

**SELF-HELP GROUPS AND EMPLOYMENT GENERATION  
AMONG URBAN POOR HOUSEHOLDS: A CASE STUDY IN  
CHENNAI, TAMIL NADU**

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**Abstract:**

The aim of Self-Help Groups (SHG) is to alleviate poverty through self-employment generation by providing financial support to the members of SHGs. The formation of SHGs is promoted by the state, financial institutions and NGOs, and the financial support offered by financial institutions is successfully channeled to every SHG member. However, the ground reality shows a different picture, where self-employment generation through SHGs with the help of loans from financial institutions was not impressive among the urban poor. This paper identifies two reasons for the failure: 1) Structural constraints of the market 2) Diverting money for other uses. On the one hand, money channeled through SHGs was used to reduce familial financial burdens rather than in investments to generate self-employment. On the other hand, SHG members were unable to invest money to create self-employment, given the structural constraints of the market. Consequently, to avoid the risk of investing money, SHG members preferred to use it to cover family expenses and so lessen their financial burdens.

**Keywords:** Self-Help Groups, Financial institutions, Non-Governmental Organizations, Financial burden

**I) Introduction:**

Microfinance through Self-Help Groups (SHGs) is seen an important way of distributing financial assistance to the poor so as to generate self-employment. In the words of Patil (2011), "*The main objective of*

*microfinance is to finance those areas of thrust from where the generation of income and employment may take place. In this regard, Self-Help Groups play an important role*". The history of microfinance in India, according to Mahanta, Panda and Sreekumar (2012), can be traced to the establishment of Syndicate Bank in 1921. However, the authors argue that Syndicate Bank's microfinance scheme revolved around micro deposits to raise funds. Moreover, the authors aver that microcredit through SHGs received momentum across the world, and particularly in India, only after being inspired by the successful implementation of the Grameen Bank initiative by Professor Muhammad Yunus in Bangladesh. Despite the fact that microcredit was being given to people in agriculture and allied activities, as well as to the weaker sections of society through the Small Farmers' Development Scheme (SFDS), the Integrated Rural Development Program (IRDP) and other programs since independence, the authors assert that the programs were unsuccessful in creating self-employment because they only focused on delivery rather than follow-up. In this context, the authors state that the Swarnajayanthi Gram Swarojgar Yojana (SGSY) was launched in 1991 by incorporating the twin aspects of microcredit and employment training to create self-employment. SHGs were formed under the SGSY program, microcredit distributed through the SHGs, and training offered to SHG members. The authors found this particular program successful, owing to its holistic approach.

It would seem that the distribution of microcredit through SHGs differs across states. For instance, Dasgupta (2005) argues that the disbursement of microcredit through SHGs is very high in developed states such as Tamil Nadu, Andhra Pradesh and Karnataka than in less-developed states such as Madhya Pradesh and Bihar. Further, it is observed that of the loans taken through SHGs, repayment rates are higher among SHG members belonging to the 'below poverty line (BPL)' group than among those belonging to the 'above poverty line (APL)' group (Panda, 2015). Panda (2015) argues that repayments among BPL members are high since they engage in non-farm work and migrate elsewhere, while repayments are correspondingly low among

APL members who engage in agriculture, which does not give the man adequate income. It is also observed that SHGs play a key role in increasing income in rural areas (Ali & Labhane, 2016). In this context, Section 1 of this research focuses on the relationship between SHGs and the self-employment generated among the urban poor (comprising the BPL category). These are people who engage in non-farm employment in the state of Tamil Nadu; where large sums of money have been distributed through SHGs. Section 2 and Section 3 discuss the objectives and methodology of the present study. Section 4 presents case studies that show whether loans distributed through SHGs were useful in generating self-employment. Section 5 discusses the utilization of loans distributed through SHGs for various purposes, followed by the conclusion.

## **II) Objectives:**

This study aims to ascertain whether loans disbursed through SHGs help generate self-employment among poor urban households or whether the money is being put to use otherwise. The research focuses on the two objectives below:

- a) To understand the relationship between self-employment generation and microfinance through SHGs among poor households in urban areas, and
- b) To comprehend how the financial assistance received through SHGs has been put to use.

## **III) Methodology:**

This study was conducted in two localities in Chennai, Taramani and Kannagi Nagar. V.V.Koil Street in Taramani was chosen for the study because most of its residents are poor. Kannagi Nagar was chosen on account of its being a colony where people evicted from the city are resettled. The case study method was used in the research. As the case study can be done both qualitatively and quantitatively, this research uses the qualitative in-depth interview tool to collect information about the cases. Some interviews were recorded and then transcribed. In cases where respondents expressed discomfort at being recorded, field

notes were taken manually on plain paper and the information typed later. About twenty people were interviewed from seven SHGs: 12 from Taramani and 8 from Kannagi Nagar. Purposive sampling was used to identify respondents from poor households in the two localities mentioned. Respondents' names have been changed to ensure anonymity.

#### **IV) SHGs and Self-Employment:**

Loans from financial institutions, nationalized banks and private banks are being successfully channeled to SHGs through mediating NGOs and distributed to every SHG member, yet the net result in terms of self-employment generation is not impressive at all. This section presents four individual cases, and shows how the four women concerned Ramya, Rizwanaa, Chitra and Sakthi - have unsuccessfully tried to create self-employment, struggled to sustain it, been partially successful in maintaining it, and failed and shut shop in a collective initiative.

##### **Case 1 - Ramya: Completely Unsuccessful in Creating Self-Employment**

Ramya, a 34-year-old Muslim who lives in Taramani, is a homemaker. She has four children and is married to a painter. Her husband does not get regular work, and works whenever an opportunity presents itself. Further, Ramya's husband is addicted to alcohol, drinks daily, and spends a significant portion of his wages on alcohol. The addiction to alcohol has also contributed to his reluctance to look for work. Because of his reluctance, he is irregular and his irregularity has become a major reason for his unemployment. Therefore, her family is poverty-stricken owing to an inadequate income. It was in this context that Ramya wanted to support her family and protect her children from the ill-effects of poverty. She started buying women's nightwear, known locally as 'nighties', from wholesale enterprises and selling it to the locals. However, she was unable to succeed in the business because most people in her locality preferred to buy nighties from regular textile shops, and very few would buy from her. Her customers were also poor like her, and would buy nighties from her on loan, which meant that she

would only occasionally get repaid. More often than not, she would lose money when the buyer failed to pay for the nightie purchased. These circumstances compelled her to drop the nightie business. She then began working on her next venture, a petty shop, with a loan of Rs 20,000 from the local SHG. At the time she received the money from the SHG, her husband had become chronically unemployed, and one of her children needed cleft lip repair surgery. She had her child admitted in the government hospital for a free surgery; however, she ended up spending about Rs 5000 from the sanctioned loan for daily hospital expenses on milk, food, travel and miscellaneous items. After getting her child discharged from the hospital, Ramya spent another Rs 6000 to assemble a wooden petty shop. When she was on the verge of purchasing commodities for her petty shop, she was forced by the neighbourhood moneylender to repay a loan she had taken earlier from them. Under the circumstances, she repaid part of the loan using the funds obtained from the SHG. The balance was a very small sum of money left from the SHG loan. However, her husband continued to stay at home without actively seeking work. This created pressure on her to spend the remaining money on expenses for the family. At the end of it all, she was unable to buy commodities for her petty shop. When the researcher asked if she intended to re-execute her plan to run a petty shop, she replied that she really had no such inclination. She did plan, however, to get a loan from the SHG again to set up a petty shop - the rationale behind her decision being the fact that she had to repay the (rest of the) loan taken from the money lender, as well as meet the family expenses with her housebound husband not stepping out to work. To get a fresh loan from the SHG, she is required to repay the earlier loan taken without defaulting on it. So then, Ramya's focus is on repaying the SHG loan and using the new loan partly on household expenses, rather than on setting up and running a petty shop. Therefore, her dream of starting a petty shop remains unfulfilled, and she has been completely unsuccessful at being self-employed, despite the financial support offered by the SHG.

## **Case 2 - Rizwana: Unsuccessful in Sustaining the Self-employment Created**

Rizwana, 45, lives in Kannagi Nagar, a resettlement colony in the peri-urban area of Chennai. Her husband is a coolie (daily wage laborer) in the construction sector, making around Rs 15,000 per month. However, his contribution to the family's upkeep is very small in that he only gives her Rs 5000 (that is, a third of his monthly income) to meet expenses. Rizwana's husband uses two-thirds of his monthly income for his medical expenses, since he is diabetic, and the rest feeds his alcohol addiction. With barely-adequate financial support from her husband to meet the family's expenses, Rizwana was saddled with the mounting burden of shouldering it all. Against this bleak background, there was a silver lining: she had joined the local SHG as a member seven years ago. She took a loan of Rs 40,000 from her SHG, which had received Rs 5,00,000 from Indian Bank with help from an NGO. The money was divided among the SHG members. The NGO helping her SHG make good use of the loan from the bank, and trained the SHG members under their umbrella to make detergent powder, candles, and frankincense. SHG members who benefited from the training were expected to produce candles and detergent powder, on a small scale, at home. Rizwana attended a training session conducted by the NGO and started making detergent powder at home and selling it. She would buy raw material from Parry's Corner and carry it home alone. However, taking into consideration the distance between Parry's Corner and her home, she began to experience difficulty in bringing the raw material home. After a while, she found herself unable to continue the business, owing to market constraints. Her product did not find favour with people - and not even her SHG members were buying it from her. Hers was a quality product, but because it had no fragrance, unlike the bulk of commercially-available detergents in the market produced by the top brands, there were no takers for her product. On the other hand, Rizwana felt that it was increasingly risky to continue her business, given the complete lack of marketing. She would visit people in different localities at their homes and try to sell her product. There were times when she had no chance to explain her product. Meanwhile, she

had no money to spend on advertising her product, quite unlike the leading brands. To top it all, the monthly profits from her detergent business were minimal, and less than the monthly wages of a paid domestic worker. It was then that she decided to call it quits. Therefore, on account of market constraints and a lack of manpower, Rizwana was unable to sustain the self -employment created with financial assistance from her SHG. Thus, the case of Rizwana Aayesha demonstrates that it is very hard to sustain self-employment, even if well begun. .

### **Case 3 - Chitra: Partially Successful in Maintaining Prior Self-Employment**

Chitra, 45, lives in Kannagi Nagar. She had earlier lived in a slum in Maduvankarai, but she and her family were resettled in Kannagi Nagar as part of a slum clearance and resettlement program of the Tamil Nadu Slum Clearance Board. Her husband is a coolie and his income is not adequate enough to sustain the family. Consequently, Chitra tried to support her family through the sale of sarees. As a Maduvankarai resident, she would purchase sarees from a wholesale dealer at Parry's Corner at fairly cheap prices. She would sell them at a small profit so as to keep their price down, compared to prices in the neighboring textile shops to ensure the smooth running of her business. After the family's resettlement in Kannagi Nagar, she gave up her business owing to the lack of a social network and long commutes. As time passed, three of her children passed out of school and enrolled in college. It occurred to her to restart her old business of saree sales. Chitra renewed her former social network with the wholesale dealers at Parry's Corner, began purchasing sarees from them on loan, and repaid the dealers after selling them in her neighborhood. However, her business in Kannagi Nagar is nowhere as promising as it was in Maduvankarai. This is because most of Kannagi Nagar's residents are so poor that they pay for the sarees purchased a few months later, or in small installments. Chitra gets paid for the sarees sold after much delay, but is required, nonetheless, to pay promptly for the sarees purchased from the Parry's Corner wholesale dealers, or there will be no more sales of sarees to her on loan. It was at this time that she joined the *Phoenix Paravaigal*

*Suyavuthavi Kulu* SHG. Her SHG received a loan from Indian Bank through the NGO, MCDS. She attended no training courses offered by the NGO since she had a running business. She received Rs 33,000 from the SHG and used a third of the loan to keep money in rotation for her business. As a result, she is able to run her business uninterrupted, and uses the rest of the money to finance the education of her children. She is, at present, just about able to sustain her business. However, she is not quite certain that she will be in a position to continue to do so, going forward. This is because payments made by her current Kannagi Nagar customers for the sarees are invariably delayed, and there have been times when her customers have defaulted on their payments. Presently, she is able to keep her business running with a loan from the SHG, but its sustainability in the long run is in question.

#### **Case 4 - Sakthi: A Failed Collective Initiative**

Sakthi, 45, lives in Kannagi Nagar. She has two daughters, and her husband works at a tea stall. On account of his age, he is unable to stay on his feet in the tea stall for long hours, and therefore works three days a week. Under the circumstances, Sakthi decided to chip in to support her family, and started the *Sigaram Suyavuthavi Kulu SHG* in 2001. The SHG comprised 15 women, and an account was opened in Indian Bank. Initially, the women did not avail of a loan from the bank. Instead, they collected a subscription of Rs 150 per month to raise funds. When they had raised about Rs 10,000, the members of the *Sigaram Suyavuthavi Kulu* SHG decided to start a business. From an acquaintance of hers called Kamal, Sakthi obtained the names and contact numbers of several Villupuram-based traders from whom she could source reasonably-priced supplies. She went to Villupuram with a few of her SHG members to purchase supplies. She took the initiative to buy sand, and began making gifts and articles for display in showcases. However, she found herself unable to sell the finished goods in her own locality, Kannagi Nagar, and began to look elsewhere to market the merchandise. At this juncture, Kamal helped Sakthi put up stalls at information technology (IT) companies on Old Mahabalipuram Road (OMR). Kamal was able to help Sakthi as an employee in an IT company himself on the OMR stretch. Putting up stalls in IT companies



was a lucrative proposition for the *Sigaram Suyavuhavi Kulu* SHG in terms of the income generated. The SHG members found it doubly beneficial because the rent for the stalls was waived. They shared the work involved in putting up the stalls. When a stall was put up on the premises of a company, two SHG members would take care of sales. At the end of the day, daily wages were paid to the duo taking care of the stall, and the day's profits were shared equally by all SHG members. Subsequently, Sakthi took the initiative to buy cotton material such as shirt bits, mats, and *lungies* from Karur district and began putting up stalls near apartment complexes. In this case, however, they had to hire a hall for rent to hold an exhibition/sale. This put them in a vulnerable position, where the profit margin was very slim, given the high hall rental charges. Meanwhile, Sakthi's helpful acquaintance, Kamal, quit the IT company he had been working for and, in addition, shifted his residence elsewhere. As a result, Sakthi lost a valuable contact in the IT world. It was a double blow for Sakthi. On one hand, she and her fellow SHG members were unable to continue with their exhibitions/sales in residential localities owing to high hall rental charges and, on the other hand, she lost an invaluable contact with the IT world, following Kamal's departure. As time passed, Sakthi's fellow SHG members expressed reluctance to make the long commute all the way to Villupuram and back to purchase essential supplies. Also, several SHG members said they preferred to take up domestic housework and be assured of a solid monthly income. Therefore, Sakthi and her fellow SHG members decided to dissolve their SHG, following which most of its members took on regular jobs as housemaids, which gave them an assured monthly income, something that their business venture could not.

To sum up, the initiatives of the urban poor to create self-employment, individually and collectively, have failed owing to several reasons. Most SHG members who started a small-scale business quit after a while, while others are unsure about its sustainability in the long run. The reasons for quitting and poor sustainability include low marginal profits, market constraints, and the risks involved. Thus, it would seem that loans disbursed to the urban poor through SHGs do not create

effective self-employment. Section 5 below focuses on how loans distributed through SHGs are being used.

### **V) Usage of Financial Assistance for Other Purposes:**

This section focuses on how loans received through SHGs are being put to use. Chiefly, such loans go towards repaying loans taken earlier from local moneylenders. Since most respondents are poor, they are always in need of loans to meet pressing needs. Getting a loan from the local bank for immediate use is near-impossible, because certain formal procedures are required prior to its sanction. On the other hand, getting a loan from a moneylender for immediate uses is easy: they simply need to be approached. However, the rate of interest on such loans is very high. For example, in the words of 26-year-old Suganya:

*“We have taken a loan of Rs 1,00,000 from a local moneylender for a family function (kathu kuthu vizha for a child), and I pay Rs 3,000 a month towards interest on the loan. The rate of interest I pay the moneylender is much higher than the bank's. Though the bank's rate of interest is very reasonable, we cannot get a loan on the spot because of the many formalities required, so we take loans from local moneylenders for our immediate needs.”*

Since the rate of interest on loans from moneylenders is steep, beneficiaries of such loans end at paying exorbitant sums on the interest and struggle to repay the principal. Under the circumstances, they find loans from SHGs a boon. They are able to repay the principal on a loan taken from the local moneylender, apart from reducing the burden of high interest. For instance, 38-year-old Malathy says,

*“I have taken a loan of Rs 30,000 from a local moneylender for a need in the family. I pay Rs 1500 regularly towards interest on the loan every month. However, I am unable to pay the principal since the interest is so high and the family income not adequate enough to pay the principal. Every month I try to repay a part of the principal, but end up only paying the interest. Finally, I took a loan from the SHG and repaid the moneylender's loan. Since the rate of interest on the SHG loan is small, I am now comfortable with paying the interest as well as a part of the principal every month<sup>2</sup>”.*

Apart from meeting immediate family needs, people use SHG loans to fulfill their familial responsibilities, chiefly the marriage of their children. With a son, people tend not to worry unduly about wedding expenses since they are expected to contribute only in part. With a daughter, however, the financial burden is substantial. Respondents who had got their daughters married said that they could only meet the wedding expenses by taking loans from moneylenders. And, in order to pay up the principal quickly, they opted for a loan from their SHG.

In some cases, SHG members used loans from their SHGs to educate their children. Since the respondents themselves are poverty-stricken, they feel that educating their children is the only way out from the clutches of poverty. Although money is an issue, they prefer private schools to government schools in the belief that the former provide essential English language skills, especially speaking and writing. After private schooling, they want their children to pursue a university degree. Since the children come from an underprivileged socio-economic background and study without access to quality educational facilities at home, they score average marks in the public examination. Hence the only choice they have is to study at expensive privately-run higher education institutions. This, in turn, requires substantial financial support, compelling respondents to use the loan taken from the SHG to pay for the education of their children. For example, 45-year-old Regena states:

*“I have three children, two boys and a girl. My daughter wanted to pursue engineering and I also felt it would help her have a good future. However, she scored average marks in the public examination and so could not get a seat in a government engineering college. Therefore we got her admitted to a private engineering college close to our locality. Since hers is a private engineering I have to pay a considerable sum of money towards fees every year. Under the circumstances, I took a loan from the SHG and paid the fees. I feel comfortable paying my daughter's fees with the SHG loan because the interest on the loan is reasonable. I have been doing this for the past two years and will continue to do so, going forward.”<sup>3</sup>*

In short, familial needs and responsibilities override the idea of generating self-employment. Consequently, any loan taken for the purpose of generating self-employment, or sustaining already-existing employment, is used for immediate familial needs and the education of the respondents' children.

## **VI) Conclusion:**

Notwithstanding the fact that microcredit is channeled through SHGs to generate of self-employment, the results have been unimpressive. It was found that people have little interest in running small-scale businesses owing to the barely-adequate income generated, which is much lower than that received through salaried work. Further, the sustainability of small-scale businesses is also uncertain. In such a context, SHG members have shown a general unwillingness to risk undertaking small-scale businesses, and would much rather use the loan from the SHG meaningfully, as they see fit. On one hand, respondents have had major familial needs demanding immediate monetary support. Their circumstances have compelled them to borrow money from local moneylenders to tide over their immediate needs, given that bank loans require cumbersome official procedures. However, the rate of interest on loans from money lenders is very high and has caused them much suffering, with many unable to repay the principal. Consequently, people have found loans from SHGs a feasible solution that frees them from the exploitative clutches of money lenders. Despite the fact that respondents still have to deal with the burden of the SHG loan, they admit to feeling comfortable with this loan rather than the other. On one hand, given the low profitability margins and uncertainty associated with being self-employed through the financial backing of SHGs, SHG members have learnt from experience that continuing to invest money in a self-employed venture is fraught with risk. On the other hand, familial needs have pressurized them to divert the money to meet other, pressing needs rather than put it in business. Thus, though microcredit distributed through SHGs has been largely unsuccessful in creating self-employment, there is no question that microcredit has played a significant role in alleviating the financial burden of the poor.

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