

Working and functioning of self-help groups in India: A conceptual study

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Abstract

Self Help Groups were the machinery that the Government of India started as effective tool to reduce the poverty. The microfinance was blend of formal and informal system of providing the credit. The rural areas were predominantly financed by the co-operatives. The problem with the collateral security that non-existed with the rural poor was the reason that Banks found it difficult to cope with the financial need of the rural masses. The Self Help Groups which operated on the co-operative principles to muster the collective actions. The finances were provided at the door steps of the members without any lapse. SHG is functioning under various models based on the tenet of the achieving of self-sufficiency and growth of the income.

Keywords: financial inclusion, self-help groups, poverty, microcredit

Introduction ^[1]

Out of around one billion people in India, 26% are poor (National Statistical Sample Organization, 2000). At the bottom the poor need credit for small productive assets, working capital, housing, illness, and emergencies. The demand for credit here is not only large but heterogeneous as well. Till the 1990s the rural financial system in India was predominantly supply driven with the state playing a major role in improving the access to financial services by the poor. While state intervention considerably improved the outreach of the banking system and expanded rural credit, it also allowed rent seeking tendencies and credit indiscipline to grow (Nanda, 2000). By the late 1980s, the rural financial system had virtually collapsed amid heavy regulations, distraught market conditions, dual lines of control, and mounting arrears. The beginning of 1990 saw India face one of its worst balance of payment crises.

In 1991, under the initiative of the International Monetary Fund, India undertook a liberalization of its economy. Liberalization had an important bearing on the financial sector; banks, which had turned weak, were confronted with the challenge of making themselves profitable while maintaining their prudential requirements and competing with private and foreign banks in a new liberalized milieu. At this time, the rural credit system needed a fresh approach that could induce rationalization of the processes, policy, and regulations and consequently increase returns.

Around this time, Asian countries like Bangladesh, Indonesia, Sri Lanka, and Thailand and Latin American countries like Bolivia, Cambodia, and Chile were effectively adopting the new microfinance approach. One of the reasons for the universal popularity of the approach was the extraordinary repayment rate of 95% and more. The extraordinary repayment rates of the microfinance institutions (MFIs)

provided the required “leverage” for transforming poverty alleviation exercises into business opportunities.

Definitions ^[2]

The concept of Self Help Groups had its origin in the co-operative philosophy and the co-operators by and large, including the National Federations in the credit sector, could not think of any better SHG than a primary co-operative credit society itself.

As SHG are small and economically homogenous affinity groups of rural poor, they are voluntarily coming together for achieving the following:

1. To save small amount of money regularly.
2. To mutually agree to contribute a common fund.
3. To meet their emergency needs.
4. To have collective decision making.
5. To solve conflicts through collective leadership mutual discussion.
6. To provide collateral free loan with terms decided by the group at the market driven rates.

Characteristics of SHGS ^[3]

The important characteristics of Self Help Groups are as follows:

1. They usually create a common fund by contributing their small savings on a regular basis.
2. The groups evolve a flexible system of operations often with the help of the Non-governmental organizations (NGOs) and manage their common pooled resource in a democratic manner.
3. Groups consider loan requests in periodical meetings, with competing claims on limited resources being settled by consensus regarding greater needs.

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4. Loaning is mainly on the basis of mutual need and trust with minimum documentation and without any tangible security.
5. The amounts loaned are small, frequent and for short duration.
6. Rates of interest vary from group to group depending upon the purpose of loans and are often higher than those of banks but lower than those of money lenders.
7. At periodical meetings, besides collecting money, emerging rural, social and economic issues are discussed.
8. Defaulters are rare due to group pressure and intimate knowledge of the end use of the credit as also the borrower's economic resources.

Working of Self Help Groups ^[4]

Self Help Groups are working in democratic manner. The upper limit of members in a group is restricted to 20. Among them, a member is selected as an “animator” and two members are selected as the representatives. The animator is selected for the period of two years. The group members meet every weekly or fortnight and they discuss about the group savings, rotation of internal funds, bank loan, repayment of loan, social and community action programmes, etc.,

Table 1: Types of SHG model ^[5]

Type of support	Model 1	Model 2	Model 3
Promotion	NGO or government agency promotes the group	NGO or government agency promotes the group	Bank promotes the group
Financing	Banks lend directly to group	NGO or government agency obtains funds from bank and lends to the group	Bank lends directly to the group

Source: Sustainability of SHGs in India: Two Analyses, CGAP 2007

Types of Self Help Groups ^[6]

The Self Help Groups promote by Self Help Group Promoting agencies (SHIPs) which includes Non-Governmental Organization (NGOs), Banks and Government agencies. The first type Self Help Groups promoting by Non-Governmental Organizations (NGOs), the second one is promoting by Banks and third one is promoting by government agencies. In India most of the Self Help Groups are started by Non-Governmental Organizations (NGOs) that 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, and improving nutrition and the use of birth control.

Advantages of Self Help Group loans over individual loans ^[7]

1. Lower transaction cost
2. Simple documentation / Procedure
3. High repayment rate
4. Easier supervision and transparency
5. Non-Governmental Organization/ Govt. as non- financial intermediary
6. Easy credit delivery to the poor
7. Better quality of lending
8. Disciplined customer
9. Group (peer) pressure is effective

Functions of Self Help Groups ^[8]

1. Self Help Groups hold meetings weekly or fortnightly.
2. Promote thrift habit among members.
3. Build common-fund slowly and systematically.
4. Establish network with financial institutions and various government departments.
5. Provide alternative regular credit delivery system.
6. Act as purveyor of development of credit.

Role of SHGS ^[9]

Self- help groups (SHGs) play today 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 engage in savings 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, albeit in very small amounts.

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 another, 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 in India 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, problems do arise with design, development and introduction of programmes to promote income generating activities (IGAs) that will generate sufficient, sustainable and regular income. There are few documents available that critically reflect on the role of SHGs in the wider rural economy. This paper attempts to identify the role of SHGs in providing Rural Non-Farm Employment (RNFE) through enterprise development and marketing.

It appears as though the vast majority of rural SHGs invest the loan amounts in a mix of consumption and productive

⁴ Role of Self Help Groups in empowering women in Krishnagiri District, Tamil Nadu

⁵ ACCESS-ASSIST, 2013, Self Help Group Bank Linkage: Through the Responsible Finance Lens

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⁹ <http://gala.gre.ac.uk/11682>

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. Most SHGs therefore start without any external financial capital by saving regular contributions by the members. These contributions can be very small (e.g. 10 Rs per week).

After a period of consistent savings (e.g. 6 months to one year) the SHGs start to give loans from savings in the form of small internal loans for micro enterprise activities and consumption. Only those SHGs that have utilised their own funds well are assisted with external funds through linkages with banks and other financial intermediaries (see section 3 for details). Most development initiatives working through SHGs are specifically targeting the poorest people. For example, the World Bank funded Andhra Pradesh District Poverty Initiatives Project aims, amongst others, at supporting investment in sub-projects proposed by grass-root institutions of the poor to accelerate their entry and expand their involvement in social and economic activities. In order to reach the poor, this project used a three-fold system of targeting: geographic targeting (selection of the poorest districts, and within these the poorest mandals), group targeting (through formation of group-based activities for the poor) and selftargeting (through a focus on small, technologically manageable investments that are attractive primarily to the poor organising themselves into common interest groups).

The Self Help Groups render the following roles in the society ^[10]

- Develop strong, cohesive, among women, through inculcation of the spirit of Mutual Help, Self Help and team spirit.
- Reduce vulnerability to crisis by inculcating habit of regular savings.
- Getting out of money-lender's clutches by regular savings and internal rotation of savings
- Increased asset-base and income, through access to inexpensive and timely credit
- Increased access and control over resources at household level through income generating activities and access to credit
- Building self confidence and improving communication skills through training increased mobility, exposure and collective action among women.
- Increasing social awareness, through motivation, intermingling, networking exposure and participation in social action and reformation programmes.
- Improving status of women in the family and society, through access to credit, increased control over resources, improved skills and collective action.
- Bringing out hidden talents by constant motivation and providing opportunities.

- Improved opportunities for self development by breaking social and cultural barriers and inhibitions.
- Awareness of legal rights and legal aids access, through networking and training
- Overall leadership development, through exposure to group management by conscious rotation of responsibilities.
- Change from worker status to worker-manager status, by motivation them to assume control over their lives.
- Development of business competence, through entrepreneurship training, facilitating participation in exhibitions, collective negotiation/bargaining, facilitate emergence of structures like marketing unions and dissemination of information on markets.
- Greater participation and decision-making in local democratic institutions like panchayats through participation in graama sabhas.

Role of Self Help Group members ^[11]

- Promptly attend Self Help Group meetings.
- Fully participate in Self Help Group meetings and voice opinion clearly and freely.
- Share responsibilities of Self Help Group collectively like going to banks by rotation.
- Prompt repayment of Self Help Group loans.
- Participate in village and social action programmes.
- To ensure unity and mutual trust between all members and adopt the principle of "give and take".
- Ask question/doubts openly and ensure that the Self Help Group functions transparently.
- Ensure prompt annual re-election of the animators.
- Promptly attend training programmes and ensure implementation of good practices.
- Share problems, experience, feeling and ideas with all members of Self Help Group.

Conclusion

The Self-Help Groups are the novel and very unique organizational set up formed to bring the women segment to the main stream. The women are trained, developed and their potential to emerge as entrepreneurs was the intent with which the SHGs are formulated by the Government of India. As a social movement was successful because of the assistance provided by the Government in procuring and overseeing the self-monitoring through the building up of administrative capacity. The SHGs are definitely a step in the direction where people from the bottom of the pyramid are given an opportunity to find themselves in the financial inclusion process of the society.

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