



## Role of Self-Help Groups (SHGs) in Promoting Women Entrepreneurship

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### Abstract

Self-Help Groups have emerged as a transformative mechanism for empowering women economically and socially in developing countries, particularly in India. This paper examines the multifaceted role of SHGs in promoting women entrepreneurship by analyzing their impact on financial inclusion, skill development, social capital formation, and market access. Through an exploration of existing literature, case studies, and empirical evidence, this research demonstrates that SHGs serve as effective platforms for fostering entrepreneurial capabilities among women, particularly those from marginalized communities. The findings reveal that while SHGs have significantly contributed to women's economic empowerment, challenges related to sustainability, scalability, and market integration persist and require policy interventions.

### 1. Introduction

Women entrepreneurship has increasingly been recognized as a critical driver of economic growth, innovation, and social development. However, women entrepreneurs, especially in developing economies, face multiple barriers including limited access to financial resources, lack of business skills, restricted mobility, cultural constraints, and insufficient market networks. Self-Help Groups have emerged as a grassroots institutional innovation that addresses many of these barriers by providing a collective platform for women to access credit, develop skills, build social capital, and initiate entrepreneurial ventures.

The concept of Self-Help Groups gained prominence through the efforts of organizations like the Self-Employed Women's Association (SEWA) in India during the 1970s and was subsequently mainstreamed through the SHG-Bank Linkage Programme initiated by NABARD in 1992. Today, millions of women across Asia, Africa, and Latin America participate in SHGs, making it one of the largest microfinance movements globally.

This paper investigates how SHGs contribute to women entrepreneurship development through various mechanisms and explores the challenges and opportunities associated with this model of empowerment.

### 2. Conceptual Framework

#### 2.1 Defining Self-Help Groups

Self-Help Groups are voluntary associations of 10-20 individuals from similar socio-economic backgrounds who come together to address their common problems through mutual help and collective action. Members regularly save small amounts and create a common fund from which they can borrow for productive and emergent purposes. The fundamental principles of SHGs include:

- Voluntary participation and democratic functioning
- Regular savings and internal lending
- Mutual trust and collective responsibility
- Capacity building and skill development
- Linkage with formal financial institutions

#### 2.2 Women Entrepreneurship: Defining the Terrain

Women entrepreneurship refers to the creation, organization, and management of business enterprises by women. It encompasses a spectrum from microenterprises and subsistence businesses to growth-oriented ventures. For the purposes of this analysis, women entrepreneurship is understood broadly to include income-generating activities initiated and managed by women, whether individually or collectively.

#### 2.3 Theoretical Underpinnings

The relationship between SHGs and women entrepreneurship can be understood through several theoretical lenses: **Social Capital Theory** suggests that networks, norms, and trust embedded in social relationships facilitate collective action and provide access to resources. SHGs create bonding social capital among members and bridging social capital with external institutions.

**Feminist Economics** emphasizes how gender relations shape economic opportunities and constraints. SHGs challenge patriarchal economic structures by creating women-controlled economic spaces.

**Capability Approach** (Sen, 1999) focuses on enhancing individuals' freedoms and capabilities to achieve valued

functionings. SHGs expand women's capabilities by providing access to resources, knowledge, and decision-making power.

**Microfinance Theory** posits that providing financial services to the poor can unleash entrepreneurial potential. SHGs operationalize this through collective lending mechanisms that reduce transaction costs and risks.

### 3. The SHG Model: Structure and Operations

#### 3.1 Formation and Functioning

The typical SHG follows a structured process of formation and growth:

**Stage 1: Group Formation** involves identifying potential members, usually facilitated by NGOs, government agencies, or community organizers. Members are selected based on criteria such as economic status, geographic proximity, and willingness to participate.

**Stage 2: Savings and Internal Lending** focuses on developing the savings habit and establishing internal lending mechanisms. Members contribute regular savings, and the accumulated fund is lent to members at nominal interest rates for productive or consumption purposes.

**Stage 3: Bank Linkage** occurs after the group demonstrates financial discipline, typically after six months to a year. Banks provide credit to the group as a whole, often without collateral, based on the group's savings record and repayment history.

**Stage 4: Entrepreneurship Development** emerges as members gain access to larger amounts of credit, develop business skills, and identify market opportunities. Some groups transition to collective enterprises.

#### 3.2 The SHG-Bank Linkage Programme

Initiated by NABARD in India, this programme has become the world's largest microfinance initiative. Under this model, banks extend credit to SHGs without requiring traditional collateral, relying instead on peer pressure and group guarantee for repayment. The programme has three variants: SHGs formed and financed by banks, SHGs formed by NGOs but directly financed by banks, and SHGs financed by banks using NGOs as financial intermediaries.

### 4. Role of SHGs in Promoting Women Entrepreneurship

#### 4.1 Financial Inclusion and Access to Credit

The most direct contribution of SHGs to women entrepreneurship is improving financial inclusion. Traditional financial institutions often exclude women due to lack of collateral, credit history, or formal employment. SHGs address this gap through several mechanisms:

**Mobilization of Savings:** Regular savings inculcate financial discipline and create a corpus that can be accessed for entrepreneurial ventures. This is often the first time many women have control over financial resources.

**Access to Formal Credit:** Through bank linkages, SHG members access larger loans at reasonable interest rates compared to informal moneylenders. Studies indicate that women who are SHG members are significantly more likely to access formal credit than non-members.

**Flexible Lending Terms:** Internal lending within SHGs offers flexibility in terms of loan purpose, repayment schedules, and minimal paperwork, making it easier for women to experiment with small business ideas.

**Reduced Transaction Costs:** The group-based approach reduces transaction costs for both lenders and borrowers, making small loans economically viable.

Research from the National Bank for Agriculture and Rural Development (NABARD) indicates that approximately 30-40% of loans from SHGs are utilized for income-generating activities including small businesses, livestock rearing, agricultural activities, and trading.

#### 4.2 Skill Development and Capacity Building

SHGs serve as platforms for continuous learning and skill development through:

**Financial Literacy:** Members learn bookkeeping, budgeting, understanding interest rates, and financial planning. These skills are fundamental for managing business finances.

**Technical Skills Training:** Many SHGs, particularly those promoted by NGOs or government programs, organize training in specific trades such as tailoring, handicrafts, food processing, and agriculture. These skills form the foundation for entrepreneurial ventures.

**Business Management Skills:** Through exposure to enterprise development programs, SHG members learn market assessment, pricing strategies, quality control, and customer management.

**Leadership and Communication:** Regular group meetings develop communication skills, confidence in public speaking, and leadership abilities essential for negotiating with suppliers, customers, and financial institutions.

The iterative process of group functioning itself becomes a training ground where women learn organizational management, conflict resolution, and collective decision-making.

#### **4.3 Social Capital and Network Formation**

SHGs create valuable social capital that supports entrepreneurship:

**Peer Support and Learning:** Members share knowledge, experiences, and problem-solving strategies. Successful entrepreneurs within the group serve as role models and mentors.

**Collective Bargaining Power:** Groups negotiate better prices for raw materials through bulk purchasing and secure better market access through collective marketing.

**Risk Mitigation:** The collective nature of SHGs provides psychological and financial support during business setbacks, reducing the fear of failure that often inhibits entrepreneurship.

**Information Networks:** SHG networks facilitate information flow about market opportunities, government schemes, training programs, and technological innovations.

**Bridging Relationships:** Through federations and linkages with NGOs, banks, and government agencies, SHGs connect members to resources and opportunities beyond their immediate community.

#### **4.4 Empowerment and Confidence Building**

The psychological dimension of entrepreneurship development cannot be underestimated:

**Decision-Making Power:** Regular participation in group meetings enhances women's confidence in expressing opinions and making decisions, skills that translate to business management.

**Economic Independence:** Earning income through self-initiated ventures increases women's self-esteem and bargaining power within households.

**Mobility and Public Space:** SHG activities often require women to travel, interact with officials, and participate in public forums, breaking traditional mobility restrictions.

**Role Transformation:** The identity shift from being solely homemakers to entrepreneurs and group leaders challenges gender stereotypes and creates new possibilities.

Studies have documented that SHG participation correlates with increased household decision-making power, greater control over income, and enhanced social status within communities.

#### **4.5 Market Linkages and Value Chain Integration**

Successful entrepreneurship requires market access, which SHGs facilitate through:

**Collective Production:** Some SHGs undertake collective production, achieving economies of scale that make their products competitive.

**Market Information:** Federation structures and NGO support provide market intelligence about demand trends, pricing, and quality standards.

**Government Procurement:** Various government schemes prioritize products from SHGs, providing assured markets for items ranging from school uniforms to agricultural produce.

**Exhibition and Retail Platforms:** Organizations create platforms like SHG bazaars, exhibitions, and retail outlets that showcase SHG products.

**Digital Marketing:** Increasingly, SHG federations are leveraging e-commerce platforms to reach wider markets. However, market integration remains one of the most challenging aspects of SHG-based entrepreneurship, with many enterprises struggling to compete with mass-produced alternatives.

### **5. Empirical Evidence and Case Studies**

#### **5.1 Quantitative Evidence**

Numerous studies have documented the impact of SHGs on women entrepreneurship:

A comprehensive study by the World Bank examining SHG programs in India found that participation in SHGs increased the likelihood of women starting a business by approximately 20%. The study also noted improvements in household income, with SHG members' households showing 10-15% higher income compared to non-member households. Research published in the Journal of Development Economics analyzing data from several Indian states found that SHG membership significantly increased women's labor force participation in self-employment, with the effect being strongest among women from lower-income households. NABARD's impact assessment studies have consistently shown positive outcomes, with approximately 80-85% of SHGs reporting improved economic conditions and 30-40% of members establishing income-generating activities. A longitudinal study tracking SHG members over five years found that sustained participation correlated with progression from subsistence activities to sustainable microenterprises, with approximately 25% of long-term members running businesses generating monthly incomes above the poverty line.

## 5.2 Qualitative Case Studies

### Case Study 1: Kudumbashree in Kerala, India

Kudumbashree, meaning "prosperity of the family," is a state-led poverty eradication program in Kerala that operates through a three-tier SHG structure. The program has organized over 4 million women into approximately 300,000 SHGs. These groups have launched diverse enterprises including catering services, cleaning services, farming collectives, and manufacturing units. The success factors include strong government support, systematic training programs, market linkages through government contracts, and a robust three-tier organizational structure that provides support at neighborhood, ward, and district levels.

### Case Study 2: SEWA (Self-Employed Women's Association)

SEWA, founded in Gujarat in 1972, pioneered the SHG movement in India. It organized women in the informal sector into trade-based groups that evolved into entrepreneurial collectives. SEWA's model integrates financial services (through SEWA Bank), capacity building, market linkages, and policy advocacy. Notable successes include the development of sustainable enterprises in embroidery, dairy farming, and vegetable vending. SEWA demonstrates how SHGs can scale from survival enterprises to sustainable businesses when supported by comprehensive services.

### Case Study 3: Dairy Cooperatives in Maharashtra

Women's dairy SHGs in Maharashtra have transformed milk production into a viable entrepreneurial activity. By collectively procuring cattle, accessing veterinary services, and marketing milk through cooperatives, women have created sustainable income sources. The key to success has been technical support in animal husbandry, assured markets through dairy cooperatives, and collective bargaining for fair prices.

## 5.3 Sectoral Patterns

SHG entrepreneurship shows distinct sectoral patterns:

**Agriculture and Allied Activities:** This includes dairy farming, poultry, fisheries, mushroom cultivation, and kitchen gardening. These ventures leverage women's existing knowledge and require modest initial investments.

**Handicrafts and Handlooms:** Traditional crafts like weaving, embroidery, pottery, and basket-making are popular SHG activities, though market competition and price pressures remain challenges.

**Food Processing:** Pickle-making, spice processing, snack production, and catering services are common as they build on domestic skills and have ready markets.

**Services:** Tailoring, beauty services, cleaning services, and childcare centers represent the growing service sector entrepreneurship among SHGs.

**Retail and Trading:** Small shops, vegetable vending, and collective procurement and sales of consumer goods have emerged as viable activities.

## 6. Challenges and Limitations

Despite significant achievements, SHGs face multiple challenges in promoting sustainable entrepreneurship:

### 6.1 Financial Constraints

**Limited Credit Amounts:** While SHGs improve access to credit, loan amounts are often insufficient for establishing medium-scale enterprises or investing in modern technology.

**Consumption vs. Production Credit:** A significant portion of loans is used for consumption needs rather than productive investments, limiting entrepreneurship development.

**Revolving Credit Trap:** Some members remain in a cycle of borrowing and repaying without accumulating sufficient capital for substantial business ventures.

**Bank Linkage Gaps:** Not all SHGs successfully link with banks, and among those that do, credit flow is sometimes irregular or insufficient.

### 6.2 Skill and Knowledge Gaps

**Limited Business Acumen:** Many SHG members lack advanced business skills such as financial management, marketing, and strategic planning necessary for scaling enterprises.

**Technology Adoption:** Low digital literacy and limited exposure to modern production technologies constrain productivity and competitiveness.

**Quality Standards:** Products often fail to meet market quality standards, limiting market access to local or government procurement channels.

### 6.3 Market-Related Challenges

**Limited Market Access:** Most SHG enterprises serve local markets with limited reach to urban or export markets.

**Marketing Skills:** Weak marketing capabilities, including packaging, branding, and promotion, hinder competitiveness.

**Price Competition:** SHG products often cannot compete on price with mass-produced alternatives, limiting market share.

**Value Chain Integration:** Many enterprises remain at the lower end of value chains, capturing minimal value-addition.

#### **6.4 Structural and Organizational Issues**

**Time Poverty:** Women's multiple roles as household managers, caregivers, and workers limit time available for entrepreneurial activities.

**Group Dynamics:** Internal conflicts, dominance by certain members, or social hierarchies within groups can impede collective action.

**Leadership Concentration:** In some SHGs, leadership and benefits concentrate among a few members rather than being distributed.

**Dependency Culture:** Over-reliance on subsidies and government support can create dependency rather than entrepreneurial independence.

#### **6.5 Socio-Cultural Barriers**

**Patriarchal Resistance:** Male family members may resist women's entrepreneurship, limiting their mobility, decision-making, and control over income.

**Gender Role Expectations:** Social norms that prioritize domestic responsibilities over economic activities constrain women's entrepreneurial aspirations.

**Mobility Restrictions:** Cultural restrictions on women's movement limit their ability to access markets, training, and business networks.

**Caste and Class Dynamics:** Social hierarchies can create barriers to collective action and market access for SHGs comprising marginalized communities.

#### **6.6 Policy and Implementation Gaps**

**Bureaucratic Hurdles:** Complex procedures for accessing government schemes and credit programs create barriers.

**Inadequate Support Services:** Insufficient extension services, technical support, and mentoring limit enterprise development.

**Sustainability of Promoting Institutions:** NGOs and government agencies promoting SHGs often lack resources for long-term handholding support.

**Monitoring and Evaluation:** Weak monitoring systems fail to identify and address problems promptly, allowing non-performing groups to persist.

### **7. Policy Recommendations**

To enhance the effectiveness of SHGs in promoting women entrepreneurship, the following interventions are recommended:

#### **7.1 Financial System Strengthening**

**Increase Credit Limits:** Banks should provide adequate credit proportional to business requirements rather than token amounts, possibly through tiered lending based on business plans and track records.

**Flexible Credit Products:** Develop specialized credit products for entrepreneurship with appropriate grace periods, repayment schedules aligned with business cycles, and working capital facilities.

**Risk Mitigation Mechanisms:** Establish credit guarantee funds and insurance schemes to protect both borrowers and lenders from business failures.

**Alternative Credit Scoring:** Develop credit assessment mechanisms that value SHG participation, business potential, and non-traditional collateral.

#### **7.2 Capacity Building Initiatives**

**Comprehensive Skill Development:** Design multi-level training programs covering technical skills, business management, financial literacy, digital skills, and market intelligence.

**Mentorship Programs:** Establish mentoring systems connecting SHG entrepreneurs with successful businesswomen and industry experts.

**Exposure Visits:** Organize visits to successful enterprises, exhibitions, and production centers to broaden perspectives and inspire innovation.



**Digital Literacy:** Prioritize digital skills training to enable access to online markets, digital payments, and business tools.

### 7.3 Market Development Support

**Dedicated Marketing Support:** Create specialized marketing cells within SHG federations to handle branding, quality certification, packaging, and market linkages.

**Government Procurement:** Expand reservation quotas for SHG products in government procurement and ensure timely payments.

**E-commerce Integration:** Partner with e-commerce platforms to create dedicated sections for SHG products with logistical and technical support.

**Quality Certification:** Facilitate access to quality certification, organic labels, and geographical indication tags that command premium prices.

**Common Facility Centers:** Establish shared production facilities, testing laboratories, and packaging units to improve quality and reduce costs.

### 7.4 Institutional Strengthening

**Federation Development:** Strengthen SHG federations at block, district, and state levels to provide economies of scale, collective bargaining power, and professional management.

**Professional Management:** Introduce professional management support for federations while maintaining democratic governance by SHG members.

**Convergence with Other Programs:** Better integrate SHG programs with skill development initiatives, startup schemes, and industry development programs.

**Legal Status:** Facilitate registration of SHGs and their enterprises as legal entities to access formal business opportunities and contracts.

### 7.5 Social and Cultural Interventions

**Gender Sensitization:** Conduct awareness programs for families and communities to reduce resistance to women's entrepreneurship.

**Role Model Promotion:** Highlight successful women entrepreneurs from SHGs to inspire others and challenge stereotypes.

**Childcare Support:** Provide childcare facilities to reduce the burden of domestic responsibilities on women entrepreneurs.

**Safe Mobility:** Ensure safe transportation and work environments for women engaged in entrepreneurial activities.

### 7.6 Policy and Governance Reforms

**Simplified Procedures:** Streamline processes for accessing credit, subsidies, and government schemes, possibly through single-window systems.

**Evidence-Based Policy:** Invest in rigorous impact evaluation to identify what works and inform policy design.

**Adequate Budgetary Allocation:** Ensure sufficient and timely funding for SHG promotion, capacity building, and support services.

**Grievance Redressal:** Establish accessible mechanisms for addressing complaints and resolving disputes.

## 8. The Road Ahead: Future Directions

The evolution of SHGs as instruments for women entrepreneurship will likely be shaped by several emerging trends and opportunities:

### 8.1 Technology Integration

Digital technologies offer transformative possibilities for SHG entrepreneurship. Mobile banking and digital payment systems can streamline financial transactions and reduce dependency on physical banking infrastructure. E-commerce platforms provide access to national and international markets previously beyond reach. Digital training modules and webinars enable cost-effective skill development. Social media marketing allows low-cost brand building and customer engagement. Blockchain technology could potentially strengthen supply chain transparency and fair trade certification.

### 8.2 Sectoral Diversification

While traditional sectors will remain important, opportunities exist in emerging sectors such as renewable energy (solar lamp assembly, biogas plant management), organic farming and food processing, healthcare services (community health workers, diagnostic centers), environmental services (waste management, recycling), and technology services (data entry, digital literacy training).

### **8.3 Value Chain Upgrading**

Moving beyond primary production to processing, packaging, branding, and direct marketing will be crucial for capturing higher value. Producer companies and cooperatives can facilitate this transition by providing the scale and professional management needed for value-addition.

### **8.4 Integration with Formal Economy**

Strengthening linkages between SHG enterprises and formal sector businesses through supplier relationships, contract manufacturing, and franchise models can provide stable markets and technology transfer while allowing SHGs to benefit from established brand equity and distribution networks.

### **8.5 Climate-Resilient Entrepreneurship**

As climate change impacts livelihoods, SHGs can play a role in promoting climate-resilient enterprises such as drought-resistant crop cultivation, water conservation technologies, sustainable agriculture practices, and climate adaptation services.

### **8.6 Social Entrepreneurship**

SHGs are well-positioned to develop social enterprises that address community needs while generating income, such as community health services, educational support programs, environmental conservation initiatives, and services for elderly care.

## **9. Conclusion**

Self-Help Groups have demonstrated significant potential as vehicles for promoting women entrepreneurship, particularly among marginalized communities in developing countries. By addressing multiple barriers simultaneously—financial exclusion, skill gaps, social isolation, and psychological constraints—SHGs create an enabling ecosystem for women's entrepreneurial aspirations to flourish.

The evidence reviewed in this paper indicates that SHGs contribute to women entrepreneurship through several pathways. They improve financial inclusion by mobilizing savings and facilitating access to formal credit on reasonable terms. They serve as platforms for skill development and capacity building, enhancing both technical and business management capabilities. They create social capital through networks of mutual support, collective learning, and shared resources. Perhaps most importantly, they foster empowerment and confidence, transforming women's self-perception and expanding their sense of possibility.

However, the analysis also reveals significant challenges. Many SHG enterprises remain small-scale and subsistence-oriented, struggling to graduate to sustainable businesses that generate substantial income. Market access, quality standards, and price competitiveness pose persistent challenges. Socio-cultural barriers continue to constrain women's entrepreneurial agency. Policy implementation gaps and inadequate support services limit the realization of SHGs' full potential.

Moving forward, a comprehensive approach is needed that combines financial system strengthening, intensive capacity building, robust market development support, institutional strengthening, and socio-cultural transformation. Technology integration, sectoral diversification, value chain upgrading, and climate resilience should shape the future evolution of SHG entrepreneurship.

The fundamental insight emerging from this analysis is that SHGs work best not as standalone interventions but as components of a comprehensive ecosystem for women's economic empowerment. When integrated with appropriate policy support, adequate financial services, quality training programs, market linkages, and social transformation efforts, SHGs can indeed serve as powerful instruments for unleashing women's entrepreneurial potential.

The success of SHGs in promoting women entrepreneurship ultimately depends on recognizing that entrepreneurship development is not merely about providing credit or training, but about transforming power relations, challenging gender norms, and creating spaces where women can exercise agency, take risks, and realize their economic aspirations. In this holistic perspective, SHGs represent not just a microfinance mechanism but a social movement for women's empowerment and economic justice.

As millions of women continue to participate in SHGs across the developing world, their collective journey from savings groups to entrepreneurial networks offers valuable lessons about bottom-up development, the power of collective action, and the centrality of women's agency in building inclusive and sustainable economies. The challenge for policymakers, practitioners, and researchers is to build on these achievements while addressing persistent gaps, ensuring that the promise of SHGs as catalysts for women entrepreneurship is fully realized.



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