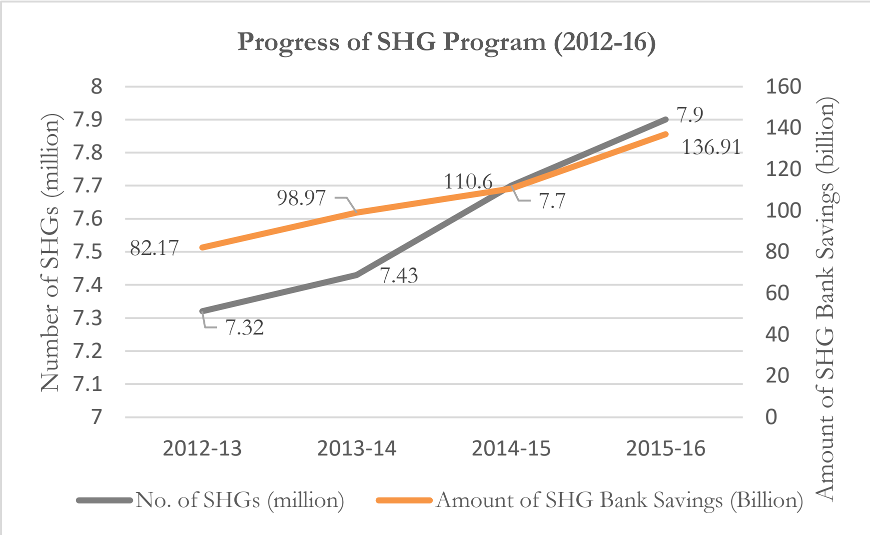
25 Years of Self-Help Group Linkage- Learnings from Models that have Worked

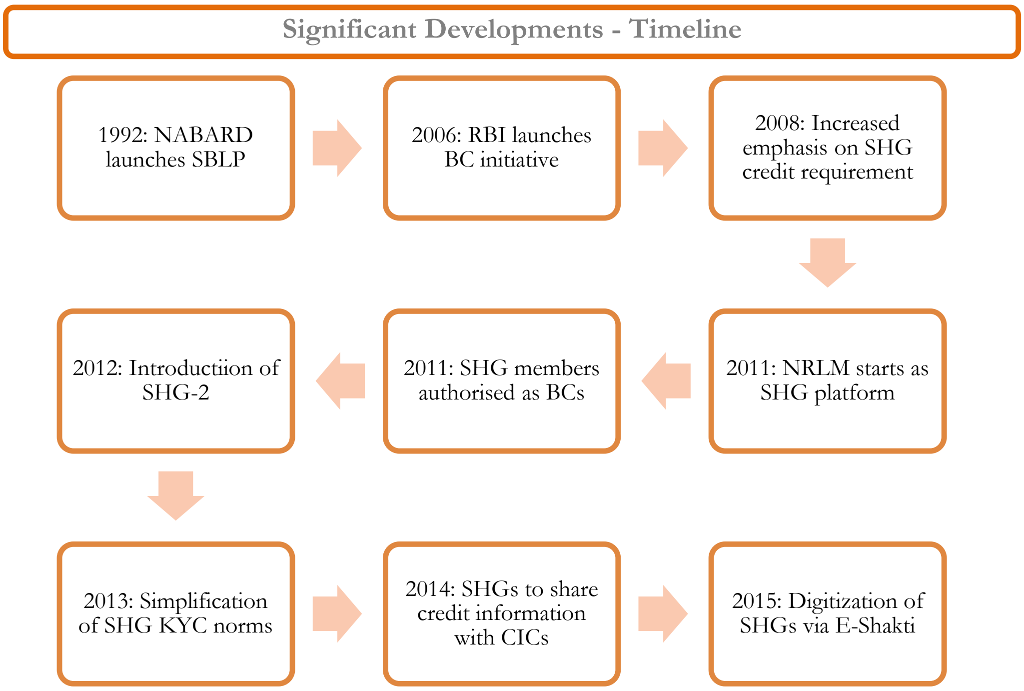
The self-help group (SHG) movement in India began in the early 1980s as a social mobilization tool, truly scaled-up when a NABARD led initiative in 1992 linked a small number of SHGs with banks under the SHG–Bank Linkage Programme (SBLP). 25 years since its existence, the SHG movement has evolved by acting as a platform for not just financial access but also as a means of social justice and mobilization thereby improving the overall welfare of its members.



As of March 2017, over 4.8 million SHGs had outstanding bank loans and 8.5 million SHGs had savings accounts with banks under the SBLP[i]. Apart from being an effective channel and means for the delivery of microfinance, the SBLP has also proven to be a great medium for social and economic empowerment for rural women. Today, these self-help groups are seen as more than just a conduit for credit – they also act as a delivery mechanism for various other services ranging from livelihood promotion activities, entrepreneurial training and community development programs.

Recent Developments in the Sector

Over the last five years, the sector seems to be moving towards further formalization of the SHG programme, with emphasis being laid on mainstreaming SHG data and change in the approach of the model from primarily acting as a financial mechanism tool to now adopting a more livelihood based approach for expansion of services provided under the SHG movement. Following is a brief timeline of some of the key developments in the SHG sector.



The support of the National Rural Livelihood Mission (NRLM) has played a large role in the resurgence of the SHG. The NRLM is involved not only in augmenting credit, but also in organizing and federating groups and providing them with support services through specialized vehicles such as the state livelihood missions. Furthermore, the proportion of SHGs associated with government programs rose from 30% in 2011-12 to 45% in 2015-16. These developments reveal the increasingly state driven nature of the community based SHG model.

NABARD along with RBI, in the last five years have also taken concentrated steps to increase the outreach of financial services among SHGs and empowering them, by introducing policies such as simplifying of KYC norms for SHG members, SHGs being granted the flexibility of forming joint-liability groups (JLGs) and authorizing SHGs to work as Business Correspondents (BCs).

Most recently, NABARD, in 2015, launched the 'Digitization of SHGs' under the E-Shakti initiative, with the objective of increasing transparency and monitoring for greater financial inclusion through increase in credit flow to SHGs, grading system-generated reports to be used by banks for SHG appraisal before credit linkage and better transparency in the operations/transactions of the SHG by way of SMS alerts for the SHG members. Moreover, digitization would facilitate the uploading of credit information of the SHGs to Credit Information Companies (CIC) in a more efficient manner by automating the entire process. This could potentially contribute to a better monitoring of the Non-Performing Assets (NPAs) as well as limiting the cases of over-indebtedness amongst individual borrowers.

Insights on impacts of SHGs

Positive effect on womens economic empowerment by way of incresed use of financial products and increased financial capital.

Improved self-confidence, status in the families and communication abilities leading to women being a larger influence in household decision-making process.

Higher positive effects among SHGs where health education, life skills training, and other types of information are shared and supported.

Challenges faced by the Sector

Sustainability and Quality of SHGs: remains a challenge across groups. While matured SHGs are meant to be self-sufficient, lack of constant hand-holding and support from the Self-Help Group Promoting Institutions (SHPIs) often have an adverse effect on the quality of SHGs, questioning the sustainability of the SHG model.

Regional Variation in Default Rates: While the average NPA level stands at 6 percent, as on March 2017, there seems to be a regional disparity in the NPA levels, with North-East regions and some other Northern states reflecting very high NPAs and states in southern regions highlighting low levels of NPAs. This points out to the fact that accelerated promotion of groups without adequate training and capacity building may not be an effective way for accelerating the SHG movement.

Convergence across Different Institutional Channels: Different institutional challenges provide financial services under different channels. Examples of these are PMJDY, DBT, NRLM, KCC, etc. This could lead to a situation where the same SHG member acquires these different services leading to potential over-indebtedness of the member/household causing an adverse impact on the overall NPAs.

Policy Implications

While the SHG movement has grown significantly in the last two and a half decades, it is important to chart a future course of action for the SBLP, keeping in mind the initial signs of distress in the sector. While the regulatory bodies such as RBI and NABARD have taken several steps towards further formalization of the SHG movement, significant challenges remain in terms of functioning and quality of groups, questioning the sustainability of the model. In light of this, it is important to invest substantially in training and capacity building of SHGs so as to strengthen their structure and improve the overall impact it creates on the livelihoods of its members. Lastly, policymakers need to pay close attention to convergence of different institutional channels to improve the services offered to the last mile. There have been instances where the same client is a member of SHG, JLG, SFB and an account holder of PMJDY, suggesting the scope for rationalization of channels using innovative techniques. The Government and the regulators jointly need to take concentrated steps towards this for better outcomes.

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