

Self Help Groups as Vehicle of Empowerment

1. An Overview of SHG movement in India – History, Models, Coverage, Key Milestones

Evolution of SHGs as an institutional model of development at a scale:

The emergence of SHG movement in India can be traced to the informal groups which historically people formed with others who have something in common with them, and oppressed people joining together to overcome the barriers they face. Soon after independence Government of India was concerned about the low access of the rural poor to formal credit system. The efforts of NGOs in promoting SHGs which could be used to provide credit and other banking services to the marginal sections of the society made policy makers look at the informal groups as one of the possible options and a vehicle to push the access.

- 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 Panchayat'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 coverage in India has seen exponential growth. With around 500 SHG being linked to banks in 1989, the numbers increased to 2.63 Lakhs in 2001 and 7.9 Million SHG with estimated members of 30 million in 2013.

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.

Models of SHG:

SHGs that came to be promoted by Indian NGOs, banks and government agencies can be described as a form of ASCA (Accumulating Credit and Savings Association). This form of SHG is effectively a micro bank as it raises equity and deposits, as well as external funds, and on-lends them. Most SHGs are formed with assistance from a promoting institution – ‘Self Help Promoting Agencies’ or SHPA (*Also called Self Help Promotion Institutions (SHPIs)*). The main types of Self Help Promotion Institutions (SHPIs)² are:

- **Nongovernmental organizations (NGOs)** like MYRADA, PRADAN, DHAN Foundation, Outreach, SEWA, VVD, PEDO, IBTADA, ASSEFA, CYSD, PANI, NEEDS, Chalana network, and CARE-NGO partners some of the names which took the lead in promoting Self-Help Groups (mostly of women) around income generation activities using local skills
- **Government:** Governments Departments for example Panchayat Raj & Rural Development, Women & Child Development, Women Development Corporation and Tamil Nadu Corporation for Development of Women
- **Poverty Reduction Programmes** include Kudumbashree, Indira KrantiPatham (Velugu), VazhundhuKatuvoom, MAVIM and Mission Shakti.
- **Special Government projects** like District Poverty Initiative Project, Rural Livelihood Project
- **Banks**, such as ICICI, HDFC
- **Cooperatives**
- **Microfinance institutions**
- **VVs or farmer's clubs**
- **Individuals ('social entrepreneurs') or SHG leaders (may promote SHGs)**

SHG-Bank Linkage Model:

Most important institutional model for linkage that has led to large scale impact is the SHG-Bank Linkage Model (SBLM). In India, three different models of linkage of SHGs to the financial institutions have emerged:

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

The second model is the most popular model. Almost three-fourths of all the SHGs come under this model. Only 20% of the SHGs are covered under the first and 8% under the third model respectively.

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

SHGs have also federated into larger organizations typically, about 15 to 50 SHGs make up a Cluster /VO with either one or two representatives from each SHG. Depending on geography, several clusters or VOs come together to form an apex body or an SHG Federation. At the cluster and federation level, there are inter-group borrowings, exchange of ideas, sharing and discuss issues of common interests.

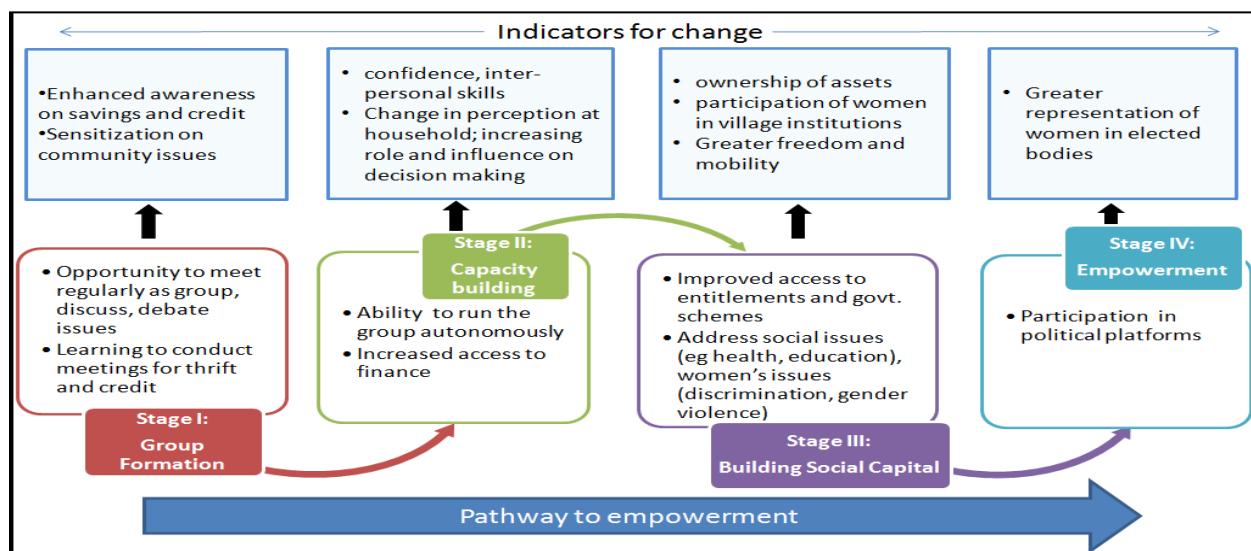
2. Key Impacts of SHG Movement – Empowerment of Women

Over the past decades, the Self Help Groups (SHG) movement in India has emerged as an effective platform to address socio-economic empowerment of women.

SHGs as a platform for women empowerment:

The SHGs or its earlier variants that were started in India in '80s, initially served as a financial intermediation platform for poor rural women who did not have access to basic financial services. The basic mechanism of the group where 10-20 women would come together to grow their savings and to access credit which banks are increasingly willing to lend, *gradually evolved into a financial plus social platform where women now increasingly discuss and take action on community and women's issues like- health and education, livelihoods, water and sanitation, access to entitlements and government schemes and prevention of social evils like dowry, alcohol and gender violence.*

In the typical pathway of a SHG progression from a financial intermediation platform to a community institution of empowered women, a few distinct stages can be identified:



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

Empowerment in Action

A study³ conducted in six states (Andhra Pradesh, Karnataka, Maharashtra, Orissa, Uttar Pradesh and Assam) in five different regions across India suggests that SHGs in general have made a *positive impact on socio-economic condition and poverty of SHG members and their households*.

Economic Empowerment: SHG has enhanced ability of members and their households to leverage savings and credit for investment in livelihoods promotion and in meeting consumption related expenses; members have improved financial literacy, have more household assets and generally exercise greater influence in household decision making. Evidence from different SHG programmes suggests *significant increase in income level of members*. The study in six states concludes that for SHG members, *60 per cent of women members reported increase in ownership of productive asset* post SHG while 22.9 per cent women reported taking decision on household matters compared to 9.1 per cent pre-SHG.

Social Empowerment:

SHGs have contributed to the social empowerment of women by *expanding their sphere of influence* and linkages, by enhancing their capacity to engage with the markets and finally by giving them more power to make choices on social investment for themselves and their family. The social empowerment of women has also led to *change in perception and shift in attitude of society towards women* in general. In the six state study, about 92 per cent of the households with a women SHG member reported increased social empowerment of women since their membership of SHG over a period of time. In the same study 70 per cent of women reported improved ability to face health related problems in their family.

Political Empowerment:

As a sign of political empowerment, women members of SHGs now increasingly participate in electoral process at all levels and many women now assume important positions as political representatives. Many of the Kudumbashree and SERP women have been elected to local constitutional bodies and a former member of Kudumbashree is now a minister in state of Kerala. Increasing representation of SHG women in elected bodies is likely to make a significant impact on the gender dimensions of policy and governance.

³ 'Impact and sustainability of SHG bank linkage programme', by National Council for Applied Economic Research for GTZ-NABARD

3. Major Enabling Policy Initiatives

According to the All-India Debt and Investment Survey of 1981, some 250 million of the rural poor still had no access to formal finance, despite years of massive branch expansion, priority credit programs for rural areas and numerous donor credit lines. The National Bank for Agriculture and Rural Development (NABARD), carved out of the central bank in 1982, analysed the reasons behind the failure of reaching the rural poor: a sole emphasis on production loans, prohibitive transaction costs for lenders and borrowers, failure to mobilize savings, and overly complicated procedures.

During the second half of the 1980s NABARD took a first step turning from the old world of supply-driven to a new world of demand-driven finance.

With approval from RBI⁴ and an authorization for banks to open savings accounts for informal SHGs⁵, NABARD started a pilot project in 1992, contributing to the goal of solving the perennial problem of rural indebtedness and poverty in India. Results were promising, and NABARD decided to mainstream SHG banking on a national scale: setting up a Credit and Financial Services Fund in 1996 for extensive capacity-building and a Micro Credit Innovations Department (MCID) for program implementation in 1998, with MCI cells in every state. Transaction cost studies in the 2002s found that SHG banking was highly profitable to banks (Seibel and Dave 2002), and borrower transaction costs were low for SHGs and members (Karduck and Seibel 2007). Since then the number of SHGs established by NGOs as well as State Govts and bank has grown at tremendous speed⁶. As reported by NABARD at the Microfinance Summit 2011⁷, as of 31/3/2011 7.5 million SHGs had opened bank savings accounts, with an outreach to some 100 million members⁸, covering a population of around half a billion; total bank deposits amounted to Rs69.26 billion (\$1525 million).

There are a number of reasons for the rapid growth of the SHG system in India over the past 15 years. The following are the enabling factors at the macro level in India for the SHG system to achieve scale:

⁴On 24 July 1991 RBI issued a circular to commercial banks (RPCD.No.Plan.BC.13/PL-09-22/90-91), advising them to actively participate in a non-mandatory pilot project, refinanced by NABARD.

⁵ RBI circularDBOD.No.BC.63/13:01:08/92-93, January 4, 1993

⁶The rapid growth in outreach has been made possible by drawing on a wide array of institutional resources as India's *social capital*: Nabard as the prime mover and refinancing agency; the formal financial sector providing deposit services and credit; NGOs and GOs with experience in group development as facilitators; RBI which adjusted the policy framework for banking relations with informal groups; and the political leadership at union and state levels. At the same time the program has drawn on India's *human capital*: the competence and enthusiasm of the staff in participating agencies; and the willingness and of people from the lowest classes to form a group, meet regularly, pool their minuscule savings, lend to members, and establish a documented track record of financial intermediation. On that basis, the groups are then permitted as informal entities to open bank accounts and obtain bank loans, onlend to their members on terms autonomously decided by each group. In India small groups with financial activities attract predominantly women, even if no such bias is built into the program design; over 90% of the group members are women. Neither social nor human capital would suffice were it not for the *financial capital* created by the program: steadily increasing internal resources of the groups, generated through savings and profits from interest income; high profitability of SHG banking as a financial product of the banks (higher than other rural financial products); and bank refinancing by NABARD. (Seibel 2006)

⁷These figures differ slightly from those reported by Srinivasan (2012).

⁸Average group size seems to have dropped from around 15 to somewhat above 13.

- Proactive policy guidelines and financial support from Government of India for promoting women Self Help Groups (SHGs) through the State Governments.
- Policy guidelines and appropriate training and capacity building programs to the nationalized banks to engage in SHG Bank linkage
- Many State Governments, particularly in the South of India, developing state-specific policies and innovative strategies to give impetus to the SHG system.
- State Governments promoting autonomous public societies to take on the responsibility of promoting women SHGs & SHG federations as an effective poverty reduction strategy by following a holistic approach.
- State Governments accessing significant external funding (IFAD, World Bank, DFID UK, etc.) for promoting SHGs and SHG federations and systematic capacity building
- Some State Governments established a separate Ministry for the SHGs.

Government

Many government departments have recognized the potential of SHG federations and use them in delivering their services. The women and children development departments, rural development departments, health departments, the Panchayat Raj departments, educational departments and organizations, which are involved in HIV/ AIDS, human right issues, livelihoods, water and sanitation are increasing partnerships with federations. They are even willing to pay for the services of the federations.

The state governments have been the major promoters of SHGs and their federations as far as their outreach is concerned. While NGOs have performed their role in piloting the SHG model, it has been proved beyond doubt that promotion of SHGs in all the poorer areas of India and mainstreaming the SHG model in the development intervention is only possible through the state governments.

Reserve Bank of India: The central bank of the country has been deeply concerned about the financial exclusion of the large proportion of India's population as they do not have access to formal financial institutions. In 2006, RBI issued a circular by introducing an innovative concept called Business Facilitator and Business Correspondent to further 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 last mile connectivity to banks to provide a full range of banking services as an agent of a formal financial institution.

NABARD: The NABARD, the apex financial institution for agriculture and rural development, which has facilitated and promoted SHG bank linkage programs in India, has recognized the importance of federations in sector development and general development including the promotion of livelihoods. Recently, NABARD issued circular facilitating financial support under the micro finance development equity fund (MFDEF) to the SHG federations. Considering the emerging role of the SHG Federations and their value addition to SHG effective functioning and sustainability, NABARD has decided to support the Federations of SHGs on model neutral basis.

RBI and NABARD Policy Decisions:

Three major policy decisions in 1992:

1. Banks could lend to SHGs without ascertaining the purpose for which the loan was being taken by the eventual borrower.
2. Banks would undertake lending to groups without physical collateral.
3. 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 extension)
- 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

4. Key Institutional Arrangements Enabling Services, Scale and Impact



Enabling Practices and Key Areas of Concerns:

Governance Mechanisms at the State Level Promoting Institution:

- Organisation is usually a '**registered state promoted Society**', which ensures '**authority and power**' of the government, and at the same time '**flexibility**' of an independent civil society organisation/ company
- Thrust is on ensuring consistently high levels of '**political and bureaucratic will**' to the initiative, and therefore the top political leader or bureaucratic head, heads the institution (Chief Ministers or Principal Secretariats)
- **Two layers of governance** followed – Governance Council and Executive Council, which ensures decisions are taken on time, both at strategic and operational level
- **Representation of key departments** or institutions and governing board, as convergence is the key to the intervention
- **Strong and long haul for the top leadership** – in most of the models the top leadership of the implementation agency (such as SERP, MahalirThittam, Kudumbashree, etc.) are given 5-10 years of timeframe as the leader, without change (which is quite different from the normal government system)
- Advisors and steering group members included experts from civil society, government, and others, and also the representatives of the 'external funders' (such as the World Bank, DFID, IFAD, etc.)

Challenges:

- Political representation while providing great opportunity to drive agenda, also sometimes '**politicised**' issues and promoted strategies that are not very effective (loan waivers, etc.)
- Bureaucracy, when lead it provides efficient delivery of activities, but **at times undermines** community voice
- As it is headed by Political or Bureaucratic leadership, their agenda gets in and sometimes the community institutions are used more of **last mile delivery mechanisms** for the government or political agenda

Implementation Arrangements at the State Level Promoting Organisation:

- An **independent** implementation organisation established, with leadership coming from the government (on posting; and usually 'hand-picked') and with professionals selected or deputed, and provided a long haul
- Organisations operated like this:
 - o **Focus on communities** and participatory processes like a civil society
 - o **Authority and scale** of the Government
 - o **Efficiency and results orientation** of a corporate
- Systems, processes, investments – **more like a corporate**, with result based management systems, indicator based monitoring, looking at unit costs and efficiency in reaching

Challenges:

- Many **issues while mainstreaming** – at all levels, and across different institutions (the society staff are more seen as 'privileged persons' while dealing with the government; Society a replacement of the Government system; etc.)
- Standard criticism about the **leadership is that it is an one man show**

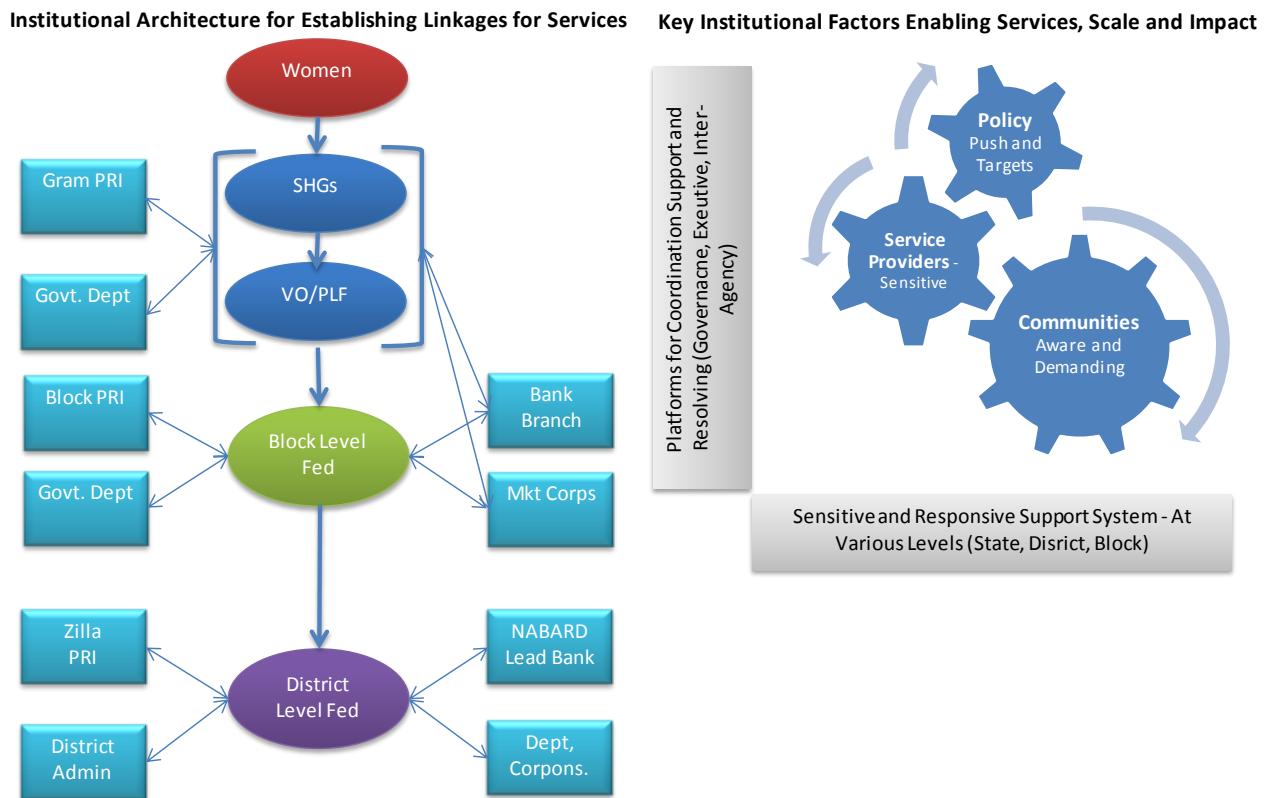
Community Institutional Architecture at Various Levels:

- **Multiple tiers**; starting from neighbourhood groups to villages, and then block and district – points of aggregation at levels with the local governance and bureaucratic system, facilitating linkages at these levels
- **Local informal groups and higher level formal registered groups**, to enable a regulated and structured organisation, while maintaining 'informality' or 'flexibility' at the grass-root level
- Formation of groups largely through **participatory processes**, but guided by a set of good practices/ guidelines that enabled accelerated scale up while maintaining uniformity in principles and approaches
- 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 with the group

- **Linkages that are appropriate at each level**, critical ingredient in all the models
- **Institutional and Financial Sustainability** aimed at third tier of the institutional architecture

Challenges:

- **Uniform approaches** across locations, which may not have fully reflected the principles, but goes with systems and processes
- **Staff' involvement** in management and governance particularly at the apex bodies



Services Linkages Arrangements at Various Levels:

- **Linkages for variety of services** – mainly being with the government departments, banks and financial institutions and to some extent with corporates – at **appropriate levels**, and with **mainstreamed institutions** as much possible (credit, insurance, entitlements, agriculture, marketing, dairy, poultry, etc.)
- In locations or for certain services where there are no linkages possible, establishing **community-led initiatives**

- **Well established coordination mechanism** and performance measures across departments and service providers to ensure services linkages
- **Specific investment and support systems** to ensure effective implementation

Challenges:

- There are **issues with the linkages** – with different organisations and different approaches, requiring constant monitoring, support
- Community self-managed institutions needing professional support wherein **balancing between community governance vs professional support** have been a problem; also sustainability of the institutions

Capacity Building Support Systems at Various Levels:

- **Generic and thematic capacity building that is continuous** at various levels, and linking the themes to the evolution of SHGs and the themes that they support
- Use of **NGOs/ Civil Society Organisations** – as resource organisations at various levels to start with, who bring in adequate participatory skills and approaches
- Over a period, promoting **Community Resource Persons** at each area, who are now available as support to other States too
- Methodologically, a **good combination of approaches** - exposure/ cross learning, along with classroom training and handholding support
- Establishing/ **linking up with large Government Training Infrastructure** for continued capacity building at a scale
- Standardised and customised training and facilitation materials, kits, updates – a continuous process

Challenges:

- Ensuring that **time and resources** are provided as required
- Keeping the **capacity building support in tune with the maturity of SHGs** – for e.g. limited support in the areas of marketing, livelihoods, etc. , while the training with respect to institutions have been reasonable
- **Assessing the effectiveness** of the training and also the trainers/ support system

Financing Models for the Initiative:

- Starting up of the initiative for testing and piloting – **externally funded, small funding** – that was taken up more of an action research
- Scaling up largely through ‘external funded’ projects, which provided not only focussed and adequate funds, but also ‘push’ to ensure that the work is done as per plan and with quality
- **Continuous funding** ensured through a combination of State and Central funds – through ‘Plan’ funds
- Cost of promotion and capacity building **standardised** and provided for

- **Cost leveraging** with contributions coming from efforts of communities, the leveraging of the service providers' base
- **Sustainability models** for each tier and each service model, including service fee based system

Coordination Mechanisms:

- Effective **coordination system** with representation from various agencies at various level, led by the government
- **Two layers of governance** helping both – the will of the political and bureaucracy, and also the funds and policies for the initiative
- **Field level coordination mechanisms** with community leaders and local stakeholders; chaired by appropriate authority from the government, helping to bring focus and timely decisions

Challenges:

- While there are decisions taken on time, there are **new agenda and expectations** raised from stakeholders, particularly authorities of the government
- Ensuring that **all key stakeholders present** in these meetings

Highlights

SHGs in India have certain important factors which have contributed to their success as vehicle for women empowerment. These include:

- Strong involvement and supervision of state governments
- An 'inclusive approach' focusing on effective targeting of the poor
- Robust implementation systems
- The centrality of community participation manifest through identifying and nurturing community leadership
- Continuing capacity building along with skill building support with the overall focus on poverty alleviation and empowerment
- Strong belief in building strong, sustainable, vibrant community institutions to ensure social and human development
- The programmes have moved beyond sectorial improvements in addressing vulnerability holistically by accessing social safety nets and entitlements
- The programmes have experimented successfully with making available initial capitalization funds and then actively facilitating access to organized credit and strengthening internal financial discipline.

Global Connect Potential

Across globe, focus is on empowering women economically by engaging them both as individuals and as group. Most of the LICs have their own functional models. The reach and impact of the SHGs in India does offer opportunities to learn and adopt in LICs to enhance the impact of their own programmes. The Knowledge Partnership programme

supported by DFID facilitated showcasing three successful Indian SHG models, Kudumbashree, Jeevika and SERP at Addis Ababa, Ethiopia, early 2014, at a workshop. This generated interest among women groups and Government of Ethiopia to understand the scope of reliability of successful models like Kudumbashree of India in Ethiopia.