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Self Help Groups (SHGs) in India





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SELF HELP GROUPS (SHG) AND MICROFINANCE IN INDIA

The Self Help Groups (SHG) initiative was adopted by India several decades ago in order to alleviate poverty, and improve women's ability to achieve rights and well-being. At the beginning, SHG was an initiative undertook by NGOs, but later on, due to its success in improving live standards and delivering public goods and services, Indian State engaged in facilitating access to financial resources.

1. Overview of SHG movement in India

Historical Evolution of SHGs:

- By the late 1980's, Myrada, an NGO located in South India, formed around 300 autonomous SHGs known as the Credit Management Groups.
- The National Bank for Agricultural and Rural development (NABARD)¹, found SHG as an interesting and effective strategy to provide banking services to the so called 'un-bankable' people.
- Between 1991 and 1992, NABARD in consultation with RBI, Commercial Banks (CBs) and NGOs launched the pilot project of linking the SHGs with Commercial Banks, based on NABARD guidelines.
- By the late 1990s and early 2000, given its success the government had become a key promoter of SHGs. Decentralization of power at the Panchayt's level in 2004 gave local bodies more teeth and SHGs came to be recognized as a powerful institution for the poor.
- By March 2005, the programme had provided credit to 1 618 456 SHGs with a membership
 of over 24 million poor families or about 120 million poor people, making it the largest
 microfinance initiative in the world.

SHG Models - SHG-Bank Linkage Model:

SHG are voluntary, small group structures for mutual aid and the accomplishment of a special purpose. They are usually formed by peers, who have com together for mutual assistance in satisfying a common need (Katzand Bender, 1976).

¹ Apex financial institution for agriculture and rural development which has facilitated and promoted the SHG bank linkage programs in India. Its mission is to promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

In India, SHGs have federated into larger organizations. Typically, about 15 to 50 SHGs make up a Cluster /Village Organisation (VO) with one or two representatives from each SHG and with several inter-groups decision making structures. The most important SHG's institutional model is the SHG-Bank Linkage Model (SBLM), and in India three different schemes of linkage of SHGs to the financial institutions have emerged:

- **I.** Banks, themselves, form and finance the SHGs.
- II. SHGs are formed by NGOs, Government and other agencies but financed by banks.
- **III.** Banks finance SHGs with NGOs and other agencies as financial intermediaries.

Types of Self Help Promoting Agencies:

Most SHGs are formed with assistance from a promoting institution – 'Self Help Promoting Agencies or Institutions' (SHPAs; SHPIs), but others are formed by themselves. The main types of Self Help Promotion Institutions (SHPIs)² include:

- Non-governmental organizations (MYRADA, PRADAN, DHAN Foundation and CARE-NGO),
- Government (Departments of Panchayat Raj & Rural Development, Women & Child Development, Women Development Corporation, and Tamil Nadu Corporation for Development of Women),
- **Poverty Reduction Programmes** (Kudumbashree, Indira Kranti Patham (Velugu), Vazhundhu Katuvoom, MAVIM, and Mission Shakti)
- State and Commercial Banks (ICICI, HDFC)
- SHG Federations, Cooperatives, Cooperative Banks,
- Microfinance institutions, VVVs or farmer's clubs,
- Individuals ('social entrepreneurs') and, SHG leaders (may promote SHGs).

2. The policy initiatives and its impact

The following are the enabling factors at the macro level in India for the SHG success:

I. **National Government's SHG policy:** Proactive policy guidelines & financial support from Government of India for promoting women SHGs through the State Governments

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² (Harper, 'Do We Really Need SHG Federations?', 2003)&(Reddy, Rao, Ramalakshmi, & et al, 2007)

- II. Capacity Building and training for financial market: Policy guidelines and appropriate training and capacity building programs to the nationalized banks to engage in SHG Bank linkage
- III. State governments strategies for promoting of SHG: Different policies and strategies adopted by some state governments to give impetuous to the SHG system, ranging from, setting up Ministries of SHG, promoting autonomous public societies, accessing significant external funding (IFAD, World Bank, DFID UK, etc), promoting SHG federations, and systematic capacity building

Government: Many government departments have recognized the potential of SHG federations and use them in delivering their services. Among them one can name some examples such as the departments of women and children development, rural development, health, and Panchayati Raj.

Reserve Bank of India (RBI): In 2006, RBI issued a circular whereby introduced an innovative concept called Business Facilitator and Business Correspondent. This concept aims at furthering the goal of universalization of financial inclusion. Registered SHG federations could act as either a Business Facilitator or Business Correspondent of a bank to provide a full range of banking services as an agent of a formal financial institution.

NABARD: It has recognized the importance of federations in promoting development. It has also issued a circular facilitating financial support under the micro finance development equity fund (MFDEF) to the SHG federations and has decided to support them on a model neutral basis.

3. Key Institutional Arrangements Enabling Services, Scale and Impact

There have been many innovations and critical factors in terms of institutional arrangements to ensure the SHG scheme performance and impact.

I. Governance Mechanisms at the State Level Promoting Institution:

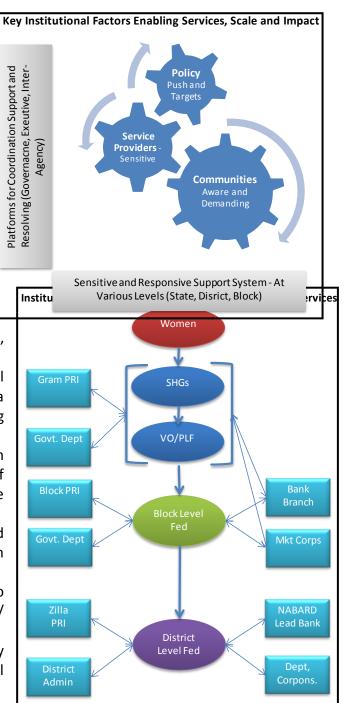
- Usually a 'registered state promoted Society', which ensures 'authority and power' of the public sector, and 'flexibility' of the private sector
- High levels of 'political and bureaucratic will' to the initiative, plus top political leader and bureaucratic head support
- Two layers of governance (Governance Council and Executive Council) which ensure strategic and operational decisions to be taken on time
- Strong and long haul for the top leadership at the government agency (such as SERP, MahalirThittam, Kudumbashree, etc.)
- Advisors and steering group members included experts from civil society, government, and external partners (such as the World Bank, DFID, IFAD, etc.)

II. Implementation Arrangements at the State Level Promoting Organisation:

- An independent implementation organisation established, with top leadership and with professionals selected or deputed for long term periods
- Focus on communities and participatory processes like in civil society organizations
- Authority and power of the Government
- Efficiency, strategic management, and results orientation of a corporation

III. Community Institutional Architecture at Various Levels:

- Multiple tiers which facilitate linkages between neighbourhood groups, villages, local governance and bureaucratic system
- Local informal groups and higher level formal registered groups, to enable a regulated structure, while maintaining 'flexibility' at the grass-root level
- Formation of groups largely through participatory processes, guided by a set of guidelines that enabled accelerated scale up
- A clear 'mother-CBO' approach, combined with multiple 'interest groups' based on the local needs and priorities
- Financial inclusion agenda key to maintaining stake of the members/ member organisations within the group
- Institutional and Financial Sustainability aimed at third tier of the institutional architecture



IV. Services Linkages Arrangements at Various Levels:

- Mainly being at appropriate levels, and with mainstreamed institutions as much as possible (government departments, banks, financial institutions, and corporations)



- Establishing community-led initiatives in locations or services where no linkages exist.
- Well established coordination mechanisms and performance measures across departments and service providers
- Specific investment and support systems to ensure effective implementation

V. Capacity Building Support Systems at Various Levels:

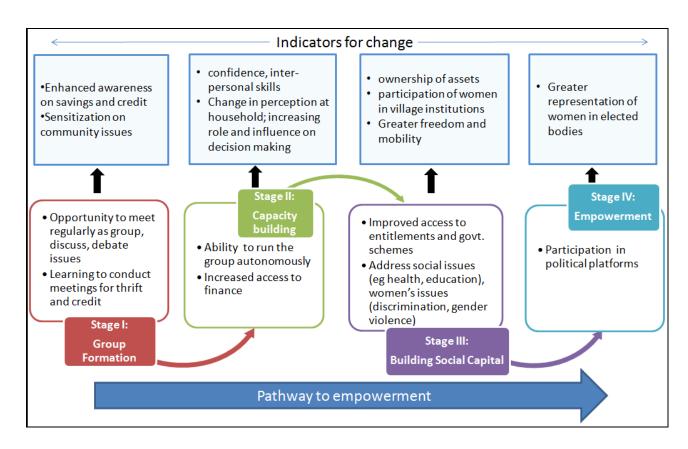
- Continuous generic and thematic capacity building
- Use of NGOs/ Civil Society Organisations as resource for adequate participatory skills and approaches
- Promoting Community Resource Persons to support other States
- Good combination of methodological approaches, along with classroom training and handholding support
- Linking up large Government Training Infrastructure for capacity building at a scale
- Standardised and customised training and facilitation materials

VI. Financing Models for the Initiative:

- Ongoing funding through a combination of State and Central funds
- Cost of promotion and capacity building standardised and provided
- Cost leveraging with communities and service providers contributions
- Sustainability models for each tier and service, including service fee based system

VII. SHGs as a platform for women empowerment:

The stages of a SHG progression from a financial intermediation platform to a community institution of empowered women are the following:



- **Stage I**: SHG provides a new opportunity for women to come together, meet regularly, discuss, debate and exchange views on important common issues
- **Stage II**: The emerging financial power through their association with SHG contributes to increase women's influence on household decision making
- **Stage III:** Women start assuming a larger role in their communities like community work, monitoring and implementation of government programmes and schemes and participation in community meetings. They are now seen as active participants in village community
- Stage IV: Women graduate from being participant in social and political platforms to a more empowered role where they could successfully contest elections, and assume political power

Annexure 1: RBI and NABARD policy decisions

Three major policy decisions in 1992:

- Banks could lend to SHGs without ascertaining the purpose for which the loan was being taken by the eventual horrower
- Banks would undertake lending to groups without physical collateral.
- Banks would be allowed to lend to unregistered groups

Funding and Capacity Building Support to Self Help Promoting Institutions (SHPIs)

- NABARD established micro-Credit Innovations Department (mCID) to spearhead the SHG Bank linkage Programme in India
- Banks lending to SHGs is considered as priority sector lending
- Issued necessary policy guidelines for the Banks to lend to SHGs
- Providing grant support to more than 10,000 NGOs to perform the role of SHPI
- Provided financial assistance to Regional Rural Banks and Cooperative Banks to perform the role of SHPI and built their capacities to engage in SHG Bank linkage
- Evolved an SHG grading system to facilitate banks loans to SHGs based on their grade (A, B or C) with savings to credit leverage ratio of 1:1 to 1:10
- Through national and regional training centres, trained almost all the branch managers and other bank officials and government officials on SHG bank linkage
- Proactively supported the State Level Bankers Committees (SLBCs) to issue State-specific guidelines from time to time to facilitate SHG Bank linkage
- Funded Innovations for promoting livelihoods among SHG members to optimally utilize bank loans (financial literacy, enterprise promotion, agriculture extention)
- Provided funding support for use of technology for financial inclusion
- SHGs and SHG federations recognised as Business Facilitators and Business Correspondents to facilitate universalization of financial inclusion
- Developed Cash Credit Limit (CCL) as a flexible loan product to SHGs, in addition to the term loan that has been in vogue since inception of SHG Banking
- Directed all the Commercial Banks in India to lend to SHGs at 7% interest per annum

State Level Bankers Committees (SLBCs)

- In each State, the SLBC is chaired by the Chief Minister of the State. One of the Commercial Banks designated as the Convenor of the SLBC, which serves as a mechanism for coordination & synergy among State Government, Banks, NABARD& RBI. SLBCs are supported by District Level and Sub-District Level Bankers Committees. These committee meetings are held quarterly.
- To give special focus to SHG Bank linkage, SHG Steering Committee set up by SLBC in most of the states.
- Annual targets for SHG Bank linkage and for various other government schemes are set in SLBCs and the progress reviewed in the quarterly meetings.
- SLBCs provide necessary guidelines to the bankers from time to time
- Some of the Commercial Banks established specialized branches for microfinance and SHG Bank linkage

Annexure 2: Major policy initiatives Andhra Pradesh State Govt in 2 decades (1994-2014)

Scaling up of SHG movement during 1992-96 with active engagement of District Rural Development Agencies (DRDAs) of Government of Andhra Pradesh

Implementation of UNDP's South Asia Poverty Alleviation Program (SAPAP) by Government of Andhra Pradesh in three districts of the State as a pilot project.

Based on the experience & learning from the SAPAP, in the year 2000, Govt of Andhra Pradesh promoted an autonomous institution called Society for Elimination of Rural Poverty (SERP), as a public society for poverty eradication in rural areas.

Government of Andhra Pradesh evolved the institutional model of SHGs – Village Organizations – Sub-district Level federation (locally called as MandalMahilaSamakhyas) – District Level Federation

Implementation of large-scale world bank funded District Poverty Initiatives Project (DPIP) by SERP in six districts of the State (2000 – 2005)

Implementation of Andhra Pradesh Rural Poverty Reduction Project (APRPRP) in the remaining districts of the State by following a saturation approach (2003-2012), building on the experiences of the DPIP project.

SERP provided Community Investment Fund (CIF) as a "seed capital" for the SHG federation to lend to those SHGs that are not able to access bank loans.

More than 45,000 SHG federations at village, sub-district and district level registered under the liberal cooperative law to function as autonomous & self-reliant organizations

Both DPIP and APRPRP projects adopting a holistic approach to address rural poverty by piloting innovative models to target the poorest of the poor, persons with disability, to improve incomes focusing on sustainable agriculture & marketing, special focus on dairy sub-sector, nutrition & health, social security, etc

Developed a large pool of community resource persons from among the best practice SHGs in the form of book keepers, trainers, auditors, bank linkage facilitators (bank "mitras"), insurance facilitators ("BhimaMitras"), etc. Considerable investments made in the capacity building of SHGs, SHG federations and the staff recruited by SERP.

Provided interest subvention (subsidy) on bank loans to SHGs to ensure that the effective interest rate on bank loans to SHGs is 4% per annum for a period of eight years and more recently the SHGs repay only the principle amount of bank loans in monthly instalments and the interest is paid by the State Government directly to banks.

Promoted a co-contributory insurance cum pension scheme for SHG women in collaboration with Life Insurance Corporation of India (LIC)

Promoted an apex financial cooperative financial institution (called SthreeNidhi) to provide supplementary loans for SHGs, specifically for emergencies and livelihoods.

Made significant investments in using technology for strengthening the SHG movement (web-based database for SHG Bank linkage, use of mobile phone for web-based book keeping and for monitoring various project activities.

Through appropriate Government Orders, ensured a formal role for the SHG federations in various rural development programs like watersheds, rural employment guarantee scheme, distribution of old age & widow pensions, management of mid-day meals program in schools, effective management of day-care centre for children, etc.

Annexure 3: Different SHG models in the country

