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Micro-Finance And Self-help Groups (SHGS): Its Impact On The Poor

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Abstract:

This study on "Micro-finance and Self-help Groups (SHGs): Its Impact on the Poor in Andhra Pradesh" has been carried out in Visakhapatnam District of Andhra Pradesh, India. It tries to comprehend the data by taking 300 SHG women from 90 SHGs. These SHG women were drawn from five different models namely NGO Facilitated, where the NGO acts as a linking agency in getting the loan from the bank, NGO intermediated in which the NGO acts as a financial intermediary, Directly Bank Linked, where the banks themselves forms SHGs, NGO guided but self – supported in which the NGO will be guiding in forming the group but will not entertain in either arranging for finance nor linking with banks. The MFI model is completely self-supported which has been formed and functioning independently without getting any assistance from outside agencies. The purpose of the research was to examine the model wise performance of SHGs in terms of access to credit, outreach, institutionalizing the credit, reducing the transaction costs, socio-economic impact created, the behavioral outcomes and empowerment of women in decision making affairs of family and society etc. At attempt has been made to understand the inter-relations among the SHG women, NGOs, banks and other development organizations, and their impact on the lives of women. All these have been done as to which model would sustain and would have long run stability and their implications on formal credit sector and its impact to the poor.

Keywords: *Self-Help-Groups, Microfinance, SGH-Bank Linkage Model, Nabard, poor*

Introduction

Most micro-finance institutions (MFI) use some sort of group system to distribute their services to their clients. The SHG System is very effective in generating opportunities for women in India. The members form a group of around twenty members. The group formation process may be facilitated by an NGO or by the MFI or bank itself, or it may evolve from a traditional rotating savings and credit groups or other locally initiated grouping. The process of formal 'linkage' to an MFI or bank usually goes through the SHG Bank Linkage stages, which may be spread over many years or which may take place within a few months. The SHG members decide to make regular savings contributions. These may be kept by their elected head, in cash, or in kind, or they may be banked. The members start to borrow individually from the SHG, for purposes, on terms and at interest rates decided by the group themselves. The SHG opens a savings account, in the group's name, with the bank or MFI, for such funds may not be needed by members, or in order to qualify for a loan from the bank. The bank or MFI makes a loan to the SHG, in the name of the Group, which is then used by the Group to supplement its own funds for on-lending to it members.

The SHG need to go through all the stages; it may satisfy its members' needs quite effectively if it goes through the process and saving money and possibly not withdrawing the amount deposited. The MFI or bank may assist the SHG in record keeping, and they may also demand to know who are the members and impose certain conditions as to the uses of the loan which they make to the SHG, but the SHG is an autonomous financial institution in its own right. The members have their accounts with the SHG, not with the MFI or bank, and the MFI or bank does not have any direct dealings with the members.

Low or no-cost foreign donations represent the largest source of on-lending funds for the large MFI which use the SHG system in India, but members' savings and the accumulated surplus from operations each contribute some 20% of the necessary funds. The interest rates vary, and it is difficult to estimate the actual rates because there are a number of fees, forced savings requirements and other charges, and the methods of calculation also differ from one institution to another. Broadly speaking, the cost to the final borrowers amounts to at least 2% per month, and often substantially more.

The SHG System In India

The SHG system is mainly found in India, where it is used by both MFIs and banks. SHGs had taken loans from 41 Indian commercial banks, 166 regional rural banks and 111 co-operative banks. The average loan per group was about Rs 18,000 and the average loan per member was Rs 1,100, or just under twenty five dollars. During the year 2000/2001 171,000 SHGs took loans, of which 149,000 were first time borrowers. (NABARD, Micro-credit Innovations Department, personal communication). The average membership is around seventeen people per SHG, so these figures mean that about four and a half million people in India have access to formal savings facilities and loans through their SHG membership. In just one year, the number of new members was in excess of two and a half million people, or well over the total membership of even the largest institutions in Bangladesh.

The formation of SHGs for savings and credit, and their linkage to commercial banks, was initiated in India by MYRADA in the mid-1980s (Fernandez 1998). NABARD management had around the same time had some exposure to similar experiences in Thailand and Indonesia, and they responded favourably to MYRADA's suggestion that this could be a useful way to bring formal financial services to the rural poor. Since that time, SHG linkage has been vigorously promoted by NABARD and other institutions. It generally involves two institutions. Most NGOs do not play any financial role. They promote and train the groups, and assist them through the qualifying process of saving and internal lending. The groups are introduced to a bank to open a savings account, and later to take a loan. The NGO may remain heavily involved, assisting the members to manage their affairs, and possibly promoting higher level clusters and federations of SHGs, or it may withdraw and work with other groups.

Some NGOs also act as financial intermediaries by borrowing from NABARD or elsewhere and on-lending to SHGs, either because they aim to become MFIs, or because this is often the only way by which the groups could access finance, because many bankers refused to lend to SHGs directly, or even to open savings accounts for them. The financial margin on this business is however insufficient to cover more than a small part of the transaction costs. Over a third of the 'linked' SHGs borrowed from MFIs rather than from banks in 1998, but this proportion dropped to a quarter in 1999 and is rapidly decreasing further as banks become more aware of the business opportunity represented by SHGs (NABARD, 1998, 1999).

There is also a large and increasing number of MFIs in India, most of which use the SHG method. A small number of these MFIs use the Grameen system, but the portfolio of the approximately thirty-five larger MFIs which use the SHG system, and are doing business with the recently established SIDBI Foundation for Micro-credit (SFMC), amounts to almost around 85 crores of rupees or thirteen million dollars These MFIs were said in early 2001 to be serving about 200,000 eventual clients, of whom 94% are women. (SFMC, personal communication). NABARD forecast in early 2001 that by 2008 about one million SHGs would be taking loans from banks, with a total membership of around seventeen million people. This estimate was based on a forecast of 50,000 SHGs taking loans in 2001-2002, rising to a rate of 110,000 per year from 2005 onwards. In the event, 149,000 new SHGs took loans in the financial year ending 31.3.2001, so that these forecasts may be well below what is actually achieved. In terms of membership numbers, using the same average of 17 members per group, this amounts to an addition in just one year of almost three million clients, or well over the total membership of any of the financial institutions. This has been achieved by effective collaboration between the banks, NGOs, MFIs and NABARD, with the necessary recognition and authority from the Reserve Bank. There are as yet no 'giant' institutions on the SHG Bank Linkage model, nor perhaps will there ever be; the SHG system reflects the scale, and the institutional diversity, of the Indian financial system.

SFMC for their part anticipate that by 2009 their partner MFIs were serving 1.3 million clients. SHARE of Andhra Pradesh, India, projects that it will be reaching over 1.7 million women by early 2006. If these figures are even remotely realistic, and actual performance suggests that they may be under-estimated, micro-finance in India has finally reached 'take-off'. Estimates of the numbers of people below the poverty line vary quite widely, but the figure of 40% of the population is quite commonly accepted. This amounts to 400 million people, or some 80 million households. It is unusual at the present time for more than one member of a household to be an SHG member. If the NABARD and SFMC forecasts are fulfilled, and if the present growth in the numbers of poor people does not accelerate, over a quarter of the poorer Indian households will by 2009 have access to formal financial services.

The vast majority, however, even if SHARE's forecasts are achieved, will still be using the SHG system. Experiments with less frequent meetings have generally not been successful. The banker or NGO field worker may visit the SHG members even more frequently during the initial group promotion stage, but the aim is to help the group keep their own records and run their own meetings. Once this has been achieved, there is no further need for weekly or even monthly visits.

The Indian banks have over 70,000 branches in rural areas, and there is a long if expensive and not particularly successful history of government-sponsored poverty alleviation programmes which have been delivered through the banking system. The Indian banks are also compelled to direct a substantial proportion of their credit to the so-called 'priority sectors' and 'weaker sections'. The SHG linkage system is ideal for banks; any branch can do business with one or a number of SHGs, without making significant changes to its operating procedures.

The two major apex financing institutions have also played an important part in determining which system predominates in each country. NABARD is vigorously and successfully marketing the SHG linkage system, through subsidised refinance, extensive training for bankers and for NGOs, and through exhortation. During the financial year 2000/2001, for example, NABARD organised 3200 training courses on SHG linkage, with 166,000 participants (NABARD MCID).

SHG Sustainability

The concept of "Sustainable Micro-entrepreneurship" is neither formal, nor derived, but rather a development process combining the three aspects of microfinance, entrepreneurship and sustainability. It refers to the specific practice of "social-conscious-driven entrepreneurship" perpetuated by a sustainable access to credit, and without bearing undesirable externalities on people or environment.

One of the main reasons for the popularity of micro-finance as a poverty alleviation tool is that it is believed that MFI can eventually become 'sustainable'. This term has many meanings, ranging from continuing ability to find and retain donors, to ability to cover all costs including the cost of finance, the reduction in fund value caused by inflation and even a return on the investors' equity. Donors appear willing to continue to extend large sums of money to cover the costs, and the funding needs, of micro-finance, even when this actually inhibits the development of unsubsidised financial institutions serving the poor.

The recent M-Cril Report contains information for 10 MFIs which use the Grameen system, three of which operate in India, and 31 using the SHG system and the comparable figure for the SHG MFI is only 8.9% (M-Cril, 2008). The SHG system is more flexible; the financial institution usually has less frequent contact with the groups, once they have reached the stage of taking loans, but the assessment and guidance of an autonomous micro-bank requires a higher level of skill than is needed.. The SHG system appears more likely to be associated with the two 'drivers' of high average loan balances and high numbers of clients per staff member.

For example, SHARE India is an institution, and it aims to reach 'financial self-sufficiency', which is microfinance language for real profitability, has become a very substantial organisation. SHGs enable to assess the profitability of this type of customer. The cost of initially developing and assessing an SHG has been variously estimated to range between about $30 (Rs 1350) and $355 (Rs 16,000) (Harper et al, 1998, p. 73, Fernandez 2001, pp.35-36), but experiments with dedicated SHG development agents by Basix Finance and others seem likely significantly to reduce this towards the lower end of the range. One Indian banker (Harper et al, p. 64) stated that it was actually easier and thus less expensive to appraise an SHG loan application than an ordinary loan of a similar size.

SHGs are genuinely autonomous independent entities, they have little protection against 'hi-jacking', either from within, or from outside, apart from their own internal solidarity or from whatever collective strength they can mobilise through coming together in clusters and federations. The government, at the state and national level, has already identified the potential of SHGs as a channel for the delivery of subsidy. The new SGSY initiative, which is designed to replace the massive but largely ineffective IRDP and other poverty alleviation programmes, is based on groups.

Government development staff have already started to nominate existing SHGs for the receipt of support under this programme, and many bankers are alarmed at the possible effects this will have on their SHG clients which have thus far remained 'unpolluted' by subsidy. Well over half the SHGs which were financed in 2000/2001 were in the single state of Andhra Pradesh, where the state government has for some years been using SHGs as subsidy distribution channels. Some groups have turned down such offers, because their members are well aware of their destructive effects, and very strong groups can take advantage of subsidies without being damaged. Less mature groups can easily be destroyed by grants, however, and this has already happened in some cases (Harper 1996, pp.88-89).

Impact On The Poor

The prime aim of micro-finance is not to maximise profits, nor even to cover all its costs. It is intended to alleviate poverty, and if some element of subsidy is needed to enable it to do this effectively, most would agree that such subsidy should be provided. It is generally acknowledged that micro-finance in general reach the 'poorest of the poor', and that the poorer people whom it does reach benefit less from micro-finance than those who are better off.

The poor are excluded not only by other better off members, but they also exclude themselves. They are afraid that they will not be able to save regularly, their poverty means that they lack profitable investment opportunities, and they may also not be able to attend meetings regularly. Their exclusion may be in their own interest; poorer people benefit less than others from micro-finance, and many poorer micro-finance clients have suffered great hardship, and have even been driven to suicide, as a result of their 'micro-debt' (Hulme, p.26). One study however (Harper et al, pp.27 and 41) found that the poorest people are also excluded from SHGs, and that many SHG members had suffered as a result of their membership. Social inclusion has a high cost operating.

In the case of Basix Finance which is working through SHGs in Eastern Andhra Pradesh, and SHARE is also working in the same part of the State, have not been fully covered the market, but there have thus far been no instances where they have reached the same clients. No systematic attempt has been made to compare the wealth of their respective clients, but in brief meetings with both types of groups the SHG members appeared to be somewhat better off. The members of an SHG are effectively the owners and managers of a small bank. This may place a heavy burden on their time and ability, but if they are successful it would seem to be obvious that this will enhance their status more than the fact of being a client of a bank.

The bank of which they are clients has at least until recently been far from customer-friendly; although competition is forcing Grameen institutions to be more flexible, they still have rigid loans and repayment schedules, and freely withdraw savings are still the exception rather than the rule. The sustainable livelihoods framework of analysis is increasing our understanding of the complexities of poor people's financial needs. SHG members can themselves decide who gets loans, when, and at what interest cost. They are indirectly remunerated for their management time and effort, in that the spread between their costs of funds and the interest they decide to charge themselves is retained by the micro-bank of which they are the owners.

In India, many cases where SHGs have been used as channels for government grants and other poverty alleviation programmes. These programmes can be very beneficial to the members, and strong groups in particular can use such assistance to strengthen their own position. Assistance of this sort often comes at a price, however; political interests use them as a form of patronage to demand votes or other support; grants can also erode the sense of ownership and responsibility which are necessary for effective groups, and can even destroy the groups altogether.

Some SHGs promote institutions, such as Dhan Foundation, CDF and MYRADA, encourage and assist 'their' SHGs to come together in clusters and federations. These bodies may or may not themselves be involved in financial intermediation, and some of them have become large and powerful institutions in their own right. SHG membership is thus more empowering, but at the same time more vulnerable. This serves to confirm our earlier tentative conclusion that Grameen groups are more suitable for poorer, more vulnerable groups (Harper et al., p.107). SHGs are a more empowering instrument than Grameen groups, but they also demand more of their members, and expose them to greater risks. Freedom does not come without a cost.

Institutional Feasibility

There is a great need and demand for microfinance services, throughout the world. Large sums of money are also available, whether from the savings of poor people themselves or from government and foreign sources. The main constraint is the lack of institutional capacity to deliver the services to those who need them. Institutional capacity building takes time and costs money.

A system which requires less institutional development must therefore be attractive, even if it is not obviously less expensive to operate. It takes time to change management attitudes, and regulations may make it difficult to lend without collateral, or to do business with informal groups which have no legal status. In the early years of the SHG movement in India many bankers showed that it is not impossible to overcome these constraints, and the regulatory environment has now changed so that there are no legal barriers to which a conservative banker can appeal as a reason for hesitation. It took some seven years for Indian bankers to appreciate the potential of SHGs as customers, but the recent rapid expansion in the numbers of SHGs which have borrowed from banks shows that their not unreasonable skepticism is now being overcome.

Conclusions

India is fiercely diverse as a nation, and most communities are also diverse in caste, opinion and religion. Indians are also known for their sense of personal independence, which is often translated into indiscipline, whether on the roads, in political assemblies or elsewhere. The SHG system reflects this independence and diversity. It allows people to save and borrow according to their own timetable, not as the bank requires, and SHGs can also play a part in a whole range of social, commercial or other activities. They can be vehicles for social and political action as well as for financial intermediation.

The financial flexibility and freedom also has its price. Politicians are driven by their need for popularity and power, and bureaucrats by their need to achieve numerical targets. SHGs can provide both with a ready-made vehicle. If their members can identify and resist the disadvantages of being 'used' by outsiders, and can exploit them rather than be exploited, the movement may in time play an important role in the reduction or even the elimination of India's main claim to fame, its leadership in world poverty. If not, however, they will become no more than another milestone in the nation's long list of failures.

Microfinance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process. This is fundamental to economic development, but also, "Because financial services help the poor expand their economic activities and increase their incomes and assets, their self-confidence grows simultaneously." And finally, "Large-scale sustainable microfinance helps create an enabling environment for the growth of political participation and democracy." Thus, the economics of microenterprise make it a compelling anti-poverty strategy (Rubinstein, 1993).

With the exponential grow rates, and race for horizontal growth, MFIs' systems and staff continue to be stretched. There is a growing need for the MFIs to address the inherent weaknesses in their systems and processes, and at the same time develop more robust governance to manage the challenges of future. There is a clear need to improve the customer value proposition and offer a broader range of financial services. So, once the initial IPO rush is over, in the long-term at least, it is fair to expect growth of individual lending built on m-banking platforms that also offer the clients access to savings, insurance and remittance services through agency-based arrangements.

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