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# SELF HELP GROUPS (SHGS): MICRO FINANCE IN INDIA

Review  
Article

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## Abstract

*Micro finance in India has developed in decades from an idea to implementation to many success stories to an overall success. The early dawn of the idea of micro financing was to provide the capital to the population which was considered the bottom of socio economic pyramid so as to carry out the small household business and this idea has gradually grown up to become the way to help improve the socio standards of the poor people. India is the country of villages, more than 70% of the nation's population resides in the rural areas of the country and 60% of this rural population depends on agriculture for living. In such situation the micro financing can play a vital role in making the rural people's life easy. In a developing country like India with a lot of people residing in rural areas, micro finance is undoubtedly the best implementation. Self Help Groups of India has emerged as the world's largest and most successful network of Community Based Organisations. The main goal of an SHG is to elevate the living conditions of the rural poor with a maximum emphasize on women. The present paper's objective is to explain the situation of micro finance in India and to explain the main channel of micro finance in India which is SHGs and the details of the SHGs.*

## OBJECTIVES

The objectives of this contribution is to

1. Provide an insight of micro finance in India.
2. Give an understanding of the effects and effectiveness of micro financing through explaining the importance and implementation of the Self Help Groups in India.

## THEORETICAL FRAMEWORK

Microfinance is traditionally being focused in the nations which are less developed. There are many success stories to look up to in the area of microfinancing and to understand how it functions and has changed the lives of millions all around the world. This paper aims at explaining the microfinancing in India and we expect that the rural areas of developed nations find microfinance as a viable way to develop their underdeveloped areas and encourage the microfinance.

## SCOPE OF THE ARTICLE

This article is expected to give an understanding of how the micro financing of Self Help Groups carries out in India and so the knowledge could be used in implementing such initiatives in other nations accordingly.

## RESEARCH METHODOLOGY

This is a descriptive research paper based on secondary data. Data have been collected through books and various websites and publications of recent research papers available in different websites and magazines.

## INTRODUCTION

Statistics indicate that some 45% of all the people in the world who use microfinance services are living in South Asia. According to (Singh, 2014) Overall percentage of the poor and vulnerable people with access to financial services remains small, amounting to less than 20 % of poor households in India.

The taskforce on Supportive Policy and Regulatory Framework for Microfinance constituted by National Bank For Agriculture & Rural Development (NABARD) of India defined microfinance as “the provision of thrift, saving, credit and financial services and products of very small amount to the poor’s in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living.” (Sen, 2008).

A Self-help group is defined as a group consisting of people who have personal experience of a similar issue or life situation, either directly or through their family and friends. Sharing experiences enables them to give each other a unique quality of mutual support and to pool practical information and ways of coping. Self-help groups are necessary to overcome exploitation, create confidence for the economic self-reliance of rural people, particularly among women who are mostly invisible in the social structure. These groups enable them to come together for common objective and gain strength from each other to deal with exploitation, which they are facing in several forms. These groups are also seen as important medium for secure credit linkage for the women.

Micro finance in India was not around until 1970s, the idea is an implementation of the idea of Yunus who first came up with the idea of microcredit while studying the lives of poor entrepreneurs in his native Bangladesh during the famine of 1974. He began by loaning to groups of women, and his program soon proved that small loans could not only quickly improve lives but were paid back with interest and on time.

The financial inclusion survey conducted by the World Bank team in India between April and June 2011 revealed that India lags behind developed and many developing countries in bank account penetration, but is much closer to the global average when it comes to borrowing from formal institutions. Professionalization and Commercialisation of MFIs provided the basis for growth and prosperity of the microfinance industry. Former financial constraints of MFIs were increasingly relaxed, as the industry was able to attract private funds in addition to funds provided by development institutions and local governments. (Lützenkirchen & Weistroffer, 2012). Microfinance is miserably getting downfall due to the problems regarding lack of deployment strategy, institutional support, lack of promptness among the borrowers etc.

## REVIEW OF LITERATURE

There is a proven evidence of a lot of studies which have been carried to get an advantageous understanding on different aspects of the Self Help Groups and their federation by many organizations and agencies across the globe. A brief overview of some of the large-scale studies conducted and published in the recent past is given below.

In a study of rural development through micro credit by Anitha and Revenkar in 2007, it is proved that the success of SHGs not only improves the economic status of women, but also brought lot of changes in their social status.

Based on 2,400 household panel to assess economic impacts of longer (2.5-3 years) exposure

of a program that promoted and strengthened self-help programs in Andhra Pradesh in India. The analysis finds that longer program exposure has positive impacts on consumption, nutritional intake, and asset accumulation. Investigating heterogeneity of the impacts suggests that even the poorest households were able to benefit from the program. Furthermore, overall benefits would exceed program cost by a significant margin even under conservative assumptions. (Deininger and Liu, 2009)

Salomo et.,al (2010) conducted a research on Sustainability of SHG Federation Structures covering 12 SHG federations in six different states of India. It opined that federating is needed for ensuring outreach, member ownership and governance, bottom up structured and linked multi-level systems, reduced dependency on external advisory and financial support, ability to face different environmental and socio-economic circumstances, and legal and regulatory framework. An effort was made for a comparative analysis on the quality and performance of the SHGs and the impact of SHGs on women members in Barak Valley of Assam (Cachar, Karimganj and Hailakandi districts). It is observed that due to fast growing of the SHG-bank linkage programme in the State, the quality of SHG has come under stress. Further, it is observed that impact of SHGs on decision making pattern ranks first followed by economic empowerment and then psychological aspects. Confidence building ranks fourth while Social empowerment ranks the fifth and so on. (Das, 2012).

According to NABARD, 2012 there are disparities in the geographical spread of SHG bank linkage programme and credit deepening. Out of 33 states, 22 states and union territories have less than 50 per cent of SHGs having a savings bank account with loan outstanding to banks; another 10 states have 50 to 80 percent of SHGs with loan outstanding; and only one state, namely Andhra Pradesh, has 80 per cent of SHGs with loan outstanding to banks.

The absence of savings and appropriate legal framework are the severe constraints on the financial viability of federations of SHGs (Srinivasan & Tankha 2012). Swamy & Tulasimala in 2013 conducted a study on microfinance impact on food security and living standard of the poor. The results suggested that Self Help Groups (SHGS) in India have been significantly successful in achieving the objective of economic development of the weaker sections of the society as well as play a significant role in improving the incomes of the weaker sections, thereby ensuring food security besides improving their standard of living.

Kondal, 2014 conducted a study on 100 women of different SHGs from Gajwel mandal of Medak District in Andhra Pradesh. The major findings in

the study justify the greater role played by the SHGs in increasing empowerment of women, by making them financially strong, as well as it helped them to save amount of money and invest it further development. It is also found that the SHGs created confidence for social, economic self-reliance among the members. It develops the awareness programmes and schemes, loan policies etc. However there is a positive impact of Self Help Groups on Women empowerment in Andhra Pradesh.

## SELF HELP GROUPS IN INDIA

SHG are voluntary, small group structures for mutual aid and the accomplishment of a special purpose. They are usually formed by peers, who have come together for mutual assistance in satisfying a common need (Katz & Bender, 1976). SHGs are usually formed on the basis of homogeneity among members, which roughly means having similar social and economic characteristics implying both reciprocity in relationships and similarity of cash flow (ability to save and the need for credit) (Frances et al, 2009) Self Help Groups is an initiative taken by the government of India in early 1980s. The main aim of the SHGs is to alleviate the standards of the rural poor with a maximum emphasis on women. According to the World Bank's estimation 87% of the poor civilians do not have an access to the credit from a formal financial institution or any authorised organisation, the result of which is that they end up taking loans from the non-authorised money lenders at an interest rates ranging from 45% to 120% and even more in few cases (Singh, 2014). Singh (2014) mentioned that this fact alone is very compelling and is reason enough to occupy oneself with the careful questioning of how microfinance can be provided to as many of the poor with a demand for it as possible.

## RECENT STATASTICS

According to th elates report of NABARD (2016-17); Self Help Group - Bank Linkage Programme is the largest microfinance programme in the world.

- There are 10 crore household benefiting throught the Self Help Group - Bank Linkage programme.
- There are more than 85 lakhs of Self Help Group
- The deposits made by these 85 lakh Self Help Groups is accounting about 16114 crores.
- The annual loan took off by these Self Help Groups has reached 38800 crores
- And the total outstanding loan is nearly 61600 crores.

The growth of self-help groups in India over from 2014 through 2017 is illustrated in the graph 1. The total loan distributed across the country through SHGs has increased considerably when compared

between four periods (i.e. 2014-2015, 2015-2016, and 2016-2017). The southern region has consistently topped the list in terms of number of SHGs or the total loan distribution, which implies that the SHGs are more successful in the southern part of India. Table 2 shows the region-wise status of bank loan disbursed to SHGs during the periods 2014-2015, 2015-2016 and 2016-2017.

### **HISTORICAL EVOLUTION OF SHGs**

- An NGO in south part of India named Mysore Resettlement and Development Agency (MYRADA) in 1980s has formed 300 autonomous SHGs known as credit Management Groups.
- These 300 SHGs have run well and has caught the interest of the National Bank for Agricultural and Rural development (NABARD). NABARD decided it is effective to provide banking services to the so called 'un-bankable' people
- NABARD along with RBI, Commercial Banks (CBs) and NGOs has launched the pilot project of linking the SHGs with the commercial banks between the years 1991 to 1992
- Appreciating the success of the SHGs the government of India has become a key promoter of SHGs. By decentralization of power at the Panchayat levels in the year 2004, SHGs has started to be recognised as a powerful institution for the poor.
- By March 2005, there were over 24 million poor families or about 120 million members in 1,618,456 SHGs across the nation making it the largest microfinance initiative in the world.

Source: ipekkp (2014)

### **PROGRESS OF SHG**

Over the years the self help group has shown an exponential growth. It's been a quarter century that the programme has stood unbeatable and is continuing its journey towards empowering the rural poor, in general and rural women in particular.

According to NABARD report 2016-17, by the end of the financial year 2016 the SHG Bank Linkage Programme has become a largest community based microfinance initiative with 85.77 lakh SHGs covering more than a hundred million rural households. SHG - Bank Linkage Programme is a strong intervention in economic enablement and financial inclusion for the bottom of the pyramid. (NABARD Report 2016-17). Figure 1 shows the how the SHGs have grown through the years 2014,15,16 and 17.

### **SUSTAINING OF SHGs**

The basis of self-help groups exists prior to any intervention. The members are linked by common bond like caste, sub-caste, blood, and community, place of origin or activity. These natural groups are commonly called "affinity groups". Even when group members are engaged in a similar traditional activity like basket weaving, the basis of the group's affinity is a common caste or origin (MYRADA, 2001).

A SHG is formed on bases of certain rules and regulations, members make small regular savings contributions over a few months until there is enough capital in the group to begin lending. Funds may then be lent back to the members or to others in the village for any purpose. SHGs are usually supported by the institutes called the Self Help Promoting Institutions (SHPI). NGOs like MYRADA, PRADAN etc, acts as SHPI, the government also has many departments working for the SHGs and acts as SHPIs like the department of panchayati raj and rural development etc. SHG Federations, state and commercial banks poverty reduction programmes and also few individuals take the responsibilities of SHPI. Table 1 shows the growth rate (CAGR) of SHG-Bank Linkage (Physical)

### **OBSERVATIONS**

The factors that are seen common across the SHGs which could contribute to the sustainability are –

a. Financial discipline:

The transparency maintained in the financial transactions. The overall financial status of the SHG is shared with the group members during their monthly meetings.

All of the SHGs have a book keeper who maintains their book of accounts and their accounts are annually audited. This financial practice ensures that malpractices do not seep into the SHG funds providing a kind of stability.

The loan repayment of the SHGs is stable indicating that they maintain financial discipline among the members. This practice enhances the credibility of SHGs for future credit.

b. Management of the SHG:

The monthly meetings are fixed on a specific date of the month and are regularly held.

The meetings are conducted seriously with a mandatory quorum of complete attendance. In case of absence every group has a specific fine levied to its absent members.

The president of the SHG is selected in a transparent manner giving each member a chance to become the SHG president.

## CONCLUSION

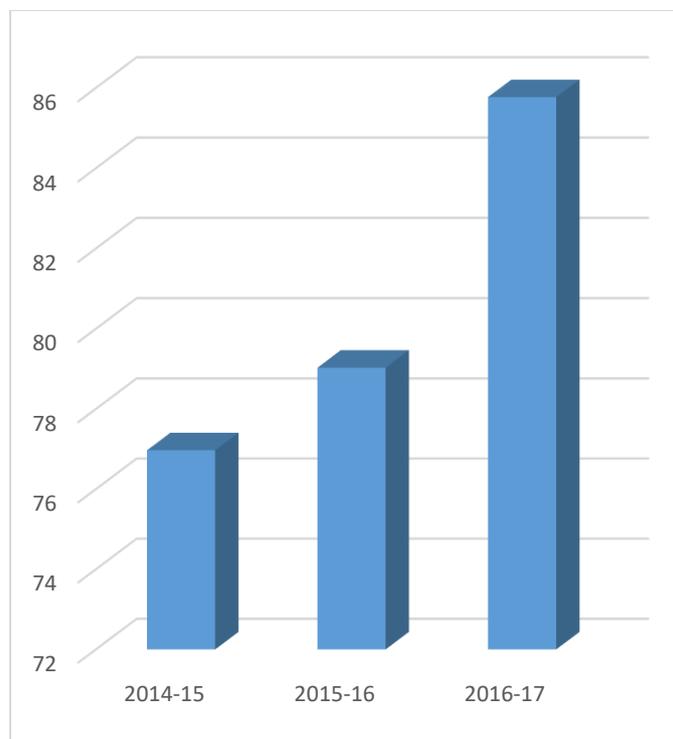
Self Help Groups have proven to be one of the best in the micro finance sector in India. It has not only improved the financial status of the rural poor but also it has improved the social status. Women are the major beneficiaries from the self help groups. Women in India have since ages been suppressed and in the rural areas the women were only pertained to the kitchens and now thanks to the SHGs, for revealing the hidden entrepreneur in them. However in my opinion there must be more support from the government of India to SHGs, also the stakeholder's investments to provide the support to maximize the impact of such groups. Though the SHGs has proven to be successful at serving rural poor with the financial services, the SHGs can still improve a lot to get maximum output by proper monitoring of the SHGs through which a social discussion about development can happen and many constructive and creative ideas may come up. Also encouraging and educating the private investors about the SHGs is to be done on a large scale to improve the present situation.

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**ANNEXES**

*Graph 1: Growth of SHGs over last three years*



*Source: Author's own research*

*Table 1: Growth Rate (CAGR) of SHG–Bank Linkage (Physical)*

Serial Number	Indicator	CAGR (%)		% Change
		2001-05	2006-10	2010-11
1.	Number of SHGs having savings with bank	N.A.	21	13
2.	Number of SHGs receiving loans during the year	29	21	-25
3.	Number of SHGs receiving loans during the year under SGSY	N.A.	9	-10
4.	Number of SHGs linked to banks (cumulative)	44	N.A.	N.A.
5.	Number of SHGs with loan outstanding	N.A.	14*	-1
6.	Number of SHGs with loan outstanding under SGSY	N.A.	16*	3

Source: Ajay Tankha (2012)

Note: \*From 2007-10

*Table 2: Region-wise status of bank loan disbursed to during the years 2014 through 2017*

Regions	2014-15			2015-16			2016-17		
	No. of SHGs	Total Loans Distributed	Average Loan Distributed	No. of SHGs	Total Loans Distributed	Average Loan Distributed	No. of SHGs	Total Loans Distributed	Average Loan Distributed
North Eastern	18791	15795	84056	26037	21969	84375	28961	28421	98134
Northern	43848	42873	97777	38106	48298	126746	46567	57414	123294
Central	109231	110909	101536	84282	119067	141272	82012	67958	82864
Western	97341	117080	120279	112525	188632	167636	106825	148819	139311
Eastern	351800	329602	93690	412576	349489	84709	497063	473172	95194
Southern	1005227	2141972	213083	1158797	3001235	258996	1136692	3102332	272926
All India	1626238	2758231	169608	1832323	3728690	203495	1898120	3878116	204314

*(Total loan disbursed in Indian rupees Lakh; Average loan disbursed in Indian rupees SHG)*

Source: NABRAD Report 2016-17