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Assessing the Sustainability of Self-Help Groups in India: An Interstate Analysis

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Abstract: Self Help Groups (SHGs) have aspired to resolve the vexing issue of financial diversity by augmenting self-reliance amongst the unemployed and poverty-stricken masses of developing and underdeveloped nations. However, the sustainability of SHGs is essential since many SHGs cannot manage to function in the long term. Therefore, the main aim of the present study is to assess the sustainability of SHGs in the context of financial inclusion across Indian states using panel regression. Findings demonstrate that the number of SHGs has risen due to the increased credit disbursement along with the accessibility to various financial services. Additionally, it is unusual to find that the training given to SHG leaders/members does not have an impact on the sustainability of SHGs. Implications through this study highlight a need to increase financial inclusion, and technical literacy amongst the SHGs to sustain and scale their ventures in the global world.

1. Introduction

Financial Inclusion is one of the major concerns of the Indian economy and the policymakers as India suffers a big disparity of income among its masses. In India, 22 % of the population or 270 million people lives below the poverty line (World Bank, 2016). Since financial inclusion facilitates the empowerment of underprivileged masses and endows them with correct financial decisions (Natrajan and Sulaiman 2021), it is high time to realize the importance of making these underprivileged masses financially independent by becoming self-reliant and realizing their own potential to produce and earn. The main pursuit of Self-Help Groups (SHGs) is to provide microfinance and micro-enterprise development for these unprivileged people in urban and rural areas. SHGs help the masses to think and evolve in order to adapt and take advantage of the changed global economic scenario. This has resulted in reducing financial diversity prevalent in the country but more than that it has provided economic and financial security and stability to the masses living below the poverty line specifically in rural areas. It mainly focuses on providing microfinance assistance through various schemes and increasing the banking network. Microfinance has been tipped as a powerful tool to promote inclusive economic growth by financing and fostering development and bringing about positive socio-economic changes (Batra, 2018; Nayak *et al.*, 2023).

SHGs are of vital importance for numerous reasons but the most important being their ability to penetrate at the deepest levels amongst the masses in the rural areas. Its guarded and vigilant approach towards the credit requirements of these illiterate and poor masses, enabled them to win their trust, unlike big financial institutions. SHGs provide collateral-free credit assistance with low returns. Hence it is apt to say that SHG microfinance initiatives are effervescent for the poor and specifically for the rural population of India. Focus on the welfare, well-being, and financial upliftment of females has also been one of the major objectives and functions of the SHGs. It acts as an intermediary between various government and non-government agencies and is not limited to financial inclusion but also equally effective for socio-economic issues like women empowerment, literacy, alleviation of poverty, effective application of governmental schemes, healthcare, etc.

However, there exist regional disparities in credit availability to SHGs and also a widening gap between loans disbursed to SHGs and savings of SHGs. As indicated by Sinha and Navin (2021), the funding requirements of SHGs are far greater than their accumulated savings along with severe regional variations. This draws attention to an important question of the sustainability of SHGs, which has seldom been studied in the extant literature. The sustainability of SHGs is essential since many SHGs cannot manage to function in the long term. Also, as pointed out by Kasi (2022), it is seen that SHGs do face challenges in the sustainability of the programs due to a lack of community participation, financial dependence, and social inequality. Further, Karmakar (2008) in his study raised a few concerns regarding the sustainability of SHGs and the culmination of SHGs from micro-units to micro-enterprises.

Hitherto, to best of the knowledge, the sustainability of SHGs at the state level has not been undertaken. Given the above setting, the intent of the study is twofold: firstly, to examine the regional trends in the number of SHGs in India. Second, to analyse the sustainability of SHGs in the context of financial inclusion across Indian states.

The present study is structured as: Section 2 presents an overview of SHGs and trends in the number of SHGs; Section 3 summarizes different strands of literature; Section 4 outlines the methodology of panel regression; Section 5 deliberates econometric results and Section 6 emphasizes conclusion and policy implications.

2. Self-Help Groups in India

According to the National Bank for Agricultural and Rural Development (NABARD), the SHG is regarded as one of the most impactful and accepted models amongst the underprivileged masses of the country. SHGs have aimed to increase financial inclusion by adopting significant approaches to financial intermediation. Further, they aim at availing cheap financial services to the marginalized masses with a process of self-management and development of SHG members. SHGs are clusters formulated with the intention of providing economic and social upliftment and assistance to the poor people residing in rural areas. The main goal of SHGs is to provide help on the economic and social front to the underprivileged section of the country. SHGs avail the dual benefit of access to low-cost financial services as well as an opportunity for self-development for the joining members.

In India, NABARD, in consultation with the Reserve Bank of India (RBI), Commercial Banks and Non-Governmental Organizations (NGOs), launched a pilot project in 1991–92 for linking of SHGs with banks. Thus, the microfinance activity is the result of NABARD'S work that started in February 1992 through an initial pilot project promoting 500 SHGs. In 1992, NABARD's SHGs Bank linkage project (SHG-BLP) outreached to the extent that it became the world's largest microfinance initiative. RBI had advised Commercial Banks in July 1991 to extend finance to SHGs as per NABARD guidelines. Subsequently, the linkage project was extended to RRBs and Cooperatives. It is observed that since 2000, the number of SHGs are increasing faster (figure 1). According to the Economic Survey 2022-23, the number of SHG-BLP in the last decade grew at a rate of 10.8 percent annually, whereas, the credit disbursement per SHG has increased at a rate of 5.7 percent during the same period.

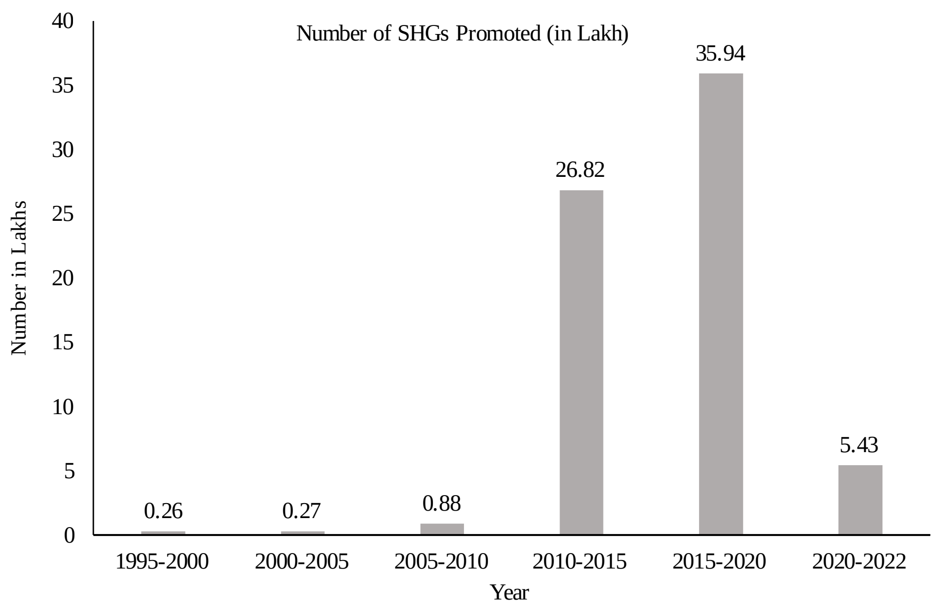

Figure 1: Trends in Number of SHGs in India

Source: Ministry of Rural Development, Government of India

The efforts of SHGs are guided towards promoting village, cottage, and small-scale industries largely to generate and enhance their production capacity by providing them microfinance assistance, educating them about new technology, new avenues, and new platforms where they can access big markets for their product. These loans are collateral-free and are extended with the sole purpose of generating the functional capacity of the poor people living in rural areas. This endeavor not only aims at financial inclusion on a large scale but also empowers the poor masses with higher incomes, higher standards of living, better education, empowering the weaker section of the society, and alleviation of poverty.

The Government of India provides stimulus to the SHGs on a continuous basis by facilitating SHG federation like Village Organisations (VO) and Cluster Level Federations (CLFs) which provides basic assistance. Credit facilitation being a primary intent of SHGs, they have been provided Community Investment Support Fund (CISF) and Revolving Fund (RF) to help them attain more credits from banks. In order to upskill, the members of SHG are regularly provided with different trainings for SHG management, introducing new technologies related to livelihood and financial literacy. According to the Ministry of Rural Development, an RF of 10,000-15000 per SHG, is provided by the National Rural Livelihood Mission (NRLM). Also, a fund of Rs. 2,50,000 has been provided per SHG by the CISF. These funds assist the members in attaining socio-economic activities according to their micro-credit investment plans, and the funds stay perpetually with the SHGs and their federations (Ministry of Rural Development, 2022).

3. Literature Review

The extant literature on SHGs comprises different facets of the growth of SHGs. Few studies assessed the general impact of SHG-BLP, whereas other studies concentrated on the impact of SHGs and women's empowerment. Yet another group of researchers analyzed the importance of microfinance and SHGs in overcoming the problem of financial diversity.

Sustainability can be attained as long as enterprises are owned and managed by the owners. The owners are trained and work with the endeavour to scale up the businesses and are aware of the requisites for the same. They will need to learn the importance of new technology, establish partnerships, understand global conditions and market requirements, become versatile with the range of products and services available, and explore new markets. Attaining scalability will ensure sustainability in the long run for the owners. Therefore, the SHGs train and work in accordance with the owners of these micro units, catering to the larger perspectives and demands for scaling their business in the future. SHGs are observed as a provider of strong sustainable initiatives in the places where local self-government and the local community are proactive in participating specifically for the marginalized rural people.

However, in the study conducted by Ghosh *et al.* (2023), the factors affecting the sustainability of SHGs were studied in natural disaster-affected communities and it was concluded that the SHGs, government, and the policymakers must focus on creating ease in attaining financing, building faith in the masses in the system and a better management of SHGs is needed to make the programs more effective and finally attain the objective in real terms.

Aggarwal *et al.* (2021) in their study highlighted the potential advantages SHGs have in empowering, encouraging, and motivating poor women in rural areas such that they were able to transcend the social barriers that impacted their freedom and liberty. With the measures taken by the SHGs over the years, it is observed that women have become more independent financially and hence stronger socially, yet there is further scope. Joshi (2019) did an analysis of women's self-help groups' involvement in microfinance programs in India and found that besides other factors age, family type, education, and distance from the market have a major impact on the participation of women in SHGs. Needless to say, women's empowerment is significantly more after the introduction of SHGs.

In relevance to the above, Verma *et al.* (2023) studied the impact of Self-Help groups on women empowerment in India and found out that SHGs profoundly impact the empowerment of women financially, politically, and socially. The study inferred that a lot has developed for women in all spheres, still, a lot remains to be addressed, monitored and major attention is required to make them technically literate, financially mindful, and aware of their social status and health. Nicholas (2021) in his study indicated, that SHGs have performed effectively by providing an equitable platform for availing livelihood and creating social and health awareness for the benefit of the deprived masses. SHGs function as a tribune towards creating health awareness which to a great extent depends on the participation, and attendance norms of SHGs and related to socio-economic conditions and social capital. Social capital holds great importance for SHGs and the organizations implementing it.

The importance of microfinance assistance in modern times, through SHGs has been acclaimed internationally specifically in knocking off the challenges presented by unemployment and poverty with a special relevance to the women. It is well understood by all that way to the economic development of a nation is possible only by reducing poverty, giving financial independence, and eradicating unemployment. (Lavoori and Paramanik, 2014). "Microfinance programs need to examine their inclusion and retention strategies in favour of the poorest household using multidimensional indicators that can capture poverty in its myriad forms" (Ahmad, 2020). The initiatives taken by SHGs to avail microfinance to the unbanked women of rural areas have brought them under the wings of the Self-Help Group-Bank Linkage Programme (SHG-BLP) and made credit accessible for them. In addition to this, these initiatives also helped in reducing the gender gap in accessing financial and banking services for women (Khemnar, 2019).

For a developing country like India which is predominantly agricultural, where a large part of the population lives in rural areas, financial inclusion acts as a catalyst to transform rural India (Sibi and Ananth 2017). Although continuous efforts are made by SHGs for the financial inclusion of the rural masses, it is one of the imperative aspects that needs to be evaluated (Kumar and Golait, 2009). The COVID-19 pandemic has been an eye opener as post-pandemic the issue of self-reliance has become a dire need for the masses, especially in rural areas. In one of the studies, it was revealed that social and personal deprivation and lack of accessibility contribute to financial exclusion and should be viewed as key barriers to financial inclusion (Cnaan, 2012). Another study by Bammi (2014) mentioned that the bank linkage program seems to provide various positive impacts on the lives of the rural section in the form of additional savings, and improved status in households and communities. The point worth mentioning here is that in a developing country like India, it is more relevant to overcome infrastructural challenges in order to attain inclusive economic growth. Also, knowledge and more focus on the existing financial processes and means is of great importance. This can be achieved by increased financial literacy and financial counselling. Different financial institutions need to mobilize resources and divert them towards the vulnerable section of society. It is necessary to develop a strong information and communication technology base in urban and rural areas to promote inclusive economic structure and growth in the future (Mukherjee *et al.*, 2019).

4. Research Methodology

As indicated by Bammi (2014), it is imperative to evaluate the sustainability of SHGs while examining the effect of SHG-BPL. As suggested by Dave and Seibel (2002), savings is the most important sustainability measurement indicator for SHGs since financial resources raised through savings and retained earnings are central to self-reliance and sustainability. Further as pointed out by Bhatia (2007), among the issues in the sustainability of SHGs is the easy access to bank loans or bank credit to SHGs. Over a period of time, SHGs are expected to avail and consume a high amount of credit in order to attain scalability. Additionally, as proposed by Parida and Sinha (2010), loan repayment is an important element of the sustainability of SHGs.

4.1. Data

In order to examine and understand the sustainability of SHGs in the context of their financial inclusion, the present study investigates the annual data of 27 states for the period from 2015-16 to 2021-22 for empirical analysis. Table 1 represents an overview of variables utilised along with their detailed explanation and source. All variables are transformed by their logarithm.

Table 1: Variables and Sources

Variables	*Description*	*Sources*
Total Self-Help Groups (SHGs)	Total number of SHGs bank-linked savings (Commercial and RRBs)	NABARD - Status of Microfinance in India of various years
Loans disbursed (LD)	Loans disbursed to the total number of SHGs (by Commercial and RRBs)	
Loan Outstanding (LO)	Total bank loan outstanding against SHGs (Commercial and RRBs)	
Training and capacity building (TC)	Training and capacity building given to SHG leaders/members	
Bank Branches (BB)	Total bank branches (commercial and RRBs)	Reserve Bank of India
Control Variable		
Total Deposits (TD)	Deposits-No of accounts (in thousands)	Reserve Bank of India

Source: Authors' compilation

4.2. Methodology

To examine the sustainability of SHGs in the states, the following simple model has been employed:

$$SHGs = f\ (BB, LD, LO, TC, TD)$$

For empirical analysis, a panel regression which enables the analysis of cross-sectional and time series data has been used. The reason to use panel regression is that this method accounts for individual heterogeneity and also allows controlling variables since each firm has its own individual characteristics that may or may not influence the explanatory variables. The panel or cross-sectional time series data can be estimated either with fixed effect or with random effect models. In order to identify whether the fixed effect or random effect estimates are appropriate, the Lagrange Multiplier Test and the Hausman Test were applied. Specifically, the panel regression fixed effect and random effect models are given as follows in respective order:

$$SHG_{it} = \beta_1 BB_{it} + \beta_2 LD_{it} + \beta_3 LO_{it} + \beta_3 TC_{it} + \beta_3 TD_{it} + \alpha_i + u_{it} \quad (1)$$

$$SHG_{it} = \beta_1 BB_{it} + \beta_2 LD_{it} + \beta_3 LO_{it} + \beta_3 TC_{it} + \beta_3 TD_{it} + \alpha_i + \varepsilon_{it} + \upsilon_{it} \quad (2)$$

The robustness of the panel estimate was checked using fully modified ordinary least squares (FMOLS) of Phillips and Hansen (1990). This method addresses the issues related to serial correlation and small sample bias. Last but not least, serial correlation test, heteroscedasticity test and normality test were also employed to ascertain the stability and efficiency of the estimates.

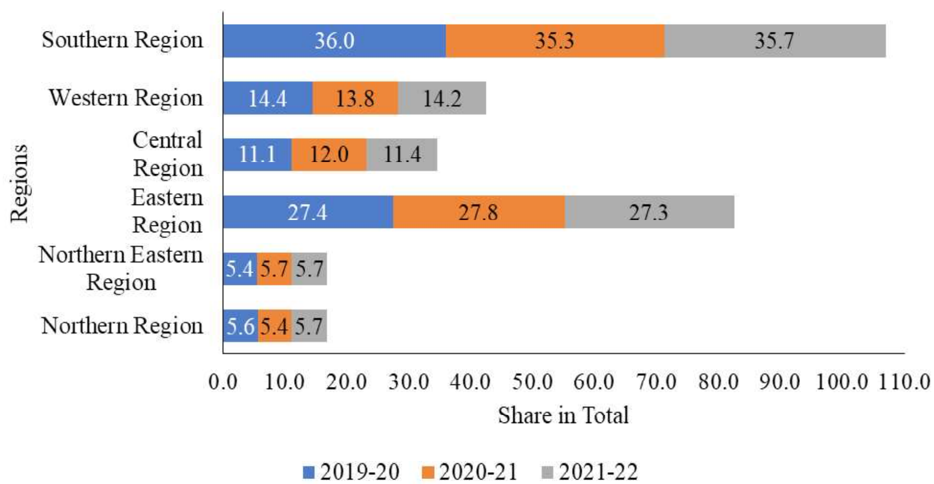

Figure 2: Region-wise Share in Number of Savings-linked SHGs

Source: National Bank for Agricultural and Rural Development, Status of Microfinance in India 2021-22

5. Results and Discussion

In absolute terms, positive acceleration was witnessed across all regions in the context of SHG savings linked with banks. However, as demonstrated in Figure 2, in terms of share in the total number of savings linked SHGs, the Southern region leads the surge with 36 percent of the rise accompanied by the Eastern region and the Western region with 27.4 percent and 11.4 percent rise respectively. Sharma (2021) in an attempt to study the loans disbursed points out severe disparities in loan disbursement among the regions. While the loan amount disbursed has increased since 2011-12, there was a big decrease in loan size in the central region whereby the southern region faired out well.

Next, to analyse the sustainability of SHGs in the context of financial inclusion across Indian states, equations (1) and (2) were employed. Table 2 displays the results of random effect panel regression estimates for the simple model as suggested by the Lagrange Multiplier and the Hausman tests.

Table 2: Regression Coefficients - Dependent Variables SHGs

Variables	*Random Effects*	*FMOLS*
	Coefficient	Coefficient
LD	0.28*	0.26*
LO	0.38*	0.37*
BB	0.08	0.52
TC	0.01	0.01
TD	0.05**	0.05
Constant	3.72	0.26***
Robustness test		
R-squared	0.41	0.98
F-statistic	185.36	-
Prob. (F-statistic)	0.00*	-
Durbin-Watson stat	1.64	-

Source: Authors' Calculation

Notes: Eviews 9 used for estimations t – statistics is displayed in parentheses

*significant at 1%, **significant at 5%, ***significant at 10%

The results of the study indicate that the loans disbursed to a number of SHGs and loans outstanding against the number of SHGs positively and significantly affect the number of SHGs linked with the bank saving program. This means that credit disbursement as well as the accessibility to various financial services and products lead to a rise in the number of SHGs. This implies that a good amount of assistance in the form of credit has been availed to SHGs under bank linked scheme. This assistance has played a major role in providing financial means to fund income-generating businesses, acquiring new skills, knowledge and technology, and creating opportunities to enhance the standard of living of the rural underprivileged people and uplift their financial status and means of livelihood. Besides, increased loan disbursement indicates SHGs were successful in creating a sense of unity and trust amongst the marginalised classes of the rural areas as their loans are collectively managed and processed by them. This has resulted in increased employment opportunities, reduced poverty, and augmenting community development overall. Further, this social cohesion also contributes in making it easier for the SHGs to administer them due to easy and better communication and collaboration with them.

An increase in loans outstanding against SHGs indicates that for SHGs the cost of the loan is low which means the SHG enterprises are encouraged to run their businesses and sustain in the long run.

On one hand, an increase in outstanding loans indicates increased outreach of SHGs amongst the underprivileged class of urban and rural areas. It simply indicates of enhancement in the trust of the masses in the assistance provided by SHGs in these areas. On the other hand, banks benefit from the increase in outstanding loans as they attain economies of scale and save a lot of administrative costs while catering to a larger audience. In other words, it becomes easier and more effective for the banks to streamline and monitor the disbursement processes and make it more cost-effective overall.

This is in line with the study by Bhanot (2016), and Sharma (2021) who concluded that the credit penetration with the support of SHGs has increased substantially which also infers that the SHG bank linkage program has been a game changer by providing financial services to the needy population and is successful at winning the trust of the poor masses and finally gaining momentum over the years. Further, the results also corroborate Sharma (2021) and Bhammi (2014) who infer that the growth rate shows a positive trend both for the number of SHGs as well as for the number of loans outstanding for the country although all the regions performed differently.

Further, the total number of bank deposits in a state has a positive impact on the number of SHGs. It has been observed that when people have bank deposit accounts, they are more inclined towards SHGs and the assistance provided. The reason being they are much aware of the banking procedures, facilities, products and assistance available for them. They place a greater trust in the banking system. Their banking habits aid them positively and they are much familiar and at ease with the digital and banking processes and systems to make use of them and benefit. Therefore, the banking habits of the masses positively impact the number of SHGs and beneficiaries in the region.

An increase in the number of branches has not contributed effectually towards the implementation of the schemes as expected. This shows that seldom, establishing branches in rural areas does not serve the intent till the staff is well trained, helpful and assists the uneducated poor masses with the procedures and formalities, wins their trust, and builds a long-term relationship with them. In spite of the fact that so many schemes and facilities are designed for the upliftment of these underprivileged rural masses, they do not avail benefit from them, merely due to the aforementioned reasons. As indicated by Sinha (2021) and Bhanot (2016), the branch network is quite uneven, and hence unequal penetration of branches leads to unequal growth of the number of SHGs. This is an indication that merely having more bank branches in rural areas would not serve the purpose unless the beneficiaries place their trust in the banking system as a whole. Unless they have banking habits it is difficult to bring them into the financial assistance umbrella of SHGs.

Surprisingly the training given to SHG members by NABARD does not have an impact on increasing the number of SHGs. The training needs to be more effective, rigorous, and evenly imparted in all the states. It has been observed that in a few states, the training imparted has delivered results whereas in the rest of the states either the training is not imparted or is imparted to very few, which amounts to not creating any impact. Besides, the quality of training matters the most since training will equip the masses with the knowledge to build a business. Regular follow-up and ongoing support of mentors after the training is also of utmost importance in the success of the training as well as the business. As emphasized by Reddy and Reddy (2012) in his study there is a dire need to enhance the quality of the SHG movement putting a bigger focus on enlarging the scope of its engagement in different aspects of the rural masses This study stresses the fact that the agenda for SHG should be redefined to include bigger dimension and engagement of the rural masses.

6. Conclusion and Recommendations

The present study attempts to understand the sustainability of SHGs across Indian states by empirically examining them in the context of financial inclusion. This study tries to investigate the factors affecting SHGs by using annual data of 27 states for the period from 2015-16 to 2021-22. To analyze this, the study uses the panel regression method along with the fully modified ordinary least square method. The results indicate that the number of SHGs linked to banks increases if more loans are disbursed to them. Also, the rise in loans outstanding against the number of SHGs indicates the sustainability of SHGs. Further, a rise in the total number of bank deposits in a state positively increases the number of SHGs-BLP. Contrarily, the number of bank branches in a state and the training imparted to SHG leaders or members does not have any impact on the rise in the number of SHG-BLP.

The SHGs will need to look beyond fulfilling the targets assigned to them. They must create an ongoing support system that highly focuses on regular mentoring and follow-up with the beneficiaries. This system should be well designed such that it can educate the masses and is capable of providing alternatives and suggestions by experts for addressing any constraints of resources or market dynamics. The policymakers need to look into the possibility of creating separate funds that could aim at developing the required infrastructure for building businesses and manufacturing units of SHGs. Also, more awareness should be brought amongst the masses regarding the usefulness of SHGs and the important role they play in community development at local, regional, and national levels.

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