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NRI Working Paper

The Role of Self-Help Groups in Rural Non-Farm Employment

**Discussion paper produced by
Barbara Adolph for the project:**

"Rural Non-Farm Economy: Access Factors"

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Acronyms

AIAMED	All India Association for Micro Enterprise Development
DRDA	District Rural Development Agency
DWCRA	Development of Women and Children in Rural Areas
NABARD	National Bank of Agriculture and Rural Development, Mumbai
SAPAD	South Asia Poverty Alleviation Programme (of UNDP)
SHGs	Self-Help Groups

1 Introduction and background

Self-help groups (SHGs) play today a major role in poverty alleviation in rural India. A growing number of poor people (mostly women) in various parts of India are members of SHGs and actively engage in savings and credit (S/C), as well as in other activities (income generation, natural resources management, literacy, child care and nutrition, etc.). The S/C focus in the SHG is the most prominent element and offers a chance to create some control over capital, albeit in very small amounts. The SHG system has proven to be very relevant and effective in offering women the possibility to break gradually away from exploitation and isolation.

Almost all major donor agencies support SHGs in India in one way or another, and many success stories are available, describing how membership in a SHG changed the life of a particular individual or group for the better. Many NGOs in India are promoting the SHG mechanism and linking it to various other development interventions. Whereas there is ample evidence that the SHG approach is a very effective, efficient and relevant tool for organizing and empowering the poor, problems do arise with design, development and introduction of programmes to promote income generating activities (IGAs) that will generate sufficient, sustainable and regular income. There are few documents available that critically reflect on the role of SHGs in the wider rural economy. This paper attempts to identify the role of SHGs in providing Rural Non-Farm Employment (RNFE) through enterprise development and marketing.

2 How self-help groups work

In India SHGs are formed for a variety of purposes and by a variety of people. This paper focuses on SHGs formed by rural people (mostly women) with the objective of improving their livelihoods through collective savings and investments in income-generating activities. NABARD (1997) captures this by defining SHGs as "small, economically homogenous affinity groups of rural poor, voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members' decision".

Most SHGs in India have 10 to 25 members, who can be either only men, or only women, or only youth, or a mix of these. As women's SHGs or sangha have been promoted by a wide range of government and non-governmental agencies, they now make up 90% of all SHGs (http://www.jammuandkashmirbank.com/trust/jul_sep_2002/leadstory.html). Therefore, the majority of the issues discussed in this paper are particularly relevant for women. As Indian women do not generally have the same opportunities to migrate for wage work as men due to social obligations and taboos, it is particularly important for women to improve employment and income earning opportunities *in situ*, and in a way that is compatible with their role in child care.

The rules and regulations of SHGs vary according to the preferences of the members and those facilitating their formation. A common characteristic of the groups is that they meet regularly (typically once per week or once per fortnight) to collect the savings from members, decide to which member to give a loan, discuss joint activities (such as training, running of a communal business, etc.), and to mitigate any conflicts that might arise. Most SHGs have an elected chairperson, a deputy, a treasurer, and sometimes other office holders.

It appears as though the vast majority of rural SHGs invest the loan amounts in a mix of consumption and productive purposes. As credit needs of the poor are determined in a complex socio-economic milieu, where the dividing line between credit for 'consumption' and 'productive' purposes is rather blurred, it is difficult to adopt the traditional banking approach to lending and to insist that loans are not used for consumption.

Most SHGs therefore start without any external financial capital by saving regular contributions by the members. These contributions can be very small (e.g. 10 Rs per week). After a period of consistent savings (e.g. 6 months to one year) the SHGs start to give loans from savings in the form of small internal loans for micro enterprise activities and consumption. Only those SHGs that have utilised their own funds well are assisted with external funds through linkages with banks and other financial intermediaries (see section 3 for details).

Most development initiatives working through SHGs are specifically targeting the poorest people. For example, the World Bank funded Andhra Pradesh District Poverty Initiatives Project aims, amongst others, at supporting investment in sub-projects proposed by grass-root institutions of the poor to accelerate their entry and expand their involvement in social and economic activities. In order to reach the poor, this project used a three-fold system of targeting: geographic targeting (selection of the poorest districts, and within these the poorest mandals), group targeting (through formation of group-based activities for the poor) and self-targeting (through a focus on small, technologically manageable investments that are attractive primarily to the poor organising themselves into common interest groups). See World Bank 2000 for details.

However, it is generally accepted that SHGs often do not include the poorest of the poor, for reasons such as:

- (a) Social factors (the poorest are often those who are socially marginalised because of caste affiliation, and those who are most sceptical of the potential benefits of collective action).
- (b) Economic factors (the poorest often do not have the financial resources to contribute to the savings and pay membership fees; they are often the ones who migrate during the lean season, thus making group membership difficult).
- (c) Intrinsic biases of the implementing organisations (as the poorest of the poor are the most difficult to reach and motivate, implementing agencies tend to leave them out, preferring to focus on the next wealth category).

Efforts are made to overcome this bias, e.g. through participatory wealth ranking at the community level, or by using indices to identify the poorest. Simanowitz et al. 1999 argue that active poverty-targeting is required to make sure that the poorest are included in micro-finance programs. But including them in SHGs is not enough - programs need to be designed in such a way that realistic investment opportunities for these poorest households exist.

"Micro credit serves best those who have identified an economic opportunity and who are in a position to capitalise on that opportunity if they are provided with a small amount of ready cash. Thus, those poor who work in stable or growing economies, who have demonstrated an ability to undertake the proposed activities in an entrepreneurial manner, and who have demonstrated a commitment to repay their debts (instead of feeling that the credit represents some form of social re-vindication), are the best candidates for micro credit." (Satyamurti & S. Haokip 2002 (5))

Thus, from a social empowerment point of view, the SHG mechanism seems to be very effective for the very poor and disadvantaged. But from an IGA development point of view, it is necessary to bring in the element of selectivity and eligibility, bearing in mind that not everybody has entrepreneurial potential and capabilities. The question then arises how the SHG mechanism could at the same time be an appropriate mechanism for IGA development. These issues will be discussed in Section 4.

Once SHGs are established and start saving, they generally attempt after some time to gain access to larger amounts of capital in order to broaden the range of micro-enterprises available to them. The linkages between SHGs and banks are discussed in Section 3.

3 Sources of capital and links between SHGs and banks

SHGs can only fulfil a role in the rural economy if group members have access to financial capital and markets for their products and services. While the groups initially generate their own savings through thrift (whereby thrift implies savings created by postponing almost necessary consumption, while savings imply the existence of surplus wealth), their aim is often to link up with financial institutions in order to obtain further loans for investments in rural enterprises. NGOs and banks are giving loans to SHGs either as "matching loans" (whereas the loan amount is proportionate to the group's savings) or as fixed amounts, depending on the group's record of repayment, recommendations by group facilitators, collaterals provided, etc.

SHGs are increasingly linking up with financial institutions to obtain formal credit. It is estimated that there are now 500,000 SHGs in India, with a membership of 8 million people, who are linked to about 20,000 rural outlets of more than 440 banks, with an advance portfolio of more than 240 million \$ (Wilson 2002). This has been a tremendous achievement, considering that during the first four years after NABARD first introduced its SHG linkage programme (i.e. between 1992 and 1996), less than 3,000 groups were borrowing from banks. Box 1 explains how linkages between SHGs and banks work in India.

In India, micro-finance has been defined by the task-force on Micro-finance constituted by the National Bank for Agriculture and Rural Development (NABARD) as “provision of thrift, credit and other financial services and products of very small amounts to the poor to enable them to raise their income and improve their living standards”. The upper limit of amount is fixed at Rs.25000 to be categorised as micro-finance. (Satyamurti & S. Haokip 2002 (10)). Table 1 compares the various sources of credit available to the poor in India across a range of criteria.

Box 1 How SHGs save

Self-help groups mobilise savings from their members, and may then on-lend these funds to one-another, usually at apparently high rates of interest which reflect the members’ understanding of the high returns they can earn on the small sums invested in their micro-enterprises, and the even higher cost of funds from money lenders. If they do not wish to use the money, they may deposit it in a bank. If the members’ need for funds exceeds the group’s accumulated savings, they may borrow from a bank or other organisation, such as a micro-finance non-government organisation, to augment their own fund.

The system is very flexible. The group aggregates the small individual saving and borrowing requirements of its members, and the bank needs only to maintain one account for the group as a single entity. The banker must assess the competence and integrity of the group as a micro-bank, but once he has done this he need not concern himself with the individual loans made by the group to its members, or the uses to which these loans are put. He can treat the group as a single customer, whose total business and transactions are probably similar in amount to the average for his normal customers, because they represent the combined banking business of some twenty ‘micro-customers’. Any bank branch can have a small or a large number of such accounts, without having to change its methods of operation.

Unlike many customers, demand from SHGs is not price-sensitive. Illiterate village women are sometimes better bankers than some with more professional qualifications. They know that rapid access to funds is more important than their cost, and they also know, even though they might not be able to calculate the figures, that the typical micro-enterprise earns well over 500% return on the small sum invested in it (Harper, M, 1997, p. 15). The groups thus charge themselves high rates of interest; they are happy to take advantage of the generous spread that the NABARD subsidised bank lending rate of 12% allows them, but they are also willing to borrow from NGO/MFIs which on-lend funds from SIDBI at 15%, or from ‘new generation’ institutions such as Basix Finance at 18.5% or 21%.

Source: Harper 1998

NABARD is presently operating three models of linkage of banks with SHGs and NGOs (see <http://www.nabard.org/roles/mcid/shgbanklink.htm>):

Model – 1: In this model, the bank itself acts as a Self Help Group Promoting Institution (SHPI). It takes initiatives in forming the groups, nurtures them over a period of time and

then provides credit to them after satisfying itself about their maturity to absorb credit. About 16% of SHGs and 13% of loan amounts are using this model (as of March 2002).

Model – 2: In this model, groups are formed by NGOs (in most of the cases) or by government agencies. The groups are nurtured and trained by these agencies. The bank then provides credit directly to the SHGs, after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model with NGOs playing a major role. This model has also been popular and more acceptable to banks, as some of the difficult functions of social dynamics are externalised. About 75% of SHGs and 78% of loan amounts are using this model.

Model – 3: Due to various reasons, banks in some areas are not in a position to even finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and micro-finance intermediaries. First, they promote the groups, nurture and train them and then approach banks for bulk loans for on-lending to the SHGs. About 9% of SHGs and 13% of loan amounts are using this model.

Table 1 Comparative Analysis of Micro-finance Services offered to the poor

Parameter	Money Lender	Commercial Banks	Govt. Sponsored Programs	Financial products of MFIs
Ease of Access	High	Low	Low	High
Transaction cost of Access	Low	Very High	Very High	Low – Medium
Lead time for Loans	Very Short	Extremely Long	Extremely long	Short
Repayment Terms	Fixed and Rigid	Fixed and Easy	Fixed and Easy	Flexible
Interest Rates	Exorbitantly High	Low and very Affordable	Low, Affordable and Subsidised	Reasonable and Affordable
Incentives	None	None	None	Repeat and larger loans, Interest Rebates
Repeat Borrowing	Possible	Possible but not likely	Possible but not likely	Stream of credit is assured
Loan Access Procedures	Very Quick	Extremely Time Consuming and complicated	Extremely Time Consuming and complicated	Simple and Quick
Loan Application Procedures	Informal but exploitative	Exhaustive and Complex	Exhaustive and Complex	Simple and Informal
Collateral and Demand Promissory Note	Mandatory	Required but hypothecation of asset may suffice	Not required although a charge on the asset becomes automatic	Not required – social collateral is used for physical collateral

Source: R. Arunachalam - Alternative Technologies in the Indian Micro-finance Industry

But banks are not the only source of access to capital for SHGs. The UNDP funded South Asia Poverty Alleviation Programme facilitated self-help groups to access the revolving fund from the District Rural Development Agency (DRDA) under the DWCRA programme. By 1998, Rs. 12.35 million (nearly US\$ 300,000) of this fund has been accessed by the groups.

SHGs have also secured significant amounts from NGOs, foundations and voluntary organisations. (<http://www.sapap.net/pub/regrpt98/chap01.htm>)

It is clear that SHGs are emerging as a principal institutional arrangement for rural women, allowing them to access services that would otherwise not be available to them (including, e.g., life insurances - see Box 2). But how does access to banking services and financial capital contribute to RNFE? The next section will explore how SHG members use their financial resources, and whether this results in substantial RNFE being created.

Box 2 Life insurances for self-help group members

The United India Insurance company has designed two PLLIs (personal line life insurances) for women in rural areas. The company will be targeting self-help groups, of which there are around 200,000 in the country, with 15-20 women in a group. The two policies are (1) the Mother Teresa Women & Children Policy, with the aim of giving to the woman in the event of accidental death of her husband and to support her minor children in the event of her death, and (2) the Unimicro Health Scheme, giving personal accident and hospitalisation covers besides cover for damage to dwelling due to fire and allied perils.

Source: <http://www.hinduonnet.com/2002/12/05/stories/2002120501172100.htm>

4 Use of micro-credit by SHGs in RNFE

While access to financial capital is a pre-requisite to enterprise development and income generation, they are insufficient on their own to generate RNFE. Entrepreneurial skills are essential in order to assist people to make use of market opportunities. And obviously there need to be accessible markets for the goods and services offered.

4.1 Training and capacity building

Realising this, many NGOs, government programs and micro-finance institutions organise training programmes for SHG members and leaders. There are basically two types of training:

- (a) Entrepreneurial training in skills (e.g. basic book-keeping, accounting and business planning) required in setting up a small business, and
- (b) Technical training in skills required for a particular business.

Most NGOs and government programs undertake the first type of training, often through a training-for-trainers mode, whereby sangha / SHG group leaders or mobilisers are trained, who then in turn train SHG members. While the emphasis of the training varies with the particular objectives of the programme, it generally covers also issues such as dealing with government agencies that support business development, and confidence building measures.

The second type of training is geared towards a particular enterprise or business, often determined by the interests of the SHG initiators. The aims are to ensure that group members engage in economically sound and technically feasible enterprises, which have been specifically developed for a particular target group. Examples are the 'Stree Shakti' programme in the dairy cooperative sector in Madhya Pradesh (see Sardana 2002), the Training-cum-Employment Programme for Women called Women's Economic Programme financed by NORAD -

<http://www.newdelhi.mfa.no/Development+Cooperation/Default.htm#Women>), the Swa-Shakti Project - a World Bank and International Fund for Agricultural Development

supported project (<http://wcd.nic.in/women.htm#ssp>), Rashtriya Mahila Kosh (<http://www.empowering-women.com/schemedetails.asp?lngSchemeID=77>) and others.

It is not clear what proportion of the 8 million SHG members in India have benefited from such training, and what proportion of trainees has been able to make use of this training by starting a micro-enterprise or income generating activity. Obviously training alone is not enough to ensure that group members take up IGAs - their success depends also on markets for the services and goods produced.

4.2 Marketing

Hofstede et al. 1996 argue that working in remote villages far away from market centres limits the scope for identifying and initiating viable income generating activities. IGAs do not automatically bring overall economic development, but they need markets where people with disposable cash will buy goods and services. Therefore it is recommended that programmes should focus more on promoting IGAs near markets in semi-urban areas, market centres and larger villages. Most programmes appear to have developed policies to concentrate primarily on organizing the poor through the SHG mechanism. The savings and credit mechanism promoted can not, in itself, be seen as an instrument or mechanism to promote economic activities.

To be effective in promoting economic activities the S/C programmes at the base layer (e.g. at SHG level) must be accompanied by a secondary intervention strategy. Such a second layer can be in the form of a credit mechanism that has been added on to the primary S/C mechanism, but can also be in the form of other business promotion programmes such as marketing assistance of business advisory services and technical (skills) training.

Following a minimalist development approach for economic activities marketing assistance seems to be an effective tool. When it comes to promoting the generation of income and jobs for the very poor it can be argued that the organizing and running of the marketing function can be taken up by the COs without demanding (full) participation by the target group in the organization and operations itself. Satyamurti and Haokip 2002 noted:

"It is also important to design background interventions that build the market for micro finance clients. Such interventions can range from building infrastructure to opening up new markets for the produce of the poor to providing business development services. Often these interventions will create conditions and opportunities for micro finance and not the other way round. What needs to be avoided is directional use of micro finance to sort out developmental challenges in situations where the basis of peoples' livelihood is destroyed."

There are two issues related to marketing that are relevant for SHGs:

- (a) The marketability of the product or service provided or produced by the group, and
- (b) Market access.

Both are complementary, and initiatives in India have attempted to address both by training SHGs in producing high quality produce for which there is a market, and by facilitating market access.

One of the emerging initiatives that support SHGs in marketing their produce is the DWCRA programme in Andhra Pradesh. Marketing support is provided to the SHGs through DWCRA

Bazaars (Market outlets), which have been set up in all the districts, and a permanent DWCRA Bazaar is nearing completion at Hyderabad. Products worth more than Rs.100 crores were sold through DWCRA Bazaars in the last two years. Training and Technology Development Centres (TTDC) have been established in each district to introduce innovative technologies for the qualitative improvement of products made by the SHGs. The SHGs in the districts are assisted to develop branding of their products and women are encouraged to participate in fairs taking place at national level and in other states. Leading super bazaars like Food World, Thrinethra super market came forward to tie up with SHGs to market DWCRA products. For some DWCRA products the demand is very high, for example pickles producing SHGs of Guntur district got orders worth Rs 6.00 lakhs, and lace groups of West Godavari district got export orders. (<http://www.ap.nic.in/dwcra/>)

Prakash and Nehru (1998) describe the initiative of the Kerala Horticulture Development Programme that was set up in co-operation between the European Union and the Government of Kerala in 1993. The programme builds on SHGs, which select Master Farmers who are trained and act as facilitators. Besides horticultural crop production, the programme also assists SHGs in processing and marketing of products. The marketing infrastructure at site level include establishing field centres for bulking the produce from 10-15 SHGs. The concept of these centres envisages creating farmers' markets and benefiting from agglomeration advantages - both in terms of sale to wholesalers and commission agents, and in terms of market information. The programme is considered a success in bringing SHGs closer to the market.

There are a number of examples whereby SHGs are producing crafts for both the Indian market and export - or even for sale via the Internet. One such initiative is "GlobalMarketplace.Org", a dot com company that sells handicrafts produced by SHGs in India through a number of non-profit community development organisations. The purpose is to reduce poverty around the world by selling local village crafts and clothing at a fair price via the Online Global Marketplace and to return as much of the sales price as possible to the local artist (see <http://www.globalmarketplace.org/cmffromindia.html>).

Handicrafts are also produced by the SHGs supported by NEED (Network of Entrepreneurship and Economic Development), a Lucknow-based NGO. NEED promotes SHGs of poor women through a system of micro-finance and promoting entrepreneurial activities. Additionally, the organisation attempts to mobilize communities to address social issues and create community institutions that can meet the needs of citizens. NEED defined a comprehensive training model called "Entrepreneurship Linked Income Generation for Self Employment Program" (EIGSEP). This program is a series of 6 flexible modules that can be used as per the needs of village women and men who desire advanced entrepreneurial training. NEED has published learning documentation and conducts training programs for NGOs, Governmental departments, banks and SHG leaders (<http://www.indev.nic.in/need/activities.html>).

In Goa, the District Rural Development Agency is maintaining a web site where SHGs can present and market their produce, most of which is again handicraft. DRDA also organises exhibitions and craft fairs with the aim of promoting traditional crafts and linking producers to consumers. It recognises that marketing is a key constraints to small-scale producers. (<http://ruralbazargoa.nic.in/welcome.htm>).

Helping SHGs in getting contracts to supply a specific quantity of produce to a buyer can also help in overcoming marketing constraints. Some NGOs and government agencies have actively pursued this road, e.g. by purchasing chalk for local schools from SHGs that have been trained in chalk manufacturing (see http://www.youhelpindia.org/edunews/edunews_jul2002/edunews_jul2002_7.html).

While these examples are encouraging, it is again not clear how many SHGs are benefiting from them. In India, unlike e.g. in large parts of Africa, it is still not fully acceptable by rural society that women are actively engaged in trade and other non-farm enterprises, especially if this implies travelling and dealing with male middlemen. As a result, women depend much more on SHGs than they do in Africa, where the bulk of self-employment is through individual women using informal channels of credit and marketing. As this option is not open for the majority of Indian women, the need to link SHGs to markets through formal channels is greater.

It has also been pointed out that access, ownership and control of productive resources are crucial in determining the potential of women to produce marketable products and services. Kay 2002 says that *"Microcredit schemes have not been able to lift women out of abject poverty as they cannot transform social relations and the structural causes of poverty"*. She stresses the importance of enabling the poor to own and operate enterprises to add value to the primary products they usually produce (e.g. dairy co-operatives). According to Kay, *"social mobilisation requires broader conceptualisation and may need the harnessing of the collective strength of self-help groups in a federation."* The following section discusses ways of federating SHGs, based on experiences in different Indian states.

5 Scaling up: Apex bodies and cluster development

Marketing initiatives like the ones described above cannot work with only one SHG - they require that groups are organised at a higher level. Forming federations or apex bodies of SHGs has been promoted by NGOs and government programs for a number of years, with the main aim of strengthening rural people's participation in decisions taken outside their own community.

Generally 8-10 individual SHGs are federated into a village organisation, with the aim of addressing the commonality of issues at a larger forum. The management of the affairs of the VO is looked after by the VO leaders selected or elected by the people. The VO monitors the function of SHGs, helps strengthen them, and provides access to credit by acting as a link agency to the banks. VOs are also responsible for organising training to the SHG members.

Often the VOs are federated at the sub-district level to form e.g. in Andhra Pradesh the Mandal Samakhya. The MS represents all the VOs and the executive body of the MS is made up of locally elected members from the VOs. Their role is to make linkages with Government Departments, audit the SHGs and help with microfinance. The World Bank funded Andhra Pradesh District Poverty Initiative's Project is following this approach, which is similar to the one adopted by some other programmes (see http://www.worldbank.org/participation/APDPIP_case.pdf).

The degree of federation of SHGs, and the effectiveness of the federation, vary from state to state. In Karnataka there were at the end of 2001 more than hundred rural women's SHG federations, collectively claiming over 1.25 lakh members in 6,000 individual SHGs. A state-

confederation has been formed, which will concentrate during the initial phase on capacity-building of federation leaders, and the formation and strengthening of district-level federations

(<http://www.hinduonnet.com/thehindu/2002/01/01/stories/2002010103550300.htm>).

There are obvious advantages in federation, and all Indian states are following this approach, albeit at different speed. In terms of employment generation and enterprise development, federations are likely to have a much larger impact than individual SHGs, because training and marketing can be organised more rationally. SHG federations also provide the opportunity for poor people to influence policies and to constitute effective pressure groups at the district and state level.

6 Conclusions

The literature is full of examples whereby poor women have succeeded in improving their life through membership in SHG. The impact on their lives is not just an economic one - gaining more self-confidence is often a more lasting achievement that forms the basis for social and economic improvements. But are SHGs the answer to all development problems in India? A couple of issues need to be considered when attempting to answer this question:

- How can the participation of the poorest of the poor in SHG be strengthened? More effective targeting mechanisms are required, and SHG programs need to be geared towards the specific needs of poor people with hardly any cash income and limited social capital.
- Are SHGs the most effective way of bringing about social and economic change? As was pointed out earlier, some critics believe that a lasting improvement especially of the situation of rural women can only be brought about if their control over and access to resources increases. It might be argued that SHG development needs to go hand in hand with policies that increase women's access to productive resources, especially land.
- Are micro-credit orientated SHGs the most appropriate institutional arrangement for the poorest of the poor? In other words, can poor people save and invest in anything other than consumption? Possibly different types of SHGs are required for different types of people, depending on their specific social and economic conditions and their goals.

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