

THE ROLE OF SHGs AS MICRO-FINANCIAL INTERMEDIARIES : A STUDY IN SABARKANTHA DISTRICT OF GUJARAT

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ABSTRACT

The current strategy of linking informal groups with financial institutions (FIs) under the Self-Help Group (SHG)–Bank Linkage Programme (SBLP) is aimed at helping the poor in easily accessing financial services from the formal system. The linkage, made possible by the policy recognition given to informal SHGs, represents the institutional economics approach to finding a solution to the problem of market failure through adaptive institutions, formal and/or informal, to achieve efficient and possibly equitable outcomes. SHGs being informal are perceived theoretically as potential institutional arrangements that can help reduce the cost and risk associated with lending to the poor. The paper examines how the concept of SHG has been adopted under the linkage programme and in what ways SHGs are able to help the poor obtain access to savings and credit facilities from the formal institutions in a relatively backward district (Sabarkantha) of Gujarat State in western India. The paper reveals that the linkage programme has given a fillip to the formation of SHGs in the study district. The SHGs studied exhibit some of the features commonly associated with such groups with regard to their profile and functioning. About the role of SHGs as microfinancial intermediaries, the paper reveals a few potential strengths as well as some inherent constraints of SHGs. An adaptive behaviour of SHGs could be seen especially in tackling challenges relating to the monitoring and enforcement of loan transactions. Social backwardness of members, including poor development of skill and ability in self-managing group affairs, and the varied responses of FIs to the needs of SHGs are identified as major factors influencing the performance of SHGs. While increased investment by and coordinated efforts among the promoting agencies in SHG formation and development are advocated for improving the performance of SBLP, it is concluded that given the many limitations that exist currently, SBLP is able to serve as only a second-best solution to the problem of financial exclusion. The paper hence calls for other more effective strategies to supplement, or even supplant, the efforts of SBLP.

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