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Micro-Financing Rural Women Through Self-Help Groups: A Study on Income Generation and Decision-Making Skills

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Abstract:- ***In most developing countries, the policies concerning rural credit were, by and large, based on certain assumptions, some of which were: commercial banks were reluctant to provide for the credit needs of the rural poor for reasons that were neither commercial nor economic; the rural poor did not have any capacity to save; they needed credit on concessionary rates of interest and relaxed terms for taking up income generating activities, more so for development works on their farms; the rural people needed external assistance for organizing themselves into groups and later close watch and regulatory measures to ensure that they work together; many of the target group borrowers would graduate after some doses of concessional credit and would start taking credit on normal terms and that informal finance did a positive developmental role and it was an evil that should be eliminated.***

I. INTRODUCTION

In most developing countries, the policies concerning rural credit were, by and large, based on certain assumptions, some of which were: commercial banks were reluctant to provide for the credit needs of the rural poor for reasons that were neither commercial nor economic; the rural poor did not have any capacity to save; they needed credit on concessionary rates of interest and relaxed terms for taking up income generating activities, more so for development works on their farms; the rural people needed external assistance for organizing themselves into groups and later close watch and regulatory measures to ensure that they work together; many of the target group borrowers would graduate after some doses of concessional credit and would start taking credit on normal terms and that informal finance did a positive developmental role and it was an evil that should be eliminated.

Based on these assumptions, the policy framework which developed included setting up of credit oriented development banks and special credit programmes; generous credit guarantee schemes to induce banks to enlarge their lending operations; fixation of sectoral targets for credit dispensation; loans to rural borrowers on subsidized interest rates, easy loan terms including very low or nil down payment, long loan maturities and long grace periods, relegation of savings as a source of funds and reliance of the rural credit system on concessionary refinance from financial institutions and international donors.

Resulting consequences of the policy framework did not contribute to self-sustained growth of the rural credit system and it also did not adequately serve the rural poor. It is well known that a part of the subsidies and concessions involved in rural credit were captured by people who were not poor and substantial number of very poor could not be reached under this dispensation. Further, the rural credit delivery system in most of the developing countries was weakened by poor credit discipline among the borrowers resulting in low recovery of dues. High operating (intermediation) costs, burden of subsidized interest rates, non-viability of operations and heavy dependence on concessionary outside funding or refinance support were some of the other constraints in the development of self-sustaining systems. Many credit programmes started with support from the State or a donor agency operated as per their dictates and was neglected due to poor results.

II. CONCEPT AND FEATURES OF MICRO FINANCE

Microfinance refers to small scale financial services for both credit and deposit purposes. ADB (2000, cited by Satish, P, 2005) ‘defines microfinance as the provision of broad range of services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro enterprises.’ The task force for NABARD (2003) sums up microfinance as "Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standards". There is, however, no statutory definition of micro finance.

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The taskforce on supportive policy and Regulatory Framework for Microfinance has defined microfinance as "Provision of prudence, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards".

The term "Micro" literally means "small". But the task force has not defined any amount. However as per Micro Credit Special Cell of the Reserve Bank Of India , the borrowed amounts up to the limit of Rs.25000/- could be considered as micro credit products and this amount could be gradually increased up to Rs.40000/- over a period of time which roughly equals to $500 – a standard for South Asia as per international perceptions.

The term micro finance, sometimes is used interchangeably with the term micro credit. However, while micro credit refers to purveyance of loans in small quantities, the term microfinance has a broader meaning covering in its ambit other financial services like saving, insurance etc. as well.

The mantra "Microfinance" is banking through groups. The essential features of the approach are to provide financial services through the groups of individuals, formed either in joint liability or co-obligation mode. The other dimensions of the microfinance approach are:

- Savings/Thrift precedes credit
- Credit is linked with savings/thrift
- Absence of subsidies
- -Group plays an important role in credit appraisal, monitoring and recovery.

Basically, groups can be of two types:

- Self Help Groups (SHGs) : The group in this case does financial intermediation on behalf of the formal institution. This is the predominant model followed in India.
- Grameen Groups: In this model, financial assistance is provided to the individual in a group by the formal institution on the strength of group's assurance. In other words, individual loans are provided on the strength of joint liability/co obligation. This microfinance model was initiated by Bangladesh Grameen Bank and is being used by some of the Micro Finance Institutions (MFIs) in our country.

III. MEANING OF STREE SHAKTI SANGHA [SSGS]

This close-knit community of low-income rural dwellers has a maximum population of twenty. Such communities embody and encourage a truly democratic culture in which all residents have a say in policymaking. The group accepts impulsive new members and holds regular meetings to promote saving and frugality (where "savings" refers to the accumulation of excess money and "thrift" refers to the creation of savings by deferring virtually necessary consumption). All participants make regular contributions to a common savings account called the "Group Common Fund (GCF)." In addition to member contributions, non-governmental organizations (NGOs), the SHG promoter, the government for various programs, and member penalties also contribute to the aggregate fund.

1) Stree Shakti Groups have the following key features:

• Open and voluntary membership.
• Democratic form of administration.
• Savings first, credit later slogan.
• Consistent meetings and participatory decision-making.
• Full autonomy and independence in operation • Nonpolitical.
• Rotation of group leadership among all members.
• Joint accountability for loans borrowed from a financial institution.• Each for all and for each philosophy.
• Education, training, and skill upgrade.

2) Linking SHGs with Banks and Need for linkage:

The SHG-Banking pioneered and promoted by NABARD has emerged as a primary microfinance service mechanism for the un banked poor in India. The multiple initiatives led by capacity building have made tremendous inroads into the conventional banker's mindset.

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They now view SHG-Banking as a new dimension of quality portfolio with very low risks and with marginal increase in operating costs. The dimension and flexibility in SHG-banking now practiced in India is unmatched in world's banking system. Being predominantly women focused, SHG-Banking is the first step towards feminization of the (micro) banking portfolio of Indian banks. Stimulating self-help capacity of the poor does spark off the entrepreneurial enthusiasm, risk mitigation mechanisms in low-income households; it also serves as an entry-road to overcome poverty and addressing other crucial social concerns. The linkages of SHGs with banks aims at using the intermediation of SHGs between banks and the rural poor for cutting down the transaction costs for both banks and their rural clients. The objective of the linkage programme could be:

A). to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal financial institutions.

b). to build mutual trust and confidence between bankers and the rural poor.

c). to encourage banking activity, both on the thrift and credit sides, in a segment of the population that formal financial institutions usually find difficult to reach.

3) Models of the linkage between SHG and Banks:

MODEL 1: The simplest and most direct is a model in which the banks deal directly with the individual SHGs, providing financial assistance for on-lending to the individual members.

MODEL 2: Another model, a slight variant of the first, is where the bank gives direct assistance to the SHG and the SHG promoting institution (SHGI), usually an NGO, provides training and guidance to the SHG and generally keeps a watch to ensure its satisfactory functioning.

MODEL 3: The third model places the NGO or SHGI as a financial intermediary between the bank and a number of SHGs. The linkage between the bank and the SHGs in this case is indirect. The NGO accepts contractual responsibility for repayment to the bank.

MODEL 4: The fourth model envisages bank loans directly to individual members of SHGs upon recommendations of the SHG and NGO. In this case, the NGO assists the bank in monitoring, supervising and recovery of loans.

It is possible that the linkage may follow an evolutionary process and move from model three to model two and to model one and finally to model four where individuals get direct access to the bank. However, the adoption or acceptance of a particular model would depend on the perception of the bank and the strength of the SHGs and the NGO. Where the banker is able to have first hand information on the working of a SHG which is functioning satisfactorily and has rotated its pooled resources two/three times, he may well start with model two or even model one. However, a more conservative banker may like to start with model three and rely on the NGO or SHG.

4) Scenario of Micro Finance in India:

In 2025, the microfinance sector in India will undergo significant transformation due to a growing regulatory framework, digitization, and a renewed policy focus on inclusive growth, with the goal of providing credit and financial services to underserved and economically vulnerable populations in rural and semi-urban areas. • The Indian microfinance sector consists of NBFC-MFIs, banks, Small Finance Banks, and non-profit institutions supported by self-regulatory organizations such as MFIN and Sa-Dhan • As of March 31, 2025, India's microfinance sector served over 8 crore clients throughout 28 states, 8 Union Territories (UTs), and 723 districts, with a loan portfolio of ₹3.81 lakh crore. • NBFC-MFIs have the highest stake, followed by banks and SFBs, owing to strong demand, digital enablement, and regulatory certainty.

As of March 2025, the sector's gross loan portfolio (GLP) was ₹381,200 crore, with almost 14 crore active loans. In December 2024, the outstanding portfolio totaled ₹348,015 crore, with NBFC-MFIs accounting for the majority. The Indian microfinance market is expected to reach Rs 6,68,000 crore by 2033, representing a compound annual growth rate (CAGR) of approximately 7.3%. The demand for microloans among low-income and marginalized groups, government attempts to promote financial inclusion, and the sector's social impact, particularly in empowering women through Self-Help Groups, are driving its expansion. Gross non-performing assets (NPAs) have risen to 16% as of March 2025, from 8.8% a year ago, with defaults increasing across MFIs, small financing banks, and even established banks.

5) Significance of Bank Linkage and SHG:

Decision making: Members make decisions collectively. SHG concept offers opportunity for participative decision making on conduct of meetings, thrift and credit decisions. The participative process makes the group a responsible borrower.

Financial services: SHGs provide the needed financial services to the members at their doorstep. The rural poor needs different types of financial services, viz. Savings, consumption credit, production credit, insurance, remittance facilities etc. The platform of SHG provides the possibility to converge these services.

- **S**upplementary to formal banking: SHG linkage does not supplant the existing banking system, but it supplements it thus taking full advantage of the resources and other advantages of the banking system.
- Cutting costs: SHG linkage cuts costs for both banks and borrowers. In a study sponsored by FDC, Australia, it was observed that the reduction in costs for the bankers is around 40 % as compared to IRDP loans. The poor have a net advantage of 85 % as compared to individual borrowing. Similar finding was also observed in a NABARD study
- NPA Savvy: The Linkage mechanism has proved that the repayments are as high as 95% - 100 %.
- Peer pressure as collateral: The SHG linkage emphasizes peer pressure within the group as collateral substitute.
- Quality clients : The SHGs are turning out to be quality clients in view of better credit management, mobilization of thrift, low transaction costs and near full repayments.
- Client preparation: The members of the SHGs could over a period of time, very selectively graduate to the stage of micro entrepreneurship and have been prepared with requisite credit discipline.
- Social agenda: Available statistics indicate dependency of 35%-40% of rural households on non-institutional sources for credit needs. SHG Linkage offers a better way of dealing with the magnitude of social agenda. Many NGOs/ Governments have recognized the SHG as a vehicle for carrying and deepening of their developmental agenda/ delivery of services.
- Exclusive poor focus: SHGs have exclusive focus on absolute have-nots, who have been bypassed by the banking system. Social banking does not have any meaning if the lowest strata and the enriched are not focused.
- No-subsidy- dependence syndrome: The program does not envisage any subsidy support from the government in the matter of credit. The issue is to build capabilities and enterprise of the individual members, blending with group cohesion and solidarity through training provided by a SHPI to set the ball rolling for the SHG.

6) Procedure for extending bank finance:

Bank may lend directly to SHGs or through bulk lending to NGOs for on lending to groups. If lending is directly from bank to the group, the quantum of credit given to the groups should be in proportion to the savings mobilized by the group. Savings credit ratio may be 1:1 or 1:2 initially which can be raised to 1:4 depending on the confidence gained by the bank.

7) The history of SHGs in Karnataka:

Karnataka does not figure on the top of the tables published by financial institutions that show the number of self-help groups formed in each state. This is mainly because the tables capture data after 1991-92 when the National Bank for Agriculture and Rural Development (NABARD) launched the SHG-Bank Linkage Programme. However, between 1984 and 1985, MYRADA, a non-governmental organization engaged in rural development and based in Karnataka, promoted several co-operative societies that were enabled to give loans to their members. Subsequently, the large co-operatives broke up into small groups, which were the genesis of the first SHGs, referred to at that time as Credit Management Groups, with a focus on the management of credit. The concept of each member making a saving in the group soon followed, as also the establishment of a system of regular meetings, book keeping and records, and collective decision-making.

IV. PROGRESS OF STREE SHAKTI PROGRAMME IN KARNATAKA

The '*Stree Shakti*' programme started, with an outlay of Rs. 72 crore, in 2000 to empower rural women has made progress in resource mobilization in spite of the adverse implications of the second successive drought year. The number of self-help groups has declined marginally to 74384 by December 2002 for a variety of reasons, the major being drought and consequent migration in search of opportunities. The total rural women's enrolment also declined marginally to 10.89 lakh.

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Some notable features of the Stree Shakti program progress in Karnataka are as follows:

1) The awareness and enrolment of different social groups deserves special mention. Of the 10.89 lakh women enrolment, 21.15 per cent belonged to the Scheduled Castes, 8.31 per cent to Scheduled Tribes, 6.54 per cent to minorities and 64 per cent to other categories.

2) Total savings generated by these groups have increased to Rs.110.47 crore, which has been instrumental in promoting income generating activities among rural women.

3) Self-help groups were able to disburse loans to the extent of Rs. 132.02 crore, of which about Rs.71.06 crore has been repaid.

4) In addition the '*Stree Shakti'* groups have also taken advantage of loans from commercial banks, which amounted to Rs. 22.97 core (with a repayment of Rs. 10.27 crore).

5) The State has played an important role in sustaining the enterprise of the *Stree Shakti* by releasing a revolving fund amounting to Rs. 13.91 crore by December 2022.

6) The programme has taken special interest in the vulnerable sections by initiating the '*New Swarnima yojane*', under which the National Backward Class Corporation can provide direct loan assistance to Self-Help Groups dominated by women from backward class. So far 6415 groups have benefited by loans to the extent of Rs. 8.89 crore.

7) The programme has imparted training to women members on gender, communication skills, leadership qualities, monitoring & evaluation, and maintenance of records. In the very first round, about 11 lakh women have benefited from such training.

8) There is a proposal to train women members in income generating activities. The Department of Animal Husbandry has helped 870 groups to raise Giriraja poultry birds. The groups have taken up marketing for the products of Hindustan Lever Limited. The Rajeev Gandhi Housing Society will train the women members in preparing the raw materials like bricks required for the houses for the AshrayaScheme.

The basic strategy adopted in stree shakti programme for the empowerment of rural women comprises the following activities:
This programme is for deprived section of women in the rural area.
These groups are from through anganwadi workers in rural areas with about 15 to 20 women in each group.
The venue for this SHG is the local aganwadi.
They pool their amount collected every week from their earnings.
The money collected form these activities is then lent out to any needy member of the group as loan.
Regular interactions, exchanges and exposures provide an opportunity to express their ideas, provide collective learning's build confidence and a positive self image.

Progress of Stree Shakti Programme in Uttara Kannada Dist of Karnataka:
As on 30th September 2018 there were 1352 stree shakti groups in uttara kannada district of Karnataka state involving a total of 17,80,000 laksh women. The total savings of these groups stands at Rs 444.91 crores. About 1,20,000 SHGs have availed bank loans. The loans total to the tune of Rs 496.13 crores.
To encourage the stree shakti groups and to make them effective, these groups are given opportunities to make use of the developments. They include :-
Literacy programme for illiterate members in these groups are made available through the Directorate of Mass Education, Government of Karnataka.Opportunity for higher education is provided through Indira Gandhi National Open University.Departments like agriculture, horticulture, industry and rural development have given technical support in activities helpful for women.Silk board has been organizing training programmes for women groups about sericulture, producing silk yarn using motorized spinning wells, etc.
The women and child welfare department is getting assistance to these groups through the SC and ST development corporation to SC and ST women in these groups.The departments like animal husbandry, sheep development corporation and Khandi and village industries commission have also given technical support to these groups.District level stree shakti co-ordination committees are set up under the chairmanship of the district collector. The committee meets on a regular basis and reviews the progress achieved by these groups in terms of savings, internal lending and credit linkages with banks.
Besides government departments, banks are coming forward to make stree shakti groups as their target clients. Attempts are also made to co-ordinate the activities of SHGs with the government self employment scheme – "Swarna Jayanthi Gram Swarozgar Yojna".

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In Uttara Kannada District of Karnataka small groups of women are coming together not just to become financially and economically independent but also to fight against local problems by forcing the mandal panchayat authorities for asphalted road, banning of liquor, starting of schools, providing drinking water in some villages of Bhatkal, Kumta, Ankola and Karwar taluks. As a result of group activities the women were able to protect them selves from all type of exploitation.

Table-1
Stree Shakti- Progress as on 30th September 2008

Taluk	Stree Shakti Groups	Amount Collected by SHGs (in lakhs)	Amount lent among SHGs (in lakhs)
Ankola	111	35.49	90.85
Bhatkal	149	48.04	258.08
Haliyal	110	24.21	36.49
Honnavar	154	24.08	117.46
Karwar	113	21.48	44.48
Kumta	147	39.90	139.37
Mundgod	95	29.30	94.76
Siddapur	108	21.31	77.01
Sirsi	169	32.86	125.66
Supa	110	65.42	33.28
Yellapur	80	13.70	40.35
Total	*1352*	*355.79*	*1057.79*

Source: Deputy Director, Women and Child Welfare Dept. Karwar Uttara Kannada

Table -2
Statement Showing Number of SHGs, Bank Loan, and Savings accumulated under Stree Shakti Programme

01	No. of Self Help Groups	1,20,000
02	Total Number of Women members	17.80 Lakhs
03	Savings Accumulated	Rs 444.91 crores
04	Number of groups availed loan from banks.	90182
05	Total amount of loan availed from banks	Rs 496.13 Crores

Source: Deputy Director, Women and Child Welfare Dept. Karwar Uttara Kannada

V. CONCLUSION

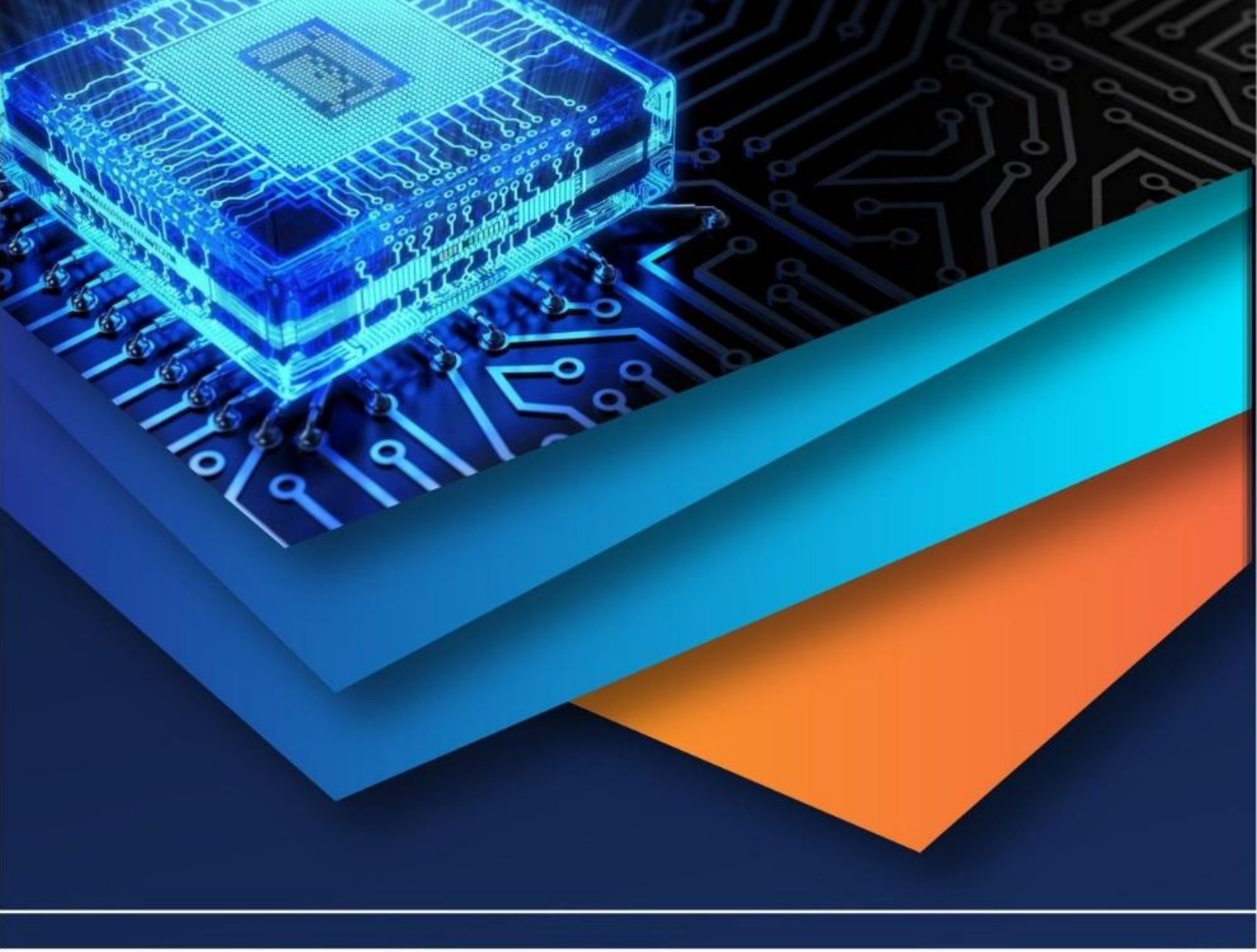
Micro finance, in reality plays a more powerful economic, social and political role. Apart from its availability, credit should be available to poor at lower rate of interest. At present SHGs are lending to members at the rate between 12 to 22 percentages. How do the poor pay such a high interest rate? There for the rate of interest should not be more than 5 to 8 percentage. Stree shakti programme is basically a graduation process for socio-economic empowerment of the poor, providing financial services to them and preparing them to take up activities and bulk credit for poverty alleviation. Some sections of the society find it difficult to participate in stree shakti programme. Care should be taken to make them participate in the programme.There is need for conducting the necessary research to find out how many years are required to come out of the poverty, how many are benefited to know the health, consciousness of the women before and after participation of the stree shakti programme etc.

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