

Addressing the Challenges of Self Help Group Management

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Introduction

In the developmental process of an economy programmes are always intertwined with the need of the beneficiaries. The effectiveness of the interplay between the resources channelised through the programmes and the efforts made by the beneficiaries to utilise those resources bring the desired result. Unfortunately in India the outcome of many of the developmental programmes initiated by governments to address the social maladies like poverty, unemployment etc. has not yielded the expected benefit. One of such recent developmental interventions at grassroots level is the provision of very small finance, popularly known as micro finance, for the poor people living at the lowest rung of the society with an objective to bring them out of poverty. The basic philosophy behind the approach is to give the support of small finance which is otherwise not provided by the formal channel of financial intermediaries like commercial and cooperative banks. Since it is not cost effective to provide very small finance to individuals a group of individuals is identified as an entity that will be accountable to the financial institutions for the financial transactions. Further the group will transact with the individuals. This type of micro finance delivery mechanism for the poor became very popular around the world and the experiments in various developing countries proved that poor can be helped by organizing them into small self help groups (SHGs). To touch the core of poverty, women are the best agents thus women self help group have become the ray of hope to the developmental practitioners.

Considering the modalities of SHG operation it is found that it resembles a rudimentary banking organisation, saving and loan business being the primary activities. Managing the savings and loan business needs some sound financial knowledge. Further, most of the SHGs are engaged in group business i.e. some economic activities. This also requires knowledge about the operational aspects of the business. Starting from book keeping, marketing and liaising with the banks and in several other fronts some rudimentary knowledge is required. Since most of the members of the group are illiterate the management of SHG throws several

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challenges. Identification of those challenges and providing necessary interventions to address them is the primary task which is addressed in this article. To begin with, the next section provides a cursory look of the micro finance models and flow of funds. The third section deals with the SHGs; their nature, functions etc. and identifies the areas of challenges and the last section provides the necessary conclusion.

Micro finance Models

There is a misconception among the provider of credit that poor are not bankable. But the concept that the poor is not bankable is grossly misunderstood by bankers and planners, which is evident from the success of Grammen Bank of Bangladesh, the pioneer of micro finance in the seventies. Prof. Mohammad Yunus, the father of the concept, through his path breaking efforts virtually succeeded in turning around the misnomer tagged to the poor. Success of micro finance programme is now well pervasive in many developing counties of Latin America, Asia, and Africa.

The success stories around establish that poor can save and also pay back. So they are bankable. They may not get higher returns on their savings but the poor place a high premium on savings that are both safe and liquid. One of the critical reasons for this is that micro finance is dealt at the community level. Both, the lending institution - usually a SHG, and the individual borrower, stay together, in the same community. This makes it very difficult for borrower to default on their payments.

Microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny businesses. Robinson (2001) defines microfinance as "small-scale financial services-primarily credit and savings-provided to people who farm, fish or herd" and adds that it "refers to all types of financial services provided to low-income households and enterprises." Technically, micro finance is defined as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural areas, semi-urban and urban areas. Any one availing micro-finance has to engage in some productive activities that will generate some income. Traditionally micro finance was focused on providing a much standardised credit product. The poor, just like anyone else, need a diverse range of financial instruments to be able to build assets, stabilise consumption and protect themselves against risks. Over time, micro finance has come to include a broader range of services (credit, savings, money transfers, payment services, insurance, etc.) as it is realised that the poor who lack access to traditional formal financial institutions require a variety of financial products. This helps generate income which allows them to care for themselves and their families. Micro finance is thus regarded as the dignified way of crossing the poverty line.

Table-1: Models around the world

Microfinance Models	Examples	Characteristics
1. Grameen and Solidarity model	Grameen Bank in Bangladesh; BancoSol in Bolivia, Solidarity groups in Latin America	3-8 persons, each active and assuming responsibility, lending and repayment to and from members through guarantee of the group members
2. The Group approach	SHGs- Bank linkages in India, PHBK programme in Indonesia, Chikola groups of K-REP in Kenya.	Delegates entire financial process (savings, loans, and repayments) to the Group which besides using their own fund also mobilises and secures additional finances from Financial institutions, MFIs.
3. Individual credit	BRI-Unit Desa in Indonesia, Priority sector lending by banks in India especially by RRBs and Cooperative banks	Small Credit given to individuals based on appraisal, disbursement savings and repayments
4. Community banking	Village Bank of FINCA in Latin America, replicated in Africa and Central Asia	Expanded group approach of 35-50 members; borrow finance from the programme implanting agencies and on lend to members.
5. Credit unions and Cooperatives	SANASA in Sri Lanka	Member owned organisations providing credit and other financial services. Apex bodies provide technical and financial service.

Table-2: SHGs Credit linked to Banks under SBLP in India: A Regional Distribution

Region-wise Share of no. SHGs Credit Linked	South	North	East	West	Central	NER	Total Nos. (Cuml)
2002 (%)	68.7	4.2	10.0	6.4	10.4	0.3	461478
2006 (%)	54	6	18	7	12	3	2238565

Source: NABARD

Note: From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of SGSY SHGs and existing groups receiving repeat loans. Owing to this change, NABARD discontinued the publication of data on a cumulative basis from 2006-07. As such data for 2006-07 onwards are not comparable with the data in the previous years.

Around the world several successful models (Satish, 2005) are being floated to provide the micro finance (Table-1). Though these models differ in their structure all of them intend to provide the small credit to individuals with an objective to bring them out of poverty. Out of all these models in India we found the SBLP which fall under the group approach is very successful (Table-2) and the cooperative structure of micro finance is the upcoming model. Including the SHGs promoted under Swarnajayanti Gram Swarozgar Yojana (SGSY) i.e. govt. sponsored scheme with a subsidy component to assist the SHGs for enterprise creation, the number of SHGs under SBLP has crossed more than 41.6 lakhs by the end of the year 2007. This success of SBLP in India has acclaimed as the biggest micro finance drive in the world. The phenomenal increase of credit linkages of SHGs through SBLP and groups financed directly by NGOs/NBFCs in recent years indicates the existence of huge unmet financial needs of the poor section and also testifies the failure of the formal financial infrastructure in providing necessary financial support to the poor.

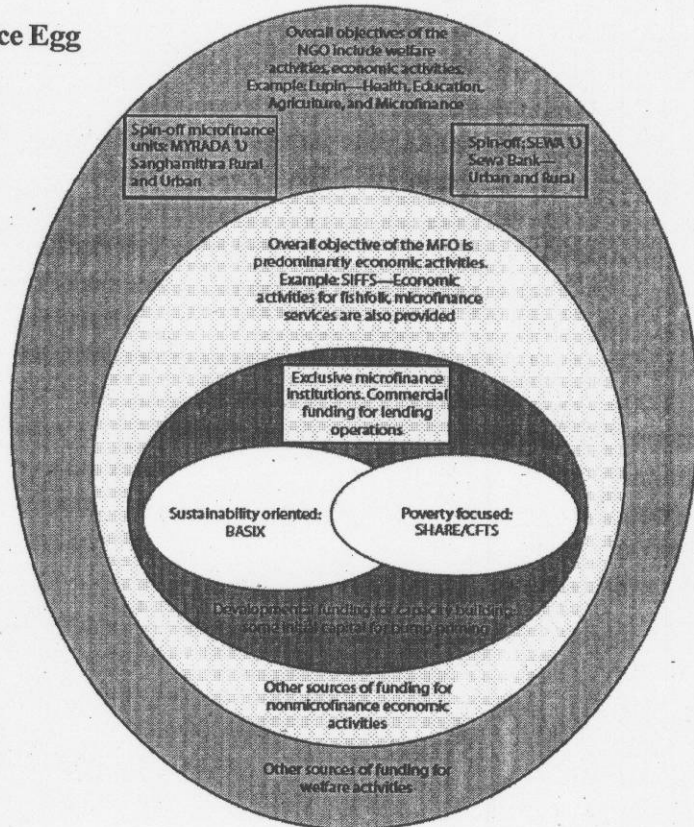
In study in the mid-eighties NABARD found that the most important and immediate banking needs of the poor households, in the order of their priority were: a) opportunities to keep safe their occasional small surpluses in the form of thrift, b) access to consumption loans to meet emergent needs, and c) hassle-free access to financial services and products, including loans for micro-enterprises. The findings were culminated in the SBLP launched in 1992. The programme was conceived with the objectives of developing supplementary credit delivery services for the unreached poor, building mutual trust & confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor. The linkage program combines the flexibility, sensitivity and responsiveness of the informal credit system with the technical, administrative capabilities and financial resources of the formal financial sector. It is a design relying heavily on collective strength of the poor, closeness of NGOs to people and large financial resources of banks. Further, the SHGs have also undertaken effective social mobilisation functions contributing to an overall empowerment process. The banks have externalised what would otherwise have been high transaction costs for mobilising savings of the poor, appraisal and sanction of loans and improved loan recovery through the financial intermediative role played by SHGs.

In this programme, rather than a bank, borrowers themselves undertake the task of credit evaluation; this creates a peer screening effect and reduces the transaction costs as community members have much better information than banks (Andersen and Nina, 1998). Two, there is the peer monitoring effect that induces group members to use their loans in productive ways; Stiglitz (1990), Varain (1990), and Banerjee and Newman (1994) have

developed models that illustrate the working of the peer monitoring effect. Three, the desire to preserve valuable social ties induces borrowers to spend extra effort if necessary to secure timely payments. Social ties are valuable because they allow members to borrow in the future and provide business connections. Moreover, a very important feature of group lending is the collateral effect. Bank's losses incurred due to unsuccessful projects are generally reduced as successful entrepreneurs within each group cover part of their losses (Andersen and Nina, 1998).

The SHG-bank linkage program the RBI and NABARD have tried to promote relationship banking i.e., improving the existing relationship between the poor and bankers with the social intermediation of NGOs. The Indian model is predominantly a "Linkage Model," which draws upon the strengths of various partners: NGOs, who are best in mobilising the poor and building their capacities, and bankers, whose financial strength is financing. As compared to other countries where parallel model of lending to the poor is predominant, the

Figure-1: The Microfinance Egg



Indian linkage model tries to use the existing formal financial network to increase the outreach to the poor, while ensuring the necessary flexibility of operations for both bankers and the poor.

Under this programme the following models are operating. Out of these models the first model is very successful followed by second and third.

- ◆ Model 1: Banks promote SHGs and finance them directly
 - ◆ Model 2: NGOs facilitate the promotion of SHGs and Banks finance SHGs
 - ◆ Model 3: NGOs borrow funds from Banks/FIs and provide services to SHGs/Clients
- Apart from these three models, models like NBFCs mobilise Equity & Loan funds from Banks/FIs and provide services to SHGs/Clients (SHARE Microfin Ltd., Asmitha, BASIX, CFTS) and registered Cooperatives and MACS (SEWA Bank, Sneha MACS) are also popularised by big MFIs.

Since micro credit is the most important component of micro finance this product is excessively emphasised in all the models. A broad classification of micro credit is provided by the pioneer Mohd. Yunus, (2009) in the Grammen bank website¹, which he said is not the end in itself. Other classifications are also possible, but the terminologies should be carefully used, he cautioned. Sriram and Upadhaya (2004) provide an interesting presentation of such classifications in form of an egg (Figure-1). This outlines the various formats of micro finance interventions made by different organisations in India.

The organisational involvement in the process of delivery of micro finance are broadly divided into: a) organisations implementing micro-finance activities, b) resource organisations or support agencies and c) formal financial institutions - Banks and development organisations, like NABARD, SIDBI, Association of Micro Financing Organisations (MFOs) etc. Ultimately the flow of finance and other supports ends at the SHGs who distribute the finance the individual members.

Challenges in SHG Management

3.1. SHG: A Conceptual framework

As SHGs described by Bowman (1995), the members save periodically in the group and the savings are lent out to members who require loans at a fixed rate of interest. Members are mainly women living below poverty line. Often the women belonging to neighbourhood communities, sharing thoughts and problems with one other form into SHG. Members of SHGs save equal amounts as decided in their groups. The movement of SHGs started with a slogan 'save a rupee a day'. Of course there are number of groups today who are saving

more than Rs.1. Once the members come together, they open an account in either bank or post office in the name of the group. The group authorises any of the members (elected as group leaders) to operate the group account. Thrift is a good entry point and a binding force for poor women. They view their future in their savings, the savings which meet their immediate needs, and also provide security for their old age. The meagre savings of an individual may not be sufficient to meet her needs but all the savings of the group members put together can be of great help to one or two members of the group. In any best SHG, the credit operations also start at the end of first month itself where in the member's pool together their savings and sanction loan to a needy member. Every group will have its own set of rules and regulations like amount of savings by members, interest rate on savings, basis on which loans are to be prioritised, interest on loans and penal interest on defaulted amount.

The basic pillar for success of SHGs is its discipline. Every group decides frequency of group meeting and when and where to hold meeting. Best SHGs meet once in a week, but normally any SHG should meet at least once in a month. The frequency of meetings strengthens the group processes, higher the frequency, the better it is. Best groups exert their discipline through fining the absentee members and late coming members. The thrift as well as credit operations take place in the group meetings. The meetings have specific agenda and the discussions go on as per the agenda. In the meetings various issues are discussed at length and members decide who should be given the loan. The discussions take place in a democratic and transparent manner. In best SHGs, each meeting is presided by members in rotation and this helps to impart leadership qualities to all the members. Accounts are written in the meeting itself. The standard account includes attendance register, savings and loan ledger, cash book, individual pass books. The accounts of are written either by members themselves or by a person employed by the SHG. The features of a typical SHG are the followings

- ◆ Enables exclusion of privileged elements
- ◆ Self-selection
- ◆ Focus on women
- ◆ Savings first and credit later
- ◆ Shorter repayment terms
- ◆ Market rates of interest / No subsidy
- ◆ Progressive lending/multiple lending
- ◆ Intra group appraisal of needs and credit prioritization / Credit rationing
- ◆ No collateral (Group cohesion/Group savings serve the purpose)

The successive stages of evolution of Self Help Groups are spread over three distinct phases. At the first level households use microfinance to meet 'survival' requirements where

small savings and loans serve as a buffer in the event of an emergency or to smoothen consumption or even service previous debt to give itself more liquidity during lean times. At the second level, 'subsistence' needs are met through microfinance, where a household begins to utilise microfinance to diversify its basket of income-generating activities, or to meet working capital requirements in traditional activities. At the third level as households reach a stage where they can assume a higher degree of risk, microfinance would be used to invest in setting up an enterprise or facilitating entry into employment in one way or the other in order that the household becomes 'sustainable'. So the success in the consecutive phases uplifts the individual from the survival level to self employed level. In this regard, while the Grameen experience of Bangladesh is very encouraging, in Indian context the success stories of micro financing are not so prevalent.

3.2. Challenges

Building permanent, sustainable institutions that deploy financial services to the poor and the very poor, and are directly linked to or are part of the financial systems remains an enormous undertaking which has not been achieved by many microfinance institutions. For this reason, the focus in the last few years has been on developing the managerial, technical and systems capacity within institutions to move them towards sustainability. A similar type of capacity building is essential at the grass root level organisations i.e. the SHGs. Considering the existence of millions of SHGs in India and the families they assist, their management become very crucial for the overall success of the micro finance movement as well as for achieving the objective of uplifting the poor masses through financial linkages. As earlier mentioned SHGs are rudimentary form of banking organisations there is a need of proper management structure. In this process of development and growth of a SHG several challenges crop into the functioning. Areas like interpersonal relations (group dynamics), financial management (fund management), and operational management (routine decision making) are prominent.

3.2.1. Group dynamics

The 'forming stage' of SHG is crucial. Initially there is fear, suspicion and anxiety among the members. Sometimes male members in the family discourage women to take up such activities. Irregular attendance in meetings and fluctuation in saving is the feature of this stage. The facilitator plays an important role. 'Storming stage' follows the previous one. In this phase conflict arises among the members and members withdraw. Membership stabilised and leader gets the sanction of the members. During the 'norming stage' the bondage among the members becomes stronger and commitment to performance increases with responsibility

sharing. By the end of this third stage SHGs start performing with regular savings and linked to banks. At the performance stage peer pressure developed and the group become more cohesive. So over a period of 12 months the group dynamics changes considerably.

Membership in SHGs usually varies between 5 to 15 of which most are illiterate. Thus the leader is expected to be the most literate among them who can deal with financial matters and with others. At the group level the leader does everything starting from liaison with banks, NGOs and other funding agencies, maintaining the records of the SHG activities to looking after the routine functions. This makes the leader an important personality in the SHG structure. Some leaders take the advantage of their position and manipulate the activities. The excessive dependence on leader creates a gap in the communication channel i.e. leader not attending properly the grievances of all members. Slowly this brings rift and distrust and loosens the peer pressure mechanism on which the entire group thrives.

Dynamics of relationship of members keeps on changing with the passage of time. As the groups mature the relationship become more cohesive and performing. Groups get recognition in the broader society and members sense a feeling of economic and social empowerment. So managing the group relationship is a greater challenge for the SHGs.

3.2.2. Financial Management

Financial management of SHGs primarily hovers around the mobilising regular savings from the members, lending to and recovery from the members, organising the purchasing and sales functions of the group business, and record keeping and transacting with bank. Regular saving is the fundamental requirement of credit linkage with banking institution. Successful saving by members for more than six months makes the group eligible for the loan. Mobilising of savings from the poor at a sustainable basis is a big challenge for the SHGs. In many cases groups take much more than six months to get credit facility. Regular income is an essential condition for regular savings. Since the income generation ability of the poor is conditional upon several environmental and personal factors in many cases at the formation stage the SHGs find it difficult to stabilise. In many cases the group leader fails to help the members and sometimes also himself and the group ultimately face the natural death. So saving mobilisation remains as one of the primary challenges to the sustainability of SHGs.

Lending activities even sometimes start before the formal credit linkages. Successful savings over a period of time create a sizable fund for lending business and members take loan from this fund as per their requirements. When the group is formally linked to a bank the loan given by the bank is either distributed among the members or invested in group business. Sometimes a combination is also possible. But most of the cases investment takes place in

group business and the success of the business determines the success of the SHG. Though SHGs to begin with take up very small business the management of the venture determines the profitability. Control over the business is a challenge for illiterate group members. Starting from account keeping, organising the marketing of raw materials/inputs, controlling the operational expenditure of the business, marketing of the product etc. require proper knowledge. When the individual members take loan from the SHG, the role of the leader increases further. First, she has to maintain proper record of loan schedule and repayment of loan. Interest though charged on simple term basis its calculation still remains cumbersome for the leader. Matching the repayment from the members with the repayment of loans to the banks is also one of the crucial areas of financial management.

Thus financial sustainability is the crux of SHG banking. Indicators like growth in saving balance with the bank, increase in the repayment rates, increase in recovery of loan, growth in group profit, decline in the operating expenditure to total expenditure ratio are some of the indicators. Apart from the primary indicators the overall sustainability can be studied with the help of operational self sufficiency ratio (OSSR) and financial self sufficiency ratio (FSSR) (SEEP, 1995). The first one indicates to the extent to which a SHG covers its operational costs. The second one refers to the extent to which it not only covers its operational costs but also preserves the value of its resources by accounting for subsidies and the effects of inflation. Any ratio above one is considered good for the health of the SHG. Higher ratio indicates better sustainability. The introduction of subsidised financial component into the loan structure of SHGs made sustainability as an important issue. It is found that in many countries SHGs are sustainable because of subsidy and withdrawal of it would have made them unsustainable (Hume and Mosely, 1996, Hossain, 1988). Subsidy always understates the real cost of operation since it reduces the cost of funding. It overstates the income and distorts any ratios which may be computed from such data (Karisa-Kasa and Murinde, 1995). Once this subsidy is withdrawn SHGs find it difficult to adjust their financials. So sustainability challenges are more pronounced in subsidised groups.

3.2.3. Operational Management

To begin with, the rules and regulation laid down at the initial development stage of SHGs forms the basis of operational management. Detail guidelines with regard to daily functioning, role sharing, record keeping, holding meetings etc are repeatedly referred by the members and the leader. The guidelines also talk about the peer pressure mechanism, admission into and removal from membership, penalty and grievances handling etc. As the group matures these rules, regulations etc. get established and got the majority acceptance and became the norms and principles for the members.

Sometimes the members show lack of interest in group activities, attendance of meeting became irregular, wealthier members borrow more than the rank-and-file members, maintenance of records done in haphazard manner etc. These are some of the challenges at operational level faced by the groups.

To address these challenges group effort is highly essential. The leader alone cannot manage all the activities of the group. Sharing of responsibilities and understanding each other is the basic to the group survival. Some of the practices need to be followed by the SHGs are presented below.

Best practices for SHGs

- ◆ Continuous savings
- ◆ Opening of savings account
- ◆ Internal rotation of savings.
- ◆ Conduct of meetings with specific agenda.
- ◆ Thrift and credit operations taking place in the group meeting
- ◆ Deciding on how to use the loan and setting its own terms and conditions.
- ◆ Rotation of leaders
- ◆ Financial discipline, accounting.
- ◆ Non-exploitation of members needs.
- ◆ One for all and all for one.
- ◆ Transparent and democratic decision making.
- ◆ Urge for increase of corpus.
- ◆ Determination for economic and social development
- ◆ Regular meetings.

Conclusions

The experiences around the world reveal that microfinance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change. By providing access to financial services, microfinance plays an important role in the fight against the many aspects of poverty. In this provision of financial service, SHGs play a prominent role in India. Looking at the potential of micro finance strategy making an impact on the economic conditions of poor, the management of SHGs is very crucial. Particularly for a developing nation like India this assumes further significance.

In spite of Group Lending the total loan size is small with high operating cost. Lack of entrepreneurial skills, marketing facilities and difficulty in implementation of technology in rural areas bring serious questions of SHG's viability. Also the inefficiency of group leaders, faulty accounting practices, misappropriation of funds by members etc. pose certain operational challenges to micro financing. Among other fundamental challenges the non-generation of income due to the dominance of petty trading and agriculture & allied activities in small proportions, high rate of interest charged to the members, and lack of scope for employment of funds in productive uses are notable. The dependence on subsidised credit mainly delivered through the SGSY scheme of the govt. is another factor critical in the long term functioning of the SHGs.

Viability and self-sufficiency of SHGs are fundamental to reach a larger number of the poor which in turn are essential to have a significant impact on poverty reduction. Groups need to be properly guided at the formation, formal linkage, and subsequent stage of getting the project loan from banks. Formation of groups in lure of subsidies is another phenomenon need to be curbed at the initial stage. As many of the groups are not been able to upgrade themselves in requisite time frame preventive action at the formation stage by selecting right leader and members for the group is very essential. Govt. agencies, NGOs and bankers need to be worked in a cohesive manner to see that the finance provided has not gone astray. Considering the educational and economic profile of the group members constant monitoring by these mentors is highly essential. Proper training on housekeeping, account maintenance and marketing support are the three most essential ingredients of the management support for the SHGs.

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