

# Microfinance in India: The light and dark sides of SHGs

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- Study by EDA Rural Systems and APMAS



## SHG-bank linkage, 2005-6

Did you know:

- *“More than 400 women join the SHG movement every hour. An NGO joins every day” ?*
- About 2 million SHGs (cumul.) have taken bank loans, many others only save
- Total membership around 26 million people, 94% women; growth around 30% + per year
- Increasing government involvement

# STUDY THEMES

- Outreach (inclusion, exclusion, drop-outs)
- Social Role (politics, social harmony/justice, community role, group enterprises)
- Sustainability: group dynamics, equity, financial management and performance; group records

## SAMPLE: SHGs

- Mostly formed before March 2000, with bank linkage
- South and North India (include tribal areas)
- Promoted by NGOs, Government, Banks
  
- 214 SHGs in 108 villages
- 4 States: (Andhra Pradesh-60, Karnataka-51, Orissa-50, Rajasthan-53)
- 9 districts: different eco-climatic zones

## SAMPLE – by SHPA

- By promoting *agency* (SHPA):  
NGO-137, Govt-49, Bank-28
- SHPA orientation/inputs to SHGs:  
*'microfinance +'* = part of wider development prog.  
(majority NGO and govt); 62% of sample  
*microfinance* (bank, some NGO and govt); 38% of sample
- In practice, variation across and within SHPAs

## SAMPLE – is it representative?

- Broadly, yes  
  
though
- We were searching for ‘stories’ – light or dark  
(not entirely random)
- SHPA/SHG profile has changed since 2000

# METHODOLOGY

- Very important to cross-check: Lengthy discussions with members, non-members, drop-outs, opinion leaders in each village....SHPA field staff, SHPAs, bank staff
- Wealth ranking (*PWR* + objective benchmarking against poverty line)
- Detailed examination of group records
- Data + case studies/detailed interviews



FGD





Wealth rank





# OUTREACH

- Who joins?
- Who does not?
- What about drop-outs?

## OUTREACH: Who are members?

- Key interest: outreach to the poor (*the lost, the last, the least*; & contribution to poverty reduction); and those previously by-passed by banking system

### NOTE:

- The 'by-passed' (~70%) are not all poor
- Not all SHPAs target the poor, though many work in backward/remote villages; some target SC/ST

# Outreach: Findings

[N = 2,968]

- Half the members are poor (51%)
- Very poor are included (~15%)
- Scheduled caste 30%; Scheduled tribe 25%
- 11% women heads of households (widows/men migrated)
- 38% are landless labourers
- 74% have never been to school (37% AP, 92% Raj)
- Leaders/office bearers are better off (44% poor, incl 10% very poor), but 60% are illiterate

## Poverty outreach: reduce over time?

- Long term members have not come out of poverty: 52% poor after 7 years, including 13% very poor



# Significant group features

- Not homogeneous by wealth rank (affects equity issues/loan decisions)
- In half the groups, some members related to each other (can affect group dynamics)
- Only half the groups are 'functionally literate': less in AP; in north 44% have no literate members (affects record keeping and accountability)

## WHO DOES NOT JOIN ?

- Moderate coverage (data for all SHGs in study villages, excl. hamlets): 29% of community population are members, 71% are not
- Socio-economic profile of members matches that of non-members (i.e. not exclusive focus on poor/marginalised)
- Reasons for the poor not joining?



## WHY DO NOT JOIN ?

- Unable to contribute savings regularly
- Do not want to borrow
- Worried about safety of savings
- Cannot attend meetings regularly
- Seasonal livelihoods/migration: variable income flows; typical of a poor household

*Conditions of membership are barriers to entry*

# SHPA strategies

- Some evidence of group formation with 'easiest' potential members; practical strategy – acceptance and demonstration effect;
- More 'difficult'/poorer – may form groups later
- Can be limited by target numbers approach in some Govt programmes (3/village – then move on); though, as in AP, growth leads to more inclusion

# PRAGMATIC ISSUES

- The poorer the women, the more intensive the effort ideally required for SHG promotion - and guidance for effective functioning;
- Is it possible to have some flexible options – savings amount/frequency?
- Is it possible to cater to more isolated SC/ST hamlets (Rajasthan – quarterly meetings)
- Does the caste of the field worker make a difference?

## DROP OUTS: How many? Who? Why?

- A useful measure of (lack of) utility of a programme
- Moderate rate of drop-out: 10% of all members;  
50% of SHGs no drop-outs
- Slightly more poor (11%) drop out than better off (7%)
- Stated reasons, may overlap; mainly migration, difficulties with saving/loan repayments; disagreements with group

## DROP OUT or THROWN OUT?

- Mix of both – member decision; expelled by group; ‘mutual agreement’; some cases of default (~10%)
- Default can sometimes lead to extreme measures by the SHG; or older group may support a member in difficulties
- Poorer women regret loss of savings option and access to low cost credit

# KEY ISSUE FOR DROPOUTS

- What happens to their savings – and the interest due?  
What interest is payable?
- Theory: norm of interest due = share of group profit
- Practice: lack of clarity, and records not systematic
- Finding – of 220 dropouts, not in default:
  - 65% savings only
  - 22% savings + interest (9% very poor, over 33% non-poor)
  - 13% nothing

## DROPOUTS contd

- SHPA/SHG approach: maybe do not clarify the norms so as to discourage exit (some may distribute after certain period)
- Nevertheless, evidence of group leaders not acting transparently or in interests of their members
- Poorest members most likely to lose out:
  - 9% very poor received savings + interest;
  - over 33% non-poor

# SOCIAL ROLE OF SHGs

- Local politics
- Social harmony
- Social justice
- Community action



# POLITICS: the potential synergies

- Related processes in SHGs: women gain experience of regular meetings, taking decisions, allocating money, leadership
- Visibility within groups – relevant to campaigning, recognition when politicians visit
- NGO SHPAs in sample: limited inputs related to preparation for election; no strategic inputs post-election

# Campaigning in Rajasthan



## Elections to the *panchayat*

- 20% of sample SHGs had a member elected
- 44 women elected: half were SHG leaders, half were not; mainly ward members, a few *sarpanch*
- Most of the women elected had pre-existing family political interests; some 'new entrants' were active community field workers (govt/NGO)
- SHGs can contribute to women's election, but may not be the main factor, and does not appear to influence what they can achieve if elected

## After election?

- Half the elected members played an active (engaged) role; half did not ('proxy', or 'low' – disengaged/ignored by existing system)
- Remember, women representatives are a minority – not more than one-third (the legal reservation)
- Factors – not caste/literacy, even wealth rank – though time and connections important
- Case studies: a gradual progression towards more engagement is possible - needs men's (husband's) support to take up a role in male public space

## What role is it, anyway?

- Allocation of funds under government programmes; supervision; selecting 'beneficiaries'
- Active representatives playing this role – including, but not limited to, street lighting, drainage, toilets.
- Appreciated by SHG members; disappointed when a member they had campaigned for failed to do much
- No link found between women elected representatives and community initiatives by SHGs

# SOCIAL HARMONY

- Do SHGs reflect community divisions? Can they help to overcome them?
- SHGs are 'affinity' groups: two thirds are single caste; reflect neighbourhood proximity, in turn based on caste divisions; also govt targeting
- But, one third include different castes (20% across the 'main' divisions)

# Overcoming divisions

- Mixed membership most likely in NGO promoted SHGs
- Some NGOs too deliberately organise mixed caste meetings and training programmes; monthly meetings of cluster associations/federations
- Begins to weaken barriers – but clearly, these barriers are deep set; strong traditional prejudices (will ‘upper’ castes purchase from SCs?)
- Real change takes time – even a little change can be important; examples of SHGs of different castes working together.

# SOCIAL JUSTICE

- SHGs seem uniquely placed to support their members
- Not doing so regularly: 12% SHGs reported taking up a social issue (bigamy, dowry, prevention of child marriage, help separated woman to remarry; domestic and sexual violence)
- Many such instances usually 'accepted'; not seen as 'injustice', or maybe too difficult to challenge; 'compromises



## SOCIAL JUSTICE contd.

- Higher incidence in AP (25%) – awareness campaigns (both Govt and NGO)
- Relative success in specific actions
- Domestic violence – very difficult
- SHPA support (5 in sample – NGO/govt): raising awareness, guiding on strategies and options, incl contacting police; mobilising - strength in numbers, confidence
- No strategy at panchayat/community level – where maybe influence is needed

# COMMUNITY ACTIONS

- 30% SHGs have taken community actions (excluding 'taking part in polio drives' and several examples of '*cleaning the village before visitors come*')
- Village services, infrastructure, anti-alcohol
- Usually 'one-off' initiatives; often successful – getting the system to deliver
- Except anti-alcohol (short-lived successes, liquor dealers return)

# SIGNIFICANT FEATURES

- Mobilisation of women through village or cluster networks/federations
- SHPA guidance: advice on the options
- A new boldness/confidence for women; sometimes too new skills in negotiation by SHG leaders
- A few examples, though, of 'perceptions of unfair access' to community resources (village ponds/grazing land)

# What about GROUP BUSINESSES?

- Seen as desirable, if not essential for absorbing credit and generating income; collective access and management
- 21% had been involved in group businesses

## Group credit for

- marketing, land/pond-lease, labour contracts (stone cutting, processing rice, a tent house) – often the idea of an NGO
- and government contracts: PDS, mid-day meals

# Viable?

- Half of the group enterprises: usually small scale, catering to local market – relatively low returns, a small supplementary income (important for poor women)
- None of the PDS – risks in the supply system, margins fixed unrealistically low; a few of the mid-day meals – but similar risks here too: delays in payment
- Double risk: ‘new women entrepreneurs’ and group management and accounting; do SHPAs have the necessary skills to guide?

## OVERALL – SOCIAL ROLE

- A start – maybe not as much as expected/hoped for
- Strength in numbers (clusters/federations of SHGs)
- SHPA inputs appear essential: requires strategic guidance; focusing not only on SHG members
- Balance – intervention and building autonomy; latter is the aim, but takes time; needs realistic assessment of the constraints, traditional patriarchal (male-dominated) systems

# RECORD KEEPING

- 15% have good quality records (complete, correct and up-to-date)
- 39% have adequate records – some errors and omissions
- 40% have weak records – incomplete, many errors, out-of-date
- 6% records 'unavailable'; not exist, being updated, with NGO.....

# WHO KEEPS THE RECORDS ?

- SHG office bearers
  - NGO staff
  - A local educated person (teacher, youth...) for a fee paid by SHG
  - Volunteers
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- Office bearers and volunteers are the weakest
  - Record systems are too cumbersome – not easy to explain or to understand
  - Most SHG promotion agencies verify and audit, but quality is low





## HOW EQUITABLE ARE SHGs ?

- 90% + of members get loans
- Better-off borrow more, as they should (they can absorb more credit: groups not entirely homogeneous in economic terms)
- SHG office bearers borrow more, but transparently
- 18% on-lend to non-members, often because of pressure for SHGs to borrow (more funds available than members can absorb)

# DEFAULTS AND RECOVERIES – WITHIN THE SHG

- Repayment schedules decided by SHGs
- Poor records conceal reality
- 50%-80% of SHGs with available records/information have some internal defaults over 1 year
- 9% of poorest members have >12 month default, 4% of better off

# DEFAULTS AND RECOVERIES – FROM SHG TO BANK

- Terms of repayment vary
- Initially 12 months, repay monthly
- Later (larger amounts) 3-5 years, quarterly or monthly
- Sometimes more flexible, allow for seasons
- Northern sample: one-third SHGs with outstanding bank loans behind on repayments

# HOW DO SHGs DEAL WITH DEFAULTS WITHIN THE GROUP ?

- Formal joint liability
- Start with discussions
- Warnings and then fines
- Seize assets
- Lock out of house
- Adjust overdues against savings
  
- Isolated tragic cases



# HOW CAN THE 'DARK SIDES' BE DEALT WITH ?

- Break link between SHG 'linkage' (i.e. loans) and politics ('hype', targets)
- Recognise that SHG promotion is not a one-shot deal
- Identify problems that arise as SHGs mature
- Train SHG promoters to advise on problems
- Design and FUND continuing long-term support
- Design finance (incl. credit) to respond to SHG needs/capacity (rather than top-down targets)

## HAVE YOU ANY SUGGESTIONS ?

- Is it realistic to expect busy often illiterate people to run a micro-bank ?
- Could YOU run an SHG, with your neighbours in your community?
- What records and communication are necessary/useful if you cannot read?
- How can empowerment be preserved and financial sustainability assured: are both important? if so, how facilitate?