



Reimagining SHGs

What is the issue?

SHGs had moved a long way but the average loan outstanding per SHG and percentage of non-credit linked SHGs has almost remained same.

How SHGs evolved?

- Self Help Groups (SHGs) are small groups of around 15-20 people, mostly women, formed for the purpose of imparting microcredit and encouraging micro-entrepreneurship and habits of thrift.
- The history of SHGs dates back to 1985, from the actions undertaken by the Mysore Resettlement and Area Development Agency (MYRADA).
- The SHG movement first started in the southern states under the leadership of MYRADA which imparted training to these groups on several grounds like organizing meetings, setting agendas, keeping minutes and accounts etc.
- **Phase 1(1987-1992)**-In this phase, NABARD was the main agency for helping out SHGs by assisting MYRADA through a grant of INR 1 million in 1987.
- In 1992, the RBI accepted the SHG model as an alternative credit option and the first SHG was linked by Bangarpet Branch of Vysya Bank in Kolar district, Karnataka.
- **Phase 2(1992-present)**-In this second phase, the linkage of SHGs and banks was done, with the unstinting support of RBI as well as IFAD.
- Examples of SHGs include [Kudumbashree](#) (Kerala), **Jeevika** (Bihar), etc.

What is the mode of working of SHGs?

- SHGs may be registered or unregistered.
- Comprises a group of micro entrepreneurs, coming together voluntarily to pool money.
- Members agree to contribute to a common fund and extend mutual help in case of emergencies.

- Loans may be taken by the members from the common pool of the group.
- Collective wisdom and peer pressure are used to ensure proper end use of loans and timely repayment.
- To make accounting simple, flat interest rates are used for most calculations.
- Once SHGs achieve a record of regular returns and a sizable pool of common capital, they become eligible to borrow from banks under NABARD's SHG-bank linkage program.

What are the salient features of a good SHG?

- Homogeneity
- Regular meetings
- Savings
- Book-keeping
- Accessing bank credit (usually 4-times their savings)
- Inter-lending
- On-time repayment

What is the current status of SHG-Bank linkage?

- At present, there are about 1.2 crore SHGs whose savings deposit is about Rs 37,500 crore and outstanding credit is about Rs 1,03,000 crore.
- But, average loan outstanding per SHG is at about Rs 1.80 lakh (Rs 15,000 per member considering 12 women per SHG) and percentage of non-credit linked SHGs at about 50%.
- The Micro Finance Institutions (MFIs) including NBFC-MFIs, NBFCs, SFBs, banks and others currently have about 10 crore loan accounts with loan outstanding of about Rs 2,47,000 crore while per member loan is about Rs 40,000.

What is the relevance of MFIs regarding SHGs?

- SHGs cater to the poorest and mostly rural clients and MFIs usually peri-urban.
- SHGs lend to members taking loans from banks while MFIs provide loans to clients through Joint Liability Groups, comprising of about five members and are jointly and severally responsible for loan repayment.
- MFIs operate in the social sector but are profit oriented whereas SHGs share profits from group lending amongst members.
- The process of Joint Liability Group formation and loaning is not as intensive, when compared to SHGs.

- About 70 per cent of the current loan portfolios of MFIs is in south and eastern region where SHG movement is strong.
- The Non-Performing Asset level in both these programmes is almost the same at 4-5%.

What are the benefits of SHGs?

- Inculcate the habit of thrift among villagers, particularly rural women.
- Persuade members to find additional income sources.
- Act as a conduit for formal banking services to reach poorer people.
- Leads to better financial condition of the women and in some cases have led to improvement in health parameters like nutrition and maternal mortality.
- A general improvement in the status of women within the household

What are the criticisms of the SHGs?

- In certain cases, due to lack of continued official support, the micro enterprises started by women SHGs may collapse.
- The educational status of the members is also below par, making financial management difficult.
- The lack of vocational education makes diversification into technical enterprises almost impossible.
- Aggregate data regarding actual governance of the SHGs- whether groups once formed continue to function effectively or not and other related themes are yet to be published.
- The discontinuation of the functions of the SHGs, lack of cooperation between the members, unavailability of bank linkages, favoritism among members are some of the other issues that need to be addressed.
- Increased work burden and responsibility of the household invariably falls upon women, stagnating the SHG movement.

How to make these models become sustainable?

- India requires multiple efficient models to reach the unreached.
- MFIs are cost effective vehicle for providing loans as compared to commercial banks yet, many rural bank branches can also provide micro loans if they strategise to provide loans to their existing eligible clients.
- If banks use the credit-card model of fixing loan limits, contours of micro credit will be changed for good.
- Providing financial literacy, guiding SHGs with micro-enterprises, ensuring end use of credit, marketing assistance and repayment,

livelihoods, etc. can be improved if NGOs and corporate banking correspondents transform themselves into an intermediary.

- The first loss guarantee to banks is a good idea whereby a third party compensates the bank if the borrower defaults.
- SKDRDP-Dharmasthala-Karnataka is a good example to replicate in this aspect if State governments provide patronage.

Shri Kshethra Dharmasthala Rural Development Project (SKDRDP) is a charitable trust promoted by Dr. D. Veerendra Heggade that concentrates on the empowerment of people by organizing SHGs on the lines of Joint Liability Groups and provides infrastructure and finance through micro credit for the rural people.

References

1. <https://www.thehindubusinessline.com/opinion/reimagining-shgs/article37955007.ece?homepage=true>



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