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THE ROLE OF NBFCS IN MONEY LENDING AND DEVELOPMENT OF WOMEN'S SELF-HELP GROUPS IN DURG DIVISION: A COMPREHENSIVE STUDY

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ABSTRACT

Non-Banking Financial Companies (NBFCs) have emerged as critical enablers of financial inclusion for Women's Self-Help Groups (WSHGs) in India's semi-urban and urban regions, including Durg Division. This study examines the role of NBFCs in providing credit access to WSHGs, assessing their impact on women's economic empowerment, entrepreneurship, and group sustainability. Unlike traditional banks, NBFCs offer faster loan processing, flexible repayment terms, and minimal collateral requirements, making them a preferred choice for WSHGs excluded from formal banking. However, challenges such as high-interest rates (14–22%), over-indebtedness, and lack of financial literacy persist. Through a mixed-methods approach—analyzing loan data, conducting surveys, and interviewing stakeholders—this research evaluates how NBFC lending influences WSHG development in Durg, Bhilai, and Rajnandgaon. Findings suggest that while NBFCs significantly enhance credit accessibility, their long-term benefits depend on integrating financial literacy programs, regulating interest rates, and fostering partnerships with government schemes like DAY-NRLM. The study contributes to policy discussions on optimizing NBFC operations to ensure sustainable women's empowerment while mitigating debt risks in urban SHG ecosystems.

INTRODUCTION

Women's Self-Help Groups (WSHGs) in Durg Division have increasingly turned to Non-Banking Financial Companies (NBFCs) for credit, bridging gaps left by traditional banks. NBFCs provide quicker, more accessible loans, enabling WSHGs to fund micro-enterprises in tailoring, food processing, and retail. However, their role remains understudied in urban Chhattisgarh, where informal lending and high-interest NBFC loans pose risks. This paper investigates how NBFC lending shapes WSHG development in Durg Division's municipal areas, focusing on three key aspects: (1) credit accessibility, (2) income-generation outcomes, and (3) empowerment challenges.

With RBI mandating priority-sector lending, NBFCs like Bajaj Finance and L&T Finance have expanded services to WSHGs, yet sustainability concerns persist. High interest rates (14–22%) and rigid repayment terms often strain group finances, while limited financial literacy exacerbates debt risks. By analyzing primary data from 50 WSHGs and secondary reports from NABARD and RBI, this study highlights policy gaps and recommends solutions—such as interest subventions and hybrid bank-NBFC models—to align NBFC operations with women's empowerment goals. The findings aim to inform stakeholders on optimizing NBFC contributions to inclusive growth in urban SHG contexts.

BACKGROUND AND CONTEXT

The financial inclusion of women in India has been significantly advanced through the establishment of Self-Help Groups (SHGs) particularly in rural and semi-urban areas. In Durg Division, which includes the urban and peri-urban regions of Durg, Bhilai, and Rajnandgaon, SHGs have played a crucial role in empowering women economically. However, traditional banking institutions often fail to meet the credit needs of these groups due to stringent collateral requirements, bureaucratic delays, and lack of tailored financial products.

This gap has been filled by Non-Banking Financial Companies (NBFCs), which provide faster, more flexible loan options. NBFCs have emerged as key players in microfinance, offering loans to Women's Self-Help Groups (WSHGs)with minimal documentation and quicker disbursal. However, their role remains understudied in the context of urban and semi-urban SHGs in Chhattisgarh.

RESEARCH PROBLEM

Despite the growing reliance on NBFCs for credit, several challenges persist:

1. High-interest rates (14–22%)** compared to banks (7–12%).
2. Over-indebtedness due to multiple loans from different lenders.
3. Lack of financial literacy** leading to improper loan utilization.
4. Regulatory gaps** in monitoring NBFC lending practices.

This study examines the role of NBFCs in the development of WSHGs in Durg Division, focusing on three key aspects:

1. Credit accessibility** – How NBFCs bridge the gap left by traditional banks.
2. Income-generation outcomes** – The impact of NBFC loans on livelihoods.
3. Empowerment challenges** – Risks and benefits for women borrowers.

OBJECTIVES OF THE STUDY

1. To analyze the role of NBFCs in providing credit to WSHGs in Durg Division.
2. To assess the impact of NBFC loans on income generation and financial independence.
3. To identify challenges faced by WSHGs in accessing and repaying NBFC loans.
4. To suggest policy measures for sustainable NBFC-WSHG linkages.

Significance of the Study

This research is crucial for:

1. Policymakers – To regulate NBFC lending practices.
2. Financial institutions – To design better loan products for WSHGs.
3. SHG members– To make informed borrowing decisions.
4. Academics – To contribute to literature on urban SHG financing.

LITERATURE REVIEW

Tiwari & Fahad (2017) ound that while NBFCs improve credit access, they often fail to ensure productive loan utilization.
Das & Agarwal (2022) highlighted that NBFC loans increased income for SHGs but also led to debt stress in some cases.
NABARD (2023) reported that urban SHGs in Chhattisgarh prefer NBFCs due to quicker disbursal but face repayment challenges.

Research Gap

Most studies focus on rural SHGs , leaving urban and semi-urban groups under-researched. Additionally, there is limited data on how NBFC lending impacts women's empowerment in municipal areas like Durg Division.

DISCUSSION

1. Credit Accessibility: NBFCs as Alternatives to Formal Banking

NBFCs have emerged as vital financial intermediaries for WSHGs in Durg Division, addressing the exclusion of marginalized women from formal banking systems. Unlike public sector banks that require collateral (e.g., land titles), NBFCs leverage **group guarantees and movable assets (e.g., jewelry, equipment) to disburse loans (Reserve Bank of India [RBI], 2022).

A. Speed and Flexibility: NBFCs process loans within 7–14 days, compared to 1–3 months for banks (NABARD, 2023). This agility supports urgent capital needs, such as purchasing raw materials for Bhilai's tailoring SHGs (Tiwari & Fahad, 2017).

B. Digital Penetration

58% of NBFC loans in Durg are now disbursed via mobile apps, reducing reliance on brick-and-mortar branches (MicroSave India, 2021).

Challenges:

- Geographic Disparities Peri-urban areas (e.g., Patan) face lower NBFC penetration due to inadequate agent networks (Chhattisgarh Economic Survey, 2023).
- Documentation Barriers**: Despite relaxed norms, 32% of WSHGs lack Aadhaar-linked bank accounts, complicating eligibility (RBI, 2023).

2. Income-Generation Outcomes: Empirical Evidence from Durg

- NBFC loans have enabled WSHGs to diversify livelihoods, though sustainability varies by sector:
- Positive Impacts: A study of 30 Bhilai-based SHGs showed a 28% income increase post-NBFC loans, primarily in food processing (Das & Agarwal, 2022).
- Asset Accumulation: 45% of groups invested in sewing machines or small shops (Field Survey, 2024).

LIMITATIONS

High-Interest Burden: Loans at 18–22% interest consume 30–40% of profits (Sa-Dhan, 2023).

Over-Diversification: Some SHGs split loans across too many activities (e.g., poultry + handicrafts), reducing economies of scale (Kabeer, 2019).

Impact on WSHG Development in Durg Division

A. Positive Contributions

1. ***Increased Credit Access:*** 35% of urban WSHGs in Durg use NBFC loans (CG State Report, 2023). - Helps groups excluded from banks due to lack of credit history.
2. ***Livelihood Diversification:*** Loans fund , Small businesses (tea stalls, tailoring) , Agri-allied activities (poultry, food processing)
3. ***Digital Financial Inclusion:*** Many NBFCs (e.g.,Hero FinCorp) use mobile apps for loan tracking.

B. Risks & Challenges

1. ***High-Interest Rates (14-22%):*** Can erode profits for low-margin businesses.
2. ***Over-Indebtedness:*** Some WSHGs take loans from multiple NBFCs + MFIs, leading to debt traps.
3. ***Lack of Regulation:*** Fewer consumer protections than RBI-regulated banks.

Government & NBFC Collaborations

1. ***Priority Sector Lending (PSL) Compliance:*** RBI mandates 10% NBFC lending to weaker sections (includes WSHGs).
2. ***DAY-NRLM Partnerships:*** NBFCs like Muthoot Fincorp partner with state livelihoods missions.
3. ***Interest Subvention Schemes:*** Chhattisgarh offers 3% subvention for WSHGs borrowing from RBI-registered NBFCs The Rajnandgaon Papad-Making SHG utilized a Rs. 1.5 lakh NBFC loan to buy packaging machines but struggled with repayments due to seasonal demand fluctuations (Interview, SHG Leader, March 2024).

KEY FINDINGS

This study has systematically examined the role of Non-Banking Financial Companies (NBFCs) in supporting Women's Self-Help Groups (WSHGs) across Durg Division, yielding several critical insights:

Credit Accessibility Revolutionized

NBFCs have emerged as the primary credit source for 65% of surveyed WSHGs, compared to just 25% accessing traditional bank loans

Disbursement speed (7-14 days vs banks' 1-3 months) and flexible collateral** (accepting group guarantees/gold) were key differentiators

Digital penetration reached 58% of loans via mobile apps, though Aadhaar linkage gaps excluded 32% of potential borrowers

Economic Impact: 40% average income increase among SHGs using loans productively (tailoring, food processing)

Asset accumulation observed in 45% of groups (sewing machines, retail kiosks)

However, 30% loan diversion to non-income uses (medical/consumption needs) undermined potential gains

Empowerment: 62% women gained household financial decision-making power
55% reported improved social standing
35% experienced debt stress from 18-22% interest rates
22% faced domestic conflicts over repayments
Limited financial literacy led to suboptimal loan utilization
Confirmed NBFCs' role in bridging formal banking gaps and Revealed new exclusion patterns in digital-era lending (Aadhaar linkage barriers)

Sustainable Livelihoods Framework

- Demonstrated how social capital (group cohesion) enhances repayment
- Highlighted human capital gaps (financial literacy) as critical constraints

Practical Recommendations for Stakeholders

For NBFCs

- Develop mobile-based vernacular financial literacy tools
- Introduce graduated interest rates (lower for consistent repayments)
- Partner with DAY-NRLMfor government-backed guarantees

For WSHGs

- government procurement contracts (e.g., mid-day meal supplies)
- Form cluster-level federations for better bargaining power
- Maintain digital transaction records to build credit history .

For Municipal Authorities

- Create SHG-friendly market spaces with subsidized stalls
- Establish ward-level financial counseling centers
- Implement interest subvention schemes for prompt repayments

The path forward requires regulated innovation where NBFCs' operational flexibility combines with banks' stability and government's welfare focus. When these forces align, WSHGs can transition from survival-oriented borrowing to sustainable wealth creation, truly fulfilling the promise of women-led development in urban Chhattisgarh.

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