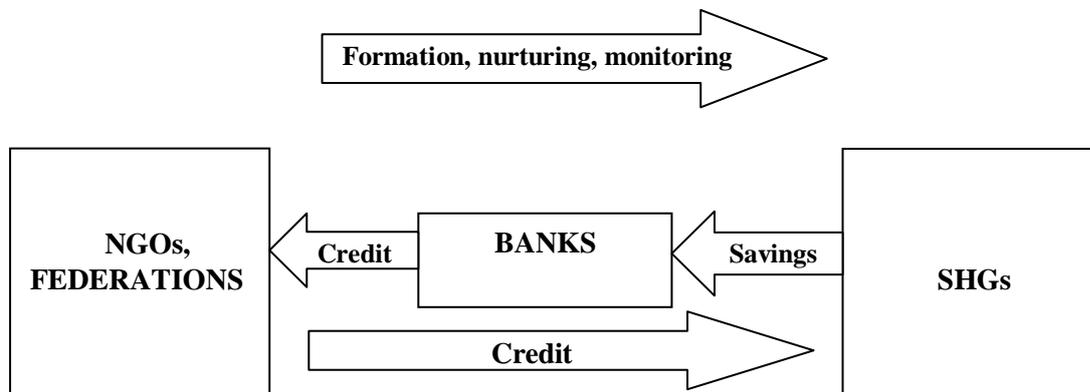
MODEL II: SHGS FORMED BY FORMAL AGENCIES OTHER THAN BANKS, BUT DIRECTLY FINANCED BY BANKS

Under this model, NGOs, Farmers' Clubs, Individual Rural Volunteers (IRVs) and formal agencies other than banks in the field of micro finance, act as facilitators. They facilitate organizing, forming and nurturing of groups, and train them in thrift and credit management. Banks give loans directly to these SHGs. This model continues to have the major share, with 72 percent of the total SHGs financed.



MODEL III: SHGS FINANCED BY BANKS THROUGH NGOS AND OTHER AGENCIES AS FINANCIAL INTERMEDIARIES

This is the model wherein the NGOs, SHG Federations, etc. take add on role of financial intermediation. In areas where the formal banking system faces constraints, the NGOs are encouraged to approach a suitable bank for bulk loan assistance. This, in turn, is used by the NGO for on-lending to the SHGs. In areas where a very large number of SHGs have been formed, intermediate agencies like federations of SHGs are coming up as link between bank branch and member SHGs. Banks finance these federations who in turn finance their member SHGs. Other agencies like NBFCs are also coming up to take up this role. The share of cumulative number of SHGs linked under this model up to March 2004 continued to be relatively small at 8 percent.



SHG-BANK LINKAGE: THE INDIAN EXPERIENCE

The performance of banks in linking SHGs to the banking system scaled enviable heights during the recent years in India. The banks financed 3.62 lakh to new SHGs during 2003-04 and 2.56 lakh to SHGs during 2002-03, together accounting for 57.2% of total SHGs formed in India till March 2004. The cumulative number of SHGs credit linked with banks increased to 10.79 lakh as on March 31, 2004 covering more than 167 lakh poor households. NABARD had set a mission of credit linking one million SHGs by 2007 and the mission was achieved 3 years ahead of the schedule time.

NABARD has disbursed over Rs.2124 crore financial assistance to various banks against Rs. 3904 crore of bank loans under the SHG Bank linkage programme. Though one hundred percent

refinance from NABARD was available to all banks for SHG lending, refinance assistance to the tune of 54.4% of bank loan could be disbursed because some banks did not utilize the facility to the full extent. Around 90% of the SHG linked were exclusively women SHGs. The progress in financing SHGs from 1991 onwards, in physical and financial terms is given in Table 1.2.

As can be seen from Table 1.1, the growth of SHG bank linkage programme in India remained rather slow in the 20th century. The momentum accelerated only after 2000-01. Handholding approach towards capacity building by NABARD, financial institutions, state governments and NGOs working on micro finance activities could generate adequate pace in SHG bank linkage programme during the last five years. The demonstration effect of successful groups was also instrumental to motivate the rural women to accept the principles of SHG bank linkage programme.

Table 1.1

SHG-Bank-Linkage in India

Year	SHGs financed (No.)	SHGs financed (No.)	Bank Loan (Rs. Million)	Bank Loan (Rs. Million)	NB Refinance Disbursement (Rs. Million)	NB Refinance Disbursement (Rs. Million)
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
Up to 1999	32995	32,995	571	571	521	521
1999-2000	81780	114,775	1359	1,930	980	1501
2000-2001	149050	263,825	2879	4,809	2506	4007
2001-2002	197653	461,478	5454	10,263	3953	7960
2002-2003	255882	717,360	10224	20,487	6228	14188
2003-2004	361731	1,079,091	18555	39,042	7054	21242

Source: NABARD and Microfinance www.microfinancegateway.org/files/18831_NABARD

SPREAD OF SHG-BANK LINKAGE

The growth of SHG-Bank Linkage programme remained uneven across India. As evident from Table 1.2, in southern region the progress was impressive because the movement was facilitated by the State and region-specific strategies developed by NABARD in consultation with banks, NGOs and the State Governments. Among the states Andhra Pradesh alone accounted for 36% of SHGs and 44% of bank loan under the programme. Orissa remained the fourth state in terms of number of SHGs which accounted to 7.19% and bank loan of 3.27% to the groups. In the entire eastern zone, Orissa accounted for 49% of SHGs as well as bank loan.

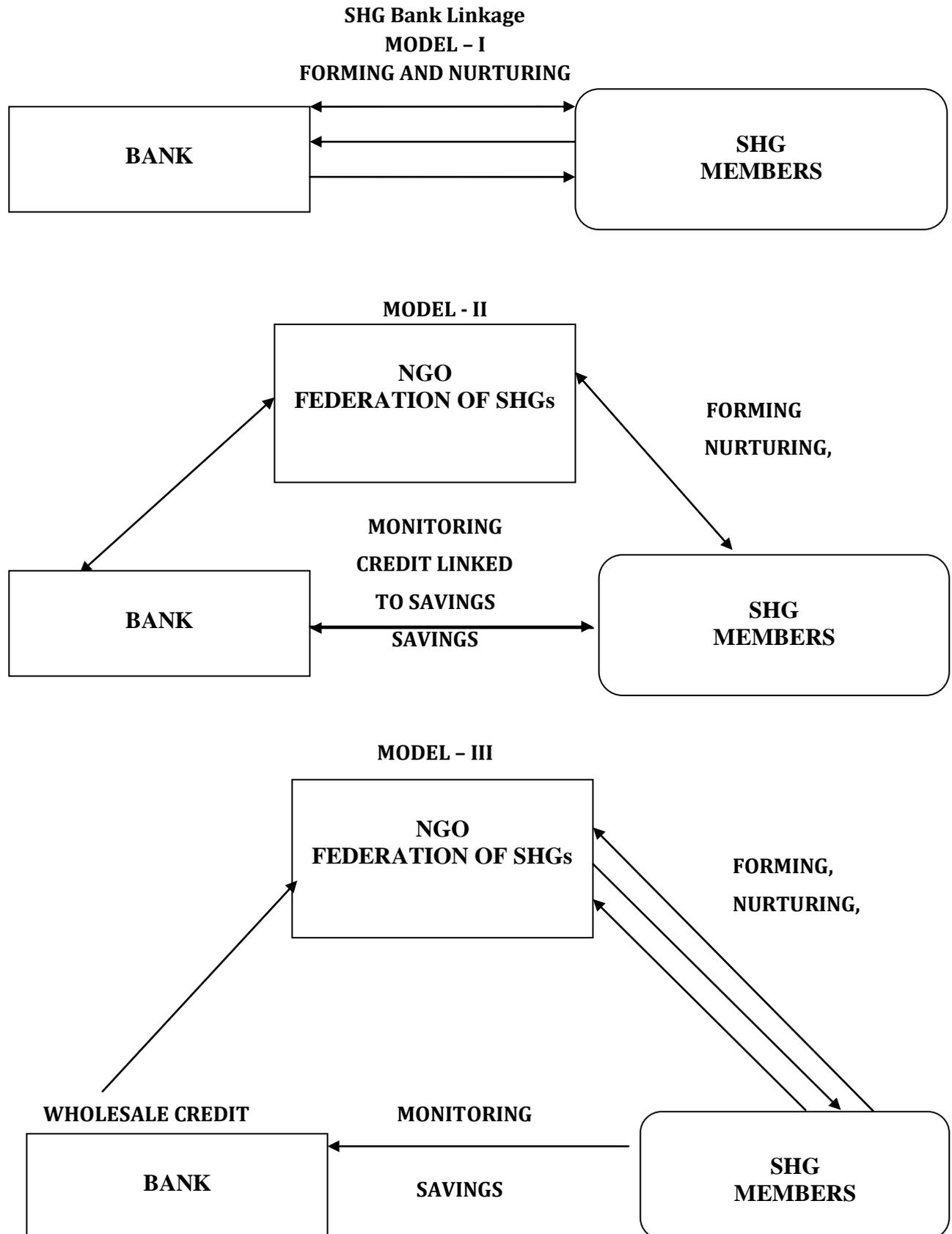
Table 1.2**SHG Bank Linkage Programme : Regional Spread**

Region/State	No. of SHGs	%	Bank loan (Rs. Millions)	%
Northern Region	52,396	4.86	1324	3.39
North Eastern Region	12,278	1.16	202	0.52
Eastern Region	1,58,237	14.66	2,605	6.67
Central Region	1,27,009	11.77	2,763	7.08
Western Region	54,815	5.08	1,409	3.61
Southern Region	6,74,356	62.49	30,739	78.73
All India	10,79,091	100.00	39,042	100.00

Source: NABARD and Microfinance:

www.microfinancegateway.org/files/18831_NABARD

NABARD took specific steps to identify district-level bottlenecks in expansion of SHG Bank linkage in the states of Bihar, Uttar Pradesh, Rajasthan, Assam, Madhya Pradesh, West Bengal and Orissa. NABARD has been instrumental in the formation and nurturing of quality SHGs by means of promotional grant support to partner agencies. The partners include commercial banks, co-operative banks, RRBs, farmers' clubs, government organizations and development departments which have effectively taken up the role of promoting and nurturing SHGs. Almost all commercial banks (48), RRBs (196) and co-operatives (316) participated in SHG Bank linkage programme. Further, Self-Help Promoting Institutions (SHPIs) over the years resulted in the expansion of the programme throughout the country.

Fig 1.1

MILESTONES IN SHG-BANK LINKAGE IN INDIA

1992

- Launching of Pilot project of linking 500 SHGs with the banking system.

1993

- Introduction of bulk lending scheme to NGOs by NABARD.
- Studies on transaction cost conducted by external experts.

1994

- Extension of policy support by RBI – beyond the pilot phase unleashing the concepts of banking with poor.
- Extension of support for capacity building of NGOs by NABARD.

1995

- Setting up Credit and Financial Services Fund (CFSF) within NABARD - to support expansion of the programme.
- Setting up a working group on NGOs & SHGs - to assess ground realities and identify operational issues in implementation of the programme.
- Extension of Revolving Fund Assistance to Federations of SHGs by NABARD.

1996

- Mainstreaming SHG-Bank Linkage by banks - RBI and NABARD notifications.

1997

- Organizing National level training consultation meet - thrust on trainers training.
- First experiment of RRB as Self Help Promoting Institution (SHPI).
- Up scaling training and awareness programmes by NABARD and the banking system.

1998

- Extension of RRB as SHPI to 10 other RRBs.
- Documentation of rating/grading practices for SHGs' appraisal.

1999

- Recognition of potential of SHGs by GOI by setting up task force on supportive regulatory & policy framework.
- Extension of RRB-SHPI-experiment to 2 more RRBs.
- Deregulation of interest rates in SHG lending
- Emphasis on studies, documentation and dissemination.
- Provision of promotional grants to NGOs for SHG promotion and development of NGO appraisal tools.

2000

- Thrust on widening the range of SHPIs.
- SHGs credit linked crosses 1, 00,000.
- RBI advises banks to finance Microcredit organizations.
- Emphasis on flooding market with quality SHGs by NABARD.
- Thrust on expansion of the programme in Union Budget.
- Recognition of potential of Farmers Clubs as SHPIs.
- Roping in Rural Volunteers as potential SHPI.
- National Consultation meets on training to redesign training modules, contents and methodologies.
- Collaboration with Indira Gandhi National Open University - for commencing a distance education programme on women's empowerment and SHGs.
- Introduction of State level Awards for best performance.
- Evaluation of impact on SHGs.
- Setting up a separate fund for scaling up the programme- Microfinance Development Fund.
- Technical collaboration with GTZ, Germany commenced.

2001

- Crossing 2, 00,000 mark of credit linked SHGs.
- Thrust on backward states & districts.
- Extension of RRB-SHPI module to all RRBs.
- Launching of National level newsletter.
- Conceptualizing the use of technology in micro finance.
- Initiating efforts of developing a comprehensive Management Information System for SHG -Bank Linkage programme.
- Exposure visits to other MF initiatives for clients and banks.
- Launched studies to assess savings pattern for the poor.

2002

- Intensifying training interventions through exposure visits.
- Focus on backward states/provinces, encouraging and facilitating internalization of rating and self-rating techniques.
- Launching a pilot in IT in microfinance.
- Launching studies to understand the commercial prospects of SHG linkage.
- Support by way of promotional grants to NGOs closes to 500 nos. About 50% of the 10-year mission covered. Diffusion of knowledge and experience with international micro finance practitioners.

- Redefining the role of banks in the programme as enhancing business opportunities. Not mere service providers.

Table 1.3**SHG Bank Linkage Progress**

SHG-Bank Linkage-Physical and Financial progress as on 31st, March 2010	
No. of New SHGs	255882
Union Budget	150000
Total No. of SHGs	717360
% of Women	90%
Commercial Banks	48
RRBs	192
Cooperative Banks	264
No. of States/UTs	27
No. of Districts Covered	412
No. of NGOs & SHPIs	2800

Source: NABARD

Table 1.4**Progress at a Glance (31.3.2010)**

- No. of poor families having access to Bank Credit: 11.6 million
- Estimated No. of poor people assisted: 58 million

SHG-Bank Linkage-Physical and Financial progress as on 31 March, 2010	
Ground Level Credit during 2002-03 (Rs. cr.)	1022.30
Cumulative micro-credit from Banks (Rs. cr.)	2048.70
Average bank loan per SHG (Rs.)	28559
Average bank loan per family (Rs.)	1766
Prompt repayment of loans by groups	95%
Refinance support from NABARD during 2002-03(Rs.cr.)	622.30
Cumulative refinance as on 31 March 2001	1418.80
RFA to NGOs (Rs. cr.)	18.33

Table 1.5**Participation of RFIs in Linkage Programme**

Participation of RFIs in Linkage programme	
Commercial Banks	27 PSBs and 21 Private Banks participated
Andhra Bank	61417 SHGs
SBI (largest)	83265 SHGs
Indian Bank	32892 SHGs
Other Important Banks	SBH, IOB, BOI, BOB, Syndicate Bank, UBI
Private Banks	Vysya Bank, ICICI Bank, GTB

FUNCTIONS AND CHARACTERISTICS OF SHG

NABARD (1997) defines SHGs as “small, economically homogenous affinity groups of rural poor, voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members’ decision”. Most SHGs in India have 10 to 20 members, who can be either only men, or only women, or only youth, or a mix of these. As women SHGs or sangha have been promoted by a wide range of government and nongovernmental agencies, they now make up 90% of all SHGs. As Indian women do not generally have the same opportunities to migrate for wage work as men due to social obligations and taboos, it is particularly important for women to improve employment and income earning opportunities and in a way that is compatible with their role in child care. Self-help groups are mostly informal groups where members pool savings as a thrift deposit. The groups have common perception of need and improvise towards collective activity. Many such groups formed around specific production activities, promote savings among members and use the pooled resources to meet the various credit needs of members. Where funds generation is low in the initial phases due to low saving capacities, this is supplemented by external resources. Thus self help groups have been able to provide primitive banking service to its members that are cost effective, inflexible and without defaults, based on local requirement. Self help group have also evolved their own characteristics of functioning. The rules and regulations of SHGs vary according to the preferences of the members and those facilitating their formation. A common characteristic of the groups is that they meet regularly (typically once a week or once a fortnight) to collect the savings from members, decide on a member to be given a loan, discuss joint activities (such as training, running of a communal business, etc.) and to mitigate any conflicts that might arise. Most SHGs have an elected chairperson, a deputy, a treasurer, and sometimes other office holders. It appears as though the vast majority of rural SHGs invest the loan amounts in a mix of consumption and productive purposes. As credit needs of the poor are determined in a complex socio-economic milieu, where the dividing line between credit for ‘consumption’ and ‘productive’ purposes is rather blurred, it is difficult to adopt the traditional banking approach to lending and to insist that loans are not used for consumption.

OBJECTIVES OF SELF HELP GROUPS

The following are the main objectives of self-help groups:

1. To inculcate the habit of saving and banking habit among the rural women.
2. To build up trust and confidence between the rural women and bankers.
3. To develop group activity so that various welfare and developmental programs can be implemented in a better way with the participation of these groups.

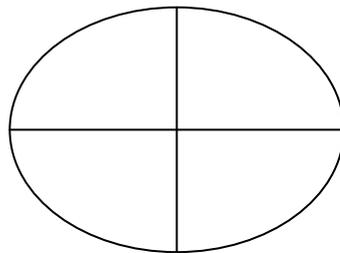
4. To achieve women and child welfare program goals by actively involving these women groups in Universal Immunization Program, Pulse Polio, Small Family norm, Universal Elementary Educational Programs etc.

BENEFITS OF SELF HELP GROUPS

- A via- media for development of saving habit among the poor.
- An access to large quantum of resources.
- A window for better technology / skill up gradation.
- Availability of emergent consumption / production credit at the door step.
- Access to various promotional assistance.
- Assurance of freedom, quality, self-reliance and empowerment.

CHARACTERISTICS OF SELF HELP GROUPS

Regular saving (Thrift)



Bank Linkage (loans)

Homogeneity Regular meeting

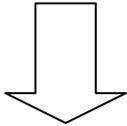
- Homogeneity refers to sharing similarities: similarity of gender, caste. In most cases, it was homogeneity of gender; at times particular sections, handicapped, come around to form groups; women of particular caste form their groups.
- Regular saving by the group members and setting a set of guidelines to regulate these savings.
- About entry, the person should be above 18; should be usually from an economically backward class (but this is not mandatory).
- Linkage with lending institutions. Unlike the formal banking mechanism, banks do not ask for collateral while granting loan to SHGs.
- Small size, Collective leadership, mutual discussion.
- Identical interest/ social heritage/ common occupation, homogeneity, affinity.
- Flexible and responsive.
- Intimate knowledge of members of intrinsic strength, needs and problems.
- Democratic in operations.

- Simple Documentation.
- Group solidarity, self-help awareness, social and economic development.

FLOWCHART SHOWING THE FORMATION OF A SHG

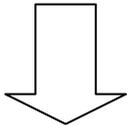
Intentions to form group by a group of women on their own or by a facilitator

Role of facilitator is very crucial in getting around a group of illiterate and poor people and present a positive outlook about SHG.



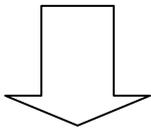
Form group and write rules for entry and exit policy and for savings, loans, non repayment, etc.

Need for efficient group leaders, animators, etc.



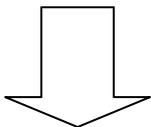
Regular Savings -Deposits in a newly opened bank account

Need for a sensitized micro credit institution and a village based accountant.



Apply for bank loans by SHG as a group

Need to energize bank credit, insurance for any physical asset against bank loan under single window operation.



Disbursement of loans to needy members

Need to start income generation activity which is self sustaining and not dependent on vagaries of nature.

PROGRESS OF SHG BANK LINKAGE IN INDIA

The progress of banks in linking SHG groups to the banking system was quite phenomenal in the last few years. The banks financed 361,731 new SHGs in 2008-09, almost 30 percent of the cumulative 10709 financed since 2000. Bank loans disbursed to SHGs during the year 2008-09 aggregated Rs. 1,855 crore, an increase of 82 percent, as compared to Rs.1, 022 crore during 2002-03. By March 2008, of the total SHGs credit linked, Andhra Pradesh accounted for 36

percent, Tamil Nadu 14 percent, Karnataka 10 percent and Uttar Pradesh 7 percent, together accounting for 67 percent of the total SHG credit-linked and 80 percent of the bank loans disbursed. In order to balance the uneven growth of the micro finance programme, NABARD has identified 13 states as priority states. Of the total number of SHGs linked to banks, 20 percent have been formed and financed by banks, 72 percent formed by government agencies other than banks and NGOs, but financed by banks and 8 percent financed by banks through NGO and other agencies as financial intermediaries. The number of banks which participated in partnering NABARD in the SHG bank linked effort in 2008-09 was 560 of which 48 were commercial banks, 196 were regional rural banks, and 316 were cooperative banks. The number of NGO and other agencies which partnered NABARD was 3024.

NABARD STATUS REPORT ON MICRO FINANCE THROUGH SHGS (2005-10)

From the above data, the clear picture is that the SHG movement has taken firm root in India albeit in a geographically imbalanced manner, besides it is apparent that suddenly the banks propensity to lend to this sector has increased. Although the base is small, 82% increase in lending in one year seems significant. The above data shows the SHG movement has increased a new crescendo with NABARD's target of 1 million SHGs by 2009-10 fulfilled well in advance in 2005. However, the effectiveness of SHG model as an efficient conceptual model for empowerment is far from realized. The burden of target has been too heavy to be carried on the shoulders of participating actors. To make SHG model an effective empowerment model, certain issues needs to be addressed. The issues namely–capacity building, adequate personnel, financial and human resources, market linkages and capacity building at several stages have important bearing on the success of SHG as an effective tool of empowerment for women.

SELFHELP GROUPS: PATH WAYS OUT OF POVERTY IN INDIA

Today Self-help groups play a major role in poverty alleviation in rural India. A growing number of poor people (mostly women) in various parts of India are members of SHGs and actively engaged in savings (in actual term thrift and credit S/C), as well as in other activities (income generation, natural resources management, literacy, child care and nutrition, etc.). The S/C focus in the SHG is the most prominent element and offers a chance to create some control over capital. The SHG system has proven to be very relevant and effective in offering women the possibility to break gradually away from exploitation and isolation. Almost all major donor agencies support SHGs in India in one way or other and many success stories are available describing how membership in a SHG changed the life of a particular individual or group for the better. Many NGOs are promoting the SHG mechanism and linking it to various other development interventions. Whereas there is ample evidence that the SHG approach is a very effective, efficient and relevant tool for organizing and empowering the poor, the design,

development and introduction of programmes to promote income-generating activities generates sufficient, sustainable and regular income. The approach towards poverty alleviation is based on the formation of self-help groups at the grass root level. This brings about the necessity for organizing them in a group by which they set the benefit of collective perception, collective decision-making and collective implementation of programme for common benefits. This organization holds the power and provides strength and acts as an anti dote to the helplessness of the poor. The group savings of self help group serves a wide range of objectives other than immediate investment. The approach has evolved over the years in India. Before understanding the strength of SHGs as a tool in poverty alleviation, it is imperative to understand the evolution of various poverty alleviation programs in India.

IMPACT OF SHG MOVEMENT IN INDIA

Various organizations evaluated SHGs including NABARD, NGOs and other formal agencies. Some of the salient features are:-

98% of the members make savings regularly as the norms prescribed by the groups. All the groups meet at least once in a month to discuss various social issues related to their day to day life.

98% of eligible members adopt small family norms.

100% children of SHG members are able to access immunization services against 6 diseases.

30% of the members have access to safe cooking fuels (LPG) under the government promoted scheme popularly known as “DEEPAM”.

80% of the total SHGs have accessed financial assistance from banks and repayment is 98%.

10,000 SHG members were elected to the local bodies (3 term Panchayati Raj Institutions) in 1997 November elections. Members are engaged in 450 varieties of income generating activities. Additional family incomes to members range from Rs.1000-3000 per annum depending on the income generating activities. Increase in self confidence and self esteem. Increase in awareness levels about the society and community. Voluntary participation in community activities like laying roads, planting trees, conserving environment, construction of water harvesting structures, donations to the victims of natural calamities helping to reduce crime against girls & women, campaign against eradication of social evils like dowry, child marriages, untouchability, AIDS, rescue and rehabilitation of orphaned children, counseling adolescent girls, support to widows and destitutes are a few to mention.

FUTURE CONCERNS OF SHG MOVEMENT IN INDIA

There are many studies suggesting the successes of SHGs in empowering women. At the core, SHG philosophy is the concern to gain control over capital by rural, poor women by virtue of spendthrift, gaining access to a financial pool of their own in time of need or to start income

generation activity. A positive theory derived from group psychology has been applied to SHG movement in developing countries. While there are many successful stories about the benefits of SHGs, there are many concerns about the future of SHG movement in India. The concern stems from their initial success and their geometric progression. Are they heading towards right direction of women empowerment? Are our formal lending institutions capable of handling so many illiterate women? Do we have the financial resources to lend loans to the vast number of SHGs? Are the loans given to SHGs sufficient to start an income generating activity on their own? Are Demand-Supply linkage been studied while deciding income generating activity for all SHGs in massive scale? What are the marketing problems or competitions which are likely to arise when SHGs start micro enterprises? Some of these issues are addressed in the present study.

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