

Self Help Group Bank Linkage: Through the Responsible Finance Lens

A Study on State of Practice in SHG Bank Linkage in Madhya Pradesh, Bihar and Karnataka



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[November 2013]

Published by
ACCESS-ASSIST
28, Hauz Khas Village,
New Delhi-110 016

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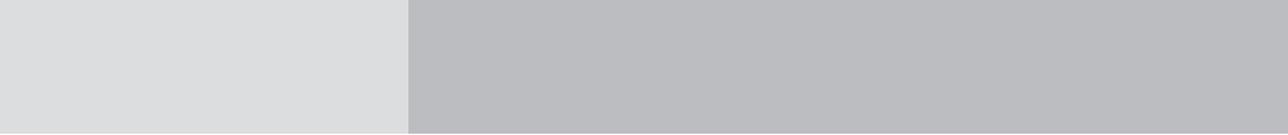
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Printed by:
Elegant Enterprises
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Acknowledgements

The authors thank ACCESS-ASSIST and GIZ whose generous assistance and support made this study possible. We express our gratitude to Ms. Girija Srinivasan, Author-Social Performance Report, Ms. Radhika Agashe, Executive Director, ACCESS-ASSIST, Ms. Jonna Bickel, Technical Advisor, GIZ-NABARD Rural Financial Institutions Programme and their teams for their valuable feedback and inputs and for levying trust on us by commissioning us the study. We would also like to express our gratitude to all the participating SHPIs in the three states (Madhya Pradesh, Bihar and Karnataka) and their concerned officials for investing their valuable time in planning the field visits, introducing the research team to all the relevant stakeholders and sharing their views and experience on the SHG-BLP; without whose participation it would not have been possible to fulfil the objectives of the project. Our heartiest gratitude to all the respondents, without whose participation in data collection, the study would not have reached this mount. We sincerely thank our dedicated surveyors and support team for their valuable contribution in conducting the field work. We look forward to partner institutions' kind support in Centre's future endeavors too.

We extend our appreciation to IFMR personnel Ajay Tannirkulam, Shahid Vaziralli, Anup Roy, Projjal Saha, Rakesh Barai, Sudhakar Chittampally and Sachin Shrivastava for their contribution to the project. We thank Sharon Buteau and rest of the Centre team members for their guidance and feedback.

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Executive Summary

The self-help group (SHG) program, which began as a women's empowerment initiative in the 1980's added a significant component in 1992, when a NABARD initiative linked a small number of SHGs with banks. In India today, there are over 73.18 lakh savings-linked SHGs and 44.51 lakh credit linked SHGs, covering approximately 95 million households¹. SHGs are more than just a conduit for credit – they also act as a delivery mechanism for various other services, ranging from entrepreneurial training to savings deposits and now with changing paradigm, channel to deliver community level development programmes.

Given the success of the SHG model, it is surprising that there is little evidence that tracks the intra group dynamics across financial and social interactions. There have been several rigorous studies on the social and economic impact of SHGs on the livelihood of women (Deininger & Liu, 2009), however not many studies have focused on the qualitative aspects of SHGs that covers the behaviour, performance, preferences and aspirations of the group members. This study helps in understanding these aspects of the group so as to formulate relevant policies in the SHG space.

The objective of the research from which this report has been derived is to understand the financial and non-financial interactions of SHGs with external agencies as well as to review the group dynamics in terms of financial transactions, decision making, cohesiveness, transparency and acceptance towards technology and new policy.

The study attempts to answer the questions associated with the above mentioned objective by collecting primary data from SHGs and SHPIs across three states-Bihar, MP and Karnataka. **A total of 200 SHGs were selected from each of the three study states and were administered questions pertaining to their activities at different levels. Four modules of questionnaires were designed to collect comprehensive information from group members and office bearers. Administrative data was also collected to record SHG transactions.**

The results of the study have been presented in five broad categories- quality of SHGs in terms of its five core functions² (Sadhan 2003), level of transparency practiced within SHGs, social performance of SHGs defined by participation of group members in community based activity, financial performance of SHGs in terms of compulsory savings and repayment of internal and external loans and lastly a comparative analysis of the overall performance of groups across all the three states by using the NABARD criteria as a benchmark³.

¹ Status of Microfinance in India 2012-13, NABARD

² Savings, meetings, maintenance of SHG books of accounts, internal lending and external borrowings

³ RBI circular/ 2012-13/559- RPCD. GSSD. CO. No. 81/09.01.03/2012-13-Priority Sector Lending- Restructuring of SGSY as National Rural Livelihood Mission (NRLM)

The key finding of the study is that, while the sample SHGs are on the right track of achieving the objective of financial inclusion and empowerment through group formation, savings, lending, borrowing and community development, there is still a vast scope of improvement across several parameters that assess the quality of SHGs. These parameters are broadly defined in terms of organizational management and efficiency, capability and achievement of group members and the financial and social performance of SHGs. The study also found that there are substantial state wise differences in the group dynamics. A comparative analysis of all the three study states reveals that SHGs in Karnataka fare better than SHGs in Bihar and MP, although each state has its strengths and weaknesses. For example, while groups within Karnataka practice higher levels of transparency compared to groups in Bihar and MP, the frequency of meetings and savings is much better in Bihar and MP than Karnataka.

In spite of SHGs being a great medium of social and economic empowerment for the sample groups, there are certain areas of concern which needs to be addressed to realize the full potential of SHGs, one of the primary concerns being over-dependency on SHPIs. For new advancements in the microfinance sector such as SHG 2 to be successful, there is a pressing need to emphasize on self-reliance of SHGs. Additionally, in order to function effectively; SHGs must start thinking about the use of technology in their regular operations, so as to promote transparency. Therefore, prior to introducing modifications in the SHG movement, it is essential for the stakeholders of the industry to take a step back and assess the performance of the current SHG model before moving to the next level of financial inclusion.

Over the last two decades, the Self Help Group Bank linkage programme (SHG-BLP) has achieved many milestones. Various models and innovations, in terms of products and services, have emerged in the recent past in an attempt to achieve greater financial inclusion across the country. However, the SHG-BLP continues to be the lead model with outreach to a large section of population across regions. Since its inception, anecdotal evidence suggests that the model has often experimented and set examples by successfully undertaking various agendas ranging from women related issues to issues of community development, and additionally, by establishing market linkages for rural women entrepreneurs. The achievements of SHGs have been phenomenal and the recently published NABARD report titled ‘Status of Microfinance in India 2012-13’ clearly endorsed the continued prominence of the model in the Indian Micro-Finance sector. 73.18 lakh groups covering over 95 million households access formal banking system with savings balance of over Rs. 8217.25 crore as on 31st March 2013. About 44.51 lakh SHGs have also accessed credit and have over Rs. 39375.30 crore as outstanding balance from the banking system⁴. This statistic noticeably indicates that the two-decade old programme has come a long way evolving around the founding principles of homogeneity, cohesiveness and equal opportunity.

By consolidating the years of SHGs’ achievements thus far, in March 2012, NABARD has introduced revisions, titled ‘SHG-2’ in the programme⁵. Further, the success of SHGs have also attracted many Government schemes; and particularly in June 2011, the Government of India launched the ‘National Rural Livelihoods Mission (NRLM)⁶’ that envisions SHGs as a delivery mechanism of this massive poverty alleviation initiative in rural areas across the country. These two major policy developments around SHGs are going to test the strength and capability of their establishment. Moreover, many other government schemes aim to connect SHGs with village development schemes such as Anganwadi, mid-day meals, etc. to essentially make groups operate under a third party agent model of banking. The two policy developments excavate many avenues for SHGs to graduate to the next level of microfinance activities, leading towards facilitating sustainable livelihoods, not just for themselves but for the community as a whole. The SHG-2 will enable groups to offer a wide range of products and services such as voluntary savings, fixed deposit, recurring deposit, and well attracted flexible loans by creating the provision of cash credit / overdraft facilities. Further, it also allows the entrepreneurial members within the group to form a Joint Liability Group (JLG) and approach banks for larger sized loans for their businesses. Although, certain necessities have been articulated

⁴ State of Microfinance in India 2012-13, published by NABARD

⁵ NABARD Circular No: 65(A)/ MCID-04 / 2011-12: SHG 2 – revisiting SHG Bank Linkage Programme

⁶ <http://aajeevika.gov.in/>

under SHG-2 including mechanisms to address associated risk, capacity building/training of groups and associating SHPIs to provide handholding support to SHGs, nevertheless, implementing new provisions under the scheme will be a toiling task for SHGs. Further, under the NRLM, provisions such as revolving fund, community investment support funds, universal financial inclusion by simplifying opening of savings bank accounts, aiding repeated loans till group/member is able to have a sustainable business/livelihoods and interest subvention etc. aims to strengthen SHGs in order to achieve the goal of poverty alleviation. While these policy developments are well intended and have enough provisions to facilitate and make SHGs capable of adopting these schemes to maximise their impact, it would still be a tough road ahead for the SHGs, and SHPIs.

Considering the status of SHGs in terms of their performance and quality, it has been reported by NABARD in the recently published 'Status of Microfinance in India 2012-13' that the non-performing asset (NPA) against loan to SHGs continued to escalate in the last couple of years. In percentage terms, the gross NPA increased from 6.09% in the year 2011-2012 to 7.08% in 2012-2013⁷. In addition, NABARD has also acknowledged (in SHG-2 circular) the issues of regional imbalance, lesser average loan size, lower sanction of loans from banks, lack of monitoring and training support, delay in opening of bank accounts, impounding of SHG savings by banks as collateral etc. Several studies have also found that there

are issues in governance, quality of SHG bookkeeping, lack of transparency within the group, issues of regularity in group affairs etc. Therefore, it is important to understand the implication of these policy developments in the backdrop of issues that have been raised around the SHGs. Post AP crisis 2010⁸, MFIs were heavily criticised for lacking transparency in their business affairs. The regulators of the sector emphasised the need for bringing high level of transparency in their business. Further, MFIs were also subjected to a large number of disclosures of their finances. Therefore, SHG being the most successful and popular model should emphasize on introducing transparency in their business affairs, as several studies found recordkeeping to be poor among a large section of SHGs. While technology becomes an integral part of recently introduced financial inclusion models, SHGs have a very minimal exposure to it. There is also lack of training and handholding inputs to SHGs. And a big question can be raised on their capacity of handling and interacting with external agencies such as banks, SHPIs, markets, etc.

Revisions within the current SHG model in the form of SHG-2 should be looked as an opportunity for the SHG-BLP to overcome its current limitations. SHG-2 introduced flexibility in the model by allowing voluntary savings and enabling JLGs within SHGs. However to maximise the benefits out of current revisions, SHGs are expected to have certain core robust practices of self-discipline in conducting their regular meetings, financial transactions, recordkeeping and

⁷ Status of Microfinance in India 2012-2013, NABARD <https://www.nabard.org/english/ShowPg.aspx?file=ODI=>

⁸ <http://www.cgap.org/publications/andhra-pradesh-2010>

transparency within group and outside the group. Their involvement in addressing social issues along with their core microfinance activities is also important.

However, there is no standardized tracking and monitoring of intra group dynamics in both financial and social interactions either by NABARD or by any other agencies. In some cases, promoting institutions like the NGO-SHPIs seek to track the social and financial empowerment of SHGs and within that

inter alia, their members. Given such long stable history of the model and the current policy developments, it is important to understand the current state of the SHGs by understanding the group behaviour, performance, preferences and aspirations by narrowing down to an individual level. It will assist in consolidating the achievements and lacunae of the model to provide relevant information in formulating better strategies to enable SHGs cope with the changes at this juncture.

The study aims at scrutinising the practices within SHG Bank linkage with a view to ascertain their responsiveness to SHG and SHG members. Further, it attempts to highlight the changes in SHGs' founding principles that might have occurred over time or due to differences in implementing approaches. Moreover, due to differential entrepreneurial skills and progressive behaviour within the group, some members might be left out, which might, over the long run, have hampered the homogeneity and cohesiveness of group. In addition, the study intends to review these basic attributes with respect to the changing policy and technological landscape, to assess if SHGs are prepared to adopt the alterations.

In precise terms, the objective of this research is twofold:

- to understand the financial and non-financial interactions of SHG with external agencies like banks and SHPIs;
- to study the internal group dynamics in terms of financial transactions, decision making, cohesiveness, transparency and acceptance towards technology and new policy.

The subsequent sections of the report state the methodology adopted for the study and the rationale behind it. This section describes the sample and data collection instruments in detail. What follows is a detailed analysis of the data collected from SHGs and SHPIs to highlight the practices being adopted and followed across the SHG-BLP. An attempt has

also been made to put the results from the study into the perspective of current policy environment to see if useful recommendations could be derived for the benefit of the women engaged in this mass programme of financial inclusion.

Research Methodology

2.1 Sample

The study was conducted with the SHPIs and the respective SHGs associated with them across 2-3 districts each in the states of Bihar, Madhya Pradesh and Karnataka. The selection of states and corresponding SHPIs that ranged from NGOs to government programmes ensures a wide and diverse coverage of the SHG Bank Linkage programme. A total of 200 SHGs were randomly selected from each of the three study states. The only criterion for exclusion in the sample was the age of SHG, the acceptable range for which was considered to be 1 to 6 years. This age group ensured the participation of average aged groups and because these groups are still maturing in certain aspects, this age group was more likely to highlight any disparities across states and across programmes the SHGs are linked to.

The results of the study have been mostly derived from the quantitative and qualitative data collected. Authors have also substantiated these evidence based findings with keen field observations. Results in this report have been presented in five broad categories-

- Quality of SHGs that is defined by five core functions of a SHG, i.e., savings, meetings, book-keeping,

internal lending and external borrowing

- Level of transparency practiced within SHGs which includes the level and type of information sharing within the groups and that by the banks
- Social performance of SHGs defined by participation of group members in community based activities with or without the support of concerned SHPIs and the type of social and political issues discussed at the group meetings
- Financial performance of SHGs in terms of savings behaviour, repayment of internal and external loans, default rates, default and fund management and variations in financial behaviour across leaders and members
- A comparative analysis of the overall performance of SHGs across all the three states by using an SHG assessment tool and comparing it against the benchmark criteria set by NABARD

The above mentioned parameters are chosen to define the performance of a group since they form the crux of the SHG model and if followed methodically, ensure the sustainability of the group in the long run. These parameters will be judged on three main criteria.

- **Quality indicators** of SHG- to see if and how the sample SHGs practice the above mentioned activities. This is important since it determines the performance of

SHG in terms of its core functions.

Role of external agencies like banks, SHPI and SHG federations in promoting the quality of SHGs- This section, as the name suggests, discusses how the external agencies promote, support or are linked to performing the quality indicators mentioned for each of the broad categories. These agencies play an important part in the development of SHGs as their primary function is to support and finance the activities of a SHG. The long term goal of a SHG is to become self-reliant, however, in short term, the type and extent of support provided by SHPIs is extremely critical. Therefore, judging the performance of SHG based on the support of external agencies is a vital part of assessing SHGs performance.

- **Perception** of members about the SHG- While perception of group members is an intangible feature of SHG; it nevertheless, plays a significant role in motivating the group members to take part in various activities of the group. A positive perception about the group goes a long way in group's overall development. This sub-section, thus, shares the data on the perceptions members have on the category specific activities performed by the group.

2.2 Data Collection Instruments

There were four modules of data collection that were developed to address the research questions from the perspective of different members (leader,

treasurer, progressive members⁹ and not so progressive members). The objective of the module administered with the leader was to understand the process of the group as a whole, its interaction with the banks and other external agencies like SHPI, group's policy, activities and decision making processes. The module that was administered with the treasurer was primarily about the group's finances, savings, borrowings, cost of borrowing from different sources etc. Another exercise that was conducted with both

the leader and treasurer together was to score each of the members of the group on certain pre-identified criteria to be able to identify the progressive (prog.) and not so progressive members (~prog.) of the group. Module for the progressive and not so progressive members was then run with the identified women separately with 2 members from each category. This instrument intended to understand the group dynamics from two different perspectives to gauge the differences in opinion within the group.

⁹ Progressive members have been defined as those who (1) have been regular in their financial transactions, (2) are most active in group's decision making activities, (3) are most active in community based activities of the group, and (4) who have been office bearers (at least once) since the inception of the SHG. Not so progressive members are the ones who scored less on all these parameters (as marked by current leader and treasurer).

3.1 Overview of the Sample States

This section aims to provide an overview of the study states in terms of their socio-economic and demographic characteristics, so as to aid the understanding of results from the study in right perspective.

Bihar¹⁰

Demography: In ancient India, the state of Bihar was known to be a major centre for learning, power and culture. However, today, Bihar is often referred to as one of the most under developed states in India. In spite of registering very high rates of growth in the recent past, the state is faced by immense development challenges on account of high population growth, low levels of literacy and other human development indicators. Bihar is India's third most populous state after Uttar Pradesh and Maharashtra, with its population increasing to 103 million as per 2011 census. Its sex ratio is among the lowest in the country with 916 females per 1000 males. The literacy rate stands at 64% across the state and half of its population over 15 years of age is illiterate. The state of Bihar is also crippled with poverty as it ranks second in the number of below poverty line households. However, with recent reforms introduced by the Bihar government, there has been significant improvement in education and poverty levels, as it has emphasized on inclusive growth.

Status of SHG-BLP: SHG programme has come a long way in the state of Bihar. In 1980s, the programme was pioneered by Non-Government Organizations (NGOs). Further, state sponsored schemes such as Swashkathi, SGSY etc. contributed enormously towards promotion and expansion of the SHG-BLP across the state along with the support of apex bodies like NABARD, Women Development Corporation and DFID sponsored 'Poorest Area Civil Society.' In the year 2001, Bihar was identified by NABARD as one of the 13 priority states that needed special attention in promotion of SHGs. Further, in the year 2006, the state government launched the poverty eradication program, 'Bihar Rural Livelihood project', named as JEEVIKA, which aimed at banking-on the existing village level women institutions, specifically SHGs. These two policy developments boosted the SHG-BLP in the state. Since then, the performance of SHG-BLP has improved every single year with a compound annual growth rate (CAGR), in terms of number of credit-linked SHGs, for the period 2002 to 2007 of 62%. Although, the period from 2008–10 witnessed a low CAGR (3.7%) in terms of number of SHGs with loan outstanding, the subsequent year of 2011–12 saw a phenomenal achievement with 136.2% growth in terms of SHGs with loan outstanding¹¹.

Although, the SHG-BLP witnessed a substantial growth in the state with the household coverage of 39.66 lakh, the

¹⁰ http://www.undp.org/content/india/en/home/operations/about_undp/undp-in-bihar/about-bihar.html

¹¹ Banking on Self Help Groups – Twenty years on by Ajay Tankha

programme is yet to reach 50% of rural households in 29 out of 38 districts. Average savings per SHG (INR 4,602) is also low when compared to the national average (INR 8,230) and average credit disbursement per SHG is INR 1,01,580 which is quite low compared to the national average of INR 1,48,155. Outstanding loans to savings ratio has come down to 9.3 as of March 2011 as compared to 11.2 as on March 2010. In addition, the NPA (non-performing asset) has gone up by 98.36% in the year 2011-12¹² and the NPA against bank loans to SHGs was 6.18% as of March 2011.

Though, initiatives under livelihoods promotion are observed in SHGs' engagement in certain capacity. Studies have also observed that there have been instances of poor discipline among SHGs and many SHGs are experiencing poor recordkeeping. Regarding technology, which has become an essential component of many financial inclusion initiatives, it has not been adopted by any SHG in the State.

Madhya Pradesh¹³

Demography: Madhya Pradesh is India's second largest state in area with a population of 72 million. It has a sex ratio of 930 females per 1000 males with under 6 sex ratio being even more skewed with 912 females per 1000 males. Poverty rate in Madhya Pradesh stands at 48.6% and literacy rate at 75% which reflects a significant scope for improvement in terms of several human development indicators. Poverty and lack

of livelihood opportunities act as a huge constraint for MP, with about 68% of the state's population being poor. Although MP is doing relatively better than Bihar, the above mentioned reasons contribute to MP being one of the least developed states.

Status of SHG-BLP: While the non-government organizations are pioneers in promoting SHGs in Madhya Pradesh, state sponsored programmes such as Swa-Shakthi, Tejaswini, and SGSY have played a major role in different phases in promoting the SHG-BLP. Despite Madhya Pradesh being part of NABARD's list of priority states, it appears that the SHG-BLP is yet to be at par with the SHGs' performance in other states.

The performance of SHG-BLP has declined over a period of time with a compound annual growth rate (CAGR), in terms of number of credit-linked SHGs, for the period 2002 to 2007 of 44%. Further, in subsequent years, from 2008-10 the CAGR reduced to 12.8% and in the recent past (2011-12), SHG-BLP has witnessed a negative growth of 17.1%¹⁴. Half of the districts in the state have less than 50% coverage of rural household by the SHG-BLP. The average savings is INR 6,864 per SHG and average credit disbursement is INR 1,09,064 per SHG. These figures are less than the national average in the year 2011-12. Further, outstanding loans to savings ratio of 10.2 as of March 2010 went down to 7.9 as of March 2011, which is a good sign. The SHG-BLP is also facing high

¹² Status of Microfinance in India 2011-12, NABARD

¹³ http://www.undp.org/content/india/en/home/operations/about_undp/undp-in-mp/about-mp/

¹⁴ Banking on Self Help Groups – Twenty years on by Ajay Tankha

NPA of 7.08% as reported in March 2013. Percentage of NPA went up by 26% in the year 2012-13¹⁵. A recent study conducted by Institute for Development Studies, Jaipur (sponsored by NABARD) in the state, also raised some concerns about banks continuing to take a long time to provide initial loans to SHGs, trainings inputs not meeting the skill requirements for taking up suitable IGAs, disbursed amount given by banks (which were linked to savings,) being much lower than the actual requirements, and competition among various SHPIs resulting in multiple memberships of SHG members¹⁶.

Considering the state's overall performance in SHG-BLP programme, SHGs are required to be brought at par to accommodate for recent revisions in the program i.e SHG-2. PRADAN's computer munshi is one of the major technology interventions that aims to address issues related to recordkeeping of SHGs. Apart from this initiative there are no other substantial examples in terms of technology adoption in SHG programme across state.

Karnataka¹⁷

Demography: Karnataka, located in the southern part of India is one of the developed states being the seventh largest GDP producing states in India. Karnataka is the

9th most populous state in India with 61 million people, which can be attributed to migration. In spite of showing rapid signs of development, its literacy rate is only 75%. Sex ratio stands at 973 female per 1000 male which is 20 point above national average. One of the primary causes for growth in Karnataka is its investment in infrastructure facilities and creation of job opportunities.

Status of SHG-BLP: MYRADA, considered as the pioneer of the Self Help group concept, invented itself in the state of Karnataka. Since early 1980s, the SHGs are being promoted and nurtured by the NGOs across the states. Additionally, government sponsored programs like Stree Sakthi and SGSY have contributed significantly in promotion of the SHGs across the state. Karnataka is one of the leading performers in SHG-BLP with about 6.29 lakh SHGs having saving bank linkages with a total deposit of INR 1,00,212.87 lakh. Among the major States, SHGs in Karnataka maintain the highest savings balance of over INR 16,000 per SHG. While number of SHGs having outstanding loans has declined across the country in year 2010-11, Karnataka maintained its status. Further, Karnataka has the highest average loan outstanding among SHGs with INR 1.30 lakh per SHG, whereas the national average is about INR 0.83 lakh per SHG and average loan outstanding is about INR 1.07 lakh per SHG in southern region. The NPA against bank loans to SHGs in the state is very low at 3.35% as compared to national figure of 6.09%. While, there are examples where SHGs in Karnataka

¹⁵ Status of Microfinance in India 2012-13, NABARD

¹⁶ As reported in Srinivasan (2011)

¹⁷ <http://www.census2011.co.in/census/state/karnataka.html>

have engaged in livelihood activities, technology intervention in SHG activities has not been observed much.

Following table provides a snapshot of some of the development indicators in the study districts.

The sample SHGs in this study are linked to different kinds of SHPIs. The SHGs in Bihar are supported by government agency with an objective of enhancing social and economic empowerment of the rural poor in Bihar by generating employment opportunities through

Table 3.1: Profile of the states

Profile of the states						
States	Bihar		MP		Karnataka	
Development Indicators	Gaya	Muzaffarpur	Mandla	Panna	Bellary	Chamrajnagar
Population	43,91,418	48,01,062	10,54,905	10,16,520	24,52,595	10,20,791
Sex Ratio	937	900	1008	905	983	993
Literacy Rate	63.67	63.43	66.87	64.79	67.43	61.43
Population growth rate	26.43%	28.14%	17.97%	18.67%	20.99%	5.73%

Source: Census Data, 2011

Comparing the study districts in three states, we find evidence of lack of growth in Bihar with highest population, lowest sex ratio and highest population growth in Muzaffarpur district. In terms of literacy rate, the district of Chamrajnagar

has the lowest literacy level, but does better in terms of population, sex ratio and population growth rate.

SHGs. The SHGs in Madhya Pradesh are supported by a not for profit NGO which promotes and nurtures SHGs of poor women and strengthens them as organizations to leverage institutional finances for member's livelihoods. Lastly, SHGs in Karnataka are linked with NABARD, wherein NABARD directly promotes and finances their activities.

3.2 Sample Specific Characteristics

Under the self-help group bank linkage program (SBLP), there are broadly three kinds of SHG models:

Table 3.2: Types of SHG Model

Type of support	Model 1	Model 2	Model 3
Promotion	NGO or government agency promotes the group	NGO or government agency promotes the group	Bank promotes the group
Financing	Banks lend directly to group	NGO or government agency obtains funds from bank and lends to the group	Bank lends directly to the group

Source: Sustainability of SHGs in India: Two Analyses, CGAP 2007

Literacy Levels among SHG Members

Table 3.3: State-wise distribution of literacy level

State wise distribution of literacy levels among SHGs (%)			
Literacy Level	Bihar	MP	Karnataka
Can read and write	16	20	38
Can read but not write	0	1	1
Cannot read and write but sign	46	35	39
Can neither read nor write	38	44	22

Table 3.3 presents the literacy levels of SHG members across the three states. Not surprisingly, the literacy level is highest among SHG members from Karnataka. However, 39% of group members can neither read nor write but sign and another 22% can neither read nor write. This is alarming, since the state of Karnataka holds one of the top positions for literacy levels in India (75%)¹⁸. On the other hand, literacy levels in terms of those who can read and write among SHG members from Bihar and MP are 16% and 20% respectively. High illiteracy among SHG member is a matter of concern, as having literate members can enhance the quality of the groups to a large extent. It could smoothen various functions of an SHG, like transactions with banks,

maintaining books of accounts, etc. The skills of literacy together with livelihood development initiative are good building blocks for SHGs and should be emphasized on by the SHPIs.

On the other hand, having very few literate members within a group can imbalance the development of the group and might sabotage the overall objective of an SHG to promote group development. Table 3.4 presents the percentage of literate members within each group and state across three categories. This table gives a more micro level depiction of the percentage of SHGs that have their less than 20% members, 20-50% members and more than 50% members falling in all the literacy level categories. For example, 66% of SHGs in Bihar and

Table 3.4: Literacy level per SHG

Percentage of groups by distribution of members and their literacy levels									
Literacy Level	Bihar			MP			Karnataka		
	<20%	20 - 50%	>50%	<20%	20 - 50%	>50%	<20%	20 - 50%	>50%
Can read and write	66	30	4	55	34	11	29	29	42
Can read but not write	100	0	0	100	0	0	97	1.5	1.5
Cannot read and write but sign	9	50	41	27	44	29	36	31	33
Can neither read nor write	17	50	33	18	39	43	56	29	15

¹⁸ <http://www.census2011.co.in/census/state/karnataka.html>

55% of SHGs in MP have less than 20% of members within their groups who can both ‘read and write’. This indicates that while almost every group has a literate member, the chances that the literate member becomes the ‘elite’ or ‘leader’ of the group is high, thereby containing group development. However, results for Karnataka are encouraging as more than 50% of members within 42% of SHGs are literate, thereby protecting the concentration of power in the hands of few. Literacy among few members within the group could also lead to over-dependence of illiterate members on literate members. This could have an adverse impact on the overall development of the group as uneducated members might feel less empowered.

Clearly, educating SHG members and improving their literacy levels should be the focus of SHPIs along with enterprise creation/ livelihood improvement activities.

Livelihood profile of SHG Members

Table 3.5: State-wise livelihood profile of SHG Members

State wise distribution of Occupation among SHGs (%)			
Occupation	Bihar	MP	Karnataka
Farm activities	54	81	56
Non-farm activities	41	18	27
Unemployed	5	1	17

The Ministry of Rural Development introduced the National Rural Livelihood Mission¹⁹ with the objective of alleviating poverty among rural below poverty line households by promoting self-employment and wage employment opportunities through SHGs. In order to formulate effective livelihood opportunity strategies by the government, it is important to understand the current occupation profile of the SHG members. Table 3.5 presents the livelihood activities of the SHG members across the three states under three broad categories; farm activity, non-farm activity and members who are unemployed. We observe that a large fraction of the sample is engaged in farm activities, the highest being in MP. Approximately, 40% of the SHG members in Bihar are engaged in non-farm activities which include wage and self-employment and salaried employment. Unemployment among SHG members is highest in Karnataka.

¹⁹ <http://pib.nic.in/newsite/erelease.aspx?relid=52423>

Table 3.6: State-wise livelihood profile per SHG

Percentage of groups by distribution of members and their occupations									
Occupation	Bihar			MP			Karnataka		
	<20%	20-50%	>50%	<20%	20-50%	>50%	<20%	20-50%	>50%
Farm activities	26	24	50	10	6	84	33	9	58
Non-farm activities	37	27	36	76	7	17	54	16	30
Unemployed	97	2.5	0.5	100	0	0	75	11	14

Table 3.6 presents the breakup of SHGs in terms of percentage of members engaged in different kind of employment activities. We see that farm activities are the most common occupation of the SHG members as more than 50% of SHGs have 50%, 84% and 58% members in Bihar, MP and Karnataka, respectively, who are engaged in agriculture based employment. With agriculture being the largest livelihood provider in India, especially in rural area, it is imperative that government introduces schemes that improve agricultural productivity, market linkages, machineries, agriculture loans, etc. to spur growth in the right direction.

Age of SHGs

Table 3.7 provides a snapshot on the age wise profile of the sample SHGs across the three states. As observed, more than 50% of the SHGs in Bihar and Karnataka have been operative for three years or less. However, more than half the sample groups in MP are mature groups, as 67% of the SHGs have been functional for more than 3 years. Age of SHG is an important factor in the growth and development of groups, as more mature SHGs perform better in terms of maintaining organizational discipline and achieving their pre-defined objectives. This point will be taken into consideration while analysing the data in the later sections.

Table 3.7: Age of SHG

Percentage of groups by age of SHGs			
SHG Age	Bihar	MP	Karnataka
Less than or equal to 3 years	55	33	58
Greater than 3 years	45	67	42

SHGs are more than just a conduit for savings and credit – they also act as a delivery mechanism for various other services, ranging from entrepreneurial training, skill development, providing a platform for creating social networks, access to a range of other financial services (insurance, pension, etc.), thereby enabling women empowerment. In addition, considering the founding principles and scale of SHGs, it has been perceived that SHGs have the potential to improve the quality of life for some of India's poorest citizens by generating and enhancing the scope of their livelihood options.

However, the impact of SHG program on the livelihoods of the poor has been observed to be limited. One of the primary reasons for this can be attributed to the lack of emphasis provided on the basic practices of groups hampering the quality of SHGs²⁰ (Sa-dhan, 2003). Quality of SHGs is broadly defined in terms of its five core functions: regular meetings, regular savings, internal lending and borrowing from bank and, maintaining SHG books of account. Unfortunately, a very small fraction of the SHGs follow these practices diligently. A study on bank linkage program by EDA Rural Systems and APMAS (2006) in the states of Andhra Pradesh, Orissa, Maharashtra and Rajasthan²¹ revealed that only 15% of the sample SHGs maintained proper books of account. The study also revealed that

on an average, 28% of sample groups do not update their passbook accounts. Although, there are anecdotal evidences suggesting that SHGs in southern region are better in their performance and are more mature in maintaining the standard on their core activities, we see a general trend of low quality SHGs that do not perform their core functions. The above figures pose a major cause of concern as quality of SHGs is of paramount importance for sustainability of the SHG movement in India.

Apart from the five core functions of SHGs, there are several other parameters that can be used collectively to define their quality. In this context, the study on sustainability of SHGs states:

.....at the heart of SHG promotion is a need for skilled facilitation to institutionalize internal systems for the flow of information. Banks and NGOs now use some kind of rating tool to assess SHGs, but there is need first for a consensus on the parameters and criteria for standards setting and to relate the standards to the nature and type of professional and technical support to be provided. The need is to develop the capacity of SHGs and the chain of promoting institutions to assess their own performance with the objective of improvement rather than provide cut-off values as a basis for denial of funds (Tankha, 2002).

20 Quality parameters of self-help groups: A discussion paper (August, 2003)

21 EDA Rural Systems and APMAS (2006), "Self Help Groups in India: A Study of the Lights and Shades".
<http://www.apmas.org/pdf%5Cm.pdf>

The above quote emphasizes the fact that the SHGs can be sustainable in the long run only if they follow certain norms and practices on a regular basis and the parameters that define the quality of SHGs must be formed through a general consensus in the industry.

Under this section, researchers have attempted to assess the quality of the sample SHGs defined by the five core functions of a group, i.e. regular savings, meetings, book-keeping, internal lending and external borrowing. The following indicators have been used to analyse the quality of SHGs²²:

- Group Meetings- Regularity and frequency of group meetings
- Members' Savings- Regularity & frequency of group savings and amount saved per member per frequency.
- Internal lending and External borrowing- If SHGs perform internal lending, if they borrow from banks and are regular in loan repayment.
- Book-keeping- Quality of SHG books of accounts in terms of regular updation and type of information mentioned in the SHG passbook, time of recording minutes and training received on maintaining books.

4.1 Indicators of Quality

Group Meetings

SHGs generally meet on a regular basis, either monthly/ weekly, although studies have found monthly meetings to be a more prominent norm (Puhazhendhi and Satyasai, 2000) (Puhazhendhi and Badatya, 2002).

While a significant number of SHGs (95% for MP and Bihar each and 98% for Karnataka) in all the states meet regularly, there are cases across states where groups do not conduct regular meetings. Conducting regular group meetings are an efficient way of brainstorming new ideas, discussing issues related to the members or community and forming strong social bonds among the members, it also ensures transparency and discussing financial transactions of the group regularly in the meetings, promotes trust. A large percentage of the groups are on the right track. The research team then attempted to move a step ahead to understand the frequency of these periodic meetings. While a large section of SHGs (72%) in Karnataka practice the traditional guideline of monthly meeting, there is a significant variation in Bihar and MP where only 0.5% and 8% respectively conduct monthly meetings. Conducting weekly meetings is the new trend among SHGs in Bihar and MP.

Several studies in the past have found monthly meetings to be a much preferred trend among SHGs (Puhazhendhi and Badatya, 2002). While regular group

²² Further detailed indicators on the following are mentioned in the subsequent sections.

meetings enable groups to manage their affairs smoothly, the appropriate frequency (weekly / fortnightly / monthly) of meetings might largely depend on the nature of the group's agenda. In cases where the group agenda is limited to financial intermediation, the practice of monthly meeting provides the group and its members with substantial time to manage their finances and to be ready for the next set of tasks. Further, members also have enough time to invest in channels that reap high returns. It is also economical for the promoting institutions to facilitate SHGs with a lower operational cost. With monthly meetings, the members do not face a high opportunity cost in terms of their time they would otherwise have invested in livelihood or household activities. Apart from the financial services some SHGs also deal with complex societal issues in which case a weekly timeframe doesn't give them enough time to understand the gravity of each issue and address it appropriately. Considering the poor status of recordkeeping, as observed in the sample SHGs, a monthly meeting and transaction doesn't burden the members much for timely updating. However, monthly meeting and transactions have their limitations too. The major disadvantage of monthly meetings is that in case of emergency need of support or assistance, members have to wait for an entire month to approach the group. It also hampers the social cohesiveness due to long gaps between the group interactions. Issues related to economic/livelihood activities, which

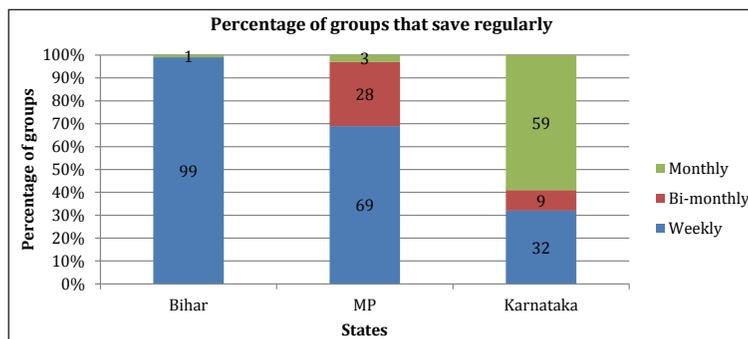
might need group consultation, are also left unattended. Although, conducting meetings at shorter intervals might improve transparency in group affairs with more frequent discussions on issues, decisions, and finances; it might also instill demotivation among members given the hassles associated with attending weekly meetings. However, considering the revisions and expectations around the SHG-BLP, specifically SHGs' engagement in livelihoods promotion schemes, it might be ideal for groups to meet more frequently to facilitate desired actions and improve (by speeding-up) upon their decision making capacity.

An important research question which dwells around the impact of frequency of group meetings on the performance of SHGs that is yet to be explored is: **Whether an increase in the frequency of meetings of SHGs acts as a positive influence on their working and outcome, or it adversely affects their performance and motivation.**

Members' Savings

SHG is primarily a savings led financial inclusion model with compulsory members' savings being the prime driving instrument in the entire programme. The data reveals a very similar trend as it shows in the group meeting frequency. A large section of SHGs in Bihar and MP save on a weekly basis, whereas SHGs in Karnataka save monthly. It reflects that SHG savings go along with group meeting frequency.

Figure 4.1: Percentage of groups that save regularly



Although, all SHGs in Bihar and MP reported that the member savings are collected during the group meeting, only 80% of SHGs in Karnataka share the same practice. A significant number of SHGs in Karnataka (20%) do not abide by the guideline that groups should conduct their business affairs during the meeting itself. It has also been observed that in a substantial number of SHGs (approx. 65%) in MP, followed by Bihar (15%) and Karnataka (5%) not all members save on a regular basis, implying that some members within SHG do not follow the practice of compulsory savings at all. In case of a smaller percentage of groups where all members are not regular in their periodic savings, the reason could be migration, especially in Karnataka where many groups reported facing problems in maintaining records due to the same. This could be the reason in case of MP and Bihar to some extent as well. However, the situation in MP is a big disquiet as the concept of savings is almost non-existent among a considerable number of groups. Further, data indicates that members in MP save the lowest amount of Rs. 10 per month as compared to those in Bihar (Rs. 35) and Karnataka (Rs. 115). It

might be due to the difference in economic profile of SHG members in the study states. While it is important to determine the appropriate savings amount and frequency that suits all members equally and that assists in building-up the group capital as desired, it is equally essential

to consider all members' savings capacity; otherwise it could lead to dropouts. These are serious concerns that need to be considered and attended to by apex institution/s and promoting agencies. Overall, it would be ideal to formulate better region specific strategies (especially for MP) to address issues of poor discipline among members.

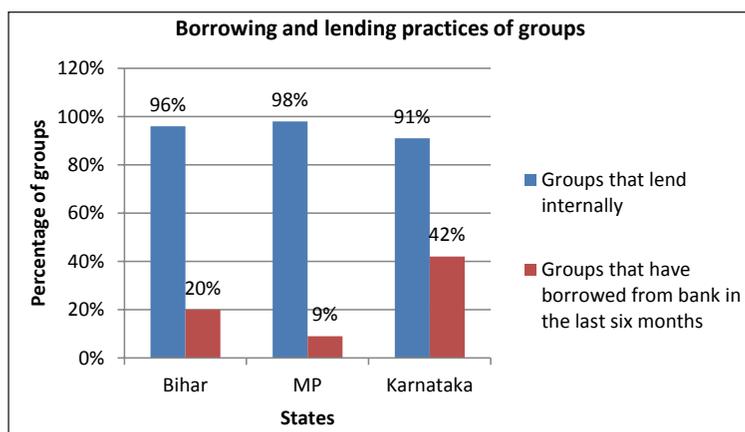
Internal Lending and External Borrowing

One of the primary motivations for group members to be a part of SHG is that it acts as a source of credit in the absence of formal financial services. Hence, internal lending is one of the core activities of SHGs, not only does it intend to cater to member's credit demands, it also assists groups in building their capacity of managing finances. While substantial number of SHGs are offering internal loan to their members, about 9% of groups in Karnataka reported not practicing the internal lending activities, which is surprising considering SHG-BLP performance in Karnataka at the national level. As observed and acknowledged by NABARD in their circular on SHG-2²³, it might be due to the practice of

²³ Circular No: 65(A)/ MCID-04 / 2011-12

certain banks (specifically the local bank branches), asking SHGs to keep their corpus money as mortgage against the loan. However, 42% of SHGs in Karnataka reported that in last six months (Jan–June 2013), they have borrowed from bank to meet their members' credit demand.

Figure 4.2: Percentage of groups that engage in borrowing and lending activities



With regard to external borrowings, researchers observe that majority of groups have not yet received loans from any formal channel in last six months. While this number is highest for MP, where a significant 91% of groups have not received bank loans, Bihar is also lagging behind in this aspect as about 80% of groups are yet to receive any credit assistance from banks.

Further, study tried to understand the perspective of prog and ~prog members about the regularity within the group in terms of loan repayments by using a ranking exercise²⁴

on a scale of 1 to 5. SHGs in Bihar have been ranked higher by both the prog and ~prog members, for their performance in maintaining discipline in repayment in both the internal (4.8) and external (4.7) loans. Progressive members in Karnataka have ranked their groups high in their performance in both the cases bagging a rank of 4 each. However, ~prog members gave a slightly lower rank of 3.6 for external loans and 3.9 for internal loans.

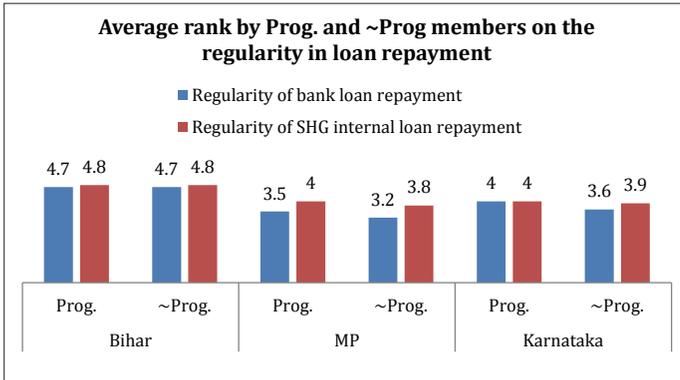
Prog and ~prog members in MP have ranked their SHGs' performance is bit low in terms of repayment in bank loans, the rank being 3.5 and 3.2 respectively. On the other hand, in terms of actual loan repayment, we find that groups

in Karnataka fared better than groups in Bihar and MP, as 57% of groups in Karnataka never defaulted on loan repayment, whereas this figure was 56% for MP and only 25% for Bihar. Figure 4.3 shows an overall trend across groups and members (prog. and ~prog.) that members are better disciplined in terms of internal loan repayment compared to their discipline level in repaying external loans. This might be due to more rigorous policies that are in place among groups for their internal loan transactions. It further validates the concern of increase in NPA in SHG loans from banks, the percentage being an alarming 7%, specifically 10% in poorest regions²⁵.

²⁴ A ranking exercise was conducted while administering the questionnaire where group members had to rank the regularity of loan repayment on a scale of 1 to 5, 1 being the lowest and 5 being the highest.

²⁵ Status of Microfinance in India 2012-13, NABARD

Figure 4.3: Average ranked by members on the regularity in loan repayment



Source: CMF – IFMR Research survey 2013

Book-Keeping

Good bookkeeping is considered to be one of the most important aspects for the success of any business. Especially in the context of SHG, it not only promotes transparency and accountability in the SHG business affairs, but also increases confidence among group members as they become increasingly aware of all the external and intra-group transactions. While for SHGs as a collective initiative of homogeneous groups for improvement of their own lives, maintaining clean records of all the financial transactions and group discussions and decisions has to be at the core of their functions. This section attempts to assess the robustness in bookkeeping practices among SHGs.

The primary habit that the groups have imbibed from the very beginning of their formation is recording their meetings. The minutes thus recorded are expected to help in preparing a plan of action and deliverables

for the future. Looking at the percentage of groups within each state that follow this procedure, the results for Bihar and MP are particularly encouraging as approximately 99% and 93% of groups in each state respectively record minutes of the meeting. In most of the cases in Bihar these are recorded after the meeting but in most groups in MP, minutes are recorded throughout the meeting.

However, considering the SHGs future engagement in larger agenda of livelihood and community development, it would be ideal for groups to record the discussions throughout the group meeting. There is always a scope for missing key discussion and decisions points in the practice of recording meeting discussions and decisions after the meeting is over. While in Karnataka, 87% of groups record minutes of the meeting, a significant percentage (10%) do not follow this practice. The skewed result within SHGs in Karnataka could possibly be explained by their perceived importance of recording meetings.

Figure 4.4: Percentage of groups that maintain books of account

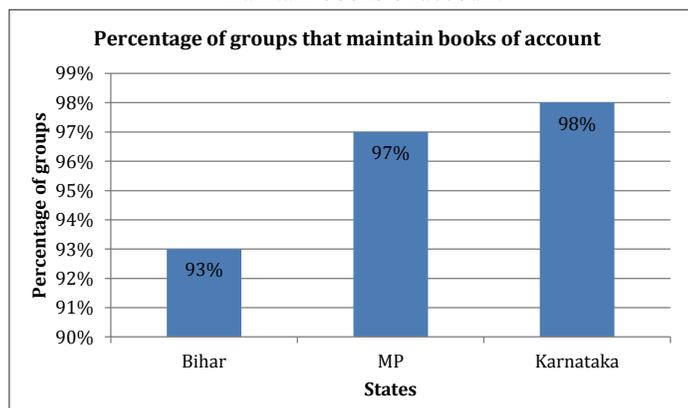


Figure 4.4 represents the percentage of groups that maintain SHG books of accounts and finds that more than 90% of the sample SHGs in all the three states maintain and regularly update their SHG account books. A substantial number of SHGs in Bihar (7%) were reported not maintaining any books of accounts, though it has been observed that many of the groups lack timely access to required stationaries. The promoting institution that provides the registers and record books to SHGs, should address it in priority. When asked if the members were given training on bookkeeping, 44%, 20% and 32% of groups in Bihar, MP and Karnataka, respectively, replied in affirmative. Further, when asked about future need of training programmes on maintaining of books of accounts, a large section of members (specifically more than 90% members in Bihar and MP) expressed their desire for the same. About 78% of members in Karnataka shared the same views. Although, a large section of SHGs have a dedicated person (treasurer), who takes care of maintaining books of accounts, it has been observed during interactions with SHGs (specifically in Bihar and MP) that many SHGs mostly depend on promoting institutions in maintaining their account.

The quality of bookkeeping among SHGs across study states varies phenomenally. During the interaction of study team with groups in Karnataka, it was observed that majority of the SHGs were maintaining high standard of business records- the records were clear, accurate and timely updated. However, a fraction of the sample groups were facing difficulties in updating their members' SHG passbooks

due to increase in migration of group members.

Evaluating the SHGs' book-keeping practice based on parameters such as accuracy, correctness and timely update, groups in MP perform second best after Karnataka. Only about 10% and 5% groups in Panna district and Mandala district of MP respectively reported problems with record keeping. It has also been observed that groups appoint (with support of SHPI) literate persons from their locality to take the responsibility of maintaining records as literacy level among group members is poor. This practice has been observed among a substantial number of SHGs in MP and Bihar. The aide being more literate and able, it can be hypothesized that involvement of a third-party in record maintenance often influences group decisions. Until this is validated by further research, such practice needs to be cautiously monitored by the group, as well as by SHPIs.

While majority of the groups in Bihar have updated their records, issues of clarity, accuracy and correctness have been cited in the past. It has also been observed that a large section of SHGs are facing difficulties in maintaining their business transactions due to lack of supply of printed registers, hence they are forced to take note of group transactions using unformatted books like personal notes. Additionally, there is also a lack of proper quality control mechanism in place.

4.2 Role of external agencies in promoting the quality of SHGs

While the long-term goal of SHGs is to act as ‘self-help’ institutions, in the short-run they are being promoted as beneficiary organizations who receive support from SHPIs. SHPIs play an important role in promotion, governance, management and improving the quality of SHGs. They also help SHGs by enhancing group members’ abilities through various training: business skill training, literacy training, etc.

The Following table presents a summary of the percentage of groups that received support by SHPIs. Across all the three states, SHPIs are most active in terms of group formation and opening bank accounts. For other type of activities, a mixed trend is seen. For example, while SHPIs in Bihar and MP provide almost

100% assistance during group meetings, Karnataka lags behind in this aspect. Similarly, SHPIs within Karnataka actively engage in market linkages to help their SHGs create better livelihood opportunities, but SHPIs in Bihar and MP do not fare very well in this aspect. On an average, SHPIs within Karnataka are the most active (as they provide maximum support) when compared to SHPIs from the other two states.

In terms of training, more than 90% of groups in Bihar and MP felt that they required training on maintaining books of accounts and other SHG activities. In Karnataka, on an average, 78% of group members confirmed that they required training on various functions of a SHG. However, the data reveals that there is mismatch in the demand and supply of training. More of these training programmes are, however, required in order to make members self-reliant.

Following table summarizes the capacity

Table 4.1: Type of support provided by SHPI

Percentage of groups by the type of support provided by SHPI			
Type of Support	Bihar	MP	Karnataka
Group Formation	99.5	98	85
Opening Bank account	99.5	90	87
Book keeping and auditing of SHG books of accounts	59	87	81
SHG overview training	64	85	79
SHG business skill training	48	67	68
SHG financial literacy training	58	82	68
SHG meetings	100	90	75
Bank Transactions	98	77	78
Loan processing	91	52	75
Updating SHG account passbook	71	52	75
Market Linkage	4	19	55

in which group members participate in the activities conducted by SHPIs. In Bihar, members involvement in SHPI events are high, as more than 70% of the members are involved in the events as resource persons and on an average 25% of members are a part of the organizing committee. This is considered to be a positive trend as increased sense of ownership among SHG members is the first step in making them self-reliant. Trends are not very encouraging in MP and Karnataka, as most of the members are involved in the capacity of participants in the various SHPI events. Among several other functions that SHPIs perform, encouraging members to contribute towards their group and become equal stakeholders forms one of their primary objectives.

Table 4.2: Level of SHG participation in SHPI activities

Percentage of groups by the capacity in which group members participate in the activities conducted by SHPIs			
Capacity	Bihar	MP	Karnataka
As participant of the event	3	69	80
As resource person	74	4	15
As a part of organizing committee	23	27	5
Leading an event	0	0	0

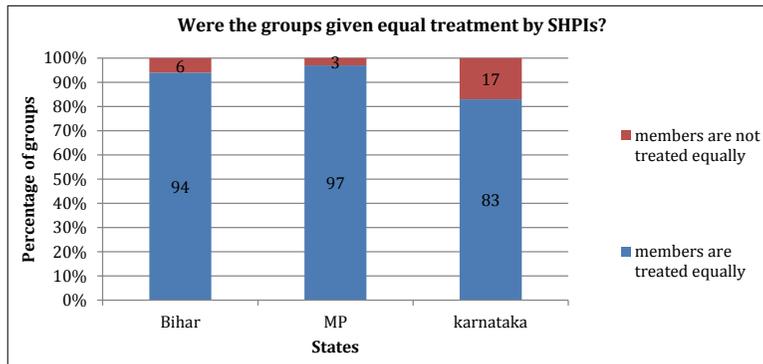
4.3 Perception on quality of SHGs

Positive perception of group members about various aspects dealt within a group is an important ingredient for the success of any SHG. Studies in the past have cited several perceived benefits of joining a group, such as- economic empowerment, increase in self-esteem and self-efficiency and an overall improvement in financial status (Moyle, Dollard & Biswas, 2006).

In terms of perception regarding the day-to-day activities of SHG, more than 75% of the group members across all three states felt that their groups were highly regular in performing its core functions of savings, meeting, borrowings (internal and external) and maintaining books of accounts. The actual SHG performance is not very different from the perceived performance, since more than 90% of the sample SHGs meet on a regular basis, maintain up to date books of accounts, save regularly and lend internally as and when required. However, in terms of external borrowing, the actual and perceived performance varies to a great extent as a very small percentage of sample groups have borrowed from an external agency in the last six months. 42%, 20% and 9% of groups in Karnataka, Bihar and MP, respectively, have borrowed from banks in the last six months.

Figure 4.5 presents the perception of group members in terms of treatment received by SHPIs. Across all the three states, more than 90% of groups state that all the members within their group were given equal treatment. Results are slightly lower for Karnataka, where approximately 17% of group members felt that they were not given equal treatment. SHPIs must take care during interaction with the group members and pay equal attention to the needs and demands of all the group members as the development of the group is intended towards the development of individuals in the long run.

Figure 4.5: Differences in treatment by SHPIs



When respondents were asked the primary reason for participating in activities conducted by SHPIs, majority of the sample replied that they considered group activities as an

‘obligation’ and gained no value out of it. This reflects negatively on the group and the associated SHPIs. Group activities form the core of a SHG and must be viewed by the group members as a medium to develop their SHG (Refer to table 4.3).

Table 4.3: Reasons for participating in SHPI activities

Percentage of groups by the reasons for participating in the activities conducted by SHPIs						
Reasons	Bihar		MP		Karnataka	
	Prog	~Prog	Prog	~Prog	Prog	~Prog
Events are informative and provide good exposure	6	4	21	43	4	71
It is an obligation to attend	63	76	52	37	60	18
It makes business sense for the group (market linkage)	31	20	25	20	33	9
Events are for a bigger cause for the area	0	0	2	0	3	2

4.4 Overall analysis

A significant number of SHGs across study states are practicing all of the required basic functions (group meeting, savings, internal lending, loan repayment and recordkeeping). However, it has been observed that there are disparities among groups in terms of quality and regularity in practicing these core functions. While above 90% of the sample reported of conducting regular meetings, about 5% of SHGs in Bihar and MP are lagging behind. As meeting is a very important function of group work, and considering the recent revisions in the model and groups’

engagement in livelihood promotion activities; the apex bodies and SHPIs need to address this issue, periodic group meetings need to be conducted regularly across SHGs. As weekly meetings seem to be the current trend in these two states (Bihar and MP), any adverse impact on the SHGs not conducting regular meetings needs to be studied. Further, about 7% of SHGs in Bihar reported not maintaining group records, which is completely unacceptable. A similar trend has been observed among 3% of SHGs in MP and 2% in Karnataka. Issues related to poor supply of stationary were reported by many SHGs in Bihar, as well as in

other study areas. Another surprising fact that has been observed is that about 9% of the SHGs in Karnataka are not offering internal loans to their members. The reason is unclear but it could be linked to the fact that many banks ask SHGs to have reserve money in form of their group corpus at the bank to avail larger sized bank loans. If such is the case, then NABARD needs to intervene, as absence of internal loans will create unwarranted constraints on members at the household level, as internal lending aims to smoothen the cash-flow of member households.

Although, a large section of members (75%) across sample SHGs expressed their satisfaction on the groups' core functional areas, the percentage expressing discontent is quite substantial. At this

juncture with new revisions and schemes underway, such a negative perception could be considered as a greater risk as it might influence the impact of future course of endeavours. As a substantial number of members (above 75%) expressed their desire for more training programs, the apex bodies and SHPIs should formulate better capacity building strategies around the core functions of the SHG model that will assist groups in being more prepared to play a larger role while maintaining their harmony and unity. This would be quintessential in the process of promoting livelihoods either by participating in government schemes or adopting the SHG-2 revisions of JLG and wide range of flexible saving and credit products that are being planned for.

Transparency in SHG operations refers to procedures and systems that help develop the understanding of all group members regarding group activities (financial and non-financial). For the purpose of our study, **transparency is defined as equal and complete access of information regarding financial status of the group, activities of the group and awareness among all members.** In the following section, the study analyses the information sharing within groups, by critically examining related practices etc. It also attempts to understand their perceptions regarding the same.

Under this section, we attempt to assess the transparency of the sample SHGs defined by the various levels and types of information shared among group members pertaining to financial and non-financial activities of the group. Following indicators are used to assess the transparency of SHGs:

- Indicators that define transparency such as type of information shared within groups, level of awareness among SHG members about bank lending policies, information shared about the financial status of the group and type of information mentioned in SHG passbook.

Role of External agencies like banks and SHPIs has been highlighted, since they have the required capacity to support, and finance the implementation of new

advancements (like introduction to technology, etc.) within the groups.

- Perception of groups regarding transparency within SHGs is also analysed by checking for the level of information asymmetry in groups and the satisfaction levels of group members regarding information shared by the bank. This section also captures the views of members regarding the value that is accorded to their voice in decision-making. Lastly, means and ways of improving transparency are given special attention. For example, the study assesses the percentage of women that are willing to adopt technology in their SHG practices, since use of technology would increase transparency.

5.1 Indicators of Transparency

For a meagre 1.17% of the groups across the SHGs under study were the members not well versed with the group's policies. This is a positive indication that rules and regulations are clearly laid out for all the members to follow. An important aspect of maintaining transparency with the group is to share at least the financial status of the group with its members. Although, 98% of the groups in Bihar, 87% in MP and 84.21% in Karnataka share the financial status of the group with the members in every meeting; a considerable percentage of 11.58% in Karnataka share it only when a member asks for it.

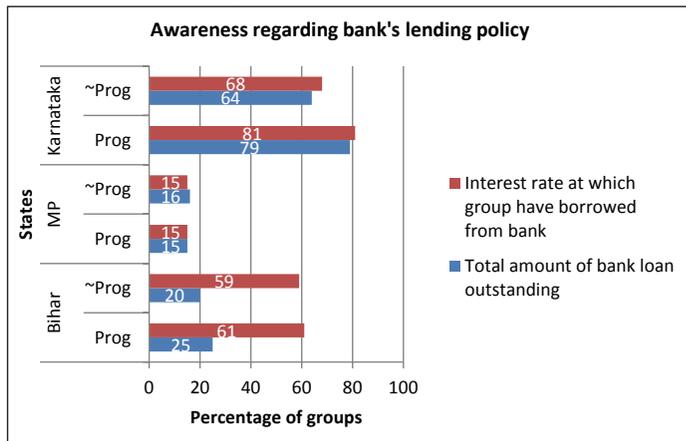
Table 5.1: Types of information shared within SHGs

Percentage of groups by the information shared while sharing the financial status with the group			
Information/ Topic	Bihar	MP	Karnataka
Books of Accounts	99	96	98
Status of individual members' accounts	94	77	97
Status of internal lending/ repayment	93	82	96
Status of bank account	43	48	94
Status of external loan application	31	10	89
New products where the group could park their money	3	12	73

Table 5.1 presents the percentage of groups that have access to information regarding the financial status of the group. As observed, across all the three states, information regarding books of accounts of the group and individual members, status of internal lending and status of repayment are shared extensively among all the group members.

However, the results of the study suggest that less than half of the total sample groups in Bihar and MP are not aware of the status on group bank account, group debt and new financial products. These two information points are, however important for the progressive development of SHGs as this would help them venture into new schemes and services available in the organized financial market. From the data, it would be safe to derive that SHGs in Karnataka are most active in terms of sharing the required information and availing it too.

Figure 5.1: Level of awareness among SHG



In terms of awareness regarding SHG borrowing transaction with the bank, it has been observed that less than one-fourth of the total group members in Bihar and MP are aware of bank loan outstanding with their respective groups. Similarly, on an average, only 15% of groups in MP are aware of the interest rate at which banks have lent to the group. Groups in Karnataka seem to be better aware of the terms and conditions of the financial transactions with the bank. However, the level of awareness varies depending on the type of member. Progressive members are better aware of the bank policies, across both the types of information- loan outstanding and bank interest rate as compared to the not so progressive members.

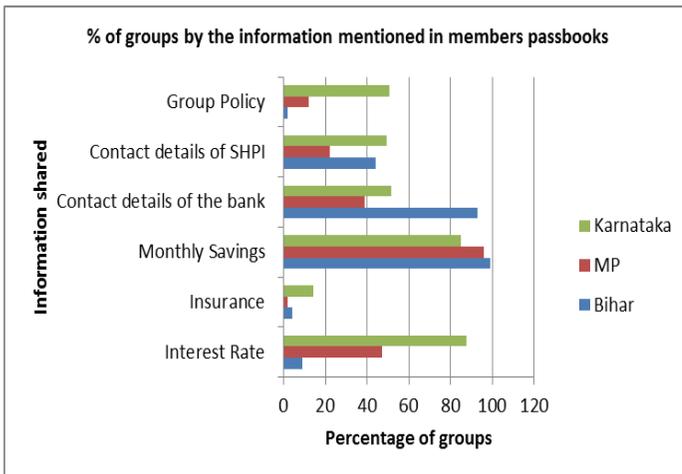
Table 5.2: Level of transparency in terms of sharing financial information with the group

Percentage of groups by transparency regarding information on group's overall financial status						
Source and Time of Information	Bihar		MP		Karnataka	
	<=3 years	>3 years	<=3 years	>3 years	<=3 years	>3 years
<i>Source of information</i>						
Group Leader	56	59	45	55	95	90
Treasurer	42	39	55	45	5	10
Can look into books herself	2	2	0	0	0	0
<i>Time to get information</i>						
Only in group meetings	78	87	77	73	50	51
Any time/ day	22	13	21	27	49	45
Only when meetings are organized for information sharing	0	0	2	0	1	4
<i>Time taken to process query</i>						
Immediately	96	92	73	70	89	89
Within a week	1	1	15	16	8	6
In the next scheduled meeting	3	7	1	5	1	4
Whenever Possible	0	0	11	9	2	1

Table 5.2 summarizes the mode of transparency followed in SHGs across the three states. The table mentions the typical source of information available to a member, the time it takes to get the information and the occasion on which the information is disclosed. More precisely, when asked about who the SHG members approach regarding any group related information, majority of the respondents answer that the group leader was their point of contact. Leaders had a different view point on this. They mostly felt that providing information on group's financial status was the responsibility of the treasurer and not the leader himself.

This is an important point to be noted as it indicates lack of a well-placed grievance redressal mechanism. The time members could obtain this information is mostly during the group meetings and the respondents revealed that their queries were taken care of immediately. This suggests a clear faith that members have on their office bearers who would not turn them down for any information sharing. This is encouraging but as it is just based on perceptions, office bearers should be trained by SHPIs so that they meet these expectations. However, no significant differences have been observed across matured and young SHGs.

Figure 5.2: Information mentioned in member passbook



Source: CMF – IFMR Research survey 2013

A member's passbook is a ready source of information available to all the members and maintaining it well can ensure satisfaction among members regarding transparency in the group. The most common information mentioned in members' passbooks is related to monthly savings across all the three states. Information on interest rates is, however, rare to find in the SHGs in Bihar (9%) but is very common in the SHGs in Karnataka (87.37%). 93% of groups in Bihar, astoundingly, have bank details mentioned on members' passbooks. Information regarding insurance and group policy are rare to find across all the three states. In Karnataka, however, 50.53% of groups mention their policy on members' passbooks.

5.2 Role of external agency in improving transparency

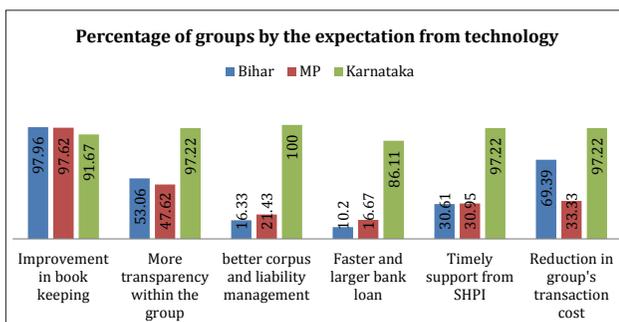
External agencies like banks and NGOs play an important role in promoting transparency as they closely supervise

and monitor SHG activities and can bring transparency within a group by regularly sharing relevant information. One effective way of improving transparency within groups is through the usage of technology in SHG activities. Results from the study reveal that more than 90% of the sample SHGs feel that technology can help in

improving the standards of book-keeping (regular and accurate updating of records). Further, a majority of sample groups are willing to adopt technology. Banks and NGOs can facilitate this transition by familiarizing the groups with technology and providing them relevant skill training.

As technology has come to be at the core of financial inclusion drive across the globe, this study has tried to understand where the decades old SHG-BLP stands in terms of adopting technology in the course of facilitating greater financial inclusion among its members. Surprisingly, not a single SHG across samples currently uses technology, except for one or two in MP. However, a significant number of SHGs across study states (18.95% in Karnataka, 25.63% in MP and 28% in Bihar) expressed their willingness to adopt technology. SHGs across states expressed their desire to improve the standard of their bookkeeping by using technology.

Figure 5.3: Percentage of groups by expectation from technology

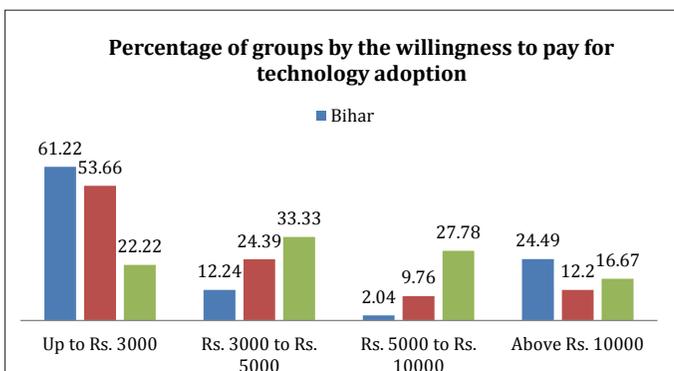


Source: CMF – IFMR Research survey 2013

Other key areas where SHGs expect to improve with the use of technology are transparency within the group and reduction of transaction costs. SHGs from Karnataka have an overall high expectation of improvement on various aspects of SHG functioning by the intervention of technology (see figure 5.3).

When asked about their willingness to pay for adoption of technology, almost all the SHGs expressed their desire to adopt technology for betterment of group functioning and have exhibited a

Figure 5.4: SHGs' willingness to pay for technology



Source: CMF – IFMR Research survey 2013

willingness to pay for the same. While, there are disparities across SHGs in their willingness to pay, a substantial segment of the SHGs (44.45% in Karnataka, 26.53% in Bihar and 21.96% in MP) expressed their willingness to pay at Rs. 5,000 and more. The below figure 5.4 depicts the percentage of SHGs by the Amounts that they are willing to invest in technology.

5.3 Perception on transparency

Across all the three states, results of the study suggest that the perception of group members regarding transparency levels followed within their groups is very good²⁶. This includes sharing information related to financial and non-financial transactions equally with the SHG, awareness regarding group practices, event, terms and conditions and group policies.

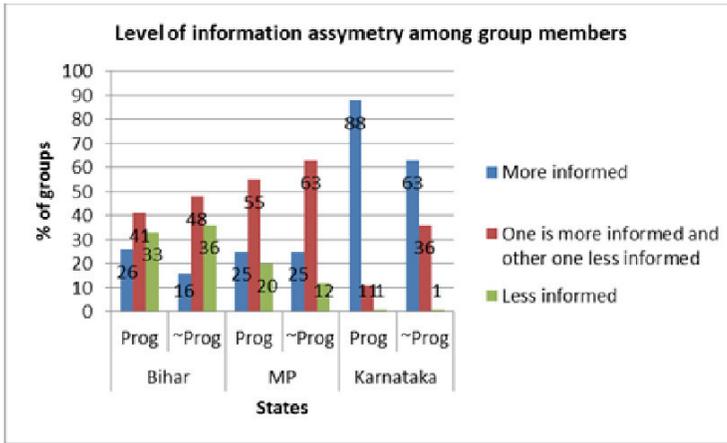
However, figures 5.5²⁷ draw a different picture. When the respondents were asked if some members in their group were more or less informed, a majority fraction of the sample has been seen revealing that there were members in the group who had more SHG related information than them indicating information asymmetry.

This trend is the highest in Bihar where

²⁶ This was done by asking the respondents to rank the level of transparency within a group on a scale of 1 to 5, 1 being the lowest and 5 being the highest. However, ranks (based on perception) might vary from the actuals.

²⁷ Two members from each of the category were interviewed together (i.e. 2 prog members were interviewed and 2 –prog members were interviewed). ‘One is more informed and other one less informed’ implies that one of the 2 members feels that she is more informed and other feels that she is less informed.

Figure 5.5: Level of information asymmetry among group



feel themselves as less informed as the rest of the group.

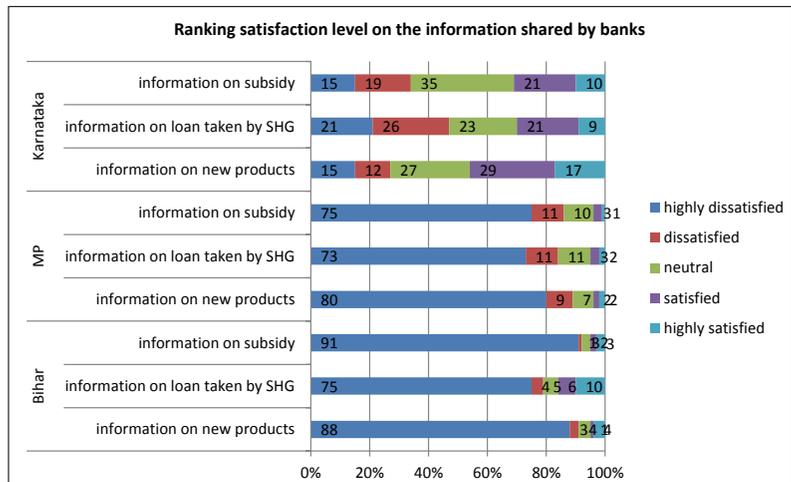
Scrutinizing the information shared by banks with SHGs, table 5.3 clearly shows the level of satisfaction expressed by groups on information shared by banks. A substantial number

approximately 67% of the respondents (average across all the members) feel that some members in their group were more informed followed by percentages in Karnataka (66%) and MP (54%). In terms of differences between progressive and not-so-progressive members regarding information sharing, some significant differences in Karnataka have been observed, wherein larger percentage of the former vouch for the differences while latter do not realize this as much.

of SHGs from Bihar and MP (75% to 91% and 73% to 80% respectively) are highly dissatisfied by the information shared by banks on new product, loan, and subsidy. However, SHGs in Karnataka seemed to be more content than SHGs in Bihar and MP as majority of the former expressed satisfaction over the information shared by the banks.

Figure 5.6: Are some group members more informed than others?

When asked to compare their perceived level of being informed with the rest of the group, the results for Karnataka show that because not many of them feel the presence of information asymmetry in their groups, they feel they are more informed. In case of Bihar, the picture is completely opposite where more of ~prog members feel the difference and they also



Although a large section of the sample expressed their dissatisfaction on the information shared by bank, majority of the groups across study states (34% to 82% in Bihar, 11% to 56% in MP, and

60% to 64% in Karnataka) expressed their satisfaction on regular processes carried out by the bank for regular SHG-bank transactions such as deposit, withdrawal of group corpus and bank loan application processes. But, a substantial number of SHGs from all three study states (97.7% in Bihar, 77% in MP and 57% in Karnataka) expressed their strong dissatisfaction regarding bank rating processes.

After having established the background of the kind of information that is shared with the members and their perception or satisfaction level regarding the same, it is also important to understand how welcome they feel in the group's decision making process. This becomes important as high level of transparency is expected to instil more curiosity among the members and enable them to raise questions and participate in decision making. 47% of prog members and 40% of ~prog members of Bihar feel that their opinion in the decision making process in

the group is occasionally valued. Another 46% and 53% respectively recognize that their opinion is always valued. In case of MP, the scenario is similar with more number of prog and ~prog members falling in the second category (53% and 63% respectively). Karnataka is the state where 23% of the ~prog members feel that their opinion is always valued as against 53% of prog members, highlighting a clear difference. 28% of the former feel that their opinion is not at all valued. The proportion is 22% for the latter. This data clearly shows that the decision making process needs to be more democratic, especially in case of Karnataka where a very less number of ~prog members feel involved. If the members do not share their opinion voluntarily, it might be because of the lack of transparency, if they are not informed, they cannot voice their opinion. Group discussions, thus, need to be made more conducive by more frequent sharing of **complete** information with **all** the members.

Table 5.3: Suggestions on improving transparency within SHG

Percentage of groups by ways of improving transparency by leaders and members									
Ways for improvement	Bihar			MP			Karnataka		
	Leader	Prog	~Prog	Leader	Prog	~Prog	Leader	Prog	~Prog
Increase in frequency of meetings	24	56	63	57	84	92	91	95	94
Intervention of Technology	11	1	6	14	18	15	31	59	27
More frequent discussions on financial transactions	29	35	50	42	61	65	84	88	85
Making different members of the group visit the bank and SHPI	11	63	75	14	17	21	80	75	80

Table 5.3 represents opinions of group members on ways of improving transparency within the group. Data shows a considerable difference in opinion among group leaders and group members. The most common suggestion to improve transparency within SHGs

was to increase the frequency of group meetings. However, this would be most beneficial for SHGs in Karnataka where they currently meet on a monthly basis and demand meetings to be conducted at shorter intervals. With regard to Bihar and MP, frequent discussions on financial transactions and regular interactions with SHPIs are expected to be more helpful in improving the transparency of groups. This would lead to greater interaction among group members and exchange of knowledge regarding various SHG activities. Transparency of financial and non-financial transactions is important for a SHG as it promotes trust, mutual faith, and confidence among members and all efforts need to be made, in consultation with members, towards making it a key feature of SHGs.

5.4 Overall Analysis

SHGs play an important role of financial intermediary to fulfil the aspirations and well-being of its members. It is thus important for the group to maintain transparency in its business conducts and finances. Further, transparency in SHG activity is indispensable with a larger mandate that would endorse the group's role in the recent policy developments. Given the new provisions of a wider range of financial products such as voluntary savings, repeat loans, overdraft, JLGs within the SHG and revolving fund, etc. it is all the more important to maintain books of accounts in time, neatly and accurately. While accurate recordkeeping

ensures transparency, not all the groups across study states are maintaining the books of accounts timely. As discussed in the previous section, the recordkeeping practice is somewhat poor among SHGs in Bihar, followed by MP and SHGs in Karnataka that face challenges in maintaining books of records due to member migration.

Information sharing among members is essential. While a large section of SHGs reported holding regular discussions and meetings and regular updating of members on group transactions across study states, still about 50% members in Bihar and MP lack information on external borrowing details of the SHGs and additionally are not much aware on new products. However, about 90% members in Bihar and Karnataka claimed that their queries would be addressed immediately but a substantial number of members in MP estimated waiting period of a week or more to get response on their queries. As SHGs are to play a key role in future with larger expectations with new mandates, under the provisions of SHG2 and NRLM, it is equally important to assist SHGs in upgrading their capacity and systems. Technology can be used extensively in SHG programmes, specifically in maintaining books of accounts. However, except a few cases, technology intervention in SHG activities has not been seen. It should be promoted among SHGs as a large section of SHGs express their desire to adopt it.

SHGs have come a long way and grown remarkably for more than two decades not only as financial intermediaries but also as an integral part of a wide range of development schemes. These schemes have been sponsored by state or non-government and multi-state agencies towards the larger objective of livelihood promotion, community development and women empowerment. At this juncture, with the introduction of new provisions (as laid down in SHG-2 and NRLM) such as wide range of savings products (including voluntary savings), sub-group (JLG) within the group for livelihood activities and provisions of revolving fund and soft loans for promoting income generating activities etc., it is essential to step back a little and understand how well SHGs have been performing their primary activities of group savings and credit and managing their finances as a whole in order to capitalize on their strengths and work upon their weaknesses.

To understand the current state of SHGs' financial affairs, the study assesses the quality of groups' performances in terms of its financial management which includes savings, borrowings (internal and external), repayment and default rates, etc. SHG books of accounts have also been looked at to answer some of the key questions related to their financial administration.

Under this section, we attempt to analyse the financial performance of the sample SHGs defined by savings, internal lending and external borrowing. The following indicators are used to assess the financial performance of SHGs:

- Savings- Saving pattern of groups was broadly evaluated by looking at the average compulsory savings amount in each state, use of corpus fund, percentage of groups that contributed to mandatory savings, percentage of groups that defaulted on savings and SHG policies regarding the interest and penalty rate on savings default. Additionally, member's perception about the various risks associated with saving with a SHG is also analysed along with the prospects of the concept of voluntary savings.
- Internal Lending- Includes indicators that cover various details regarding internal lending policy of group such as reason for offering an internal loan, percentage of groups who have acquired internal loan, interest rates and default management, loan size, repayment period and members' and leaders' discipline in loan repayment. Additionally, the relationship between outstanding loan and default rate; and default rate and penalty is also tested by conducting a correlational analysis.
- External Borrowing- includes indicators that summarize the policies related to external borrowings, repayment period, loan size, loans linked to corpus, default rates, percentage of SHGs who have atleast one loan, percentage of SHGs whose loan application is rejected, time and cost required to process the loan, interest rates on external loan. Additionally, the

direction of relationship between default rate and loan outstanding is also analysed.

- Apart from the above mentioned indicators, role of SHPIs is also established by looking at the time taken for various financial transactions and type of support provided by the bank in the loan application process and otherwise.

6.1 Indicators of Financial Performance

Savings

‘Compulsory periodic savings’ is the primary (start-up) activity of Self Help Groups. A very basic principle is that group members should be regular in their periodic savings deposit and with a mechanism to deal with the default cases (if any) in place. Table 6.1 provides a summary of details regarding SHGs’ savings transaction across all three study states.

As observed, the average monthly savings per member for SHGs in Bihar and MP are Rs. 36 and Rs. 12, respectively, which is relatively less when compared to that of Karnataka, Rs. 114. In terms of contribution to compulsory savings, the results suggest that there is a significant percentage of groups where ‘not all’ members contribute to regular mandatory savings. This number is the highest in MP followed by Bihar, with only 35% and 85% of groups adhering to the compulsory savings respectively. However, considering the overall

performance of SHG-BLP in terms of group savings in Karnataka (highest average savings balance of INR 16,000 /SHG among the major states²⁸), it is alarming to observe that not all members (about 5%) contribute to group savings. It is also expected that groups deposit their members’ savings (corpus) at bank on a regular basis. However, data reveals that corpus fund is used differently across the states. While in Karnataka, approximately 97% of the groups are depositing their corpus in bank accounts, only 3% and 7% of SHGs in Bihar and MP respectively are practicing the same. The practice of not depositing the entire/partial members’ savings at bank account could be due to many factors such as-savings amount being used for internal lending or meeting some form of group expenditures. However, the practices of depositing members’ savings in a bank account on a regular basis is important as it has a positive impact on the group dynamics and builds efficiency in managing group finances. Hence, it is necessary to understand the reasons for the current phenomenon.

The average savings corpus is lowest in MP (Rs. 1,179) and highest in Karnataka (Rs. 2,875). In terms of default rate on savings per group, the average number of times a member has defaulted in a group is highest in Bihar. Moreover, results suggest that there is very little or no penalty in place for default on savings indicating a possible scope for increment in the savings corpus by inculcating more discipline through the introduction of a penalty system. To emphasize the importance of this system, researchers ran a correlation test on some variables.

²⁸ NABARD publication ‘status of microfinance in India 2011-12

Table 6.1: Details of compulsory savings

Details	Bihar	MP	Karnataka
Average Savings Amount per frequency	8.7 (weekly)	2.6 (weekly)	114 (Monthly)
Percentage of groups where savings are collected in meetings	100	99.5	80
Percentage of groups where all the members do not contribute to compulsory savings	15	65	5
Percentage of groups where all the members' savings are deposited in SHG bank account	2.5	7.25	97.25
Most common frequency of depositing members' savings in the bank account	Irregular	Irregular	within the week of collection
Average number of times a member has defaulted in the group	4.5	2	0.4
Average number of times when a penalty is paid for default	0	0.1	0.1
Average member's savings corpus	1394	1179	2875

Across all the three states, there is a negative correlation (-0.0087) between the number of times a member defaults and penalty is charged on the default, implying that the likelihood of defaulting on compulsory savings decreases when there is a penalty charged on defaults. However, as observed, the correlation results are not very strong, since more than 50% of the groups across all the three states do not charge penalties on defaults. We also see a positive relationship (0.32) between average number of defaults and the penalty fees charged, implying that as the penalty fees charged increases, average number of defaults also increases. Because the coefficient is not very high, the positive correlation indicates that the penalty mechanism in place is not strong enough with low fee being charged that doesn't incentivize the members to not default. This can be substantiated by the findings from the following table that gives a brief description of the penalty and interest rate on mandatory savings.

The results from the study suggest that many groups do not charge a penalty on defaulting on compulsory savings. Groups which do levy a penalty, charge a very small amount, generally, an average of 5 rupees. It seems that a large section of SHGs (Bihar 84%, MP 76% and Karnataka 60%) do not have a mechanism to ensure 100% discipline in group savings, which is a serious concern that needs to be addressed, especially when the regulatory bodies envision SHGs as village level institutions through which important development activities would be channelized.

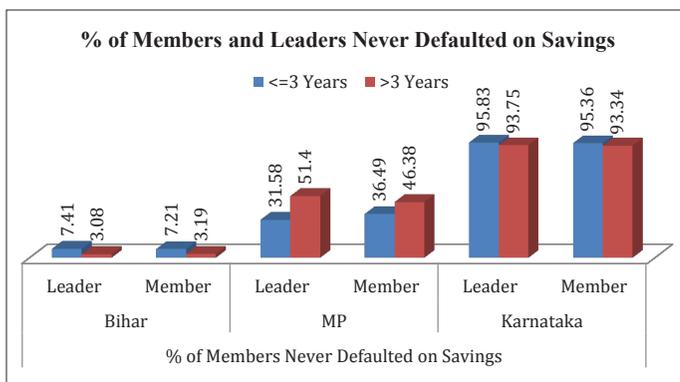
Even if that is kept out of context, discipline is important for SHGs to be able to sustain themselves after the introduction of flexibility in terms of SHG-2. Such behaviour from the members might also be the consequence of minimal or low interest rates that they receive on their savings when they have other profitable formal channels to park their money with.

For instance, SHGs within Karnataka is the only group in the sample that offers interest rate (2%) on savings. If this is the case, the importance of saving with SHGs needs to be inculcated among the members.

However, looking at the data more closely, it is important to examine the level of discipline among group members and group leaders separately in terms of their regularity in periodic compulsory

of group members are as low as 5% and the same is true for SHG leaders across the two categories of matured and young groups. This further proves the argument that SHG leaders set an example for their group. In groups where leaders perform well, members too perform similarly and vice-versa. However, the trend in MP shows a slight contradiction indicating lack of motivation among leaders in general. However, it may be the case that leaders are dominating and compromising the group principles of regularly meeting their financial obligation towards the group, which is a serious concern and needs further study.

Figure 6.1: Percentage of Members and Leaders never defaulted on Savings



Source: CMF – IFMR Research survey 2013

savings. The data reveals that there is a strong correlation between default rates of leaders and members, see figure 6.1.

While in Bihar only 7% of total group members of young groups have never defaulted on compulsory savings, the same is true in the case of SHG leaders. Similarly, in Karnataka, the default rates

Considering the level of discipline shown by the members and leaders of SHGs in Karnataka, it can be concluded that the new savings provisions are appropriate for the matured and disciplined SHGs like those of the study sample from the southern state.

However, SHGs in Bihar and MP have to go a long way in their own ways to be able to adopt the new provisions in their savings practices effectively. Apex bodies and SHPIs should address this issue. It also requires a further understanding of the cause behind such substantial number of SHGs failing to follow their monthly savings policy.

Figure 6.2: Penalty and interest rate on compulsory savings

Variable	Bihar	MP	Karnataka
Compulsory Savings			
Average penalty amount for default	5	2	6
Percentage of groups with no penalty	84	76	60
Average interest rate on savings	0	0	2
Percentage of groups that do not offer interest rate	100	100	47

Risk associated with savings with SHG: All the members of the SHGs, be it prog or ~prog, broadly acknowledge the benefits of being a part of an SHG. Precisely, 94% each of both prog and ~prog members in Bihar say that, SHG membership increases their capacity to spend more. This view is a little less common with the members in Karnataka and MP with only 81% ~prog members of SHGs in Karnataka vouching for it. 94% of prog members in Karnataka believe that their association with their respective groups helps in increasing their financial knowledge. This view is the least common with members from only 73% to 75% SHGs in Bihar supporting it. Apart from increasing savings of members in general, being associated with an SHG helps its members in smoothening consumption and solving cash flow problems in their households. Members across all the three states recognize an increase in well-being that an SHG brings about but this is in

conflict with 25% of ~prog members of Bihar who do not feel the same. While all the members of the SHGs, be it prog or ~prog, broadly acknowledge the benefits of being a part of an SHG, when enquired about the risks that members foresee in saving with an SHG, not many members in Bihar or MP raised concerns. Members of 16 to 20% SHGs in MP fear the utilization of money by SHG for group activities that might personally not be of any relevance to them. However, members in Karnataka raised serious concerns with skepticism of ~prog members being more, on an average, as compared to the prog members.

Overall, the members in Karnataka fear loss in case of groups defaulting on a bank or SHPI loan, loss in case of default by a group member, loss in case of defaulting own loan, irrelevant utilization of funds and loss of money due to poor accounting.

Table 6.3: Percentage of groups by the risk associated with SHG saving

Percentage of groups by the risks associated with saving with SHG						
Risks	Bihar		MP		Karnataka	
	Prog	~prog	prog	~prog	prog	~prog
Loss in case of SHG defaulting a bank/ SHPI loan	5	4	3	8	45	51
Loss in case of default by a group member for which she guaranteed	2	0	7	7	41	30
Loss in case of defaulting own loan	2	0	6	9	35	42
Utilization of money by SHG for group activities that are personally not relevant	3	3	16	20	33	41
Loss of Money due to poor accounting	1	2	6	1	35	37

Source: CMF – IFMR Research survey 2013

Weighing the benefits of being a part of SHG and the associated risks of parking their money with this channel, members prefer saving with an SHG than with any other formal or informal channel.

Voluntary Savings: Although none of the groups across the study SHGs are practicing the concept of voluntary deposits, 4% of groups in Bihar, 7% in MP and 26% in Karnataka faced a situation where some members in the group wanted to save more than others. While comparing the profile of these members with that of the rest of the group, leaders and both the prog and ~prog members in Bihar and MP think that members with willingness to save more are better off in terms of economic and social standing. However, members across sample are of the view that there would be major challenges in introducing voluntary savings with recordkeeping being one of the major challenges in offering voluntary savings. Further, members foresee confusing financial transactions and dissatisfaction with the utilization of this fund. They also think that this situation will result in conflicts within the group.

Internal Lending

The second most important activity of SHGs is to facilitate internal lending within the group. Table 7.4 provides summary of details regarding SHGs' internal lending practices. SHGs often engage in lending

within the group, especially during cases of emergency. However, there are instances when SHGs do not approve the loans if they fear defaults on loans. The results reveal that the most common purpose, specifically shared by the SHGs in Bihar and MP, for which an internal loan is not sanctioned is the 'repayment of an external debt'. There must be some reason and understanding for such a policy of not offering loan to payback external debt, (most probably, it is to demotivate members to source external credit). However, such policies should not restrain members to get rid of debts from costly /external (moneylenders) sources. However, further detailed understanding is required on such practices. On an average 30 to 40% of members per group are with loan outstanding across all the three states. Average internal loan size starts from approx. Rs. 100 in Bihar and MP to a maximum average of about Rs. 18,000. Although internal loans are generally repaid within 1 year. Diversity has been observed in terms of internal loan repayment period across study states. While no penalty is applied on default of savings, results suggest, that there is a significant penalty for defaulting on internal loans across all the three states, with the highest penalty rate being charged in Karnataka. Considering the rise of NPA across SHG-BLP in the country, the results show that about 50% of the members with outstanding loans have never defaulted in their repayment which is quite encouraging.

Table 6.4: Details of internal lending policy

Details	Bihar	MP	Karnataka
Most common purpose for which loan is not offered	to repay external debt	to repay external debt	to meet business expenses
Average percentage of members/per SHG with loan outstanding as of 30th June 2013	33%	41%	38%
Average percentage of members / per SHG who never defaulted in loan repayment	25%	56%	57%
Percentage of groups where loan size differs for all members	88%	92%	55%
Average loan size (minimum and maximum / in INR)	98 -5595	105 – 3210	5118 - 17850
Percentage of groups where interest rates differ for different loans	1	5	8
Average loan repayment period (minimum and Maximum in month)	1 - 12	1 - 6	9 - 13
Percentage of groups where loan repayment period differs for different loans	52	79	18
Percentage of groups where members are penalized for defaulting on repayment	7	22	17
Average minimum and maximum penalty rate for single term default	6 – 13	4 - 7	15 - 17

Researchers ran a few correlations between outstanding loan, default rate and penalty rate to check the direction of relationship between the three. The results are as follows:

There is a positive correlation, although not strong enough, between the number of outstanding loans per member and the number of times a member defaults on loans, across all the three states implying that as a member gets more than one loan, the likelihood of a member defaulting on these loans increases. This follows the common problem of over-borrowing which should be addressed at the earliest for better cash management and long-term sustainability of the SHG. But what needs to be further investigated is the purpose and utilization of these loans so that relevant steps can be taken towards better management. If these multiple loans are being used for income generating

purposes, then it might indicate the possible success of the implementation of the concept of a JLG within the SHG.

Correlation between Outstanding loan per member and default rate per member			
	Bihar	MP	Karnataka
Corr. Co-efficient	0.14	0.14	0.07

In terms of default rates and penalty, a negative correlation can be noticed between the number of times a member defaults and penalty applied, implying that as the chances of penalizing defaults on repayment increases, the default rate decreases. This seems obvious but acts as a check-point for the SHGs (SHPIs) who do not implement (enforce) the system of penalizing defaults which is very high as shown above. Also, even if there is a negative correlation, it is too low indicating the scope of raising the penalty fee to control defaults further. It is high

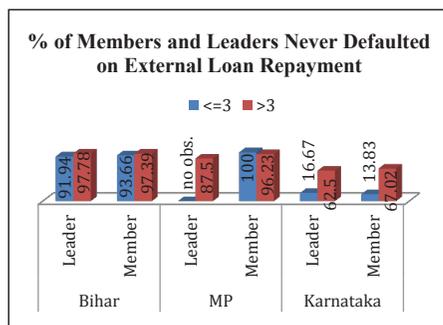
time that SHGs learn from each other while maintaining their uniqueness of independent decision making. Learning from the good management practices of others would instil efficiency among all.

Correlation between default rate and penalty			
	Bihar	MP	Karnataka
Corr. Co-efficient	no obs.	-0.03	-0.02

Discipline among Members and Leaders in Loan Repayment:

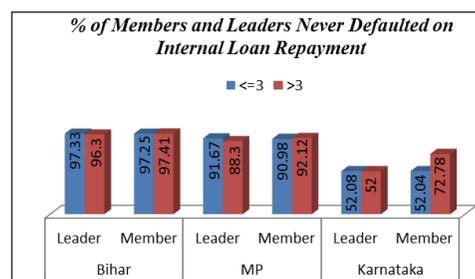
In terms of external loan repayment, we do not see a strong correlation between leaders and member's performance. In fact, results suggest that in majority of the cases across all the three states, members perform better on external loan repayment compared to their respective leaders. In the case of Bihar, members perform 2 percentage points better than leaders. In the case of Karnataka, leaders perform better than members when groups are less than or equal to 3 years old and members perform 5% points better when the groups are matured. However, the difference in leaders and members performance is not statistically significant.

Figure 6.2: % of Members and Leaders never defaulted on external loan repayment



Source: CMF – IFMR Research survey 2013

Figure 6.3: % of Members and Leaders never defaulted on internal loan repayment



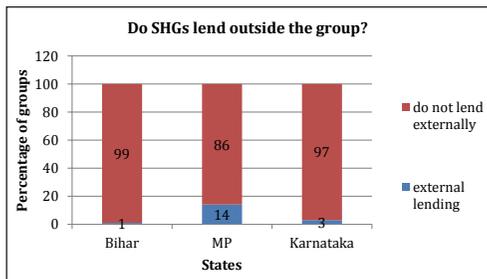
Source: CMF – IFMR Research survey 2013

Figure 6.3 compares the performance of leaders to members in terms of internal loan repayment. Here we see a very interesting trend of members doing better than leaders across all the three states where the SHG is greater than 3 years old and leaders doing better than members when the SHG is still young. One possible explanation for this could be the fact that while in young groups, members are still learning the basic rules of SHG, they might not have the capacity of repaying loans that they incur. On the other hand, leaders might be in a better position to repay their loans since they might be more empowered or might be economically better off.

Lending Outside the Group:

While SHGs primarily restrict their lending activities within groups, some SHGs are also involved in lending outside the group. Figure 6.4 presents the percentage of groups across each state who lend at the community level (outside the group). As observed, SHGs within Bihar and Karnataka show a negligible fraction of groups who lend outside the group. However, 14% of the groups within MP practice external lending, of which, 50% of SHGs that lend outside

Figure 6.4: Percentage of SHGs lending outside the group



Source: CMF – IFMR Research survey 2013

groups are mature groups, i.e., are greater than 3 years indicating no difference in the practices of young and mature SHGs. This could be due to the fact that SHG members in MP do not have enough credit absorption capacity. Other reasons might include lack of investment opportunities in income generating activities or just a reaction to the low economic profile of the communities they hail from.

Borrowings from banks and SHPIs

The following table summarizes transaction details with reference to external borrowing from banks and other SHPIs. Access to credit from formal channels like banks and SHPIs is one of the primary objectives of creation of SHGs. In fact, studies in the past have cited that group members’ main motivation of saving/meeting regularly and following other SHG rules and regulations is to become eligible to receive loans. Therefore, external loans form the crux of SHG dynamics.

Table 6.5 shows some of the key aspects of the SHG borrowing from banks and SHPIs. While a substantial number of SHGs (55%) in Karnataka have accessed repeat loans from banks, followed by SHGs in MP (21%). Percentage of SHGs in Bihar having accessed repeat loans is minimal. However, what is interesting to note is that all the groups in Bihar and MP and more than 50% of groups in Karnataka who have acquired more than one loan are matured groups. While it takes almost two months for SHGs in Bihar to avail a bank loan due to lengthy processes, SHGs in MP wait for about 45 days. It clearly shows that banks are quite proactive in Karnataka. SHG loans are disbursed within a month and the loan size is also relatively 6-7 times larger than bank loans offered to SHGs in Bihar and MP. Banks must develop mechanisms so as to be able to process loans at a faster rate, and facilitate timely disbursement of loans to enable competitiveness in SHGs’ investment.

While about one-fourth of SHGs with bank loan outstanding in Bihar and MP reported that their loan is linked to their group corpus, about half of the SHGs with bank loan outstanding in Karnataka have reported the same. This is a serious concern as this shows that banks are in the practice of using SHGs’ corpus as security deposit. Apex bodies like NABARD and RBI should address this urgently.

Table 6.5: Details regarding external borrowings

Details regarding external borrowings	Bihar		MP		Karnataka	
	BANK	SHPI	BANK	SHPI	BANK	SHPI
Percentage of SHGs whose loan application has been rejected at least once	12%	95%	7%	2%	19%	14%
Percentage of SHGs who have taken more than one loan	2%	2%	21%	no data	55%	4%
Average number of days taken to process the loan	59	64	40	no data	28	22
Average min and max amount borrowed per SHG (in INR)	21705-54536	39171-50374	4342-54210	no data	51231-230270	47875-398880
Average annual interest rate charged	13	13	12	0	14	10
Average repayment period (months)	23	41	-	0	22	18
Percentage of loans linked to SHG corpus	23%	68%	26%	0%	48%	32%

Source: CMF – IFMR Research survey 2013

Correlational analysis suggests that there is a positive relationship between the amount of loan sanctioned and the number of times SHG defaults on repayment, with greater amounts of loan, the chances of default are high. While our hypothesis is established true for MP and Karnataka, we see a negative relationship between these two variables in the case of Bihar (higher loan amount propels lower default).

Correlation between default rate and loan amount of SHG			
	Bihar	MP	Karnataka
Corr. Co-efficient	-0.003	0.02	0.04

Although, the correlational analysis shows a positive relationship between the loan size and default rate, it needs to be noted that a diverse set of factors influence loan repayment in SHGs. Does then, the time consumed during the process of SHG loan application affect the competitiveness

of groups in their investment? How do members choose their investment and do they earn well from these investments? Is the local economy conducive? Do the regulatory and external factors have any influence specifically post the AP crisis in the entire microfinance field? With these questions unanswered, it would be difficult to attribute a causal relationship between the loan size and default but the correlation can still be considered as a hint to check on the amount disbursed to SHGs which might currently be too high for MP and Karnataka and a little low for Bihar.

Cost on bank loan: SHGs across study states reported that the interest rate on bank loans is charged at 12% to 14% p.a. However, there are disparities in other aspects that have an implication on the total cost of loan to the group. SHGs reported that the opportunity cost²⁹ during the loan process varies from Rs. 100 to

²⁹ Opportunity cost, here, is defined as the per day loss of income of an SHG member who visits the bank leaving her job unattended.

Rs. 140 per member per day. The total transportation cost per SHG in processing bank loan comes to around Rs. 111 in Bihar, Rs. 518 in MP and Rs. 1,803 in Karnataka. While, SHGs in Bihar did not report any kind of processing fees being charged on their bank loans, Rs. 268 and Rs. 610 are the respective charges in MP and Karnataka for the same. Apart from the processing fee, SHGs in MP and Karnataka also reported bearing a loan account maintenance fee of Rs. 500 and Rs. 313 respectively. Further, SHGs in Karnataka reported an average insurance contribution of about Rs. 8,736 that is linked to their loan.

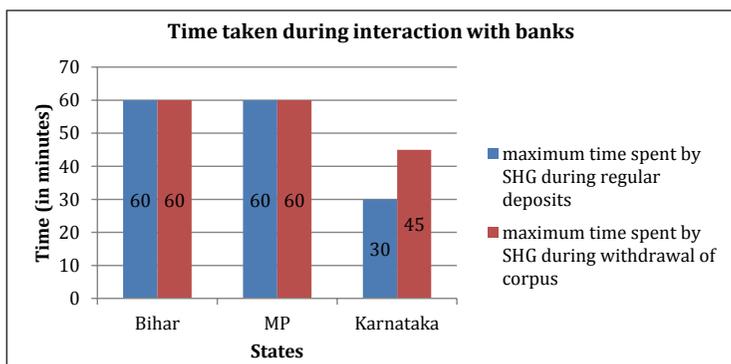
6.2 Role of promoting agency in supporting financial performance of SHGs

SHG promoting agencies like banks and SHPIs play an important role in building the SHGs' capacity in managing their finances and business affairs. These agencies often provide handholding support to groups in facilitating their financial dealings while providing structured training inputs to groups on financial transactions, book keeping, filling out deposit/withdrawal forms,

etc. To understand SHGs' current state of engagement with these two key institutions, the study tried to understand various levels of SHG interactions (specifically during financial transactions) with these two institutions.

Figure 6.5 presents the total time required in transactions between banks and SHGs. The average time spent by SHGs at banks during deposits and withdrawal is about 45- 60 minutes in the case of Bihar and MP, and 20-45 minutes in the case of Karnataka. This reflects the fact that banks process SHG applications at a very slow rate. There could be various reasons for this; banks might not be giving due importance to SHG transactions, there might be a lack of awareness among groups regarding bank proceedings. With regards to processing SHG loans, the respondents confirmed that banks took a very long time to verify their applications and conduct it with due diligence which delayed the loan approvals. This definitely stresses the need for technology and better processes. If a SHG has updated records and electronic data so that they are easily verifiable, the duration of proceedings might come down drastically. But unfortunately, none of the sample groups use technology.

Figure 6.5: Time taken during interaction with Banks



Source: CMF – IFMR Research survey 2013

Table 6.6: Percentage of groups by the type of assistance provided by the bank in the loan application process

Percentage of groups by the type of assistance provided by the bank in the loan application process			
Type of assistance	Bihar	MP	Karnataka
Filling loan application	17	54	78
Guidance and information on required documents for loan	15	51	75
Promptly conducting due-diligence (rating)	3	23	75
Providing assistance/guidance in making SHG eligible for loan	4	40	69

Table 6.6 presents the type of assistance provided by banks in the SHG loan application process. Results suggest that banks within Karnataka are the most efficient as more than 75% of sample groups within Karnataka confirmed that banks helped them with filling loan applications, helping them arrange required documents and conducting the required rating exercise to disburse the loans. On the other hand, banks within Bihar are not very involved in helping SHGs with loan related transactions. This is surely a segment where SHPIs could come in and help the SHGs which seem to require a longer hand-holding support on this front.

SHPIs across study states are proactive in providing assistance to SHGs in various forms. Almost all SHPIs offer structured training programmes to SHGs on various subjects (including, group management, managing business, recordkeeping, etc.) apart from their constant handholding support. In addition, many of them also provide financial services (specifically credit) to SHGs, which assists SHGs in building their financial management skills and in meeting their investment requirements.

6.3 Overall performance

Considering the overall financial performance of SHGs across study states, it is essential for the SHPIs to set-up better strategies to motivate the groups. Traditionally, SHGs are considered as a savings lead financial inclusion model and compulsory savings is the prime activity that every member in the group is expected to adhere to. However, it is quite astonishing that in a substantial percentage of groups not all members contribute to regular mandatory savings. As discussed in the above sections, this number is the highest in MP (65%) followed by Bihar (15%) and in Karnataka about 5% SHGs reported the same. Further, as discussed in the previous chapter, in Karnataka about 9% of the groups do not offer internal loans and above 60% of members including the leader default on the repayment of internal loans. It was quite surprising to observe that across the study states, virtually there exists no penalty system to deal with defaults. As discussed in the chapter, imposing penalty minimizes defaults in savings and loan repayments. It is, therefore, advisable for SHPIs to encourage groups to have a penalty system in place. Even if SHGs are given complete autonomy over operations and finance SHPIs should closely monitor the groups' effectiveness and bring in required changes.

Selection and rotation of leaders might also help to combat irregularities in savings and loan repayments, especially in cases where leaders are the prominent defaulters. The study observed that only 1% SHGs in MP have rotated their leaders in last two years, while 60% of groups in Karnataka have new leaders during the same span of time. However, there are diversities across districts in leader rotation policy in Bihar where while in one study block 70% SHGs have witnessed changes in leadership, only 5% SHGs witnessed the same in the other block.

In terms of bank financing for SHGs, a large section of SHGs across study states (except SHGs from Karnataka) reported not availing second time loan from banks. Specifically, about 98% of SHGs in Bihar and about 80% of SHGs in MP have not received second loan from banks, which is quite alarming considering the new provisions under SHG-2 and NRLM. There might be certain constraints

that are keeping SHGs from availing second loans. It seems largely due to the callousness of banks, as reported by a substantial number of SHGs. In addition, as discussed in the chapter, a large percentage of SHGs across the three states reported that their group corpus had been linked to the loan, which is a complete contrast to the guidelines for banks on financing SHGs. This just adds to the transaction cost that the members incur while interacting with banks. These constraints that SHGs face from banks need to be addressed immediately.

A substantial number of SHGs are lending outside the group in MP, whereas the overall performance of SHGs in MP is relatively poor. It would be advisable that the promoting institutions facilitate groups to set-up a mechanism to maintain minimum level of discipline in their financial transactions before adopting the flexible provisions under SHG-2, specifically voluntary savings.

Self Help Groups are not only known for being effective vehicles for financial inclusion but are also being considered as one of the best suited models to channelize the socio-economic development of communities by harnessing community action, facilitating government programs, interacting with and participating in a diverse set of institutions. The study on light and shades of SHGs in India³⁰ concluded that SHG movement was an effective way of mobilizing women and promoting community action. Even the NRLM program aims to provide livelihood opportunities by covering 6 lakhs SHGs and hence facilitating government programs³¹. There are several examples of SHGs' engagement in addressing their members' social/domestic issues towards collectively addressing community development in the given social and cultural context in India.

In recent years, a wide range of government and private schemes have been introduced to address the multifaceted issues of community development by using SHG as a platform to channelize the benefits. While the SHG-BLP has come a long way, evolving around the founding principles of homogeneity, cohesiveness and equal opportunity; at this juncture, it is essential to understand the current status and engagement beyond their primary activities in terms of social/community development, since this is the only way they would be able to sustain their principles. Although, a group's

performance on the social front heavily depends on its association with the nature of SHPIs and its focus areas, certain level of discipline and regularity among the SHGs on their primary activities could be attributed to building their readiness and capacity to perform social development related activities. Hence, the study attempts to understand the following key questions: (1) How do the sample SHGs deal with social issues (2) Extent of importance they accord to each of these issues? (3) Feasibility of helping SHGs perform better to make them socially sensitive and prepare them for future policy changes.

Under this section, we attempt to analyze the social performance of SHGs defined in terms of the activities the group performs (with or without the support of SHPIs) apart from the regular activities; maybe towards overall development of the community. By first establishing socio-economic differences among the group members, following indicators are used to evaluate the social performance of groups:

- Types of issues discussed in a group meeting ranging from financial status of the group to conflict resolution/community issues.
- Group activities performed for the community, relating to education, health, infrastructure development, etc.

30 <http://www.apmas.org/pdf%5Cm.pdf>

31 <http://aajeevika.gov.in/>

- Perception of group regarding decision making in case of conflicts and role of external agencies in the group events in terms of frequency and level of participation.

7.1 Indicators of Social Performance

To begin with understanding the composition of the group to identify the characteristics of members that make the groups homogenous and otherwise,

views of both prog and ~prog members were recorded. In the state of Bihar, approximately 62% of prog and ~prog members acknowledge that socio-political background is a common characteristic among their group members. 50% of them report that financial status is also common but only 10-11% members think that occupation is a common characteristic. In the case of MP, the most common characteristic is socio-political status with 77% prog and 87% ~prog members vouching for it.

Table 7.1: Differentiating and Common Characteristics of members in a group

Percentage of groups by the perception of elite and poor regarding differentiating and common characteristics of members in the group						
Perception	Bihar		MP		Karnataka	
	Prog	~Prog	Prog	~Prog	Prog	~Prog
Common Characteristics						
Socio-political background	64	62	77	87	53.77	63
Occupation	11	10	37	35	44	60
Financial Status	50	50	20	26	55	73
Differentiating Characteristics						
Participation in group discussion and activities	34	40	15	21	83	86
Regularity in financial transactions	67	66	40	41	72	90
Loan absorption capacity and investment	2	1	6	5	68	81
Leadership	100	100	8	5	63	53

Source: CMF – IFMR Research survey 2013

Occupation and Financial status are not very common among the members which is contrasting from the state of Karnataka where 44% of prog and 60% of ~prog members state that the former is common and 55% of prog and 73% of ~prog vouch for the commonality of the latter in their groups. The most important factor that differentiates the members within a group in Bihar is ‘Leadership’ followed by ‘regularity in financial transactions’. The

latter is most distinguishing in the case of MP. In case of Karnataka, ‘participation in group discussions and activities’ and ‘loan absorption capacity’ have also been quoted as important differentiating factors.

As discussed above, SHG along with being a financial model intermediates access to credit, is also an empowerment model that increases women’s influence over economic resources and participation

in various economic decision making, directly within the group and consequently in their respective households and community. The Following table presents age-wise distribution of the sample SHGs by various activities they conduct within their group meetings.

Not surprisingly, cash transactions constitute a large fraction of the activities held in a group meeting. This includes activities like collecting savings deposits from each member, lending internally, repayment of loan dues by members, maintaining books of accounts, etc. It is natural that mature SHGs discuss wide range of matters relating to their business affairs. However, the data reflects a contradiction among the SHGs in MP. The reason for this might be due to a number of specific/contextual issues or lack of motivation among SHG members. This situation of SHGs in MP needs to be addressed before pursuing new provisions (under the SHG-2 and state livelihood programme) with them as the current SHGs, specially the older ones need to be strengthened enough to be able to first accept and then incorporate the proposed changes.

Further, the data reveals another significant fact that while activities related to financing³² form the focus of SHG discussion across all the three states, issues related to conflict and community are not given enough emphasis.

While, a large section of SHGs in Karnataka (69%) and MP (66%) report focusing on community level issues, it seems SHGs in Bihar have not yet recognized their role with the community at large. A significant number of SHGs are confined to their primary savings and credit activities, only a negligible portion of them (4.5%) are engaged in discussing community related issues. As the Bihar government has already taken a step ahead to link the SHGs with livelihoods promotion, it is essential for the SHG promoting agencies to provide structured training inputs on livelihood and other community issues to improve their understanding on these complex subjects. It will also assist in motivating them into participating in larger community development programmes.

This table tries to analyse if there are any age-wise differences in the activities

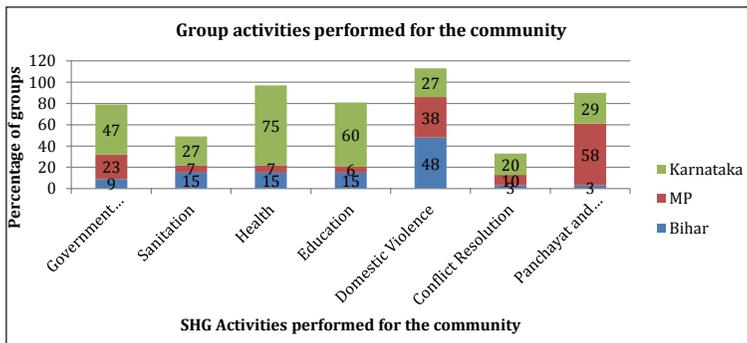
Table 7.2: Types of activities conducted by SHGs

Age-wise distribution of groups by the activities they conduct in the group meeting (%)						
Activities	Bihar		MP		Karnataka	
	<=3 years	>3 years	<=3 years	>3 years	<=3 years	>3 years
Cash Transaction	100	100	98	99	97	100
Discussion on loan applications	45	50	68	60	98	99
Discussion on withdrawal requests	91	92	93	86	93	98
Discuss member's individual financial details	85	92	72	58	92	92
Conflict Resolution	14	16	16	12	79	77
Discussion on financial status of the group	47	51	39	44	91	91
Discussion on issues in the community	4	5	74	58	68	70

³² Discussion on withdrawal requests, individual members financial situation and financial status of group as a whole

that are conducted by the group. Results suggest that matured groups in Bihar and Karnataka are more likely to participate in various group activities than younger groups. However, there are mixed trends in MP and we do not observe any significant differences in group activities based on their age. The following graph presents the different kinds of activities that are performed by SHGs for the community.

Figure 7.1: Group activities performed for the community



status.

Table 7.3 presents a snapshot of the various topics that are discussed within a group and the importance they associate with them in terms of the frequency.

We observe that a very small fraction of groups in Bihar and MP engage in community activities except in the case of issues related to domestic violence where Bihar has the maximum number of groups fighting against it and groups

in MP actively engaging in Panchayat and Gram Sabha meetings. However, in Karnataka, there are a number of groups that actively engage in other community activities like education, health awareness, sanitation and various government programs. Although all members are encouraged to participate in group activities, results from the study reveal that there are instances where some group members suffer from low motivation due to differential treatment within groups, low income or social

Discussion on finance relates to the core function of SHG such as savings, repayment of internal and external loans, penalty charges, and interest rates from SHPIs. Social topics would pertain to

Table 7.3: Topics of discussion within SHGs

Table#: Percentage of groups by the topics and frequency of discussion									
Topics	Bihar			MP			Karnataka		
	Regu- lar	When need- ed	Never	Regu- lar	When need- ed	Never	Regu- lar	When needed	Never
Financial	1	98	1	51	48	1	81	18	1
Social (Communi- ty Based)	1	43	56	23	69	8	52	42	6
Political	3	23	74	8	53	39	12	43	45
Development of the village/ Com- munity	2	40	58	29	64	7	32	47	21

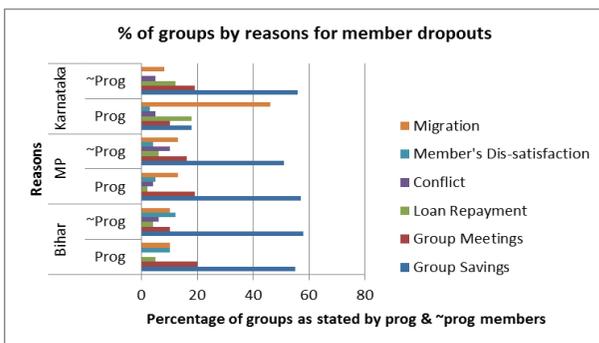
issues that affect the day to day lives of group members such as brainstorming on domestic violence, women empowerment related issues, household issues that can be discussed among group members, etc. Topics related to politics would deal with political issues at the village level, such as, committing to voting responsibilities, attending panchayat meetings, etc. Community based issues would relate to discussion orienting towards bringing development in society, such as, creation of better infrastructure, initiating health camps, etc.

Very few groups in Bihar regularly discuss any of the above mentioned topics. Most of the deliberations happen whenever required. Although, as expected, financial discussions are most common, only 23% of the groups talk about political issues, social and development issues are a little more common with 43% and 40% groups indulging in the same respectively. In contrast, the groups in MP do discuss political issues whenever needed with only 39% of groups never discussing about these. In addition, community based discussions are also popular in MP but are only done whenever the need arises. The most worrisome part of this is that in both MP and Bihar, especially Bihar, even the financial discussions are not regular among the groups. Most of them happen when the need for such discussions becomes absolutely necessary. Karnataka fares well in this respect. 81% of the groups discuss the financials regularly. Even the social discussions are more regular in this state as compared to the groups in the other two.

Conflict Resolution and Member Drop-out:

Almost all members across the three states feel that a member primarily drops out if she is not able to comply with the financial discipline, specially saving regularly, of the group. The other important reason could be not being able to attend the meetings regularly. Conflict and migration are rare causes for members leaving their groups but it is noteworthy nevertheless. A typical member dropout doesn't happen because of member's own dissatisfaction. When a member drops-out, the most common way of settling her account is to first calculate all the balances and then to settle the final amount. On an average it takes approximately 6.47 weeks to settle a drop-out's accounts.

Figure 7.2: Reasons for member dropouts



Source: CMF-IFMR Research survey 2013

To understand if different strategies are adopted by groups to resolve a conflict between two prog members or two ~prog members or one from each category and how the members in each category feel about it, all the members in the study sample were given hypothetical situations of conflict and they were asked the mechanism their group would adopt to deal with it.

In the state of Bihar, both the type of members mentioned majorly one way across all the situations: 'situation will be discussed and resolved at a group meeting'. In MP also majority of the people agree with this mechanism but some others (26% progressive and 29% not so progressive members approximately) think that the leader will discuss the situation with the members in dispute

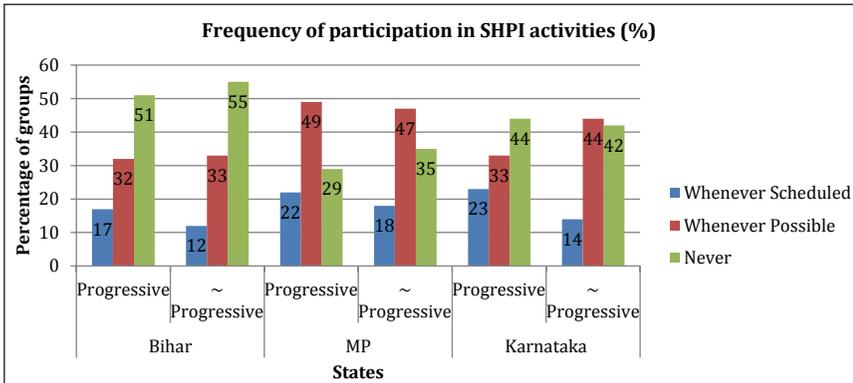
and will find a solution. Members' views do not change with the situation. Case of Karnataka is, however, different where majority of the prog members believe that the decision will be taken by the leader after she has discussed the situation with the members in dispute; majority of ~prog members, on the other hand, expect that the matter will be discussed and resolved in a group meeting.

Percentage of groups by the perception of elite and poor regarding group's decision making in case conflict						
Perception	Bihar		MP		Karnataka	
	Prog	~Prog	Prog	~Prog	Prog	~Prog
Between Self and other (Prog)						
Will be discussed and resolved at a group meeting	93	92	68	64	35	53
Leader will discuss with the members in dispute and will find a solution	2	4	26	29	39	31
Group will ask both the parties to find a solution on their own	2	2	6	4	7	3
Group will approach SHPI for the solution	1	0	0	1	13	4
Group will appoint 2 members from the group to find a solution	2	2	0	2	6	8
Between Self and other (~Prog)						
Will be discussed and resolved at a group meeting	94	93	68	63	32	48
Leader will discuss with the members in dispute and will find a solution	2	3	26	30	45	32
Group will ask both the parties to find a solution on their own	2	2	6	5	4	10
Group will approach SHPI for the solution	1	0	0	2	8	5
Group will appoint 2 members from the group to find a solution	1	2	0	0	11	5
Between Other (Prog) and other (~Prog)						
Will be discussed and resolved at a group meeting	92	90	68	65	34	44
Leader will discuss with the members in dispute and will find a solution	3	6	26	29	41	26
Group will ask both the parties to find a solution on their own	2	2	5	4	9	8
Group will approach SHPI for the solution	1	0	1	0	10	7
Group will appoint 2 members from the group to find a solution	2	2	0	2	6	15

Source: CMF – IFMR Research survey 2013

7.2 Role of External Agencies in Promoting Social Performance

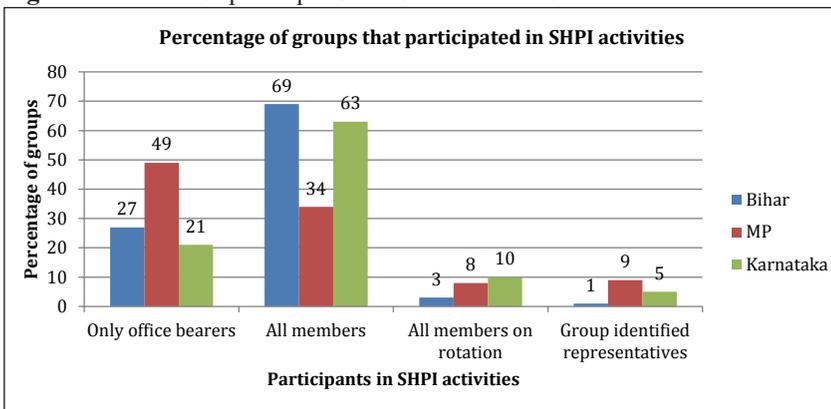
Figure 7.3: Frequency of participation in SHPI activities



The assumption that activities conducted by SHPIs are most popular among SHGs with a lot of them participating in these, faces contradiction from the data analysed on the concerned variables. Both progressive and not so progressive members in all the three states attend these activities whenever possible. There are very few that compulsorily participate whenever these activities are

conducted. The percentage of groups where both progressive and not so progressive members refrain themselves from attending such activities is highest in Bihar followed by Karnataka and MP. Groups in MP seem to be more disciplined in this respect either due to the compulsion associated with being a part of the SHPI or the value they seek in these activities.

Figure 7.4: Level of participation in SHPI activities



Moving a step ahead to see the constitution of participants, it is mostly all the members who participate in the activities. In case of MP, however, office bearers are more likely to attend these sessions.

7.3 Perception on Social Performance of SHGs

While, promoting agencies in Karnataka and Bihar are rated high on performance of SHGs in community development activities, SHG performance in MP is moderate. However, SHPIs across the state expressed doubt on SHGs' capacity in dealing with external agencies. A large section of SHGs (above 60%) look for assistance of SHPIs in interacting with external agencies. Further, SHPIs are also of the opinion that SHGs have limitations in addressing community level issues on their own. Often SHGs look at the SHPIs for support in engaging with community level initiatives. However, SHPIs in Karnataka and Bihar are of the opinion that a large section of SHGs are capable of adopting revisions under the SHG 2 and livelihoods promotion programmes, whereas, SHPIs in MP are sceptical about the SHGs capacity of adopting revisions.

7.4 Overall Analysis

Financial sustainability and social performance have always been two sides of the same coin for the SHG programme. While financial sustainability is an important ingredient for the success of self-help groups, without improving the quality of life of group members, generating social capital (cohesiveness), has little meaning.

The revisions, specifically *facilitating Joint Liability Groups (JLGs) within SHGs to access large size loans from the formal banking system* and numerous provisions under the NRLM that enable SHGs to *access repeated loans, community investment support funds to undertake*

community or common socio-economic activities, will essentially require a broader understanding of the group members on the issues. This would also require high integrity and cohesiveness among members. While, performance of groups around its core activities can be considered as a preliminary eligibility criteria for undertaking larger mandates, their current engagement in addressing issues beyond their core activities will assist in building their understanding of social issues and of complex liaise for livelihood promotion. Further, it would sensitize SHGs enough to accept changes like *JLGs within the SHG* in a positive light; otherwise, the new provision of JLGs might prove counterproductive hampering the cohesiveness among members. It is essential for groups to understand the concept and purpose behind the provisions, specifically the provision of allowing a few members within the group to form JLGs and approach banks for large loans. In the absence of required sensitization and understanding among members on the concept, it could be viewed as a differential treatment against the members who may not get an opportunity to be a part of the JLG.

Therefore, social performance of groups is vital in the implementation of the SHG-2 and livelihoods promotion activities with the existing SHGs. However, results from the study suggest that enough emphasis has not been given on promoting social performance among SHGs. While group members show active participation in finance related transactions, community-development activities generally take a backseat. A very small percentage of the sample groups engage in health or education related activities. Comparing

the three states, while, SHGs in Karnataka show highest involvement in community related activities such as government schemes, health, education, domestic issues, Panchayat meetings. A substantial number of SHGs in MP participate in the Panchayat meetings, data also shows that above a quarter of the SHGs are engaged in dealing with domestic issues and they participate in Government programmes. However, considering the current state of government sponsored livelihood schemes in Bihar, SHGs in the state reported negligible participation in

different community activities, except about half of the SHGs' that were involved in dealing with members' domestic issues.

To undertake the new policies around SHGs, it would be ideal for the promoting institutions and apex bodies to offer structure training to SHGs on socio-economic issues. Apex bodies need to formulate better strategies that motivate SHGs to participate in larger community issues including working on livelihood promotion.

This section attempts to review the overall performance of the sample groups in terms of certain pre-defined quality parameters. The SHG-assessment tool used in this paper has been adapted from Sa-dhan study³³ on 'Quality parameters of self-help groups, 2003'. The six broad categories across which the quality of a SHG is evaluated are-

- **Group constitution** - deals with the profile of SHGs and its members in terms of size of SHG and economic status of the poor.
- **Organizational discipline** - deals with regularity in SHG practices such as meetings, savings and participation in group activities.
- **Organizational system** - sums up the level of transparency practiced within SHGs in terms of level of awareness of group policies and the accuracy of SHG books of account.
- **Financial Management and Performance**- consists of SHG performance on loan repayment and utilization of savings.
- **Credit policy**-includes interest rates charged for internal lending and external borrowings within SHGs.
- **Capabilities and Achievements**-deals with the level of awareness and knowledge among SHG members.

The above mentioned quality parameters are used to compare the performance of SHGs against the benchmark assigned by NABARD that has also been adapted from the Sa-dhan study.

Table 8.1 summarizes the performance of sample groups, based on the above mentioned parameters across all the three states.

- In terms of group constitution, SHGs within all the three states have satisfied the benchmark criteria. One of the primary objectives of SHGs is to provide financial access to groups from economically backward sections of the society. Through our results, we observe that the SHGs in Bihar, Karnataka and MP comprise of 12-13 group members and the economic status of majority of the members is poor. This is in alignment with the NABARD criteria and it would be safe to say that sample SHGs across all the three states are catering to the right group of people.
- Organizational discipline is defined in terms of regularity in meetings, savings and active participation of group members in SHG activities. In terms of meetings, more than 95% of sample SHGs across all the three states meet regularly. However, participation of SHGs

³³ Discussion Paper Series-2 (August, 2003), "Quality Parameters of Self-Help Groups: A Discussion Paper", Sa-dhan. <http://www.sa-dhan.net/Adls/Microfinance/DiscussionPaperSeries-2.pdf>

in group activities is fairly low. While 69% of the sample SHGs in Bihar participate in group activities, only 34% of the groups do so in MP, which is staggeringly low. Studies have revealed that increase in participation in group activities leads to inclusive development of the group. In terms of savings, MP and Bihar save four times a month which is the required norm as per NABARD. However, groups in Karnataka save only once a month. While, 95% of SHGs in Karnataka save on a regular basis as per the stipulated amount decided by each member, only 35% of group members in MP follow this practice. Group's accumulated savings for the entire sample meets the requirements of NABARD. In addition, looking at the interaction of the groups with banks, while a large section of SHGs (76.84%) in Karnataka interact with their bank once in a month, there are about 20% SHGs in the state that happen to interact with the bank once a week. SHGs in Bihar (86.86%) and MP (73.29%) are in the practice of interacting with banks on every occasion of requirement. In contrast, more than one fifth of the sample in MP (20.5%) reported that they have never interacted with banks for any kind of transaction till the date of data collection. It seems that SHG-BLP is yet to go a long way towards achieving its core mandate in the state. Overall, in terms of organizational discipline, Bihar and MP fare better than Karnataka.

- There is considerable scope for improvement for the entire sample SHGs in terms of the level of transparency practiced within a group. On an average, approximately 10% of sample members across all the three states are unaware of group policies. Similarly, in terms of maintenance of records, only 15% groups in Bihar have updated their records accurately and timely. The benchmark assigned by NABARD in terms of maintenance of records is that 100% of SHG records should be maintained accurately. This brings efficiency in the functioning of SHGs and promotes transparency. However, none of the states satisfy this criteria. Transparency among SHGs has been the prime area of debate among practitioners, as it has been cited that transparency can lead to sustainable development of SHGs.
- Regarding financial management and performance, while Karnataka has done better than Bihar and MP, none of the states have been able to satisfy the required norm set by NABARD. According to the benchmark assigned by NABARD, for a group to function effectively in terms of managing its finances, it is imperative that more than 90% of its members repay their loans³⁴. Similarly, the amount saved by members collectively should be used for loaning to group members for enterprise development/ self-employment generating activities.

However, in Bihar, only 25% of the group members have never defaulted on loan repayments and only 50% of the groups' total saving corpus has been utilized for lending internally. Similarly, in MP, 44% of members have defaulted on loan repayments at least once and a meager 36% of groups have utilized savings corpus to lend to other members. This reflects negatively towards the performance of SHGs in Bihar and MP, as repaying loans is the primary criterion that is used to judge the performance of SHGs.

- The interest rates charged on SHG loans in all the three states are in alignment with NABARD's policies. This reflects a strong presence of regulation in the microfinance sector,

which proves to be beneficial for all the stakeholders in the industry.

- NABARD suggests that at least 20% of the members within each SHG should be literate (ability to read and write). Results suggest that more than 20% of members across all the three states can read and write. However, in terms of awareness of banking procedures, only 13% of members in MP are aware of bank policies, and an average of 88% of sample groups in Bihar and Karnataka are aware of these policies. NABARD requires all members to be equally aware of the relevant borrowing information. Overall, in terms of capabilities, groups in Bihar seem to be doing better than groups in MP and Karnataka.

34 Discussion Paper Series-2 (August, 2003), "Quality Parameters of Self-Help Groups: A Discussion Paper", Sa-dhan. <http://www.sa-dhan.net/Adls/Microfinance/DiscussionPaperSeries-2.pdf>

Table 8.1: Performance Benchmarking*

Sl. No	SHG Assessment Tool	States						Industry Standard
		Bihar		MP		Karnataka		
	Quality Parameters							Benchmark (As defined by NABARD)
1	Group Constitution							
	size of SHG	12	Y	12	Y	13	Y	Between 10-20 members
	economic status of members	poor members	Y	poor members	Y	poor members	Y	poor members
2	Organizational discipline							
	regularity of meetings	95%		95%		98%		All meetings scheduled have been held
	participation of members	69%		34%		63%		High level participation->80% participate in discussion
	regularity of savings	four times a month	Y	four times a month	Y	once a month		Four times a month
	contribution to compulsory savings	15% of SHGs do not receive compulsory savings by all members		65% of SHGs do not receive compulsory savings by all members		5% of SHGs do not receive compulsory savings by all members		Stipulated amount by each member
	Group' accumulated savings	16,611	Y	14931	Y	40136	Y	>5000 rs.
3	Organizational System							
	level of awareness of group policy	89%		88%		90%		Known by all members
	level of maintenance of records	15%		60-70%		75%		Regular updation of records
4	Financial Management							
	loan repayment by members	25% never defaulted on loan repayment		56% never defaulted on loan repayment		57% never defaulted on loan repayment		>90% group members should repay their loans

	utilization of savings amount	50% of savings utilized for loaning to members		36% of savings utilized for loaning to members		91% of savings utilized for loaning to members		Fully used to loaning to members
5	Credit policy							
	interest rate charged on int. loans	24%	Y	35%	Y	2%	Y	24-36%
	interest rate charged on ext. loans	19%	Y	2%	Y	2%	Y	24-36%
6	Capabilities and Achievements							
	literacy level of shg members	66%	Y	55%	Y	29%	Y	>20% members can read and write
	awareness level of banking procedures	89%		13%		88%		Known by all members

*Y stands for sample groups in each state meeting the benchmark criteria defined by NABARD across various quality parameters

As discussed in this paper, over the years, the SHG-BLP has successfully mobilised millions of poor households (specifically women) to actively participate in the most popular model of financial inclusion, which is considered as the lead model in India. The women's self-help group, trains them to come together to address their socio-economic issues themselves collectively while evolving around the founding principles of homogeneity, cohesiveness and equal opportunity. SHGs are primarily expected to function as financial intermediaries with a clear mandate of facilitating group meetings, member savings, internal lending, repayment, and maintenance of books of records. Apart from their primary activities, SHGs have been successfully engaging themselves in addressing larger issues at the community level and have also been playing a significant role in livelihoods promotion by facilitating market linkages and participating in various skill building programmes. With their achievements over the years, the introduction of recent provisions under SHG-2 and NRLM intend to endorse a larger role of SHGs in the future to specially focus on promotion of livelihoods and issues of community development. With these policy developments, SHGs are entitled to access a wider set of services from banks. Further, it will act as a launch-pad for the state sponsored poverty eradication programmes.

However, these developments will have a larger impact if SHGs are well prepared to shoulder this responsibility effectively. SHGs' readiness to take

on this larger role is very important otherwise the intervention might prove to be counterproductive. While, there is enormous scope and opportunity for groups under these new policies/provisions, there are also inherent risks associated with them. For example, the provision of JLGs within the SHG, which will be beneficial for the progressive/entrepreneurial members within the group by enabling them to avail larger loans for their income generating activities. It might also however, act as a demotivating factor for the excluded members and such a situation may result in group conflict affecting group cohesiveness. Therefore, understanding of group dynamics is quintessential to forecast the success of this provision. While provision of voluntary savings is a well-intended device to address the diverse demand of members for savings products, it also imposes a risk on SHGs as a substantial number of SHGs are struggling to maintain their books of records. A keen eye on the fund management practices of SHGs thus becomes important. Given the scope for availability of repeat loans, overdraft is a good avenue for SHGs to cater to members' larger credit demands, it is simultaneously essential to have a healthy credit culture among the members. Under the rural livelihoods mission scheme, SHGs are expected to work on complex socio-economic issues, income generating activities, market linkages etc. which requires better understanding and maturity among groups to work on it.

Given the current situation of SHGs and what they are being expected to do, it is essential to understand the level of

preparedness among SHGs for these new changes as this might assist SHPIs and apex bodies to formulate better strategies and structured training programmes to facilitate groups in this graduation phase. The preparedness could be assessed by simply measuring the efficiency with which SHGs are performing their core activities. While, a large number of SHGs across study states are performing well on certain components, there is still some negligence in practices of some. A substantial number of SHGs in MP (35%) and Bihar (15%) are not adhering to the norms of regular compulsory savings. Similar trend has also been observed with Karnataka based SHGs, (5%) though in a smaller number. 2-3% SHGs are also not conducting regular meetings. Further, more than 90% members including leaders in Bihar are not regular in their compulsory savings. Similar trend has been observed in MP with 50% to 70% members not saving regularly. While a negligible percentage of groups in Bihar and MP are not lending internally, 9% of the groups reported the same in Karnataka, which is not acceptable. In terms of loan repayment, it has been observed that Karnataka lags behind with a substantial number of members failing to payback their loan dues in time. SHGs across the sample expressed difficulties in maintaining books of records. SHGs in Karnataka are maintaining their records better than the SHGs in Bihar and MP. The situation is a little worrying as a maximum number of SHGs entirely depend on concerned SHPI's representatives for even sharing the information from their own records. Although, many SHGs reported that they were attending to issues beyond their prime activities and participating in some government schemes, still the data clearly

reveals that SHGs are lagging behind in social performance. While, technology is one of the core components of other forms of financial inclusion models, none of the groups reported using any form of technology in their activities.

Considering the need and importance of SHGs' preparedness to maximize the benefits of new provisions, it is essential for the apex bodies and SHPIs to encourage groups to escalate their core activities by bringing discipline in their approaches. Some of the areas where researchers have observed further scope of improvement from the data collected are mentioned next.

Fund and default management: As a financial intermediary, SHGs are expected to manage their funds efficiently. Group is expected to accumulate member savings on a regular basis, leverage funds from external sources (bank) and proficiently support its members by following the principles of self-help and mutual benefit to members' collective advantage. However, as discussed above, it has been observed that groups are unsuccessful in many respects when it comes to managing their primary activities. There are serious issues of irregularity among members and leaders in compulsory savings, loan repayment, etc. which is quite common across a substantial number of SHGs. In addition, mechanism to deal with default cases is almost absent, a negligible percentage of SHGs have penalty policies in place which in many cases prove to be ineffective.

Irregularity in basic activities should be dealt with urgently or else it will hamper the groups' objective in multiple ways by destroying members' saving habits, credit

history etc. With any level of irregularity specifically in regular savings and loan repayment, it will be difficult for groups to offer a wider range of savings and credit products, specifically voluntary savings. Further, such irregularity will not only affect SHG's savings credit activities, it will also restrict SHGs from playing a serious role ahead in livelihoods promotion and other community issues. Tendency of irregularity among members and leaders will keep the groups from shouldering serious issues.

Therefore, it is essential for SHGs to have a ***group based effective mechanism (penalty system) to address issues of irregularity among members***. Penalty policy should be formulated in a way that it incentivizes members to be regular and not just as an ineffective rule. Member default should be one of the discussion agendas of group meetings too. SHPIs should give priority to ensuring that groups have their own penalty system and it needs to be monitored for a period of time.

Transparency and accountability:

It has been observed in the study that recordkeeping is significantly weak across majority of SHGs. There are issues relating to accuracy, updating of records and clarity. Specifically, SHGs in MP and Bihar immensely lag behind with a large section of groups in these two states depending entirely on SHPIs for maintaining and updating their records. Further, it was quite surprising to notice the inability of many SHGs in Bihar and MP to respond to the survey by using their own records. The issue is not much of literacy but it is typically a tendency of dependency of groups on SHPIs. SHPIs have to address this issue purposefully.

A substantial number of members, it has been observed are not clear about contact persons in case of need of any information. There is a lot of confusion among members about the role of the leader and the treasurer which indicates that a clear accountability has to be assigned among office bearers and members. Awareness needs to be built up among members regarding a strong grievance redressal mechanism.

Extensive training should be provided to groups and members on the books of accounts. It would be ideal for SHPIs to have a database on literate members in SHGs, and these people can then be trained in managing the groups' books of records. As literacy is an issue that has been observed among many sample SHGs, the idea of promoting trained local barefoot accountants could be explored in areas where SHGs are facing problems in maintaining their records but with a caution that these accountants have no strong influence on the group's decision making specially relating to finances. The computer munshi (computerise recordkeeping) concept should be promoted across groups with literacy. Apart from the SHG model, all other models of financial inclusion have been successfully using technology. The adoption of technology specifically in recordkeeping will have huge impact on the efficiency of the programme and it will also ensure a greater transparency in the group business affairs. Members of the groups surveyed also share this expectation.

Engagement of external institutions:

As discussed above, SHGs are facing difficulties in accessing repeat loans and it also takes 45 to 60 days to process the SHG

loan applications. It indicates that even after two decades of the SHGs' existence, banks are still not fully acknowledging the arrangement as a profitable model. The situation is worrisome in states of MP and Bihar. Although, SHGs in Karnataka are relatively successful in accessing repeat loans, only about 50% of the groups have availed this facility. Considering the recent revisions and consequent expectations from SHGs to play an anchoring role in livelihoods promotion, it is important to sensitize bankers at the local branch level about the programme and its future. Although, there are provisions under the NRLM and SHG-2 to use district and state level bankers committee to engage in the SHGs activities, it would be much desirable that apex bodies and state organize structured orientation workshops or seminars to motivate local bankers and instil accountability. Banker sensitisation is especially required in MP and Bihar.

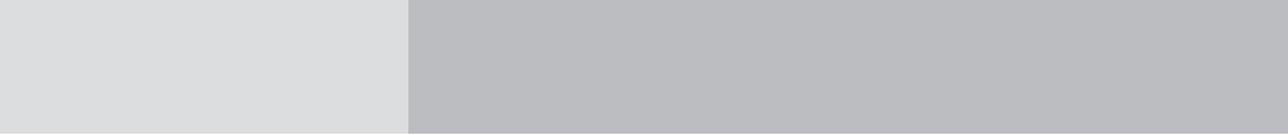
Conflict resolution: It has been observed that there are substantial number of groups where all members are not participating in the compulsory savings and irregularity has been reported in meetings, savings and loan repayment. In addition, progressive and not so progressive members have also expressed concerns regarding differential treatment of their opinion in group meetings, at SHPI events etc. Further, no leadership rotation concept exists among a large section of SHGs. Such an environment is not conducive for harmony and mostly triggers conflict. It would be advisable to have a structured training programme for group members on conflict management. Considering the provisions of JLG in SHG-2, overdraft,

and group's participation at community level agendas and livelihood promotion, overall training on group management is essential. SHPIs should facilitate SHGs to have leadership rotation policy in place, it is also important to have a defined leader selection process in place and the accountability of leader/s need to be well articulated by the groups. Leader selection and rotation can be linked to the concerned member/leader's performance in group activities in the past.

Community level sensitization: SHGs having a broader understanding on large questions of livelihood promotion and community development would assist in maximising the benefits from the recently introduced provisions towards their collective advantage. However, as discussed in the paper, many SHGs across study states (specifically in MP and Bihar) are yet to work on the issues beyond their primary mandates. Such a scenario questions the ability of SHGs to acknowledge these changes in the programme. Hence, some basic level of sensitization among members and leaders on larger questions of livelihoods and community issues is required. As indiscipline has been observed in many of the groups, structured training input and handholding needs to be introduced and groups should be oriented on the concept of JLG within the group too. Basic level of understanding on larger agendas is essential or it might be difficult for SHGs to acknowledge the provisions that can seem to be favouring a section of members within the group by helping them get larger loans for income generating activities and allowing them to save more if they can.

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