

## Formation and linking of Self Help Groups(SHG)



### SHG- CONCEPT

- Informal group of 15 to 20 members linked by caste, community, proximity, activity etc.
- Regular meets, savings and credit major obj.
- Add on are group econ activities, literacy, environment and gender issues, employment in rural infrastructure
- Democratic leadership and group decisions on every aspect
- Strict discipline in attendance, savings and repayment - Penalties for default

### SHG- CONCEPT (*continued*)

- Account and minute books, individual pass books, bank account maintenance
- Loans for education, house repairs, repayment of loans, medical treatment, social obligations, emergency etc.
- Loans for productive investments
- Instrument for easy access to bank credit
- Peer pressure for 100% repayment
- Collective learning and empowerment

### Why SHG?

Access to credit with honour

Proven concept in South and South Eastern Asia.

Poverty removal thro' empowerment

Transaction cost for both to Bank and Borrower is minimised

Participatory decisions

100 % Recoveries reported every where

Easy to organise Credit+ linkages around SHGs.

## Adoption of SHG Principles by other groups

DWCRA  
Watershed Groups  
Water Users Associations  
Literacy Groups  
Environment Groups  
Youth Associations  
Mahila Mandals  
IRDP Groups

## Formation of SHGs-Phases

### Phase I

- Identification and formulation 0 to 4 months
  - Collecting information of Credit needs, Perception of poverty
  - Skills and markets available in the area
  - Husbands to be taken into confidence
  - at least two or three meetings and solving all the doubts of the women
- Critical features at the end of Phase I
  - Regular meetings, attendance register, minute book
  - saving ledgers, individual saving pass books

## SHG Phase II- 4 to 15 months

Savings are regular and lending operations gather strength. The group decides the amount of saving, regular meetings etc  
Attendance nearly 100%  
Repayment regular  
Gender issues and other private and public issues raised and discussed  
Literacy classes are conducted  
Common Action programmes proposed  
Training in skills and group dynamics arranged

## SHG - Phase III- 15 to 36 months

So far NGO/Facilitators are helping SHGs but the withdrawal now begins.  
Groups maintain minutes and accounts on their own  
The groups ready to pay for services availed  
Move towards collective self reliance thro' clusters, Federations etc

### Indicators of group stability

indicator	Very strong	Moderate	Not very much
● Homogeneity	3	2	1
● Awareness obj	3	2	1
● Reg.of meet	3(75%)	2(50-75%)	1(50%)
● Attendance	3	2	1
● Reg.Saving	3	2	1
● Self discipline	3	2	1
● Participation	3	2	1
● % of memb.loan	3(30%)	2(30-60%)	1(60%)

### Indicators of Stability(2)

details	elected	mix	followers
● group type	3	2	1
● record keeping	3(New Lit)	2(Upper Cl)	1(Animator)
● Oper.Bk.Ac	3	2	1
● Loan Decision	3(by all)	2(ele.leader)	1(other)
● by laws	3 (W&S)	2 (O&S)	1 (O&L)
● emergency fund	1(YES)	0(no)	

### SHG LINKAGE TO BANKS

#### BENEFITS TO BANK BY LINKAGE

- Reduction in Transaction cost
- Externalisation of credit appraisal and monitoring
- Growth in deposits from growing individual savings
- Improved recovery climate
- Trained and motivated customers
- Maintaining and servicing one account instead of 20 accounts for Shg
- More advaces to weaker section
- Learning and experience
- Support to poverty alleviation programmes

### Benefits to SHG members(1)

- Freedom to choose activities
- Instrument to save regularly
- Forum to discuss socio econ problems of members
- Opportunity to undertake a group activity
- Facility to avail credit for either consumption or productive purpose
- Availability of credit even beyond office hours
- No security
- No margin money
- Affordable interest rate
- Minimal transaction cost

### **Benifits to SHG members(2)**

Participatory planning  
Empowered to participate in the development programmes  
Training in group dynamics, skills, leadership and entrepreneurship  
Backward and forward support by NGO  
Need based credit assistance from bank  
Grants and subsidies from Govt. programmes/NGOs

### **Role of Promotional agencies(NGO)**

Crucial role in formation, linkage and stabilisation of Shgs  
Provide support services like village survey, identification of members, motivation , training, guidance and record maintenance et  
Ensure democratic and transparent functioning  
facilitate development of groups in proper lines

### **Role of Promotional agencies(Banks)**

Provide funds in a quick and flexible manner  
Establish liasion with NGO/SHG and oversee the healthy functioning /smooth linkage of shgs  
Build confidence in NGOs/SAHGs  
make available profiles of bankable schemes

### **Role of Promotional agencies(NABARD)**

100 % refinance  
Promotional assistance to NGOS/BANKS/SHGS  
providing training opprtunities to ngo/shg/bank  
conducting studies, seminars and action-research projects  
creating policy environment for promotion of linkage of SHG/s with banks



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### **Linking of SHGs to Banks**

Prepare your bank for linking

- Train the staff
- Select the NGO
  - It should have a good track record
  - Book keeping and audited balance sheets for last 3 yrs
  - Basic financial management capability
  - Interest for promoting and working with groups of people belonging to weaker sections

### **Linking of SHGs to Banks(2)**

Selection of SHGs for linking

- No interference by local authority
- Satisfactory internal savings for 6 months
- Proper book keeping system and procedures for lending and savings
- Banks may have to train SHG members .
- Savings
  - Internal savings is the core of SHG. External Credit should not replace internal savings.

### **Linking of SHGs to Banks(3)**

loans

- For productive purposes & for personal needs
- no loan ceilings
- In the beginning loans are 1:1 gradually to 1:4 or more
- monthly repayments
- deliver credit in public and to groups

## **SHG BY GOVT**

**If NGOs can and BANKs can  
THEN Why can't the GOVT  
NGOs can't match the reach of  
Govt**

**Banks do not have the  
authority associated with Govt  
and VLWs.**

