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# **"SELF HELP GROUP AND SOCIO-ECONOMIC DEVELOPMENT IN RURAL INDIA"**

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Self Help Group (SHG) is small homogenous groups consisting of 10 - 20 women from Below Poverty Line families voluntarily organized to promote savings. They are self-managed groups of poor women which primarily came into existence to mobilize financial resources through their own savings and lend the same amongst themselves to meet the credit needs of their members. The SHG movement has emerged as a powerful and vibrant movement spread over the length and breadth of the Nation. The more attractive scheme with less effort is "Self Help Group" to reduce poverty and to promote the gainful employment.

Most self help groups are located in India, though SHGs can be also seen in other countries, especially in South Asia and South East Asia. The approach of micro-finance in view of group sentiments can be explained in the following words: "Individually a poor person feels exposed to all kinds of hazards, whereas membership in group given him a feeling of protection. Individually a person tends to be erratic and uncertain in his behavior but group membership smoothen

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\* "Shantee-Kuteer" 81, Vishvesariya Vistar, Triveni Nagar, Jaipur (Raj.)

his behavioural pattern and makes him more reliable". It has been established that group approach is an effective tool for empowering the poor. The groups act as an institutional framework for cooperative and collective action on a continuing basis. The groups gradually move to a collective entity facilitating social and financial intermediation.

The concept of SHGs is the brainchild of *Grameen Bank of Bangladesh*, which was founded by Nobel Peace Prize (2006) winner *Dr. Muhammad Yunus*. SHGs were started and formed in 1975. In India NABARD is initiated in 1986-87. But the real effort was taken after 1991-92 from the linkage of SHGs with the banks. A SHG is a small economically homogeneous affinity group of the rural poor voluntarily coming together to save small amount regularly, which are deposited in a common fund to meet members emergency needs and to provide collateral free loans decided by the group. They have been recognized as useful tool to help the poor and as an alternative mechanism to meet the urgent credit needs of poor through thrift. SHG is a media for the development of saving habit among the women. SHGs enhance the equality of status of women as participants, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life.

The Scheme of Micro-financing through SHGs create empowerment promoting conditions for women to move from positions of marginalization within household decision making process and exclusion within community, to one of greater centrality, inclusion of voice. The basic principles of the SHGs are: *group approach, mutual trust, organization of small and manageable groups, group cohesiveness, spirit of thrift, demand based lending, collateral free, women friendly loan, peer group pressure in repayment, skill training capacity building and empowerment*. The Self-Help Group approach has come a long way in India, from 1974, when SEWA started mobilizing poor women based on their respective trade in Gujrat. The women's



movement in the west in the 1960s and 1970s influenced many countries, India being one of them. The main aims of SHG concept is to improve the economic development of women and to create a facilitating environment for their social transformation, in the light of gender based discrimination in work and the household.

In our country the development efforts were based on individual oriented approach than group approach in the last five decades. In the process, the development of the people could not be harnessed to the fullest potential. Realizing this lacuna, the group based development efforts are coming up in a big way across the country in the recent years. Both the State and Central Governments are giving due importance for the promotion and establishment of Self Help Groups (SHGs) for addressing developmental issues. Even the private and Non Governmental Organizations (NGOs) have come forward to start SHGs for taking up developmental programmes. As on today, there are more than 32 lakhs of SHGs across the country. Many innovative programmes started in this country did not last longer for various reasons. Therefore, a study has been taken to analyze the performance of SHGs involved in farming activities in Rajasthan at individual, group and community levels and also to know the factors contributing for their performance. Thus the findings of the study could be valuable information for implementing agency as well as policy makers to enhance the performance of SHGs.

The National Bank of Agriculture and Rural Development (NABARD) estimates that by march 2010 over 33 million women have been linked to banks for financial services through 2.2 million SHGs. 'Linkage' is defined by NABARD as taking a loan from a bank, although banks in fact first become linked to SHGs by taking their deposits. Growth has been spectacular in the past couple of years: 'over 400 women per hour' according to the NABARD web-site. The hourly rate is actually more than this, with as increase in 2006 of 620,000 SHGs or over 9 million women SHG members. As revealed by *Srinivasan* (2008)

as on March 2008, there are 3.5 million self-Help Groups helping nearly 49 million poor households to access sustainable financial services from the formal banking system in the country.

Swarna Jayanthi Gram Swarojgar Yojana on April 1, 1999 emphasizing the integrated upliftment of rural households that fall under the BPL line in a span of five years. Even here the SHG approach has been upheld. The scheme was the result of merging of all the direct anti-poverty programmes like IRDP, DWRCA, TRYSEM, etc into one single programme in order to promote holistic self-employment among men and women. A Socio-economic review of the programme has indicated that women form nearly 50 percent of the total persons assisted in the programme. The programme sought to take assistance of several institutions like the line departments of the government, NGOs, other local organization and the Panchayat bodies. Besides these government efforts to provide sustained development to women, a number of NGOs have also initiated programme that encourage SHGs of women and men to be formed. The specific aims and objectives of SHGs are to:

1. Fulfill the economic needs through self-employment of women;
2. Utilise bank loan and government welfare schemes;
3. Improve saving habits among women;
4. Help the members to escape from the clutches of money lenders;
5. Mobilise financial resources.

The SHG approach has proved successful not only in improving the economic conditions through income generation but in creating awareness about health and hygiene, sanitation and



cleanliness, environmental protection, and ecology, importance of education and better response for development schemes. Similarly, cluster approach for promotion of rural enterprises has also been very effective and used in handicrafts, handlooms, forest based enterprises and so on. A majority of the SHG promoting institutions have not created reliable database or promoted record keeping and documentation systems that enable good quality data related to empowerment to be accessed, consolidated and analyzed. 'Empowerment is such a misunderstood term that its meaning is trivialized to the extent that merely giving a small loan ends up being seen as gender empowerment. Theoretically and ideally, SHGs, both of men and women, promote the following features which could have an impact on enhancing human development and empowerment: (1) a habit of regular savings; (2) weekly meetings with a clear agenda and conducted in participative way, where decisions are taken by the groups to give loans to its members regarding the purpose, size and schedule of repayments; (3) a culture of sanctions for willful default; (4) awareness of, and involvement in, credit plus issues related to equity, gender and rights including the creation of a culture that reduces violence in the home; (5) The ability and willingness to carry out periodically a participatory self-assessment and finally, (6) a culture of learning. Together these contribute to, and enhance, the management skills and the confidence of the SHG members while increasing their capacity to meet their livelihood needs.

The 'feel good' factor is evident in group that has been able to save enough in the group to meet with urgent needs. However, the members of the group need to go further if they are to justify the claim that saving empowers people. They need to ensure that savings and credit are managed effectively.

Cultivating the habit of regular savings and the ability to access them when required through credit not only reduces significantly the vulnerability of the livelihood base of the poor and

their dependence, it also enhances human development. It enable them to borrow for urgent needs instead of going to money lender, which increases their dependency since he/she is often the one who provides them with labour employment at low wages. This, in turn, gives them a degree of freedom to bargain for better wages and working conditions and enables them to build a capital base which, hitherto, was impossible since the exorbitant interest rates demanded by moneylenders siphoned off all surpluses.

Self-Help groups, managed in an ideal scenario, provide a way of reducing poverty that simultaneously improves the capacity of its members on many levels. It is grounded in participatory decision-making, which creates a sense of ownership among members. This is very different from how many other poverty alleviation and human development programmes evolve with a top-down system of decision-making and distance from the people most affected by these decisions.

### ***Functions of SHG :***

SHGs 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 week. They discuss about the group savings, rotation of *sangha* funds, bank loan, repayment of loan, social and community action programmes.

### ***Main working of SHGs are as follows :***

1. Cteate a common fund by the members through their regular savings.
2. Periodical meeting the decision making through group meeting.



3. Flexible working system and pool the resources in a democratic way.

4. The loan amount is small and reasonable that easy to repay in time.

***Some Important Working Principles of Self-Help Groups :***

***1. Homogeneity :***

All the Self-Help Group has common characteristics that are Rural Women, Neighbourhood, Community and Occupation to generate income.

***2. Membership Requirements :***

There are 10 to 20 Members and each member must have attained 18 years of age. Members must be aware about the rights and obligations of the group.

***3. Economic Empowerment and Training :***

It is important that people from poor households are made aware and made to recognize the significance of collective efforts in solving problems that seem impossible with individual efforts, by voluntarily deciding to pool their efforts to help increase their access to financial services, economic services like technology training in skill and enterprise management, material support & marketing facilities, etc., besides a host of other social services too.

***4. Group Formation Methods :***

Getting a group formed takes time and skills. Development workers must pay frequent visits to the community where the group is to be formed and devote time to talk to the people and getting to know them.



### ***5. Governance in Self Help Groups :***

Strong savings and credit groups, owned and managed by the community itself, need competent and committed development facilitators, strong cadre of leaders, and enlightened and alert members. Hence the governance of Self Help Groups that promotes democratic traditions is crucial for its success.

### ***6. Credit Function :***

Providing credit access to members of poor households on sustainable basis is the primary objective of a Self Help Group. A well conceived loan programme in a Self Help Group will enhance its attractiveness to the members. These loans are often given for various purposes without insistence on collateral but are available at a cost. There is no compulsion to avail of loan facility. As such those who avail loans have to make a choice to pay the cost, or have no credit at all.

### ***7. Financial Management :***

Mobilizing micro thrifts is only a part of a comprehensive savings service of Self Help Groups. Small saving from resource poor households need operative protection against loss of deposits. Misappropriation in savings and credit groups as well as imprudent lending from internally generated deposits threatens the security of savings programme. They have to be shielded against the financial and non-financial risks. It is, therefore, considered necessary that high standards are set in the area of financial management.

### ***8. Group Vigilance :***

The corpus fund of a group is entirely contributed by its members and hence they alone must ensure that the fund is managed and controlled by them without any outside interference whatsoever.

There is no alternative to alertness of members and their participation in group meetings. Some of the best practices discussed earlier also go in strengthening the group vigilance and control mechanism.

### ***9. Record Keeping:***

Record keeping is possibly the most crucial function in a Self Help Group often condoned to the periphery. An efficient record keeping assumes significance for promoting transparency in the system considering the need for providing safety of micro deposits pooled in savings and credit programmes.

### ***10. Banking Relationship :***

Self Help Group are primarily savings and credit groups and availing savings and credit services from local banks is a logical extension of their growth strategy to meet increasing credit demand from members. Moreover, accessing saving services from banks will provide safety to the pooled funds. It is expected that groups will demonstrate desired maturity in terms of group and financial dynamics leading to inculcation of banking habits in the groups. It would also make possible the bringing about of general improvement in the nature and scale of operations that would accelerate economic development.

### ***11. Meeting :***

Group meetings include times when members gather either periodically or at short notice to discuss the activities of the group and decide on its future actions. All activities in Self Help Group revolve around meetings at which members access savings and credit services, share experiences, learn from each other and also receive education and training.



## 12. *Rights and Obligations of Members :*

- Every member has a right to participate in the leadership function.
- Every member has a right to determine goals, objectives and vision of the group.
- Every member has a right to access loans from the pooled corpus funds of the group.
- Every member has a right to participate in every activity of the group every member has a right to participate in group meetings and decision making.
- Every member has a right to withdraw from membership in genuine circumstances.
- Every member has a right to scrutinize group's records and inspect property.
- Every member has a right to share in the group's wealth.

SHG movement was taken place when NABARD launched the pilot phase of the SHG Bank Linkage programme in February 1992. This was the first instance of mature SHGs that were directly financed by a commercial bank. The informal thrift and credit groups of poor were recognized as bankable clients. Soon after, the RBI advised commercial banks to consider lending to SHGs as part of their rural credit operations thus creating SHG Bank Linkage. The linking of SHGs with the financial sector was good for both sides. The banks were able to tap into a large market, namely the low-income households, transactions costs were low and repayment rates were high. The SHGs were able to scale up their operations with more financing and they had access to more credit products.

The significance of Bank linkage with the Self Help Groups is that the core problem of rural finance is high transaction costs to the banks in financing a large number of small borrowers who require credit frequently and in small quantities. The same holds true of costs involved in providing saving facilities to small, scattered savers in rural areas. The rural savers and borrowers also face high transaction costs while dealing with banks due to distances, small value of financial transactions etc. In a recent study [unpublished] in India, the transaction cost to a small rural borrower raising a loan from a commercial bank under a poverty alleviation programme was placed at 24.6%. Further, the transaction costs of operating a saving account with a bank was placed as high as 10% of the saving, on the assumption of only one transaction per month.

The Self Help Group and banks linkage process by design envisages inter-stakeholders coordination and a system of sequential operations which calls for the accomplishment of the previous tasks before the successive ones are taken up. The natural sequence of tasks is (1) organization of the poor, building their capacity through training, helping them acquire the financial skills as well as discipline, learn the book-keeping skills, secure Revolving Fund and Cash Credit Loan and lend to the needy members in the group, prepare bankable micro-enterprise proposals, (2) Side by side help the Self Help Group members acquire the entrepreneurial skills, technology, infrastructure and knowledge of market dynamics through various line department, banks, livelihood experts and other, utilization and repayment of bank credit (3) Capacity building and handholding and (4) Monitoring the loan utilization and repayment.

The physical and social distances in stratified societies constrain their approaches to bank branches which, for them, do not appear to be functioning with their needs in mind. The 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 making it difficult to adopt the traditional banking approach to lending. The result is that financial services of the formal banking system have remained inaccessible to majority of the poorer sections of the rural population in most developing countries. Informal channels include money lenders who operate outside the legal and policy framework of banks, market vendors, shopkeepers and others including friends and relatives. Credit in the informal system is usually available immediately, when and where required and often without collateral and lengthy documentation formalities, since the lender usually relies on personal knowledge of borrowers and their circumstances. However, interest rates are not only extremely high, but sanctions often include conditions, verbal or written, which are heavily loaded in favour of the lender and are sometimes carefully guised and are detrimental to the interests of borrowers. Often credit is associated with other transactions, for example, the purchase of raw material from a supplier, with deferred payment or pre-harvest sale of a crop with immediate payment.

### *The Other Side of the Coin: Conclusion and Suggestions*

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 an urgent 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.

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