

## OPINION

Relevant for: Government Policies & Welfare Schemes | Topic: Role of NGOs and SHGs in Development Process

As we approach M.K. Gandhi's 150th birth anniversary, it is perhaps fitting to revisit the Gandhian approach to rural development. In this context, an analysis of the idea of women self-help groups (SHGs) as a vehicle to transform the rural landscape would be timely. These SHGs can act as powerful institutions of participation and can contribute to India's growth trajectory.

SHGs are essentially diminutive and economically homogeneous groups of rural poor. More often than not, they consist of 10-15 members. They act as safety nets to achieve twin goals—economic security and social well-being. The underlying philosophy guiding a SHG is that members periodically save a small amount of money, unanimously agreeing to make a contribution to a common pool. United leadership coupled with an informal horizontal network helps to create social capital among the poor, especially among the women.

The central question therefore becomes: Why are SHGs relevant in the context of a forward looking and inclusive developmental agenda?

Women SHGs can be an avenue for achieving the goal of financial inclusion by making women's access to the banking system easier and hassle-free. This happens because SHGs filter out the potentially high-risk borrowers through local information. As a result, banks are more willing to lend as it minimizes their risk.

Once women entrepreneur-led SHGs are recognised by banks, they get access to all banking facilities such as overdraft, debit and credit cards. Most importantly, they help mobilize small-scale savings.

Besides, women are seen as better savers and this augments their repayment capacity in comparison to that of their male counterparts.

The creation of women SHGs helps finesse the widespread problem of adverse selection that plagues the Indian banking system.

Under normal circumstances, when a bank lends money to a potential borrower, creditworthiness is seen as an essential prerequisite. More often than not, banks do not have access to relevant local information regarding the creditworthiness of the borrower, which can either lead to denial of credit or increasing number of defaults and bad debts.

However, in the case of women SHGs, women entrepreneurs possess the required local information regarding potential members, which banks do not. As SHGs are based on the sound principle of joint liability, a woman entrepreneur would be pairing up with a creditworthy and low-risk partner. This also ensures the enforcement of credit discipline within the SHG.

The mechanism of credit works through what in economic theory is termed as 'asset creation'. The credit amount is generally used to create an asset that creates cash inflows, which are then used to pay off the loan.

The problem of a non-performing asset (NPA) arises in two cases. One, when there is no asset creation to begin with. Two, when there is asset creation, but the asset fails to generate enough cash flow because of various reasons.

This is where women SHGs can successfully tackle the NPA risk. As they are built on the concept of joint liability, there is common interest, which ensures the creation of an asset. As far as adequate cash flow generation from the underlying asset is concerned, again, as each and every member has joint and individual liability to pay off the loan, the problem of moral hazard (inability of the bank to observe the efforts of the debtor) is circumvented.

By bringing women into the financial net, SHGs act as potent agents of change that go a long way in empowering them and, consequently, their families as well. It is no secret that women suffer a vast range of socioeconomic disadvantages in India. This includes being denied basic rights that range from the freedom to engage in economic activities to the right to choose their calling in life. However, the access to credit through the SHG channel helps women to break through these barriers.

Financially empowered, they find themselves in a better position to assert themselves in family matters such as family planning, child education, financial investments and everything in between. They thus emerge from the ashes like the proverbial phoenix, assuming the role of a decision maker in the family.

On a field trip to Rae Bareilly, Uttar Pradesh, we found that women SHGs are gaining momentum. The change is palpable. Our interaction with members of women SHGs brought out several interesting revelations. Several dozen confident, independent women shared the stories about the working of their SHGs. They addressed a multitude of issues such as menstrual hygiene, sanitation, domestic violence and higher education.

SHGs are a realistic, viable and sustainable option for achieving rural development objectives. A greater push for the creation of more SHGs in rural India is needed. This will help reduce the dependence of women borrowers on informal sources of credit and help work towards their continual inclusion into the formal financial system.

Women SHGs can potentially be a potent means of breaking free from the vicious circle of poverty. How soon this opportunity can be leveraged on a wide scale is the question.

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