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Role of Self-Help Groups (SHGs) in Rural Livelihood Diversification

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Abstract

Self-Help Groups (SHGs) are a central component of the rural development model in India, especially in its implementation as the Deendayal Antyodaya Yojana -National Rural Livelihoods Mission (DAY-NRLM). By 2023-24 fiscal years, it has mobilised over 90 lakh SHGs (comprising over ten crore rural women in the country) generating the largest women-led community network in the world (MoRD, 2024). This growth is supported by financial indicators: SHG savings deposited with banking institutions went above 58 thousand crores, annual credit disbursement above 1.45 lakh crores, loan balances outstanding more than 1.80 lakh crores which significantly improved access to finance by rural households (NABARD, 2022–23). Empirical studies have shown that the involvement in SHGs complements the share of non-farm earnings and enables the diversification in the dairy, poultry, petty trade, tailoring, and micro-enterprises. Additional interventions, such as the Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) and SVEP, have been used to strengthen the process of skills transfer and rural entrepreneurship. However, most of SHG-supported businesses are small-scale, limited by weak market connection, inadequate working capital, and strong geographical disparity. Therefore, despite the progress in the areas of financial inclusion and livelihood diversification, to maintain the impact, greater value-chain integration, enterprise support, and institutional convergence are required.

Keywords

Self-Help Groups (SHGs); Rural Livelihood Diversification; Financial Inclusion; Microfinance; Women Empowerment; DAY -NRLM; SHG-Bank linkage Programme; Rural Entrepreneurship; Non-Farm Employment; Social Capital.

Introduction

The rural life in India is still based on agriculture but the income structure of agricultural households shows a distinguishable change towards diversification. According to the Situation Assessment Survey of 77th Round of the National Statistical Office (NSO, 2019),

on the average, cultivation only constituted 37.73% of monthly household income, as compared to 40.3%, 15.7%, and some 6% that belonged to wages, livestock, and non-farm business activities, respectively. These results highlight an increasing reliance on non-agricultural multiple sources of income. The necessity to diversify the revenues is enhanced by structural barriers such as the decline in farm acreage, the rise in input prices, fluctuations in prices, and changes in weather patterns. The Agricultural Census (2015-16) also indicates that small and marginal farmers (below two hectares) own 86.1% of operation landholdings and thus restrict economies of scale and income potential. To address these structural issues, there has been a critical move towards diversification in allied businesses (e.g., dairy, poultry, fisheries, goat rearing) and non-farm businesses (e.g., petty trade, tailoring, food processing, rural services) to increase the stability of income and reduction in vulnerability. Empirical research in the Indian situation shows that diversified livelihood portfolios have a substantial damping effect on income shock and enhance resilience among the smallholders (Singh and Devi, 2020; Pathak and Amarpdeep, 2024). Nevertheless, limited access to institutional credit, skill formation, market connections, and social capital still limits household in rural areas, especially women who are marginalized communities.

The Self-Help Groups (SHGs) have taken the form of a central institutional instrument of limiting these limitations. SHG-Bank Linkage Programme (SHG-BLP) is a savings-based microfinance initiative by the National Bank of Agriculture and Rural Development (NABARD) which was initiated in 1992 as the largest savings-oriented microfinance programme in the world. Status of Microfinance in India 2022-23 by NABARD stated that 1.19+ crores SHGs had savings-linked bank accounts and this sum amounted to 58893 crore savings. In 2022-23, banks loaned SHGs 1.45 lakh crore loans, and the current loans were 1.83 lakh crore. The SHG is highly gender-dependent with over 85% of members being women.

SHG mobilisation was significantly increased under the Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM) launched in 2011 by the Ministry of Rural Development. According to the Ministry of Rural Development (2024), DAY-NRLM has mobilised over 90 lakh SHGs providing coverage of over ten crore rural women in India. These groups are federated to form Village Organisations and Cluster-Level Federation, thus establishing a multi-level institutional structure which assists in linking credit, enterprise development, skill improvement and joint marketing. The complementary convergence with

the programmes like the Deen Dayal Kaushalya Yojana (DDU-GKY) have seen the training of over 13 lakh rural young people since its initiation most of whom are in homes of SHGs hence leading to diversification of wages in the manufacturing and services industries (MoRD, 2023).

In addition to financial intermediation, SHGs also strengthen social capital, peer policing and collective bargaining ability, which allows members to invest in income earning activities. The empirical studies of the state in India show that SHGs participation is linked to accessibility of institutional credit, high saving rates and decision-making power of women, and a higher level of engagement in non-farm and other economic activities (Saha and Ram, 2014; NABARD, 2023). Moreover, the financial inclusion indicators have been rising significantly; the World Bank Global Findex database (2021) indicates that 78%. of Indian women have a bank account, and this has been increasing partly due to the financial literacy and bank linkage programmes led by SHGs.

In spite of the great improvements, there are still regional inequalities. Southern states including Tamil Nadu, Andhra Pradesh, Telangana and Karnataka have a substantial proportion of SHG credit linkage, compared with some of the eastern and central states, which have lower credit absorption and poor enterprise performance (NABARD,2023). Additionally, the majority of SHG-backed enterprises are small scale and subsistence based because they have less access to higher working capital, have poor value-chain connections, and do not receive sufficient support of enterprise incubation.

It is against this background that the study aims at analysing how far SHGs in India have enabled diversification of rural livelihood. Based on the latest administrative data made available by DAY-NRLM, the SHG-BLP data by NABARD, survey-based NSO data, and empirical studies of SHGs in India by other scholars, this paper presents a data-driven study on the role of SHGs played in diversification into allied and non-farm sectors. It also analyses structural limitations and suggests policy actions that would impact the empowerment of enterprise ecosystems and increase sustainable rural transformation.

Table 1: Growth of SHGs under DAY-NRLM (2023–24)

Indicator	Data	Source
Total SHGs Mobilized	90+ lakh	MoRD, 2024
Total Women Covered	10+ crore	MoRD, 2024
Village Organizations (VOs)	8+ lakh	MoRD, 2024
Cluster Level Federations (CLFs)	30,000+	MoRD, 2024
States/UTs Covered	All States & UTs	MoRD

Conceptual Framework Self-help Groups and Pathways to Diversification.

SHGs can affect the livelihood diversification in a number of interconnected ways:

- The working capital necessary to start or grow non-farm businesses (e.g., tailoring, petty retail, food processing) and supportive activities (e.g. dairy, poultry and fisheries) is available through regular savings and credit linkages (i.e. access to finance).
- Social Capital and Collective Action: Group rules, monitoring of the peers and supporting each other mitigate personal risks, and increase access to information and inputs.
- Skill Formation and Knowledge - Trainings, exposure visits and capacity building will help women obtain entrepreneurial and technical skills.
- Market Linkages- SHG production can be linked to markets by federations, cluster strategies and project-based interventions by using aggregation and branding strategies.
- Risk Management and Smoothing of Incomes- Diversified income patterns help to reduce the exposure to crop or seasonal shocks.

These channels suggest that SHGs are not only financial intermediaries, but also spaces of capacity building and group livelihood.

Objective

The current research will explore the importance and efficiency of Self-Help Groups in promoting livelihood diversification in rural India through their support to financial inclusion, enterprise development and income-generation relying on the latest administrative and empirical research.

Data and Methodology

1. Data Sources

The study employs only the secondary data sources based on the official publications by the government, reports of the institutions, and academic sources peer reviewed by scientists.

The key sources consist of:

- **Official Administrative Data-** Data on SHG mobilisation, coverage and institutional expansion was taken out of progress reports of the Deendayal Antyodaya Yojana - National Rural Livelihoods Mission published by the Ministry of Rural Development. The annual reports of the status of the microfinance in India published by the National Bank of Agriculture and Rural Development served as a source to come up with savings, credit disbursement, and outstanding loan figures as part of the SHG-Bank linkage programme.
- **Sectoral and Institutional Assessments,** Supplementary data and trend evaluation was done based on the sectoral publications such as the India Microfinance Review, the Bharat Microfinance Report, and independent programme evaluations such as those conducted by the Institute of Rural management Anand. Such documents can be used to give insights on credit trends, profile of borrowers, regional differences and institutional performance.
- **Academic Literature-** The peer-reviewed journal articles, working papers, and state-level empirical research studies by Indian scholars were analysed to identify the effects of SHGs on livelihood diversification, income improvement, women empowerment, and enterprise growth. Particular attention was given to the studies conducted in Uttarakhand, Uttar Pradesh, West Bengal, Tamil Nadu and Andhra Pradesh where SHG interventions are well-reported studies.

2. Methodological Approach

The research incorporates descriptive-analytical research based on the synthesis of secondary data. In the absence of primary survey data, systematic review, comparative analysis and triangulation of various data sources is a priority in the methodology. To identify the magnitude and increase of SHG mobilisation, savings accumulation and credit disbursement in the past few years, the administrative statistics were first looked into. Second, the results of the micro-level empirical research were reviewed to determine the level to which the

involvement of SHGs has affected occupational restructuring, business establishment, and the diversification of income and economic involvement of women.

The triangulation was used to increase the reliability, to compare (i) macro level administrative data of financial outreach and institutional coverage to (ii) micro level impact data of livelihood outcomes. Such a combined methodology will allow assessing quantitatively and qualitatively the impact of SHGs on the diversification of rural livelihood.

In general, the methodology provides an evidence-based, data-supported, view of how SHGs contribute to the economic transformation of rural areas and emphasizes the disparities and structural limitations existing on the regional level.

Outreach of SHGs Scale and Finance.

The SHG movement has grown so much within the last 10 years in India. DAY-NRLM official reporting states that, as of October 2024, there were nearly 90.87 lakh (9.087 million) SHGs mobilised in Day-NRLM, and that it included more than 10.05 crore (100.5 million) women, a national-level network that supports the economic activity of women.

Credit has been disbursed to SHGs and individual micro-borrowers under the broader SHG-Bank Linkage Programme and the related microfinance channels and credit has dramatically increased. According to Economic Survey and NABARD publications, the credit linkage and savings mobilisation through the SHG model recorded a tremendous growth and the industry of micro finance recorded a gross loan portfolio of various lakh crore rupees in 2022-23 (MFIN and FIDC data).

These statistics are used to mark two boundaries with regard to diversification: (a) SHGs are there to deliver wide access to minuscule savings and credit in rural India; and (b) the amount of money that is availed to SHG members is now adequate to invest in micro-enterprises and other related inputs of activities when efficiently directed.

Table 2: SHG–Bank Linkage Programme (Financial Performance 2022–23)

Financial Indicator	Amount
SHGs with Savings Accounts	1.19 crore
Total SHG Savings with Banks	₹58,893 crore
Annual Credit Disbursement (2022–23)	₹1.45 lakh crore
Outstanding SHG Loans	₹1.83 lakh crore
Percentage of Women Members	85%+

Source: NABARD, *Status of Microfinance in India 2022–23*

Indications of SHGs Facilitating Livelihood Diversification: Empirical Evidence.

1. Financial Access Start-Up and Expansion Capital.

The similar experience of Indian states indicates that SHGs significantly enhance access to the formal credit and minimize the use of informal moneylenders. The National Bank of Agriculture and Rural Development (NAABARD, 2023) cite the rise in credit flow to women in the rural area with the growth of the SHG-Bank Linkage Programme, with over 1.45 lakh crore being disbursed annually in 2022-23.

Micro-level research is an additional source. According to Saha and Ram (2014), more than 60% of the members of SHGs in West Bengal generated income through group loans used to acquire petty trade, tailoring, and livestock rearing. On the same note, Singh and Devi (2020) also discovered that SHG members of Uttar Pradesh deployed internal lending to invest in dairy and micro-enterprises, which minimised seasonal reliance on agricultural wages. Their results show that SHG credit access added to an average 18and22 percentage point in household non-farm income. These findings support the hypothesis that SHGs can be used to enter into capital formation by resource-poor households.

2. Skills and Enterprise Promotion.

In addition to ease of access to credit, self-help groups (SHGs) in the Deendayal Antyodaya Yojana -National Rural Livelihoods Mission (DAY-NRLM) systematically incorporate modules of capacity-building and skill-development. A self-governing evaluation by the Institute of Rural Management Anand (IRMA, 2022) confirmed that organized training

programme combined with enterprise planning support and technical advice significantly enhanced the existence rates of enterprises formed by SHG.

Employment diversification has also been further expanded by the overlap of DAY-NRLM with the Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY). The Ministry of Rural Development (2023) reports that DDU-GKY has trained more than 1.3 million rural youths since its inception, and this percentage is a substantial percentage that come out of SHG households, thus assigning them to wage jobs in manufacturing, retail, and service sectors. However, according to IRMA (2022), the quality of training and the support of the post-training linkage to the market showed significant dissimilarity, and the results of the enterprises were uneven in the states.

3. Marketing and effect of a linkage and action.

The empirical research shows that access to credit does not necessarily lead to the sustainability of enterprises; the market access can be considered as a decisive factor. According to NABARD (2023), SHGs merged in Village Organisations and Cluster-Level Federations have enhanced credit absorption and scaling of their business ventures because of the collective procurement and marketing systems. Selected state level studies indicate that SHG-led dairy cooperatives and handicraft clusters were able to connect producers to formal value chains with the net result of 20to35 percent net return gains (MoRD, 2023). Conversely, the analysis conducted by IRMA (2022) found out that most SHG businesses in regions where value-chain integration was not established continued to be subsistence-based and had low profit margins. The findings highlight the importance of the centrality of aggregation, branding and institutional market linkage support as key determinants of success of diversification.

4. Income Outcomes and Women Labour Force participation.

The involvement of SHG has always been linked with increased women economic participation. As NABARD (2023) observes, more than 85% of the SHG membership is composed of women and more access to the institutional finance has strengthened the role of women in household income generation. Saha and Ram (2014) and Singh and Devi (2020) report positive results of SHG membership and greater female labour-force participation in non-farm self-employment and allied activities.

The Bharat Microfinance Report (Sa-Dhan, 2023) also notes that the assets acquired and diversified to secondary jobs because of sustained SHG participation show better savings

behaviour and greater asset acquisition by the households. Although the size of income effects depends on region and study design, the current level of empirical evidence shows that there is a statistically significant association between SHG participation and higher non-farm income shares of between 15 and 25% on a case-by-case basis.

Summary of Findings

The empirical evidence always suggests that SHGs help in diversifying livelihoods in rural areas as a result of four main mechanisms, namely, (i) access to cheaper credit to develop micro-enterprises, (ii) training and supporting entrepreneurship, (iii) promoting market access and chain integration, and (iv) supporting the inclusion of women in income-generating ventures. Impact however differs according to regions based on institutional capacity, market infrastructure and overlap with complementary development programmes.

- SHG coverage (DAY-NRLM): about 90.87 lakh SHGs and 10.05 crore women (MoRD).
- Microfinance portfolio: Total microfinance sector gross loan portfolio stood at approximately ₹3.5–3.6 lakh crore (MFIN, 2024)
- SHG-Bank Linkage growth: NABARD and Economic Survey note the constant credit linkage and savings mobilisation growth under SHG-BLP in the period FY13-FY22. The aggregate savings and credit volumes have shown a growing trend.
- These indicators are used to show how many financial resources are available using SHGs and how that money can be used to finance activities of diversification.
- Diversity in results: what SHGs are effective at promoting diversification?
- SHGs do not equally facilitate the diversification of livelihoods. Major distinctions that have surfaced as a result of Indian evidence are:
- Value-chain participation: SHGs that become a part of organised value chains (e.g. dairy, horticultural processing, handicrafts with buyer-linkages) show better enterprise performance (IRMA assessment).
- Market and infrastructure: The connection to a geographic location is important: SHGs in more connected districts are able to move to the market-oriented activities easier (state case studies).
- SHGs adopting digital payment and bookkeeping (e.g. e.Shakti/Digital SHG initiatives) experience better efficiency and access to formal credit.

- Federation and institutional support: Federation and institutional support, Higher-order institutions (village organisations, block-level federations) are responsible in offering business development services and market linkages which are important in scaling (NRLM design).

Challenges and Limitations.

With mass mobilisation and money transfers, there are a number of limitations to transformative potential of SHGs in terms of the issue of long-lasting livelihood diversification:

- **Market Access & Value-Chain Integration:** SHG businesses continue to be supply-constrained, having small quantities, sporadic quality, and lack of reliable buyers. There is an unbalanced process of aggregation and branding.
- **Working Capital & Credit Adequacy:** SHG loans are commonly start-up or consumption smoothing, but inadequate as working capital to scale enterprises, bigger business credit is not easily available.
- **Skill and Business Development Services (BDS):** There are poor quality training and follow up mentoring with one time training not always turning into profitable businesses.
- **Heterogeneous State Implementation:** Outcomes are very different across states because of the difference in governance and market structures as well as complementary public investments.
- **Social Exclusion and Marginality:** SHGs have not been successful in targeting and long-term empowering the most marginalised families in certain tribal and remote areas without customised targeting.

Policy and programmatic recommendations.

In accordance with the analysis of Indian evidence synthesis and administrative data, the following recommendations could be offered in order to enhance SHGs contribution to livelihood diversification:

1. Increase market connections and value-chain support.

Invest into aggregation facilities (collection centres, horticulture/dairy cold chains) and encourage SHG clusters to be bought-in by the private sector. Use government procurement and cooperatives to establish predictable demand (e.g. government schemes which buy SHG federation). It has been shown that SHGs that are incorporated in value chains perform.

2. Enterprise development services and incubation.

Playing past one-off trainings: create incubation centres and mentorship programs at block/district level that can offer BDS and bookkeeping as well as market intelligence. The evaluation of IRMA presupposes the necessity of continued handholding.

3. Enhance the availed graduated finance products.

Connect successful SHG enterprises to formal credit lines (cooperative banks, small business lines) with streamlined collateral norms and blended risk-sharing instruments to offer working capital, in addition to micro loans. The trends in NABARD and microfinance sector indicate that there is a void in enterprise finance in the medium term.

4. Rapid internet adoption and payment that is digitally literate and is secured.

Scale up e- Shakti and other digitalisation programs and invest in digital literacy in the country so that women are able to access e-finance in order to make procurement purchases, sales receipts, and bookkeeping. The use of digital enhances the transparency and formal services accessibility.

5. Geographical marginalized areas Support.

In tribal/remote districts (more subsidy on infrastructure, mobile value-chain units, special technical assistance), design differentiated interventions. The results of the IRMA show that there is geographic heterogeneity in the performance of NRLM.

India (in brief) Case examples.

- **Cluster approach in dairy:** In the states where SHGs were organized into producer groups and connected to dairy cooperatives, dairy income increased and offered stable cash flows to decrease regular reliance on farm income during the seasons (state evaluation evidence).
- **Poultry & small livestock:** Some projects recorded at the village level involved the conversion of internal SHG credit into poultry units to provide women with consistent incomes and helps them to stop relying on informal work in the field.

Future research recommendations.

Although the literature on administration and program is abundant, it has some gaps:

- Long-term income dynamics causality of Long-term longitudinal studies are required to determine whether diversification due to SHG causes continued income mobility (not just a short-term smooth).

- Sectoral comparative research- Comparative ROIs of the various sectors promoted by SHG (dairy vs. retail vs. processing) would inform the prioritisation.
- Digitalisation effects Rigid assessments of e-Shakti/digital payment implementations on business performance and access to credit.
- Inclusion metrics Research that breaks down SHG effects by caste, tribe, and landholding size to develop more inclusive interventions.

Conclusion

The SHG model in India has established an institutional platform of mobilisation of women, savings mobilisation and distribution of micro-credit, never seen before in rural India. Recent administrative statistics indicate that tens of millions of women are being organised into SHGs by NRLM and the growing list of programmes of the microfinance sector verifies the financial profundity of these networks. As synthesised evidence below points, SHGs are able and do mediate livelihood diversification in three ways: via finance, skills and collective action. Their effectiveness in the process of converting membership to scalable, market-based livelihoods differs quite a bit, however, by sector, geography, and the quality of the services they provide in support. To make the most out of SHGs as diversification drivers, the policy should go beyond the formation of groups and bridging of credit to offer market integration, long-term enterprise development services, graduated finance products, and specific interventions to the most marginalised regions. When these elements coincide, SHGs have a good opportunity to create rural vulnerability, enhance women income and create resilient diversified livelihoods in rural India.

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