



CURRENT MODEL OF SELF-HELP GROUP IN INDIA

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ABSTRACT

SHG based microfinance has emerged as a tool to alleviate poverty and empower women. The micro finance and shg models that started as providers of credit and a savings vehicle have now expanded and are moving to providing a wide array of financial services to the poor which include deposit, savings, pension, and insurance products. This paper is an attempt to take the review of impact Shg movement in India.

KEYWORDS: SHG based microfinance , alleviate poverty and empower women.

INTRODUCTION

Fenezia was living in the Dominican Republic (DR) in the Caribbean Islands with few visible prospects for her future. She was 18 years old and she did not have a job or any opportunities for further education. She was willing to learn and to work hard at any job, yet there were no jobs available in her community. Fenezia received a loan of Rs2500 to start a small business. She used the money to purchase a stove and the ingredients to make donuts. After only four months of cooking and selling donuts, Fenezia now supplies her donuts to six neighborhood convenience stores. Each week, she has nearly Rs 2500 in sales from her product. Fenezia spends Rs500 in weekly expenses, giving her a profit of nearly Rs2000. She recalls that this is the first time in her life that she has had more than Rs1000 of savings. In the future, Fenezia would like to expand her business even further and save money to buy her own home.

Stories such as one's above are a result of the microfinance movement that has expanded over the globe. The origin of microfinance is the brainchild of Grameen Bank of Bangladesh, which was founded by Muhammad Yunus. Microfinance started and formed in 1975. In India, NABARD initiated the self-help group concept in 1986–1987. After 1991, commercial banks concentrated more on SHGs under bank linkage. A SHG is a small, economically homogeneous affinity group of rural/urban/tribal poor voluntarily coming together to save small amounts regularly, which are deposited in a common fund to meet members' emergency needs and to provide collateral free loans decided by the group(Chaudhary, 2008). An SHG is a group of about 20 people from a homogeneous class, who come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. 'The micro finance and the self help group movement in India have a wide reach in most parts of India. Today there are more than twelve million women impacted through more than 800,000 self help groups in India. In 2006 there were an estimated 64 million borrowers based on information from the Micro-Credit Summit Campaign a Washington DC based advocacy group. The microfinance and SHG movement has been evolving and today seems very different from when it all started. Both urban and rural poor are served by this vehicle. NGO's were the main players in this arena and we have seen that playing field change and diversify. Banks, Co-operatives and NBFC's have become major players today and a borrower can go to a local MFI or they can go their banks



or co-ops to obtain a micro loan. The sector is moving to a commercial model and profitability has become a key factor. The micro finance and shg models that started as providers of credit and a savings vehicle have now expanded and are moving to providing a wide array of financial services to the poor which include deposit, savings, pension, and insurance products. A lot of borrowers buy income generating assets with their micro loans and thus microinsurance is growing. MFI's are moving into the savings led model as well. This movement has brought financial services to the doorsteps of the poor.

There has been a lot that has been achieved through the current model. This movement has brought hope and launched thousands of micro and social entrepreneurs. It has helped the poor take the charge on getting themselves out of poverty. It has empowered women in a big way like no other movement. It has brought about a sense of community among members. Members have an understanding of financial services as it has been brought to their doorstep. It has also reduced the severity of poverty in a lot of instances.

There have been quite a few challenges along the way. The movement has not been able to reach the poorest of the poor. Profitability goals have negatively impacted development of the poor. Interest rates charged by a number of MFI's are unusually high. There are some organizations in South America that charge rates in excess of 100%. This is even worse than money lenders and needs to be regulated. Competition has had a negative impact as members are being added without any long term goals or plans. Government interventions have also played a negative role in impacting development. Subsidies have destroyed quite a few groups. Vote bank politics have played a negative role as politicians have tried to align shg's with their parties.

Capacity building has completely been neglected in the credit based model as MFI's have tried to push credit products without considering if the recipient has the capacity to effectively use the funds. Transaction costs of running an MFI operation remain very high. So what does the road ahead look like? One of the key aspects is as organizations move to a commercial model can they build a sustainable operation. Transaction costs are still extremely high which has driven up the interest rates charges by MFI's (Micro Finance Institutions). As noted above, this has negatively impacted the development of the poor. Based on all the data available it will be very difficult for MFI's to achieve sustainability and survive without subsidies just on a purely profit model if they are to achieve development goals. The other point that I would like to make is can we come up with a hybrid sustainability formula where subsidies can be used to build infrastructure and only operational costs directly related to customer contact are recovered in the initial years. We have to remember that this vehicle was launched to help the poor and not to take advantage of them or keep them tied into debt with exorbitant interest rates. This has also driven the movement away from the poorest and to safer clients who already own their own businesses. Who will serve the poorest of the poor?

Another critical factor to help the poor escape poverty is that their capacity needs to build and they need to be equipped to be able to run and operate businesses. There is a huge cost associated with capacity building and organizations have to take a serious look at incorporating these in their business model. Training needs to be provided to the poor so they are able to be effective players in our world today.

Micro entrepreneurs and the financial institutions that serve them could not remain insulated from the worldwide economic crisis. Less economic activity in the developed world meant less tax revenue and greater focus on domestic spending by Western governments. It also led to a drop in donations to international charities. Remittance flows dwindled, which negatively affected economic activities in towns and villages dependent on income from family members in other countries.

Technology needs to be used more effectively. This will also drive down costs. We have a great example of an organization called "KIVA" that has successfully used this to link the borrower to social lenders around the world. A person sitting in California is made aware of a capital need in Romania and can lend the \$25 needed for the business through a partner MFI in Romania. The transaction cost is a very low and it has turned out to be a very effective model. They have turned over an estimated \$5 million dollars in 2007.

With the current phase of expansion of the SHG – Bank Linkage Programme and other microfinance initiatives in the country, the MFI sector in India is now beginning to evolve. There are a variety of MFIs providing microfinance in India. The MFIs can be broadly sub-divided into three categories of organizational forms namely 'not for profit MFIs', 'Cooperative MFIs', and 'for profit MFIs'. While there is no data base in regard to the number of MFIs operating in the country, it is estimated that their number could be around 800. An overwhelming majority of MFIs are, however, small in size and are from NGO sector with clients ranging anywhere between 500 to 1000. The large MFIs are NBFC MFIs typically belonging to the 'for profit' category. In short, India has a large number of MFIs with diverse legal forms, varying significantly in size, outreach and credit delivery methodologies.

The role of Self - Help Groups in the empowerment of women is very important. The SHGs have achieved success in bringing women to the mainstream of decision making. There is a remarkable change in the personality of women after joining the SHGs. Mostly, members of the SHGs are women.

Finally there needs to be an environment that has at its core the values of justice, freedom and equality. These are key elements under which the poor will be empowered and be able to take steps towards exiting the poverty cycle. The organizations building the models have to believe in these values and live them out so that the poor are able to follow.

LIMITATION OF THE STUDY AND FUTURE STUDIES

The present paper has certain limitations, which must be reckoned with for the purpose of specificity and limited nature of the research paper. The study does not aim at an evaluation of the Shg Programme as it is a much wider task which needs detailed collection. The future studies may focus upon the following aspects:

Most of the SHG members belong to poverty groups and low socio-economic strata. The attitude of family members of SHG women is influenced by socio-economic conditions and sub-culture of poverty. The future studies may be focused on these aspects. Most of the empowerment and poverty alleviation programmes for women are not being implemented properly because of loopholes in the administrative machinery. So far, there are more studies on the strategies of social work intervention and the efficacy of social work methods at the time of working with women and their families. The future studies on women in the slums focus on the application of social work methods and their efficacy in working with the families and women.

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