



Mains Practice Question

Q. Self-Help Groups have emerged as the most effective mechanism for the delivery of microfinance services to the poor. Critically examine. (250 words)

10 Dec, 2019 GS Paper 2 Social Justice

Approach

- Briefly explain Self-Help Groups
- Examine how Self-Help Groups have emerged as the most effective mechanism for the delivery of microfinance services to the poor
- Shortcomings of Self-Help Groups
- Provide a way forward

Introduction

Self-Help Groups (SHGs) are informal associations of people who choose to come together to find ways to improve their living conditions. They help to build social capital among the poor, especially women.

Body

- The most important functions of an SHG are:
 - to encourage and motivate its members to save,
 - to persuade them to make a collective plan for generation of additional income, and
 - to act as a conduit for formal banking services to reach them.

Microfinance is basically very small loans (micro-loans) to below poverty and small entrepreneurial segment.

- These individuals lack collateral guarantee, regular income and therefore cannot meet even the most minimal qualifications to gain access to traditional credit.

SHGs have emerged as the most effective mechanism for the delivery of microfinance services to the poor as evident through the following examples:

- **SHG development through NABARD:** NABARD provides refinance and promotional support to Banks for credit disbursement under the SHG – Bank linkage programme. A full-fledged project involving a partnership among SHGs, banks and NGOs was launched by NABARD in 1992. It enabled SHGs to open bank accounts based on a simple inter-se agreement.
- **Rashtriya Mahila Kosh:** It was set up to facilitate credit support to poor women for their socio-economic upliftment by providing loans in a quasi-formal credit delivery mechanism. The Kosh lends with a unique credit delivery model “RMK – NGO-SHG Beneficiaries”.
- **Poverty eradication through social mobilization and empowerment of women in Andhra Pradesh:** Women have been placed at the forefront of the development agenda through the formation of women’s SHGs. The State Government assists the groups by providing Revolving Fund / Matching Grant under various programmes.

- **SHGs for Rural Development in Tamil Nadu:** The Department of Rural Development has taken initiative to encourage members of SHG to save regularly and convert their savings into a common fund known as the group corpus. This fund is used by the group through a common management strategy.
- **Kudumbashree Mission in Kerala:** Under Kudumbashree, women are organised into Neighbourhood Groups (NHGs). Thrift and Credit Societies are set up at NHG level to encourage the poor to save and to avail easy credits.
- These facilities have gradually grown into informal Doorstep Banks for Kudumbashree members. Groups which are mature enough to avail loans are linked with Banks under the Bank-linkage programme of the NABARD.

But the SHG movement has certain weaknesses as well

- Many of the activities undertaken by the SHGs are still based on primitive skills related mostly to primary sector enterprises. With poor value addition per worker and prevalence of subsistence-level wages, such activities often do not lead to any substantial increase in the income of group members.
- There is a lack of qualified resource personnel in the rural areas who could help in skill up-gradation / acquisition of new skills by group members.
- Contrary to the vision for SHG development, members of a group do not come necessarily from the poorest families.

The SHG model has led to definite social empowerment of the poor but whether the economic gains are adequate to bring a qualitative change in their life is a matter of debate.

Way forward

- The mutually participatory, solidarity-based character of SHG movement needs to be retained and protected. For this, the role of government should be only to facilitate and create a supportive environment, rather than 'manage' the SHG movement directly.
- There is a need to expand SHG movement to credit deficient areas of the country such as Bihar, Uttar Pradesh, Madhya Pradesh, Odisha, Rajasthan and those in the North-East.
- Also, there is a need to extend the SHG movement to peri-urban and urban areas as well since the locus of poverty is gradually shifting to urban areas.
- Need to extend the reach of Regional Rural Banks to all the remaining districts to speed up the process of inclusive banking and help in extending microfinance to local SHGs.