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# ROLE OF SHG IN FINANCIAL INCLUSION OF INDIA

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## **ABSTRACT:**

The progress under microfinance sector in India has registered a remarkable growth in the past three decades covering more than 77 lakh SHGs and around 9 crore households of which 2.5 lakh SHGs have been promoted in Rajasthan. Microfinance in Rajasthan has also undergone a sea change in the past few years in terms of credit dispensation, financial inclusion and other services to the rural poor. The major stakeholders in Microfinance sector in Rajasthan comprises NABARD, RAJEEVIKA, Directorate of Women Empowerment, ICDS, NGOs and MFIs. The paper highlights the basic features of SHG federations and its need for social and economic development of the society. The study focuses on the role of SHGs and SHG federations, in strengthening the India's position in relation to other countries economy.

**KEYWORDS:** SHG, Poverty, SHG federations, Rajasthan, Microfinance

## ***INTRODUCTION***

The Self Help Group is a group of 10-20 people who are from a homogenous background and mostly belong to poor families. The groups may be promoted by different agencies like NGOs, Voluntary organizations, Govt., Panchayati Raj Institutions, Farmers Clubs, etc. They learn the financial discipline viz. regular savings/ thrift, cash handling, credit appraisal, lending and recovery, utilization of credit etc.



The SHG programme has emerged as a significant tool in channelizing credit and other financial products and services to the poor and unbanked masses in the rural and semi urban areas.

It is also seen as an effective strategy for facilitating financial inclusion and livelihood promotion thus reducing poverty and unemployment in the rural sector.

Though the SHG Bank Linkage programme has helped many rural poor in accessing the micro credit and meeting out their small financial needs, they themselves are facing a number of constraints and challenges for sustainability.

### **“Sustainability of SHGs – Can SHGs survive on its own ”?**

This is one very important question which comes into the mind of every stakeholder especially the bankers while providing them credit and other services . The reason being-

- (a) Uneven spread of the SHGs across the country, (b) SHGs are not equipped to take up livelihood promotion on their own, (c) issues regarding gender and social inequality and women empowerment, etc, (d) Limitations of the promoting agencies in terms of capacity and capability to provide necessary inputs to the SHGs members for graduating to a higher level and sustainability (e) Inability of bankers to understand and accommodate the varied and small needs of the SHG members, etc.

### **The answer for all these concerns is - “Federating SHGs- An institution of SHGs & for SHGs”.**

#### **Need for Federations – A way forward**

Federation is a network of several SHGs and a structure of body evolved by SHGs themselves consisting of representatives from all members SHGs, with a motive of supporting member - SHGs to attain the goals of economic and social empowerment of individual members and their capacity building.

It is an another forum for SHGs to step up development of members taking advantage of collective effort of members SHGs, enabling a holistic and need based economic and social development.

It is a democratic body formed with certain number of SHGs functioning in a specific geographical area with the objective of uniting such SHGs for common cause and for achieving these causes which an individual SHG would not be able to do.



Major factors, which contributed for emergence and need for SHG Federations, which could be formal or informal, are:

- Continued dependence of SHGs on the promoting agencies and delay in self reliance
- Difficulties in withdrawal of the promoting agency
- Building leadership qualities in members
- Economies of Scale I case of livelihood or income generating activities
- To reach, interact with, and strengthen, a large number of SHGs (SAPAP).
- To mobilize a large number of women to obtain a status and empowerment of women in the society.
- To promote new SHGs in remote and in inaccessible areas and communities.
- To guide, support and hand hold the SHGs in the absence of promoting agencies.

### **OBJECTIVE OF CURRENT STUDY**

1. To explore the need and significance of SGH Federation in Rajasthan
2. To analyse the current status of SHG's Federations in Rajasthan.
3. To elucidate benefits of SHG federations in Rajasthan..

### **RESEARCH METHODOLOGY**

Research methodology is partly descriptive, partly exploratory and partly casual .For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, Report of NABARD etc.

### **OUTCOME AND ANALYSIS**

**Objectives for promoting SHG Federations (APMAS 2007):**

- To facilitate linkages between SHGs and banks/govt. agencies/local institutions.
- To have better access to development information and marketing linkages.
- To help in achieving sustainability of SHG.
- To strengthen (through training, information dissemination, onsite support, etc) the capacity of member SHGs in one or more of a variety of fields (bookkeeping,



accounting, marketing, financial management, advocacy, bank linkage, accessing government schemes, to name some).

- To provide credit, especially multiple credit lines.
- To provide savings facilities, especially voluntary savings.
- To undertake marketing of the produce of the members of the SHGs.
- To provide life/loan insurance services.
- To create the political/social space women need to live their lives as fully as they desire to.

#### **Benefits of SHG Federations:**

- The trust is completely owned by the cluster members.
- Democratic and equal participation.
- Loan disbursement without delay.
- Systematic investment plans.
- Opportunities in different investments.
- Opportunities in getting units of the company.
- More opportunity for Leadership.
- Variety of Leadership and capacity building trainings.
- Freedom for decision making collectively in developmental activity.
- Conflict Management

#### **SHG Federations in Rajasthan – Purpose and Need**

Rajasthan has long and rich experience in SHG movement. Self Help Groups in Rajasthan have completed more than two decades in microfinance and have come out of their first phase of promoting SHGs. Majority of SHG promoting institutions (SHPIs) in the State are exploring the idea of promoting an institution of SHGs may be a second and third tier structures for better handhold and sustainability i.e., SHG clusters and federations. These higher level groups are being promoted by SHPIs primarily as an exit strategy i.e. promoting an institution to support SHGs and sustainability when these promoting agencies gradually withdraw their support to SHGs.

Further, many SHPIs in Rajasthan have promoted SHGs with funding support under some specific projects. After project completion, most SHPIs are not able to provide guidance or support thew SHGs on a continuous basis either due to lack of funds, shortage



of manpower or maybe they are engaged in different projects. So, it is extremely important to evolve a mechanism for continuous support and handhold of SHGs from the day one of the project, to make SHGs self-sufficient and self-sustaining even after the support of promoting agencies stops .

Federating SHGs is one of the popular ways to smoothen post-project withdrawal of SHPIs, but it requires preparedness and planning on behalf of the SHPI so that the sustainability of SHGs in terms of its existence, operations , income generation and adopting livelihood by the members are ensured. Besides NRLM, most of the federations are promoted by the NGOs in the State of Rajasthan.

Some NGOs in Rajasthan were contacted to find out their view as to why clusters and federations are needed or promoted. Based on their response it can be opined as:

- An institution is required who can act as a link between the banks and SHGs for facilitating credit, recovery, on time repayment etc.
- To make SHGs self-sustainable in terms of all aspects i.e. financial, operational, governance etc.
- If federation is acting as financial intermediary, they can serve a function of host organization for the SHGs in terms of some outsourced grants /loan.
- For experience sharing and cross learning of SHGs among themselves, as some SHG are performing well while others are lagging behind. So, the well performing SHGs may help in improving the condition of other.
- Federations channelizes the outsourced money as loan to the groups, which will meet the demand of larger loans. It also maintains the quality of groups according to the governance, operation and finance. The federation does the planning, budgeting and monitoring of clusters and the SHGs.
- There were problems of record keeping as the female literacy level in Rajasthan is low at 52% and most of the SHG Members are not able to maintain their records;. This arises for a need for a person for bookkeeping either from outside or by the NGO staff . At some places system of Munshi was evolved for book keeping and maintaining the records of SHGs.
- Promote new SHGs and also maintain the quality of existing SHGs.
- Conflict resolution.
- Training, capacity building and exposure visits .



SHG Federations provide a gamut of services to the SHGs and individual members and support the SHG members in terms of providing economies of scale and an exit strategy for SHPIs. While the benefits associated with building Federations are immense, the challenges related to their inception also need to be addressed.

### Challenges

Though SHGs federations are performing many responsibilities effectively, they are facing certain internal and external challenges:

#### Internal challenges:

- **Governance** is one of the major challenges. Reasons includes lack of clarity on the role of SHGs, vision, limitations of the Board of Federation in terms of knowledge and literacy, limited sense of ownership, limitations or lack of vision while preparing the bylaws and implementation thereof, limited understanding of technical aspects of finance by the board, lack of second line and rotation of leadership, legal compliance, etc.
- **Resources** are another critical challenge: these include quality and trained human resources, staff review and fund availability for SHGs at federation level.
- **Asset quality of financial federation** is another concern which includes portfolio quality and lending methodology. Attention needs to be given to the design of systems, procedures and their implementation:
- Another major challenge could be **Efficiency and profitability** which is a major concern for sustainability.

#### External challenges:

An external concern is the lack of a business like approach in conceptualization of federation, legal and regulatory framework, framework for self regulation, role transformation, etc. Target oriented approach, capture by vested interests, limited capacity of promoting agencies, cost of promotion, institutional sustainability are other challenges.



### **Stake holders' role and benefits:**

#### **Right time to encourage formation of Federation**

- ✓ 3 years old SHGs to start with.
- ✓ New SHGs may be enrolled thereafter.
- ✓ Village level clusters of SHGs may be formed and federated at block level.

#### **Organizational Setup:**

- Should have own bye-law and rules and regulations.
- A Governing board of 10 -11 member representatives.
- One member from each cluster in the Board.
- General Body to comprise of 2-3 member representatives from each SHG
- Can have core office staff.
- May have own /rented premises.

#### **Sources of Funds:**

- One time membership fee from each SHG
- Monthly contribution from each cluster.
- Grant from NGO/Other sources.
- Charges for services rendered to member SHGs
- Income from Production /Marketing / Trading activities on own account
- Any other innovative sources, like conduct of community puja, cultural programs etc.

Information was collected from RAJEEVIKA (Govt. Body ) and NGOs from 4 major districts of Rajasthan viz Ajmer, Alwar, Bikaner, Dholpur regarding the functions and major activities carried by the SHG Federations in Rajasthan . Based on the information compiled, it is observed that most of the federations are functioning/ willing to function as Financial intermediaries to resolve the issue of credit linkages/ credit from the banks. Since banks are not able to reach the 2.5 lakh SHGs in Rajasthan and are not able to grade them, SHG federations are willing to take the responsibility on behalf of Banks as an extended arm.



**TABLE 1 FUNCTION AND MAJOR ACTIVITIES CARRIED BY THE SHG  
FEDERATIONS IN RAJASTHAN**

S. No.	Particulars	Responses collated from major 5 Agencies like RGAVP(NRLM), NGOs(GMVS Ajmer, Urmul Chittorgarh, Spectra , IBTADA and Mata Shree Gomti Devi from Alwar, Pradan , Dholpur)
1	No. of SHG Federations, their geographic spread and age-wise existence. Who has promoted?	Besides 42 cluster level SHG Federations promoted by RGAVP under NRLM , 17 Federations are promoted by NGO like Pradan, Spectra, Gramin Vikas Sewa Sansthan, Urmul etc.
2	Major activities being taken up by the SHG Federations.	RGAVP Federations are 3-4 months old & support Village organization in saturation of villages, nurturing of community cadres, review of programme in their areas. The other Federations e mostly into livelihood activities like Agriculture, Dairy, Goat rearing, Animal Husbandry, Small entrepreneurship, etc. Federations not functioning as Financial Intermediaries are doing Social mobilization. Facilitating credit linkage with banks, Agriculture inputs and training to farmers etc.
3	How many Federations are undertaking Financial Intermediation? Volume of credit, outstanding loans etc.	Of the 59 Federations contacted, All 49 Federations are in the business of Financial Intermediation. The remaining 10 federations are willing to take up financial intermediation but at present not into it.
4	Financial position of federations. In profit / Loss. Viable / unviable.	Viable.
5	What are the sources of their funds	Grant from GoR, Interest margin, service fee, Membership fee, support from external agencies, etc.
6	What are the norms of lending by Federations to members SHGs? Process, ROI, margin, documentation etc.	Defined norms laid down by federation in terms of assessment of quality of VO/SHGs, repayment history etc. by RGAVP. For others the norms are defined and most of them are following the three tier structure from village to district level.
7	Management pattern & governance structure of Federations?	Board of SHG Federation (elected from amongst SHG members at various levels)
8	Whether Federations have been extended credit support by Banks, MFIs, NRLM, SRLM or others.	SRLM have provided grant to federation. Federations take bulk loan from Banks (Yes bank, IDBI) SIDBI and other banks.
9	The process of lending adopted by these institutions. Obtain the rating norms adopted by banks or appraising federations.	Federations have their own rating tools.
10	Scope of involving the Federations in financial intermediation in the state. Whether the federations are ready?	Yes. All federations are ready for taking bulk loan from financial institutions and provide on lending service to SHGs.





## CONCLUSION AND SUGGESTIONS

Federations help SHGs become institutionally and financially sustainable because they provide the economies of scale that reduce transaction costs and make the provision of these services viable. Recent strategic interventions by some NGOs and MFIs have indicated that there is a possibility to meet the credit needs of SHGs through Federations. SHG Federations can also contribute to the potential of micro finance as a poverty reduction tool by addressing multiple facets of the vulnerability of poor communities, and empowering them.

However, their sustainability is constrained by several factors – both internal, related to the Federations themselves and external, related to other stakeholders. It is also seen that while the NGOs, Govt. Departments, Banks, etc are relying heavily on SHGs, very little attention is being paid to ensure the survival and sustainability of SHGs in the long run. There are innumerable cases of SHGs becoming defunct or dysfunctional after 4-5 years of formation. In this context, the Federations can play a vital role in ensuring the sustainability of SHGs. Despite the remarkable growth of SHG movement in the country, sustainability of the SHG Federations is a major concern. In order to address this, a constant guidance from an external entity, without affecting the autonomy of the Federations is essential and inevitable.

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