A STUDY ON ROLE OF SELF-HELP GROUPS IN MICROFINANCE WITH SPECIAL REFERENCE TO INDIA

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ABSTRACT

Micro finance through Self Help Group (SHG) has been recognized internationally as the modern tool to combat poverty and for rural development. Micro finance and SHGs are effective in reducing poverty, empowering women and creating awareness which finally results in sustainable development of the nation. The purpose of this paper is to examine the role of micro finance in the empowerment of people and the realization of financial inclusion in India. While there are reservations about the efficacy of MFIs in handling public money, their growth and achievements demand attention and appreciation. Today the MFIs want the government to empower them for mobilizing savings. With increasing demand for rural finance, and the inadequacies of formal sources, the MFIs have immense opportunities in the new avatar of micro credit in India. However, in the light of recent experiences, and the need for qualitative growth, we suggest that MFIs should be managed with better scrutiny in terms of finance and technology as well as social responsibility.

INTRODUCTION

Microfinance refers to small-scale loans, savings, insurance and other financial products targeted at low-income clients. The terms microfinance and microcredit are often used interchangeably, although in absolute sense microcredit refers to the money lent to a client by a bank or other institution, while microfinance refers to a range of financial services, including microcredit loans, savings and business training for the poor who are unable to access formal banking services. Microfinance is a widely promoted developmental initiative to provide poor women with affordable financial services for poverty alleviation. One popular adaption in South Asia is the Self-Help Group (SHG) model that India adopted in 2011 as part of a federal poverty alleviation program and as a secondary approach of integrating health literacy services for rural women. However, the evidence is limited on who joins and continues in SHG programs. This paper examines the determinants of membership and staying members (outcomes) in an integrated microfinance and health literacy program from one of India's poorest and most populated states, Uttar Pradesh across a range of explanatory variables related to economic, socio-demographic and area-level characteristics.

SELF-HELP GROUP (SHG):

Basic context The SHG model in India evolved from early microfinance experiences of the Grameen Bank in Bangladesh, and developmental program(s) in South India in the early 1970-80s. These formative schemes showed the benefits of providing small loans to disadvantaged women, who then reported higher loan repayment rates but also higher utilisation of loans towards household wellbeing. At its core, the SHG model comprises 10–15 poor adult women (clients) organised into groups with members mostly from a similar background or socio-economic status. Targeting clients for inclusion into SHGs is mostly done by governments and Non-Governmental Organisations (NGO), often through a local community facilitator who seeks to identify the poorest households with community assistance and use of locally adapted but objective criteria defining poverty. SHGs specifically seek to target income poor women, especially the poorest amongst them, who sit at the bottom of the poverty pyramid, where higher socio-economic inequalities and deprivations cluster. Member selection targeting the poor, hence, is a crucial consideration for the success of such programs.

For SHG to function at a minimum, adult women representing households, are required to broadly follow certain principles (regular meetings -up to four times /month, regular savings, internal lending, regular repayment and record-keeping). In India, rural public banks mainly use these indicators to grade SHG functioning after a new group is formed over three to six months to assess their suitability to receive loans, and the amount of bank loan or credit that can be dispensed. Rural banks typically offer SHGs incrementally higher loan amounts or credit limits depending on how well the group continues to perform and return previously borrowed loans which are a collective responsibility of group members. SHG membership is thought to foster a sense of group solidarity and cohesion in supporting each other to repay loans and also function as a broader 'peer network' for women. Therefore, member characteristics are vital in determining not only how well SHGs function but also for how long they continue to function. The available evidence on membership determinants comes from a few studies from rural India that mainly find that while members are poor, they tend to be at or just above poverty thresholds; the poorest are often excluded from membership. Self-help groups are not only a source of microcredit, they also encourage saving among members. The money raised through internal savings within the SHG is lent to group members for specific purposes. The group decides which members will be lent money and for what purpose. When groups are able to manage their savings and lending portfolio successfully, banks can step in to provide additional loans for onward lending to members. SHGs are allowed by the Reserve Bank of India to open savings account with local banks. The total value of bank loans to the SHG is on average two to four times the savings mobilized by the group.

MICROFINANCE IN INDIA

The growth of the microfinance movement in India was preceded by a need to improve financial access for India's poor, the overwhelming majority of whom were concentrated in rural areas and dependent on money lenders (also referred to as loan sharks), who charged exorbitant interest on the money lent. The formal banking system, which largely catered to the urban and organised sector until 1950s, expanded its coverage in rural areas by establishing a network of rural cooperative credit banks after the post-nationalisation period of banks in 1969. This led to the establishment of many new bank branches in rural and sub-urban areas across the country, which provided access to credit for the rural poor through the granting of targeted low-priced loans. Despite this, financial inclusion through the formal banking system remained sub-optimal, as is still the case today – only 48 per cent of Indian adults used formal financial services in 2008. Several non-banking financial institutions emerged in the 1990s to provide microcredit to the informal sectors of the population, most notably pioneered by non-governmental organisations (NGOs), private microfinance institutions (MFI), and then supported by the state to create links between commercial banks, NGOs, and informal local microfinance-based SHGs. The programs are carried under the SHG Bank –Linkage program governed and controlled by NABARD. Microfinance programs have gained wide outreach globally among people living in poverty. According to the State of Microcredit Summit Campaign report 2014, microfinance institutions are reaching out to 204 million clients globally, 82.3 per cent of whom are women; and two-thirds of them were among the poorest when they took their first loan (Reed, 2014). Eighty-two per cent of microfinance activities are concentrated in the AsiaPacific region; 68.8 per cent of these families lived in absolute poverty when they took their first loan.

Forms of microfinance in India

Microfinance organisations adopt a variety of methods for delivering services. The Indian microfinance sector is characterized by two dominant models: the SHG-bank linkage (SBLP) model and the Microfinance Institution (MFI) model. These two models are very different, both in terms of service delivery and legal form.

In the SBLP model:

- Banks that create networks of SHGs provide finance.
- Operates as membership-based group.
- NGOs and the state governments implement the model.

In the MFI model:

- Private MFIs and non-banking finance companies (NBFC) that organize SHGs provide finance.
- Private NBFCs manage the model; these institutions are regulated by the Reserve Bank of India (RBI).
- The model includes variations in legal form ranging from not-for-profit societies or trusts and not-for-profit companies registered under Section 25 of the Companies Act to NBFCs licensed by the Reserve Bank of India.
- The joint liability group, such as the Grameen Bank, is the most common model internationally.
- Group members opt out and join in as and when they need loans, thereby do not operate as membership-based organization.

LITERATURE REVIEW

N. Nagaraj (2009) In India, the first Self Help Group (SHG) emerged in 1985, with the initiative of the Mysore Resettlement and Development Agency (MYRADA), a nongovernmental organisation (NGO) for promotion of self-help affinity groups; watershed, water and wasteland management; forestry; community management of sanitation and drinking water, housing and habitat; improvement of primary school education; technical skills for school dropouts; microenterprise generation; preventive health care and HIV/AIDS prevention programme. By 1986, there were 300 SHGs in MYRADA's projects. A SHG is a group of about 10 to 20 poor women or men, from a similar class and region, forming a savings and credit organisation by pooling financial resources in order to extend loans to the members at low interest with far fewer procedural hassles.

Mohi ud Din Sangmi (2016) Microfinance across the globe has reached to a significant level and in India microfinance is also spreading very fast across Indian States consequently, the current study examines the impact of Microfinance on the socioeconomic conditions of the Microfinance beneficiaries in the Kashmir Division of J & K State India. The Swarge Gram Swarozgari Rojna (SGSY) program which was launched in the state in the year 1992 for poverty alleviation purpose and the creation of Self Help Groups (SHGs) was done in all the districts of J&K under this program.

Mr. Vijaya Kumar R S & Dr. S Harish Babu (2020) Empowerment refers to increasing the decision taking ability of people in general and women in particular. Economic empowerment of women is basically decision taking authority of women on economic issues and having ownership over economic resources. One of the overriding approaches to rural women economic empowerment is configuration of women through Micro finance predominantly in rural areas. The present paper an attempt has made to analyze the factors contributing for economic empowerment of women. The principal component analysis has used for the purpose using primary data collected in Hassan district. It has been found from the study that the economic empowerment is possible in many ways and economic activities. Out of 20 ways of achieving the economic empowerment, the feasibility has found only in six ways.

Objectives

The present study has been carried out with the following objectives:

- To examine the impact of microfinance development and SHGs growth in the Country
- To see the impact of microfinance on socio-economic conditions of microfinance beneficiaries

Research Methodology

Sources of Data: The study is exploratory in nature and is based on both primary and secondary data. Secondary data was collected from various journals, articles, working papers, NGO reports etc. Primary data was enumerated from a field survey in the study region.

CONCLUSION

SHG programme has indeed helped in the social and economic empowerment of rural poor, especially for women, by timely delivering essential and much-needed financial services at low transaction costs for the poor borrowers and villagers. However, slow progress of SHG members, poor quality of group functioning, dropout of members from groups etc., are the various causes found in different parts of the country, which need to be addressed to while designing the road map for the next phase of the SHG programme. From the study, it is found that micro finance through self-help group is helping the poor and upgrading women empowerment by making them financially strong. SHGs have increased their habit of savings and investment in some developmental activities. Thus it is universally accepted that SHGs and Bank linkage programme has profound influence on the economic status, decision making process and level of dependence of women in India.

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