WOMEN EMPOWERMENT AND INCLUSIVE GROWTH

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Abstract:

Women constitute of nearly half of the nation's population. It is only from the Fifth Five Year Plan onwards that their role has been explicitly recognized with a marked shift in the approach from women welfare to women development and empowerment. Financial Inclusion can be described as the inability of individuals' households or groups to access necessary financial services in an appropriate form. Empowering women connotes to increasing the spiritual, political, social or economic strength of women and their communities. There came the emergence of Self-help group (SHG) which is the brain child of GRAMINBANK of Bangladesh formed by Prof. Mohamad Yunuf in the year 1975. It is "by the women, of the women and for the women". SHG, as an acronym, has entered the lexicon of developmental credit and has become the mainstay of microfinance.

Financial inclusion is no longer just one of many objectives it is an integral part of the growth process and indeed the structure of growth sought to be achieved most likely to achieve inclusiveness.

This paper studies the various perceptions and problems faced by the financial institutions and NGOs by offering credit to the SHGs in the array of empowering women. It is further studied whether the finance procured are well utilised in the proper channel and whether their investments are frugally deployed. The paper goes deep into roots to see what the SHGs do with their savings and the money raised from government and banks.

Key Words : SHGs, Financial Inclusion, Empowerment, Microfinance, NGOs.

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Introduction

The banking System in India is installed mainly to alleviate poverty and circulate more money in the market. The money flow was expected to result in intensification of business activity. Which is believed sequentially to end up in economic growth and National development. But it is more a theory than a practice. Reason being the Banks were not in a state of mind to provide finance for the poor borrowers. The main cause for this outcome may be attributed to following facts:

- Lack of Security
- Noncompliance of formalities by the little borrowers
- Banking norms not strictly adhered to
- Low interest
- High cost of servicing;

As a result, the vast section of poor population continued to be outside the crease of banking system despite the best struggles by all. The term financial inclusion refers to the financing by formal sector and semi-formal to the borrowers but there is a danger of forgetting the 'excluded' which usually is referred to people below the poverty line. The BPL (Below Poverty Line) people were in fact served by the huge informal sector. The challenge is therefore is to fill the supposed credit vacuum and shield the poor from the hands of informal sector.

There were huge assortments of informal sector lenders and lending and saving devices and mechanism including money lenders pawn brokers, chit funds, informal finance companies pygmy deposit collectors. But they tormented to poor with their exorbitant interest rates and drastic recovery modes. An inclusive system favoring the poor, removing them from the clutches of the non-formal financial institution was the prerequisite of that period.

Advent of SHGs – A Boon for the Poor

There came a spell of respite for the poor people, who formed a group within themselves with a very small amount of money which they imparted mutually and thereby tried to resolve their financial problems. We have heard so many proverbs like self-help is the best help, united we stand divided we fall and so on.

The Self-Help Groups are organizations formed by the poor members within themselves which is engaged credit allocation. Sometimes they are linked with the banks and serve as a unit in between the banks and the poor people. The SHGs show how unity is strength and also how self-help could be the best help. They are mutually bonded to each other reason being their similar experiences of poverty, similar living conditions and the same kind of livelihood. They were functioning on the basis of saving first and credit later. Internal lending and discussing problems and finding a solution were their ulterior motive.

Bank and SHGs

SHGs circulate funds within themselves but if require more funds for meeting the needs of the members for undertaking economic activities, the banks should enter the field, interact with the group, assess its fund requirement, decide about the credibility of the group and its members and give loans to the SHGs, for adding to the corpus funds. The amounts, which are generally small in the beginning, may be increased as the confidence and trust develops between the bank and the group. While the bank will charge the usual rate of interest, the group will in turn be free to charge to the members and rate of interest it thinks reasonable based on the joint decision of the members. It generally varies from 12% to 36%. The margin in the interest rates adds to the income of the group and goes to its corpus fund.

The repayment will be made by the group to the bank as per as the agreed terms. From members to the group, the repayments will generally be faster. There will be no collateral security. The main documents of loan will be signed by authorized group leaders. However, if required by the bank, a jointly signed document may also be obtained from all group members, if necessary, indicating some sort of mutual guarantee and responsibility for repayments.

RBI's Hand on SHG's Growth

RBI has instructed the banks to

- To accept savings account by SHGs.
- To treat a part of the main stream of credit operations for them it is an additional segment under priority sector advances of the banks.
- That the lending may be included in service area action plans.
- If the situation warrants lending to SHGs may be exempt from service area jurisdiction.
- That Security and margin norms should be relaxed.

SHGs are expected to play an important role in financial inclusion and inclusive growth.

Growth of SHGs

SHGs based on National Bank for Agriculture and Rural Development (NABARD)

Number. 3.37 million SHGs in India (end of March 2006)
Access. 40.95 million poor households (roughly 200 million people or 20% of total

population and 80% of total poor population)
Linkages. 2.92 million SHGs received bank loans (as of March 2007) of Rs 180,410 million.
Savings. SHGs groups save on average about Rs. 500 per month
Gender. SHGs are 90% Women groups; 80% rurally located
Disparities. Considerable regional differences in access and development

NGOs and SHGs

NGOs are voluntary agencies which organize small groups of 10 to 20 poor people, based on homogeneous socio-economic factors. Through regular savings of the members, SHGs build up their fund, being supplemented by some contributions from the NGOs wherever possible, as also out of the income of interest of loans and common activities. NGOs assist the SHG members for maintaining the accounts on savings, lending and repayments as also for finding solution to their common problems. SHG start lending operations out of the group funds to their members after sometime. Initially it is mainly for emergent consumption, health and social needs. But subsequently small production needs is also met depending upon the position of resources. The most important features of SHG financing is very small loans, no collateral, formation of borrower member groups, borrowers from among the rural and urban poor, loans for income-generation through market based self-employment, generally though the mechanism of NGO control over disbursement and the determination of the terms and conditions attached to each loan.

SHGs' Rewards

The Economic impact of SHGs was relatively more pronounced on the social aspects than the economic aspects. It is really a boon to the poor people as it gives them financial autonomy and economically independent. It serves as a platform for exchange of experiences and ideas or suggestions. It encourages tremendous self-confidence and self-esteem. Even gender issues are well handled by the SHG movement. It ensures financial discipline which helps them to procure more frequent loans in shorter time span. There is a considerable transformation in their living standards. There is tremendous upsurge in income levels, assets, savings and borrowing capacity and income generating events. It is an all in one movement as combats poverty unemployment and empower women. It can be said that the overall performance of the SHGs is remarkable as it is the largest programme moving towards the financial inclusion by combating poverty, unemployment and empowering women.

'Empowering' Aspects of SHGs

After some time for larger investment and production needs of the individual members, the banks may consider giving loans directly to the members on the specific recommendation of the group. The loan amount as well as the repayments may be routed through the groups in this case also. One of the most 'empowering' aspects of SHG membership is the way it allows members to pick and choose between financial service providers. At last, banks, PACS and MFIs are obliged to compete for SHG members' business.

Are SHGs a bane?

Since SHGs became a favoured alternative, it was assumed that the transaction costs of banks and other financial institutions can be lowered significantly if these costs are passed on by NGOs or Self-Help Groups. NGOs were expected to perform better than banking sectors in respect of the recovery of loans. But when we refer to papers evidence shows that the administrative costs of NGOs are relatively higher than those of commercial banks. SHGs / NGOs cannot match the economies of scale of a comprehensive system of banking.

In the case of India, perhaps the best network of rural banks in the less-developed world. SHGs act like a catalyst in the lives of the poor but there is a large gap between the demand and supply of credit.

There is still dependency on the informal sector for their credit requirements ranging from 40 to 60% of their household demands. Therefore the poor people seem to seek the help of the money lenders and other informal credit institutions for their needs. Regional imbalances are often observed, as southern states more success rates than the other.

Dilution in Quantity of SHGs

Quality is under stress because of the rapid growth. The target oriented approach by the government results in a dilution of quality of SHGs. The number became the criteria than the excellence. Inadequate incentives to NGOs for nurturing the SHGs result in low skill levels of the members Progress in microfinance activity is predominantly measured in terms of numbers covered, amounts saved, amounts lent and repayment rates, but not by results achieved in genuine economic development. Just for the sake of showing a extensive list to the government false name lists are said to be prepared by which many women are members of five or six SHGs! –admits a harried official from the agriculture department in Banswara.

No Outside Avenues for Marketing

The SHGs train the people for the business but one the training is done, then the department goes and the group is are left. Marketing of the products is not taken care of. They cannot sell goods amongst themselves – everyone is too poor to buy. No outside avenues for marketing.

No Formal Accountability Practices

SHGs on account of their ownership seem to have served clients well. However even SHGs cannot claim to be entirely inclusive of the poor. There are practices that tend to exclude the poor from SHGs high saving requirements frequency of the meetings elite leadership demands on time for joint work at times of a political nature and lack of transparency so act as an entry barrier bank linkage is in many cases shallow providing a credit limit that is a year or two long, leaving a very little scope for the groups to invest in income earning assets. The small loan amounts also do not help. Record keeping at the group level has emerged as a weak aspect of SHGs functioning with only marginal difference on who maintains record and MIS seem to be part of the problem of poor book keeping. There is no completeness. There is no up to date information, Accuracy and transparency.

Financial Management

The financial management of SHGs has been found to be ranging from weal to average. Specifically, internal controls at SHGs and SHG Federations are lacking. Internal controls represent the systems and processes that manage the day to day transaction flow and ensure that roles and responsibilities are defined and executed to safeguard assets. Field studies have indicated that these systems and processes have been ill-defined and poorly executed by members. In addition to internal controls, how SHGs are managing their cash flows is especially important. Since SHGs are accessing external borrowings through SHG Bank Linkage and then lends these funds to its members, there have been cases of poor cash flow management to repay debts not just externally but also internally. The risk of overleveraging SHGs is high.

Governance

Since SHGs are an informal organization and a SHG Federation is a composition of informal groups, there is poor governance and the capacity of the members to enact good governance is weak. The members of SHGs do not have much experience with establishing formalized monitoring and review functions or complying with legal regulations. With the growing size of the loans being made to SHGs, a strong governance system is needed to ensure that there is accountability.

Sustainability of SHGs

It should be noted though that the sustainability of SHGs to affect such change is directly linked to their financial sustainability. While this latter issue was not the intended focus on the report, any external intervention to SHGs should bear this issue in mind. Research has shown that SHGs financial management is average of weak (SPMAS, 2005). Thus, it is vitally important that both government and NGOs work to bear all the costs in mind of interventions to make them sustainable otherwise the SHGs will be overburdened and destined to failure. Flexibility is though a boon; standardization should be attempted in areas where flexibility has been misinterpreted.

Third Party Rating System for SHGs

Just like CRISIL, CARE, ICRA and other rating agencies there need to be a separate rating system for the SHGs so that the public and the banks dealing with them will have confidence while operating with them. SHGs when linked with financial institutions to act as an intermediary handle large volume of funds from the bank linkage and also undertake savings from their members of SHGs. Therefore a proper machinery to standardize their activity is required. There are other key areas of SHG financial management that need to be improved such as internal controls, accounting, management stewardship, organizational efficiency and others. If the government were to enact policy that would regulate the quality of SHGs and tied this to their eligibility for SHG Bank Linkage, then this would help bring about a more measured and responsible growth to the movement.

Loan Repayment

While referring for this study, we came across a case where Woman is often terrorized into loan repayment. Indira Pancholi of the Mahila Jan AdhikarSamiti (Committee for Women's Democratic Rights), Ajmer, says "Women take loans from money-lenders on huge interest rate so that they can pay their installment to the SHG. For them, to be listed as 'defaulters' means they are out of the running for any development schemes." Along with a growing spiral of indebtedness engendered by microcredit, the day many not be far away when women are imprisoned for non-repayment of loans, like in Bangladesh, which has one of the longest histories of microcredit in the developing world.

SHGs not Able to Penetrate

Despite their growth visibility, SHGs have not been successful in reaching the very poor and, while innovating, are unlikely to reach the bottom of the pyramid. This is because their survival depends on significant scale and the management of large, low-cost loan portfolios. But the poor place much greater emphasis on savings and insurance services to manage their household cash flow, and their demand for credit is constrained by risk aversion and limited investment opportunity. While small and medium enterprises (SMEs) need MFIs, because they need access to larger loans through institutions that can intermediate a large pool of capital, most of the very poor can adequately be served by access to smaller pools of capital that can satisfactory – and cheaply – be intermediated by informal, community – based institutions. It shows that SHGs are unable to cater the needs of the very poor people.

The Falling Recovery Rates

The falling recovery rates on the one hand and pursuing financial inclusion agenda on the other drives the financial institutions towards quality consciousness while credit linking SHGs with them. There is increasing need for measuring performance of SHG to identify the strengths and weaknesses so as to take corrective steps for improvement.

Poverty' Alleviation' Rather than Elimination of Poverty

SHGs may at best provide minor solutions. To quote Scully, "As long as microenterprise development is offered as a substitute for meaningful social development, for employment that offers real security, for viable small-farm and enterprise production, and for fundamental changes in the economic policies prescribed by institutions such as the World Bank and the IMF, it will only impede progress toward finding real answers to the very real problem of poverty in the developing world." It has been recognized that the SHGs are a traditional response to the economic marginalization all over the world. In many third world countries, including India, despite the commendable efforts put in by the credit institutions, a large section of the poor population has still not got access to the credit from the formal banking system and depends upon conventional private sources like money lenders, village shopkeepers, etc., for their credit needs.

SHG Performance Measurement Tool

S.No.	Issues to be Checked	Excellent	Good	Fair	Unsatisfactory
1.	Size of the group				
2.	Economic status of members				
3.	Gender of Members				
4.	Group perspectives				
5.	Organizational Discipline				
6.	Organizational system				
7.	Financial Management				
8.	Performance				
9.	External Linkage				
10.	Amount to be saved				

11.	Savings within the group				
12.	Educational level				
13.	Awareness about Govt. Programmes				
14.	Self-reliance in management affairs				
15.	Participation of the members				
16.	Interest on Internal loan				

SHGs with 12 to 16 very good factors can get loans immediately. SHGs with 10 to 12 good/ fair factors need to be improved in 3-6 months' time But under 10 will not be considered for loan at all.

Conclusion

Even though the governments have also undertaken various poverty alleviation programmes, through financial inclusions as revealed by various studies, substantial portion of the very poor and the most vulnerable sections of the society have continued to remain out of the realms of such programmes. They have remained poor and backward, economically as well as socially. They consist of marginal farmers, petty business women rural artisans, agricultural labourers, etc., mostly belonging to socially and economically backward strata of the village population and are vulnerable to personal as well as natural calamities.

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