Chapter: III

SHGs’ Genesis, Objectives and Process of Activity in India

The concept of globalization has generated a gulf between the rich and the poor, and the third world economies becoming more vulnerable on all fronts. This is a matter of great concern for the policy makers, political scientists, the economists and the others to preserve the privileges of the vulnerable sections of the society including women (Sreeramalu, 2006, p.108). In this backdrop during the Ninth Plan (1997-2002), the Government of India has shifted its nature of welfare-based program from developmental policies to empowering policies; although, since independence to combat poverty, India has been adopting many welfare-based policies in different phases of five years planning. Consequently, in 1999, the Government introduced the policy of ‘Swarnjayanti Gram Swarozgar Yojana’ (SGSY)/‘Swarna Jayanti Shahari Rozgar Yojana’ (SJSRY) to alleviate poverty of the low-income group people and subsequently empower the marginalized section of the rural/urban society especially women. In this policy, SHGs are the basic unit for implementing the program. However, many formal and informal Micro-finance institutions also initiate to form some SHGs (Annex III.1) whose aim and objective as well as process of work are almost similar to those of SHGs under SGSY/ SJSRY.

Since, the major part of this work is related to the rural development and women emancipation that took place during the first decade of 21st century and as the interviewees are from those groups (that have some characters of enterprise) which are formed under SGSY scheme, this chapter attempts to take up different aspects of SHGs only under SGSY scheme.

3.1. Genesis of SHGs

Self-Help-Groups have originated as a variety of micro-finance system. It is a group-based micro finance approach (other approaches are Credit
Unions and Co-operatives, Village Banking Model, Individual Lending Model, Joint Liability Group Model, ‘Gramin Bank’ Model etc.) which includes socio-political development of economically marginalized people along with the improvement in income generation process. In India, the movement is popularly known as ‘SHG-Bank Linkage Model’ program.

In 1970s, various parts of the world experienced the failures of subsidized government that had resulted the emergence of new approaches like, co-operative movement or commercial microfinance to meet the demand of the financial services. Under this context, India saw the development of Self-Employed Women’s Association (SEWA). The association had developed in 1972 at Gujarat. Some women workers, belonging to the unorganized sector, had primarily organized this association mainly as a registered trade union. However, the association was also viable for its financial venture when four thousand members of it had set up a bank by contributing Rs.10 each as a share capital in 1974 and provided loans to poor women. The viability of SEWA had proved that there was a deficiency of finance in the formal financial system and for that reason NABARD in 1986-87 took a major effort to reach the financial needs of poor by granting of Rs. one million to ‘Saving and Credit Management of Self-Help Groups’ project of Mysore Resettlement and Development Authority (MYRAD). In 1988-1989 NABARD evaluated the project and received an encouraging result of rural saving and credit process, which again lead to launch a pilot project of linking 500 SHGs with banks in partnership with NGOs. For this purpose in 1991, Reserve Bank of India (RBI) issued an instruction to the commercial banks to extend credit to the SHGs, formed under NABARD project. In 1996, RBI went a step forward and took this issue as a mainstream activity under their priority sector portfolio. Thus, when the micro-finance program acquired a nationwide priority, Government of India by realizing its potentiality adopted the ‘Swarnjayanti Gram Swarojgar Yojana’ (SGSY) for rural locality and ‘Swarn Jayanti Sahar Swarojgar Yojana’ for urban locality in 1999 under the self-employment program for poverty alleviation process.

Anti-Poverty Programs of Indian economy are broadly classified into two categories – Wage Employment Scheme (JRY – Jawahar Rozgar Yojana) and Self-Employment Schemes (IRDP, DWCRA, TRYSEM, SITRA, GKY (Programs for rural area), NRY (Program for urban area). Actually, after
failing of the trickledown effect of economic growth, 1970 onward (especially in the Sixth Plan) Government of India had implemented distinct and direct anti-poverty plan in terms of ‘Self-Employment Scheme’. In this respect Nayyar pointed out, “(T)he direct approach to poverty reduction emphasizes that it is essential to directly provide the poor with adequate purchasing power, other assets or access to food grains at subsidized prices to meet their minimum consumption requirement” (Nayyar, 2005, p. 1632 ). The aim of this new program was to avoid the traditional growth approach and implemented special Poverty Alleviation Programs (PAPs) in order to reduce poverty level to 30% by 1985. “The scheme involved income generation for the poor, meeting their minimum basic needs (like rural drinking water supply, primary education, primary health care facilities, rural infrastructure and electrification, low cost housing and other social services ), and provide specific support for backward areas” (Stuijevenberg, 1996,p.8).

All these above-mentioned Self-Employment Schemes intended to serve a specified framework in order to prepare the economically marginalized people for self-employment and thereby enable them to overcome the curse of poverty. But the Planning Commission had reported in 1996-97 that 277 million people, in absolute terms, still were living below poverty level and were facing acute health hazards as well as short life expectancy birth rate (Pathak, 2008). Moreover, the statistical datas of 1990 on the issue of poverty in India, lead the Government to rethink on policies of anti-poverty schemes. Not only that, multiplicity of the programs being viewed as separate programs without a desire linkages among them that resulted a lack of proper social intermediation. Hence, the Planning Commission set up a committee under the chair of Prof. Hashim to review and rationalize the various centrally sponsored schemes for poverty alleviation and employment generation. With this background and suggestions from the committee, Government of India introduced the program of SGSY for rural areas and SJSRY for urban areas. According to SGSY guideline, “this holistic program” covers all aspects of self-employment such as organization of poor into self-help groups, training, credit, technology, infrastructure and marketing. With the coming into force of SGSY, the earlier programs like IRDP, TRYSEM, DWCRA, SITRA, GKY and MWS were no longer in operation (SGSY guideline, 1999,p. 1).
3.2. Objective of SHGs

The main objective of SHGs is to organize the economically marginalized people into a group for acquiring the assistance of micro-finance and thereby alleviates their position through the process income generating activities. The groups are formed also with an aim to mobilize the low-income group people towards socio-political awareness especially women (Jerinabi, 2006). It is based on the conviction that rural underprivileged in India have abilities and given the accurate support(s) could become successful producers of valuable goods/services. Thus the objectives of SHG could be categorized into four parts – (1) Poverty eradication, (2) Asset building, (3) Empowerment and (4) Establishment of human rights of vulnerable sections and awareness of socio-political issues (Sarkar & Dhar, 2011).

Hence, the Government of India has formed the policy of SGSY to bring “the assisted poor families above poverty line by organizing them into SHGs through the process of social mobilization, their training and capacity building and provision of income generating activities through a mix of bank credit and government subsidy” (Pathak, 2008, p.3). In this regard, the policy accepts the involvement of NGOs/Individuals/Banks as facilitators, /Self-Help promoting institutions in nurturing and development of SHGs including skill development and develop a market linkage process so that groups’ can put up their products for sale with a market rate.

3.3. Features of SHGs

SHG under SGSY as a variety of Micro-finance works in a group based community development approach. The programme was launched with a view of collateral responsibility of low-income group people in every aspect of monetary transaction of an enterprise.

i. It is a semi-subsidized scheme – the ratio of subsidy amount between central government and state government is respectively 75:25. Initially government sanctions a certain amount of money to a group in form of subsidy for the principal amount required for business
purpose; the amount is fixed on the basis of the respective group’s saving capacity. However, the major part of the business proceeds with the help of bank loan.

ii. Self-employment is the core concept of this program, though loan amount or subsidy is used for consuming purpose also. Generally, the group’s saving amount is used as a loan for members’ personal needs (as child’s education or treatment or repairing of house etc.) and the bank loan is generally used for the business purpose.

iii. For developing the capacity of low-income group people, the program organizes professional training and links the production of the group with the market.

iv. The policy emphasizes mainly on the formation of women’s group. However, male persons also in a large number form such groups. Moreover, there are few groups where male and female jointly constitute a group.

v. The scheme includes every socio-economic and political aspect of development of an economically marginalized person.

vi. The program is designed on a hierarchical structure - Federation (at block level) at the top, Cluster (at GP level) at the second strata from the top, Sub- Cluster at sansad level) comes next and SHGs (at village level) at the bottom.

vii. The program executes through DRDC and the administration of BDO. DRDC mainly conduct the program and Block Office supervises and nourishes the groups. DRDC organizes skill developing training program, fairs for trading products of the groups’, and other official works. On the other hand, office of the BDO through RP(s) (who is responsible for nourishing groups on behalf of government) and WDO supervises the SHGs of their respective areas.
3.4. Process of Activity of SHGs

Self-Help Groups broadly go through by three stages of evolution:

1. **Group formation, developing and strengthening of the groups to evolve into self-managed people’s organizations at the grassroots level**

   An SHG usually consists of 10-20 economically or socially homogeneous self-selected (in some cases NGOs, Banks take initiatives) low-income group of people who build up a fund with their savings and rotate the lending amount within the group. In case of physically disabled person, a minimum number of five may form this group. However, ideally a group is formed by 14/15 members and in this group, there should not be two members from the same family. At the same time, a person should not be a member of more than one group although a village can have several SHGs.

   Members are preferably from homogeneous social status like members belonging to the same caste (in many cases inter-caste groups also formed) or same religion or from same area etc, although heterogeneity of nature in a group is not unusual.

   Members from some group in their first meeting should select their Leader, Secretary and Cashier. Of course, the office bearers may change if necessary.

   In a group, 80% of the members should be from BPL category and BPL people must fill the portfolios of a group. But if the BPL person is a member of *Panchyat*, he or she cannot hold that post of office bearer. However, people from APL category may also be a member of some group. But, these groups are not directly nurtured by the SGSY.

   The group should be abide by a code of conduct like a regular meeting on a fixed date, quantum of savings, rate of interest etc. Generally, in these types of groups (Groups under SGSY) regular savings amount are fixed between Rs 10- Rs 50 and rate of interest should not exceed Rs 2% per month.

   The members in the group meeting should take all the loaning decisions through a participatory decision making process.
The group should preserve simple basic reports such as minute books, attendance registers, loan ledgers, general ledgers, cashbooks, bank passbooks and individual books.

SHGs are mainly informal associations. Even then, the groups can also register under the Societies Registration Act, the State Cooperative Act or as a partnership firm.

**2. Capital formation through the revolving fund and skill development**

Initially, 1-2 months is required for the identification of the members of the group. Within 3-6 months, the members open a saving account at the nearest bank in the name of their group and start a regular savings for every month. This savings account is known as corpus fund. Groups’ corpus fund is used as an advance loan to the members for making small interest bearing loan to their members within the group. This process known as inter-loaning, gradually puts together the financial discipline among the group members and they be trained to handle resources of a size that is much beyond their individual capacities. Other than the group members, no one is eligible for loan from corpus fund. Members repay the loan amount with the fixed rate of interest and the interest amount is deposited in the saving account. Thus through a regular transaction the group increases its corpus fund.

The group, with the established record of working together for about six months, is eligible for a bank loan. The bank loan amount depends on the group’s corpus fund. Actually, after passing of six months of formation of some group, a committee [committee is formed by bank representative (where the group has opened their account), government representative (Officer from DRDC) and with the people’s representative (Pradhan of the GP)] assesses the group’s activities and marks it. If a group achieves 60% marks in that grading system, it will get a ‘Revolving Fund’. Revolving Fund is developed by the subsidy amount from DRDC and a loan amount from the Bank.

Subsidy amount depends on the corpus fund. If some group has a corpus fund of less than Rs 5000 then DRDC contributes Rs 5000; and if the group has saved in their corpus fund more than Rs 5000 then DRDC
contribute the same amount but up to Rs 10000. This amount is nonrefundable and without interest. Based on Corpus fund amount, Bank may sanction a loan four times greater to it with a normal rate of interest.

The Revolving Fund is operated through a special bank account, which is called Cash-Credit (CC) account. The account is operated by ‘cheque’. Members are advised to use the loan amount either for their personal business or for a collective business and eventually repay the interest on a regular basis so that their CC account would run in a continuous manner.

Generally, members of the group use the loan amount for some small business for which they have been trained by the DRDC.

3. Taking up economic activity for income generation

The primary aim of SHG movement is to set up some enterprise to increase income on a regular base and uplift the low-income group families above the poverty line. Therefore, every group should be necessarily linked with some kind of long-term economic activity, which is appropriate for that locality.

For connecting the group with such an economic activity, the group is reassessed after six months of Revolving Fund allocation and this time, 80% marks is needed to apply for a loan in the bank. A Group can get maximum 60 installments to repay the loan amount.

In any case, if the group cannot achieve 80% marks and scores somewhere in between 60% - 80%, then the DRDC again sanctions a certain amount of Revolving fund so that the group’s credit may enhance and the group can now engage in a small-term economic activity in a more intensive way. No doubt, this step would help the weaker group to link with the next step of long-term economic activity and income generation activity.
3.5. **SHGs in WB**

After the beginning of SGSY program in 1999, the Government of West Bengal has incorporated its various departments for implementing their workload through SHGs. The Department of Health and Family Welfare is running a program to empower communities through SHGs. Similarly, The Backward Classes Welfare Department, The forest Department, The Cottage and Small scale Industries Department, The Department of Agriculture, Director of Sericulture, Department of Women, Child Development and Social Welfare have also initiated different programs to implementing their schemes. At the same time through the DWCRA, many women based groups have been working in income generating activities from the decade of 1990s. Again, NABARD also initiates group-based economic activities through SHG-Bank linkage program. As a result, several policies have contributed to the growth of group-based micro finance model in West Bengal that can be categorized into six different models (Sen, 2005) for SHGs:

i. **SHG-Bank Linkage Model I** – NGO(s) accelerates SHGs to link with Banks for loan. Banks sanction loan in proportion to their savings.

ii. **SHG-Co-operative Linkage Model II** – It is the model where the primary agricultural cooperative society promotes the SHGs as nominal members and finances them through District Central Co-operative Bank.

iii. **SHG-Bank Linkage Model III** – NGOs performs the role of a financial intermediary in the sense that it promotes the SHGs and provides them loan after availing of the same from the bank in proportion to savings

iv. **SHG-Bank Linkage Model IV** – In this model Bank themselves endorses SHGs and provides loan them in proportion to their savings.

v. **SHG-Bank Linkage Model V** – Groups are organized and nourished by the supervision of Government sponsored programs like SGSY.
vi. SHG-Bank Linkage Model VI – SHGs are organized by NGO and linked with apex MFs like ‘Rashtriya Mahila Kosh’ (RMK), National Minorities Development and Finance Corporation (NMDFC), Small Industries Development Bank of India (SIDBI), Backward Classes Development and Finance Corporation (BCDFC) etc.

3.6. Recent development in SHGs’ policy

In 2013, the Ministry of Rural Development (MoRD) has modified the policy of SGSY and renamed as the ‘National Rural Livelihood Mission’ (NRLM) in order to address poverty through a mission mode and to alleviate the rural poverty by 2015. Keeping its elemental objectives intact, NRLM tried to modify its working process and to some extent its formation process like, the NRLM program emphasizes on the formation of SHGs with the willing families, irrespective of their BPL/APL status. Moreover, it was come out from the review of SGSY program that ‘weak bank linkage’ and ‘lack of repeat finance’ lead to low credit mobilization. Therefore, this new policy rectifies the structural limitation of the previous initiative and emphasizes on the enhancement of various functions conducted by the apex body of SHGs. For example, the apex bodies like Federation/ Cluster are presently in this policy responsible for controlling the finance and market linking system of the Government’s micro-finance program instead of Bank. Again, due to the lack of dedicated work force, the new policy re-accepts the role of NGOs for promoting and nurturing the SHGs.

3.7. Conclusion

India, like many other countries of the world, has realized that the best way to deal with poverty and at the same time enable the community to perk up its quality of life is through social mobilization of the marginalized sections of the society, especially the women, into Self-help groups. For this purpose, there are over 2.2 million SHGs in India of which women constitute 85-90 per cent or more self-help groups (Suguna ,2006 ). Women have showed greater
interest in making of SHGs since it is vibrant for empowering them (Agarwal, 2010). The group movement is not only advantageous for the individual members of the group but also their respective families are benefitted from the SHGs. Consequently, the implementation of the SHGs leads to the overall improvement of a community. An ideal SHG not only enhances income of a family but also makes them aware of issues related to health, education, nutrition, political activities, community feelings, social developments etc.

The aim of this chapter is to acquaint with the SHGs – its origin, its nature of work and consequently, potentiality for capacity building within the unprivileged section about income generation and other non-economical issues. This elucidation assists the Survey chapter to establish the link that SHGs as a part of micro-enterprise movement help the poverty-stricken people of India in general and become a stepping-stone for women’s empowerment in particular so as to expand the quality of participatory democracy.
References

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