Executive Summary

Rural development can be sustainable if it has the participation of people for whom it is aimed at. SHGs bring in the much-desired peoples’ participation. The peoples’ participation in rural development has inherent advantages like; reduction in implementation costs, enhancing sustainability, deriving advantages of traditional and indigenous technology, improving the absorption capacity of the people and notably, the involvement of the community. Amidst quite a few failures of rural development efforts, Self Help Group approach in India is being used as a developmental intervention in order to address the problems of rural India such as rural indebtedness, under-employment, unemployment, lack of asset creation, low productivity levels, inadequate food security, low standards of living, socio-economic inequities, lack of hygiene and sanitation, illiteracy, blind beliefs, issues of gender inequality and others so as to attain economic development of the country through rural development. SHGs reduce poverty and vulnerability of the poor by increasing capital / asset formation at the household level, improving household and enterprise incomes, enhancing the capacity of individuals and households to manage risk, increasing enterprise activity within households, expanding employment opportunities for the poor in non-farm enterprises, empowering women, and improving the accessibility of other financial services at the community level.

Self Help Group (SHG) is defined as a tiny economically homogeneous affinity group of 10 to 20 rural resource-poor persons who have a common goal of socio-economic sustainable development, discussing their problems and resolving it through appropriate participatory decision making and voluntarily come together; to save small amounts regularly as thrift, to mutually contribute to a common fund, to
finance their emergent credit needs, to have collective decision making, to solve conflicts through collective leadership and mutual discussion, and to provide loans based on group decisions at market driven rates.

In this backdrop, SHG approach has made far reaching, positive effects on the resource poor especially in providing them with a fair degree of economic sustainability through the thrift and credit programmes. Banks have found SHGs as better avenues for credit absorption in view of the reason that peer pressure acts as an apparatus for achieving higher recoveries. Accordingly, linking SHGs with banks has therefore been a prominent agenda that has gained wide acceptance and outreach. Improving the access of the poor to the financial services is one of the useful tools to tackle poverty and for broad-basing the economic growth. It is in this context that institutions such as SHGs and their linkage with the banks are very important.

In India, SHGs are being enthusiastically promoted by government, development banks and non-government organisations mainly on social and economic issues. The research found that banks' role in the promotion and finance of SHGs has significantly increased over the past few years. The last two decades have witnessed substantial work in developing and experimenting with SHG approach to reach financial services to the poor, thanks mainly to the initiatives of the NGOs and the Regional Rural Banks in various parts of the country. As of March 2005, there were 1,618,456 SHGs with total cumulative lending of Rs. 68.98 billion. 90% of these SHGs financed were exclusive women groups. 573 Banks (196 RRBs, 330 co-operatives banks, all 27 public sector banks and 20 private banks) with a total of 41,082 branches participated in the SHG-bank linkage programme providing credit to about 24.25 million poor households in 572 districts. Average loan sizes are Rs. 42,621 per SHG and 3,044 per family.
SHGs in India under the guidance of NGOs and development banks have, apart from their economic activities, involved in many types of rural development activities such as agricultural extension and support, education, village industries, labour and rehabilitation, health and family welfare, environment protection, public activities, technology transfer, and non-conventional energy sources.

The key to the success of a development programme is its effectiveness in bringing about the desired change in the lives and livelihoods of the participants or the target groups it is intended to benefit. Self Help Group approach has indeed contributed to poverty alleviation and food security. It represents a fairly quick way to expand development activities and reduce poverty levels in rural areas. SHGs have a significant impact on the poor in generating employment avenues besides providing the adequate capital for such activities. Also, in some cases, SHGs have been successful in creating community assets useful for the community as a whole thus developing a sense of togetherness. They are useful in creating possible rural infrastructure like potable water, hygiene, sanitation and medicare facilities. On the ecology front, SHGs play a silent role in encouraging ecology management, understanding the environmental roles and responsibilities of women in developing economies that is critical to resource conservation and sustainable use.

SHG approach is enabling, empowering, and this bottom-up approach for rural development has provided considerable economic and non-economic externalities to low-income households in developing countries. SHG approach is being hailed as a sustainable tool to combat poverty, combining a for-profit approach that is self-sustaining, and a poverty alleviation focus that empowers low-income households. It is increasingly becoming a tool to exercise developmental priorities for governments in developing countries. However, sustainability still remains the most concerning
aspect of SHG approach for rural development. There is need on the parts of the NGOs and the banks to take into consideration the resources needed to maintain the SHGs after promotion, and to address the inevitable negative group dynamics on the long run.

The research has found that the coverage of weaker sections (Scheduled Castes / Scheduled Tribes and backward classes) worked out to 63 per cent. The coverage of these categories was more pronounced in NGO groups. According to size of the groups, the percentage of 10-15 size groups to the total groups constituted about 83% and the percentage of 16-20 size groups to the total groups constituted about 17%. According to gender of the groups, the women groups constituted about 90%, men groups 8% and the remaining mixed groups about 2%. According to age of the groups, 1 to 2 years old groups constituted about 30% and 3 to 5 years old groups constituted about 40%, 6 to 10 years old groups constituted about 20% and the groups of age above 10 years accounted for about 10%.

It is found that the number of SHGs has grown exponentially because of the ease of adoption by all the stakeholders in the process. Indeed, there is good scope for quick replicability due to some of the reasons such as "spiral effect", "copycat effect", 'self-selection' concept, simplicity of the concept, the proactive role of the banks and non-government organisations, exorbitant interest rates by the money lenders in the area, leverages in the constitution of the group and flexibility in the management systems of the group and the focus on women. In addition, region-specific features such as (a) progressive thinking mental make up of the Shimoga district people who have a history of coming together into groups for social causes makes them easily huddle together for common causes (b) entrepreneurial quality of the local people in some blocks of the district has also contributed for quick replicability (c) risk aversion
nature of the local people finds the group activity a tool for mitigation of the possible risks in individual ventures (d) similar experience of poverty (e) similar living conditions that are difficult to make a comfortable living (f) same kind of livelihood by most of the people engaged in daily wages (g) community or caste appeal in the study area in order to make an undisclosed competition with other communities or castes and (h) place of origin as another factor of son of the soil appeal for the poor to get together easily in groups in the study area.

Some of the factors observed during the study that have helped in smoothening the SHG activity and ensured the ease of providing credit to the poor and its repayment are: savings first and credit later, intra-group appraisal systems and prioritization, credit rationing, shorter repayment terms, self-determined interest rates, progressive lending (the practice of repeat loans and often-higher doses) and multiple-eyed operation in the SHG system.

On impact evaluation it is found that savings constitute the main form of capital for availing loans by the poor. The mean value of cumulative savings per member has moved from Rs. 637 in pre-SHG situation to Rs. 4253 in post-SHG situation. Increase in savings in the pre and post SHG situations has been to the extent of 567.36%. The impact was 560% increase in case of women groups, 583% among SC / ST groups and 620% among the OBC groups.

Average credit-savings ratio after the SHG intervention has increased to an average of 250%. The mean credit level to a group on an average is to the extent of Rs. 84559 and the mean savings level of a group on an average is to the extent of Rs. 41078. Owing to the impact of SHGs the credit-savings level has moved to 206% in
case of women groups, 226% in case of SC / ST groups and 172% among OBC groups.

Further, Interest rates have fallen from an average of 48% to 24% i.e., a decrease to the extent of 50%. The same is the impact in the case of women groups, SC /ST groups and OBC groups.

Also, repayment levels have improved from an average of 47.78% in pre-SHG situation to 98.65% in post-SHG situation i.e., a net increase to the extent of 50.87%. Among the women groups the repayment level has increased from 48.62% to 98.61% (an increase of 49.99%). In the case of SC / ST groups the repayment level has moved from 46.97% to 98.80% (an increase of 52.21%). In the case of OBC groups the repayment level has moved from 49.97% to 98.57% (an increase of 48.95%).

The study found that mean production level of the member of SHG has improved from Rs. 9168 in pre-SHG situation to Rs. 17659 after SHG impact recording an increase to the extent of 92%. The impact has been to the extent of 91% increase in case of women groups, 96% in case of SC / ST groups and 93% among OBC groups.

The research has established that increase in mean annual income has been to the extent of 72%, i.e. from Rs. 8005 in pre-SHG situation to Rs. 13750 after the SHG impact. The impact was to the extent of 73% among women groups, 69% among SC / ST groups and 78% among OBC groups.

Asset creation levels have improved from an average of Rs. 5012 to Rs. 11133 i.e., an increase to the extent of 122%. The impact was to the extent of 120% among
the women groups, 125% among the SC/ST groups and 118% among the OBC groups.

The mean value of the per family food expenses has increased from Rs. 4849 in pre-SHG situation to Rs. 8216 after SHG impact registering an improvement to the extent of 69.41%. The impact on per family food expenses due to SHGs has been to the extent of 70% in case women groups, 65% in case of SC/ST groups and 75% among the OBC groups. Further, the mean value of the per family non-food expenses has increased from Rs. 3596 in pre-SHG situation to Rs. 6228 after SHG impact, thus registering an improvement to the extent of 73.24%. The impact on per family non-food expenses due to SHGs has been to the extent of 73% in case women groups, 73% in case of SC/ST groups and 74% among the OBC groups.

There is significant outreach of impact of SHGs in terms of physical as well as qualitative factors on the socially weaker sections of the society such as Women, SC/STs and OBC category of the poor. While the women constitute a whopping 92% of the Sample SHGs in the Study Area, the SC/STs constitute 23% and the OBCs constitute 28.30%.

On analysis, it is found that for banks, the transaction cost per individual loan of Rs. 10000 under direct loans to individuals has been worked out as Rs. 1120 per borrower. Under Model-1: Direct loans to SHG the transaction cost worked out to Rs. 730.5 per borrower. Under Model-2: Loans to SHG with NGO as facilitator the transaction cost worked out to Rs. 297 per borrower. In the case of Model-3: Loans to NGO to SHG it worked to Rs. 21.9 per borrower. Accordingly, it is undeniably clear that SHG–bank linkage model offers cost effective method of lending to the poor. And more particularly, the banks stand to gain by lending under the Model-3: Loan to
NGO to SHG as the transaction cost per individual under this model works out to a meager Rs. 22 as against the transaction cost of Rs. 1120 under Model: Direct loan to Individuals. In terms of per borrower loan of Rs. 100 the transaction cost per borrower under the Model-3: Loan to NGO to SHG worked out to Rs. 0.22.

The study analysed the transaction cost of borrowing for the poor per individual loan of Rs. 10000 in case of (1) Direct individual loans and (2) In case of SHGs. In case of direct individual loans the transaction costs of borrowing for the poor worked out to Rs. 920 and in case of availing loans through SHGs it worked to Rs. 224. It is obviously clear that under the SHG Model the poor borrowers incur transaction costs lower than that under the Direct loans model. In view of this, it beneficial to encourage financial provisions for the poor under the SHG model in order to bring down the transaction costs for the poor.

Also, cost of co-ordination and management in formation and nurturing of SHGs has been estimated under both situations (1) in case of banks and (2) in case of NGOs / VAs / Promoters. It is estimated that while in case of bank branches the cost worked out to Rs. 4850; it was Rs. 3315 in case of NGOs / VAs / Promoters. As such, it is beneficial to encourage the NGOs / VAs / Promoters for SHG promotion in order to save the transaction costs involved in the process.

The study also calculated the risk cost of funds for different financial intermediaries in different models of lending. Accordingly, for an average loan of Rs. 10000, the risk cost mentioned in weights for Rs. 100 for banks are Rs. 60 under Direct loans model, Rs. 15 under Model - 1, Rs. 10 under Model - 2 and Rs. 5 under Model - 3. In case of NGOs / VAs / Promoters the risk cost is Rs. 5 per loan of Rs. 100 and for SHGs it is Rs. 10 per loan of Rs. 100.
Based on the findings of this research study, it can be concluded that Self Help Group approach builds the capacity of individuals, households, and micro-enterprises to manage risks by increase in savings and its utilization, increase in employment generation, improvement in asset holding, effective utilizations of credit, credit-savings ratio, interest rates, repayment of loans, etc. Also, it contributes to increase in production levels and reduction in the incidence and severity of poverty among clients through improvements in household income.

Further, it is opined that Self Help Group approach is an effective strategy for extending financial services to the poor and other disadvantaged groups not reached by formal sector finance, in terms of transactions cost both for the banks as well as the poor borrowers of SHGs. It is also established that Self Help Group approach contributes to empowerment of women by providing them access to economic resources and influence over their uses, participation in economic decision-making, opportunities for self development, skill development and thereby enabling them to participate in socio-political decision-making. It is also found that Self Help Group approach combined with other supportive interventions has greater impacts in reaching the women, SC/STs, and other weaker sections of the society.

The most important among the findings emanating from this research is that SHGs have sustainable economic impact on the development of rural economy and hence invite greater attention from the policy makers, the governments, the NGOs and the bankers in order to consolidate the gains generated so far and to further expand this activity to reach the unreached.