

Self Help Groups in the Developing Countries: A Sociological Perspective

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Abstract:

The financial institutions in the developing countries can not cater the needs of poor due to unfriendly mechanisms. Organizing poor into small thrift and created groups, popularly known as Self Help Groups (SHG) is thought as an alternative credit institution to combat the crisis of petty credit requirements. In fact this is the basic principle of SHG formation. The collective action represents the process of participation and interaction through which one simultaneously enhance the power of other and ones own power. Self-help groups are voluntary unions of peers, formed for mutual assistance in accomplishing a socio-economic and health-related purpose, the social comparison occurs between similar people or between people with similar problems, and self-help groups consist of just such people. In Europe, self-help groups developed out of dissatisfaction with a depersonalized social and health care system. They successfully complement existing social and health services but cannot be instrumentalized to improve socio-economic and health outcomes while reducing expenditure. In South Asia, with its hierarchical society, instrumental approaches towards self-help prevail in Non-governmental Organizations and government as well. The utility of this approach is limited as self help groups are unlikely to be sustainable and effective when steered from outside. Self-help groups emphasize face to face social interactions and the assumption of personal responsibility by members. They often provide material assistance, as well as emotional support; they are frequently "cause"-oriented, and promulgate an ideology or values through which members may attain an enhanced sense of personal identity".

Key Concepts: *Self Help Groups, Poverty, Micro Finance, Micro-Credit, Development*

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Introduction

More than 1.3 billion people live on less than \$ 1 per day, and more than 3 billion live on less than \$2 per day. Of the estimated 1.3 billion people living in poverty, more than 70 percent are female (Barry 1995, cited from UNDP 1995). From the beginning of the present decade in almost all countries of the world, the principle of liberalized economy has been introduced. Amongst the opposition parties there is a great deal of controversy about the consequences of such economic measures. But now even the bitterest critics of these measures have gradually accepted the realities and are trying to refashion their policies and approaches, consistent with the liberalized economic policy. The basic idea of a liberalized economy is open and free competition amongst the producers, whereby the consumers will get products at cheaper price and will get better services as well. In the western countries to a great extent, it has been possible to establish free and open competition, which has promoted a strong consumer movement and it has been able to restrain the ill-effects arising from the formation of syndicates, etc. However, in this situation, it is difficult to foresee a situation where such open competition will prevail because of manipulative practices of many industrialists. Hence social comparison is used in situations of fear and/or uncertainty, as the comparison then provides information by which to evaluate one's situation and identify appropriate responses (Aspinwall, Hill, & Leaf, 2002).

Besides, the information transfer is hampered by serious moral hazard and incentive problems (Llanto, 1990). Verification of true credentials by an outside lender in developing countries may prove to be costly if not impossible (Leland and Pyle, 1997). When market imperfections persist, lenders face the problem of managing the risk of loan default (Von Pilschke, 1992), and raising the interest rate does not resolve the problems either (Stiglitz and Weiss, 1981). On the other hand, the cheap and facile credit provided by institutional sources was not utilized properly for the purpose; it was granted and intended too. As a result, the recovery performance of institutions has been poor. This leads to weakening of credit transactions between banks and economically poorer sections of the rural people. Though the government made strenuous efforts to convince bankers to cover these groups of

people but it failed to make these groups to repay their loans promptly (Dasgupta, 2001).

When the financial scenario of rural poor in many of developing countries is simplified, it appears relying on landlords and money lenders to meet the credit needs even with higher rates of interest in emergencies. The financial institutions can not cater to their needs due to unfriendly mechanisms. Organizing poor into small thrift and credit groups, popularly known as Self Help Groups (SHG) is thought as an alternative credit institution to combat the crisis of petty credit requirements. In fact this is the basic principle of SHG formation in third world countries they are informal but within 1 to 3 years can be formal. A poor person who takes loan may continue to do just what he has been doing earlier, but with self contribution and collective action. The collective action represents the process of participation and interaction through which one simultaneously enhances the power of others and one's own power. So SHG is a homogenous group of rural poor voluntarily formed to save whatever amount they can conveniently save out of their earnings, and mutually agree to contribute to a common fund of the group to be lent to the members for meeting their production and credit needs. Thus, people below poverty line families are organized to get empowered through collective action. Until poor begin to organize with common goals, they will merely continue to fight, holding action that allows them to survive from day to day life. Solidarity expressed in an ethic of cooperation and stratifying through manipulating network may solve individual problems, but only an organized solidarity a group or collective can bring about significant changes in any system (Amala kumar 2004, cited from Nelson 1987).

There are also certain options which fall between completely state-oriented services and privatized care. However, a number of recent impact studies have shown that with regard to criteria such as reaching the poorest, coverage, cost-effectiveness, quality of services or policy direction, non-governmental development organizations do not have any advantage over the State.

Method

We obtained the material for this study from a search covering the following databases: various books and journals on the subject,

research reports and articles, commissions findings and occasional papers submitted at various seminars and conferences findings, International Bibliography of the Social Sciences (IBSS), Bibliography of Asian Studies, Social Sciences (including Econ-Lit, ERIC, Social Services Abstracts, Sociological Abstracts), Popline, WHOLIS and other databases of UNDP, UNICEF and UNRISD. Apart from these databases, the review also depended on governments documents relevant to the topic.

The Self-Help Groups Approach

"Self-help groups are voluntary, small group structures for mutual aids and the accomplishment of a special purpose. They are usually formed by peers who have come together for mutual assistance in satisfying a common need, overcoming a common handicap or life-disrupting problem, and bringing about desired social and/or personal change in life. The initiators and members of such groups perceive that their needs are not, or cannot be, met by or through existing social institutions. Self-help groups emphasize face-to-face social interactions and the assumption of personal responsibility by members. They often provide material assistance, as well as emotional support; they are frequently "cause"-oriented, and promulgate an ideology or values through which members may attain an enhanced sense of personal identity." Katz highlights that self-help groups typically start from a condition of powerlessness, and that the members spontaneously (i.e. not urged by an outside authority) agree on engaging in some actions in which they personally participate. Self-help groups create, and act within, a purposefully organized setting; this distinguishes them from medical self-care, which is practiced by individuals alone or within a family (Katz, 1981). The strong point could be its orientation towards action and progress; people would learn to be in the role of health care providers in the process. One of the core principles of self-help group is that only those experiencing the problem can understand it (Robinson, 1981). Empowerment, on the other hand, is a process through which individuals gain control over matters that concern them most. It can be defined as a "multi-dimensional social process that helps people gain control over their own lives" (Page N., Czuba Ce., 1999). There are also certain options which fall between completely state-oriented services and privatized care. One of the

early such options was the Non-governmental Organization. However, a number of recent impact studies have shown that with regard to criteria such as reaching the poorest, coverage, cost-effectiveness, quality of services or policy direction, non-governmental development organizations do not have any advantage over the State (UNRISD, 2000). The State is often characterized as inefficient and considered ill equipped to handle social sectors. This inefficiency argument is applied to both issues of financing as well as the implementation of all programs. The alternative suggested is a mix of private and public, the primary care to the government and the lucrative curative care to the private sector (World Bank, 1993).

Microfinance Status

Michael Pretes (2002) noted that, Microenterprises are firms with fewer than five employees in many developing countries; they are typically unregistered and do not pay taxes. To be successful, microenterprise entrepreneurs must possess managerial skills, knowledge of markets and prices, and the technical ability to create their product. Simple vending businesses require general managerial skills but little technical ability, whereas manufacturing businesses such as furniture making require an additional knowledge of the craft. Furthermore, the entrepreneur must have sufficient capital to finance the startup costs of the business, plus access to additional capital to fund further growth: “it is the lack of capital that most frequently keeps a person from becoming self-employed” (Pretes, 2002 cited from Sonfield & Barbato, 1999). Ability and capital are both necessary if the business is to be successful and is to provide an income for the entrepreneur and his or her family. In fact, Micro-finance is a new field, resulted from project related work done by NGOs under written by multilateral, bilateral and private institution and also developed based on examples provided by informal finance and formal and semiformal financial institutions; as well as a solid body of academic research. Till December 31/2001, a total of 2186 Micro Finance Institutions (MFIs) have reported reaching 54.9 million clients. Out of 2186 institutions that had reported to the micro- credit summit campaign, 1075 are in Asia, 740 are in Africa, 230 are in Latin America and the Caribbean, 59 are in North America, 59 are in Europe and 23 of them are in the Middle East. Out of the total global clients of 54.9 million 47.9 million are

in Asia, 4.5 million are in Africa and 2 million are in Latin America and the Caribbean. Asia can rightfully boast about a vibrant micro-credit sector, which stands high above all other achievements elsewhere on the globe. If 10 per cent of all low income entrepreneurs are to gain access to institutional finance by the year 2005, and 30 per cent by 2025, financial systems will need to be transformed. Financial intermediaries total portfolios in micro loans, now about US \$ 2.5 billions and finance and the international coalition on women and credit, both led by WWB, would need to be about US \$ 12.5 billions by 2005 and about US \$ 90 billions by 2025, serving about 180 million low income entrepreneurs (WB, 2002). The SHG bank linkage programme is perhaps the largest microfinance programme of the world in terms of its outreach. As concentration of funding and projects increase, non governmental organizations become susceptible to bureaucratization, self-aggrandizement and imposition of standardized solutions (Wolfe, 1994).

The role of small enterprise in poverty alleviation has long been recognized as vital, and promotion of small and micro-enterprises for women has been recognized as the key to augmenting family welfare. The work by Boserup was among the first to highlight the contribution of women to productive work. In the early 1980s, the trickle down theory at the household level, which assumes that higher incomes for men translate into higher incomes for the family were, questioned (Boserup, 1989). Most enterprises, from the smallest to the largest, need capital. Enterprise can play a crucial role in alleviating poverty. In developing economies, women's role in alleviating poverty through enterprise has been recognized, and they have been received as a client group. However, poor women lack the capital required for enterprise start-ups and although lending mechanisms exist in their economy, mainstream financial institutions are not oriented towards providing them with the funding they require. Microfinance generally refers to the provision of financial services (e.g.: savings, credit, insurance) to the poor, those who normally do not have access to formal financial institutions, for e.g. Non-Governmental Organizations in India have promoted micro-finance through women's self-help groups. However, the different institutional forms are not value-neutral and vested interests are involved. The interests of people and those of micro-financing institutions (MFIs) sometimes compete and conflict. If NGOs

change their direction and become MFIs, there could be serious repercussions on development work at the field level. When funding support underlines financial viability, then the MFIs have to be competitive; poverty reduction and empowerment will suffer unless the institutions are also owned and managed by the poor. In this case, more investment in building their capacity is required. SHGs have become effective channels of credit for enterprise. Thus government, banks and wholesale financing organisations now work with non-government organizations that promote groups and/or provide finance to them.

The present global phenomenon is wide spread with multifaceted dimensions with unprecedented movement of goods and services, capital and labor on a large scale of a road map for domination and control of the south by the powerful North as the later steers the international trade, capital flow, investment, development aid, etc. International agencies like WTO, WB, and IMF monitor these programmes, while transnational corporations, international banks play crucial role in controlling global economy. It may be mentioned in this connection that globalization goes beyond economies traversing techno-cultural fields as a result of communication revolution through satellite network beaming the news, advertisements and documentaries. Ergo-dominant global consumer values implant consumer culture of capitalism. Also this transfusion further widens the already existing division between and among the rural and urban areas, rich and poor countries as well. So, the negative consequences of globalization are larger than the positive feature when put them together (Cox, 2001). The emergence of nation- state is one of such outcome of the corporate capitalism (Bhambhri, 1998).

It is important to note that non-government organizations are in no way guaranteed to deliver micro-credit and succeed where the banking sector has failed. NGOs have become interested in micro-finance activity because risks and returns have both increased. Now it is not the lending organizations that take the risk but people standing by collective guarantees (as groups) for unsecured loans to individual members. The risks have not been reduced; they have only been passed down. The mainstream wisdom has not been contradicted yet (Premchander, 1998). Government, non-governmental organizations, international donor agencies must ensure that the final clients, i.e. poor people who are members of SHGs, understand both the positive and negative

implications of dealing with banks as opposed to dealing with MFIs. Equally important is the need for NGOs as well as donor agencies to understand implications of alternate institutional forms because if they do not, then the danger is that goals may be mistaken to be the end. The achievement of high money turnover, high repayment rates, coverage of costs and large number of low income clients does not necessarily imply that poverty reduction is achieved in developing countries (Johnson, 1997).

In several well-documented cases concerning the Grameen Bank in Bangladesh (Rahman, 1999; Goetz & Gupta, 1996), borrowers have had to refinance loans to make payments (often by borrowing from moneylenders), have had to sell household assets or their own food supplies to make payments, or have had to leave their home village for an urban area in order to find wage labor to repay their loan. As Simanowitz (1999) notes in his study of South Africa: The fact that good credit discipline provides entitlement to further loans acts as a strong incentive for members to borrow money to repay the loan, in the knowledge that they will be able to pay off the credit with the next loan. In this situation, credit will serve to create indebtedness and dependency.

Sustainability of Self Help Groups

Sustainability of SHG is totally more difficult task than forming a group. Such is the complexity of its functioning. Sustainability does not mean conserving a particular state. It is a dynamic process, which is constantly optimized in practice through the transport of technical and scientific innovations and information. (Dwarakanath, 2001).

Hence the features of sustainability are:

- It is a change.
- It is management of change.
- It is a continuous process.
- It is a status at present due to development over past, which tends to change in future.
- It is an influential factor.
- It is an interaction together with environment and information.
- It is an optimized action.
- It is an indication of growth.
- It is an addition to the existing system.
- It is always multi-dimensional.

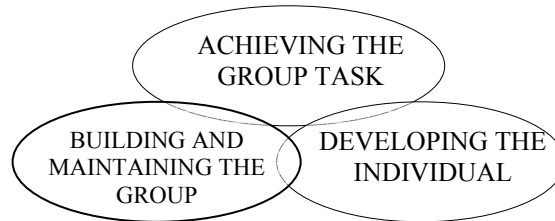
Factors for sustainability of SHG:

The following factors are to be considered for sustainability of Self Help Group in society.

A. Functions of the group:

According to Chamala (1990), any group has three functions.

- Achieving the group task
- Developing the individual
- Building and maintaining the group.

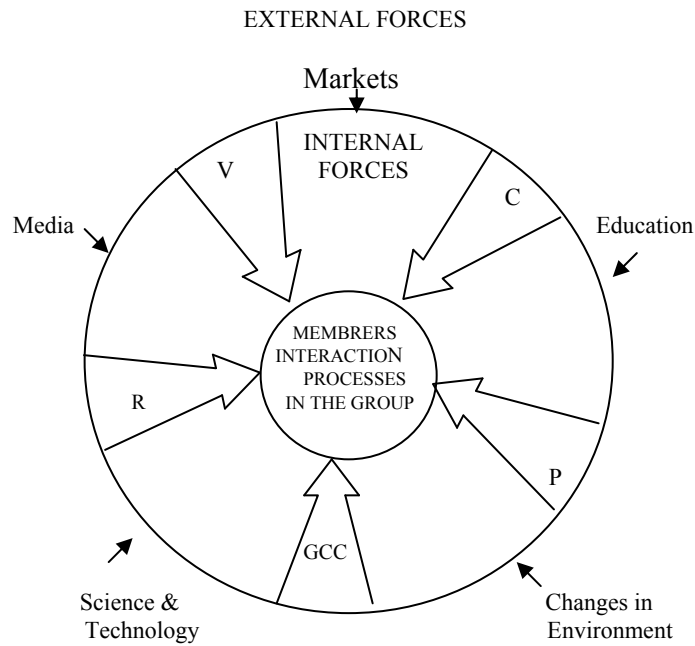


These three are dynamically interrelated and are to be carried out with good balance between them which results in the sustainability of the group. Too much attention towards one function results in distortion of performance of the other two.

Function	Positive impact
<ul style="list-style-type: none"> • Achieving the group task 	Impressive initial achievements Higher levels of satisfaction with early success
<ul style="list-style-type: none"> • Developing the individual 	Satisfied people contribute more Encouraging self instinct and confidence among the individuals
<ul style="list-style-type: none"> • Building and maintaining the group. 	Instrument in maintaining cohesiveness among the groups Pleasant relationship

B. The Group Process

The behavior of members or interaction between them is influenced by different forces (Chamala, 1990).



- N – Needs (Individual Group Task)
 C – Communication (Verbal & Non Verbal)
 P – Perception of Individuals in Context (Value or Controlling)
 GCC – Group Culture & Climate (Empowering or Controlling)
 R – Relationships (Social & Functional)

Skills are to be acquired to take care of these forces in the group process. The sustenance strategy should assure this.

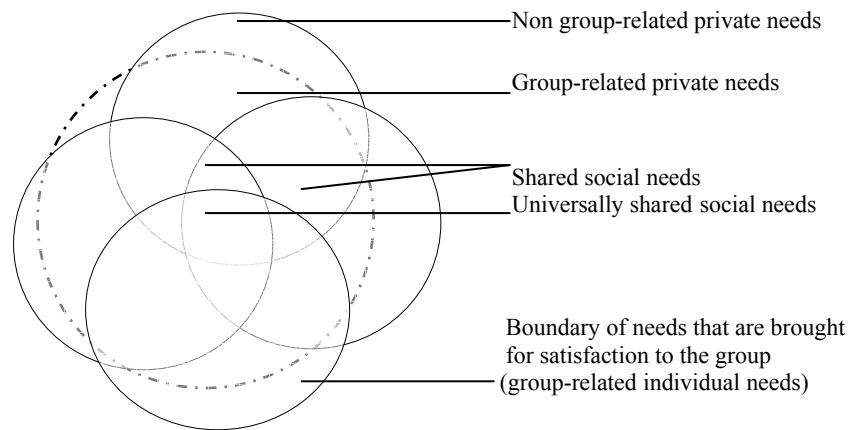
C. The Source of Energy for Motivational system

A motivational system exists in the group, to move towards satisfying the needs of its members. According to Abraham Maslow, there is a hierarchy of needs. The lower level needs are initially more satisfied, than higher level needs. The assumption is the unsatisfied needs act as motivators, not the satisfied needs.

In real life situation, the needs are not neatly arranged in ladder. Different people have different needs and levels of needs. The needs change and can be changed by others. In case of SHGs, the members bring certain needs to be met in the group, for which some energy is required. The source of such energy is the

motivational system of the group. The needs themselves constitute a source of energy and motivate the group.

Several levels of individual needs that combine and constitute energy to move the group is illustrated as below: (Leland P. Bradford 2001).



When there is a resource available in the group, to tolerate the motivational force, then the needs are satisfied and group is sustained.

Any development initiative needs to be people friendly, area relevant and supplementing to the main stream livelihood activity. Wormiculture has proved to be success because on all counts it has proved to be the spring board for the success of its members. The members are growing from strength to strength because it strengthens neighborhood, livelihood conditions at the same time aids the augmentation of their economic resources being part of the main stream activity. Of course In some schemes the beneficiaries perceived the loan as a grant. They did not feel the responsibility of repaying it. Bankers too concentrated on disbursing the loan. They did not have the time or the mechanism for monitoring the repayment. These results in poor recovery rate and resulted in the scheme becoming nonviable (Rao, 1990). In contrast, no repayment of loans in micro-credit schemes using SHGs is reported to be satisfactory from almost all places. This may be due to the fact that the concept of SHGs in micro-credit schemes is based on the theory of asymmetric information and peer monitoring (Hoff and stiglitz, 1990). The success of the Grameena Bank's group lending

programme gives validation to the theory of peer monitoring (Hossain, 1988; Siamwalla, 1990).

Conclusion

People in Europe and the US form self-help groups to fulfill a need that is not met by existing social and welfare services. Their aims are multiple and often divergent: to empower themselves; to participate in decision-making; to show concern and compassion for others in an increasingly individualistic society; and to feel being treated as a dignified person, often in response to a welfare system that they perceive as high-tech but de-personalized. As SHGs are found to operate with considerable flexibility, with regards to terms of lending and saving operations, interest rates, security norms, margin, etc., free from guidelines, and also as these are considered critical for their performance, it may not be necessary to ensure any rigid norms in the operations of SHGs.

Providing access to micro-finance is considered a precondition for poverty alleviation. In order to function, self-help groups require a basic enabling environment such as a stable social structure and a functioning basic welfare system offering a minimum standard of quality. The presence of these two factors is a prerequisite for self-help activities; they cannot be expected to develop as a consequence of self-help in socio-economic welfare. Self-help groups can help to achieve some degree of synergy between welfare providers and users when the prerequisites mentioned above are met. As long as this is not the case, however, the transfer of a concept that originated in Western, individualistic societies to a very different societal context will bring disappointing results. As a part of the existing neo-liberal agenda, it might further result in shifting the responsibility of welfare from the State to the individual, which would have serious implications for equity and justice in every aspect.

The micro-enterprise concept should be coordinated with the SHG lending system so those people who have been deprived of credit, could have their fair share of credit. SHGs can play an important role for solving social problems, in promoting education, in generating employment, in meeting credit requirements, in bringing about people's involvement in solving their problems and in bringing about knowledge revolution in every country as well as in Iran.

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