

Abstract

Self Help Groups and Intra-Group Insurance for the Poor in Rural India

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In Indian microfinance movement, Self Help Groups (SHGs)- Bank linkage dominates as mass outreach banking for the poor- mainly women- the marginalized group in rural India. The broad principles that govern cooperative practice are manifest in these informal organizations, and evidently SHGs are cooperatives in all respects, but for name and legality. What is today known of microfinance movement has been happening within the cooperative fold.

Research demonstrates the dynamics of social mechanisms that function within the lending groups and their influence on repayment performance. Besides the informational advantage, the group members may also harness social collateral and use social sanctions to enforce repayment and curb default. Among various factors that contribute to the success of group lending, social cohesion and social ties underline the potential for mutual action through collective responsibility and social pressure.

Many poor households in Asia live in high-risk environments close to bare sustenance levels. Micro credit initiatives in South Asia exemplify that considerable benefits accrue for poor households by providing access to credit and the dynamics of group credit functioning as risk hedging network. The success of group lending is derived from peer monitoring and a group's willingness to apply internal pressure on delinquent members, thus effecting group performance by stimulating intra-group insurance. Wydick (1999)¹ demonstrates the potential of micro credit in providing intra-group insurance. Mutual insurance between group members can help members in managing individual risks (illness, accident, or individual crop failure). This is made possible because group lending programmes as a rule compel the member/s that the loan is repaid either by the member or by the group within the repayment period. While intra-group insurance provision may not be the stated goal of group lending but in the process of establishing groups, micro credit fosters the development of miniature social security networks.

Among the rural poor, women often experience social isolation, lack of social skills and confidence, limited social connectedness due to cultural and social conditioning, which aggravate their ability to respond to many economic stresses and pressures. In the context of rural India, the paper looks at how does the SHG channel of micro credit serve as a social security network for the poor women through the potential intra-group insurance that is created between members. The study is based on primary data collected in a field survey of SHG participants in Maharashtra, India.

¹ Wydick, B. 1999. Can Social Cohesion Be Harnessed to Repair Market Failures? Evidence from Group Lending in Guatemala. The Economic Journal, 109. 463-475.

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