# SELF HELP GROUPS

## INTRODUCTION

There has been a great deal of emphasis on poverty alleviation schemes by Government by expansion of rural credit through rural and semi urban branches of commercial banks after nationalization. The financial Institutions have laid more emphasis on schematic lending overlooking the credit for consumption requirements of the poor. As a result, there was large scale diversion of funds creating recovery problem to banks.

In our country, credit is being provided to the rural poor by a multitude of financial institutions like commercial banks, Regional rural Banks, Cooperatives etc., still a majority of rural poor depend on money lenders, Traders, and other informal credit institutions for their credit needs. The major complaint against formal credit institutions is the denial of required credit demanded by rural poor. In fact the rural poor are mostly illiterate and ignorant of Banks systems and procedures of lending.

Self Help Groups is a concept which has emerged in the direction of helping rural poor forming groups so that they will improve their living conditions through voluntary participation in thrift and credit. The core objective is FLEXIBILITY, TRANSPARENCY and AUTONOMY with SENSITIVEINESS and RESPONSIVENESS of participants.

## DEFINITION OF SELF HELP GROUPS (SHG):

SHG – Self Help Groups is a voluntary homogeneous group of 10 to 20 individuals from weaker sections, comprising small and marginal farmers, landless labourers and rural poor – engaged in agricultural, allied agricultural activities/small business in rural areas, having common interest (among other things, in promoting saving habit, developing self and community assets, improving women/weaker section empowerment etc.) who have voluntarily come forward to form into a group. It can be a formal or informal group. Members of SHG save and contribute to a common fund, from which small loans are lent to the needy members as per the decision of the group.

SHGs are formed with an emphasis on self-Help. SHGs inculcate thrift habit among the members by pooling savings of the members and resort to internal lending to them for meeting the needs of the members both for production as well as consumption purposes.

So, the concept underlines the principle of THRIFT (by way of compulsory savings) CREDIT and SELF HELP. Rural poor have the potential to save small amounts and have the inherent trait to help themselves through mutual trust and active participation.

In 1976, Prof. Mohammed Yunus of Bangladesh experimented the concept with success. In India, some NGOs (Non Government Organizations) introduced the scheme during 1987-89. NABARD took up the scheme on pilot project basis during 1991-92 and later extended it to all states in the country. At present the scheme is in operation throughout the country. The number of saving linked SHGs as on March 2012 stands at 7.96 million with a membership of over 103 million poor households. While bulk of the savings of these SHGs is used for internal lending within the group (over 70%), the balance, is maintained in the savings account with the financing Banks. The balance in the savings accounts of the financing banks as at the end of March 2012 stood at Rs.6551.41 crores. Further, over 4.36 million SHGs have now access to direct credit facilities from the banks and the total bank loans outstanding against these groups is over Rs.36340 crores as on 31$^{st}$ March 2012. State Bank of India started providing financial assistance to SHGs since 1996-97.

## STAGES OF GROUP DEVELOPMENT

1. <u>FORMING AND STORMING STAGE (0-3 MONTHS)</u>

During this period, people come; sit with suspicion, fear and anxiety. They have high expectations and attendance to meetings is also not regular. They depend a lot on the facilitator and raise several doubts. There will be conflicts between individual and group interests. Conflicts among members is also seen. During this period, membership gets stabilized, natural leadership starts emerging, norms and procedures are established, members start availing small loans and develop ownership feeling of the group.

2. NORMING STAGE (3-4 MONTHS)

Members develop mutual trust, group becomes cohesive. Peer pressure is applied and sustained. Members show concern about the task/performance and start assuming more group responsibilities.

3. FUNCTIONING AND DEVELOPING STAGE (6-12 MONTHS AND ABOVE)

Group starts performing various group functions that benefit the members. Members' participation is visible with high attendance. They start contributing to Group responsibilities and joint ventures. Capacity building is more visible through interactions with outsiders and group impact is felt by all members. At this stage, the group members do not only think about their welfare but also involve in social and cultural activities in the area. A perceptible change in the living style of the members and their families is noticed after this stage.

**Role of Government**:

- Formation of groups among rural poor.
- Provide revolving support to good groups.
- Capacity building and training support to SHGs.
- Support to group enterprises undertaken by SHGs.
- Empowering the poor (Financial and social)
- Create awareness among poor about SHGs.
- Providing forward and backward linkages.
- Marketing support for the products of SHGs.

**Role of Banks:**

- Provide credit to the groups for internal lending.
- Provide credit to the joint ventures undertaken by the groups.
- Provide credit to individual members of SHGs for income generating activities.
- Capacity building of staff members.
- Capacity building of SHGs through training and SHG meets.

**MODIFICATION IN CREDIT PRODUCT**

1. **Purpose of Bank loan**

Loan granted by the bank to the SHG is purpose neutral as the group decides the purpose for which loan can be given to its members. The Banks are expected to meet the entire credit requirements of SHG members for

1. Income generation activities
2. Social needs like housing, education, marriage, etc., and
3. Debt swapping etc.

2. **Cash credit/ overdraft for SHGs**

There are instances of non-sanction of repeat loans to SHGs, as also cases of limiting need based credit. Sanction of a cash credit/overdraft system of lending for SHGs for a longer operational tenure may therefore be adopted to overcome these issues and to permit SHGs to have larger loans in tune with increasing pooled savings. This approach will provide considerable flexibility to SHGs in meeting their frequent needs as well as help them in reducing their cost of borrowings.

Though the cash credit facility is to be sanctioned by the Bank to SHG, the sanction of credit by SHG to its individual members will be guided as per their terms and duration as decided by the groups. This is expected to remain unchanged and thus ensure continuance of financial discipline at the member level.

The following procedure should be adopted by branches for allowing cash credit limit to SHGs.

1. Cash credit facility may be sanctioned to SHGs for a period of 3 to 5 years based on the projected savings of SHGs upto the end of 3 to 5 years and thus avoiding repeated documentation.
2. Drawable limits for each year can be fixed within this aggregate ceiling as a multiple of actual pooled savings reached as per existing norms.

Example:

**FIXATION OF CASH CREDIT LIMIT (CCL) AND DRAWING POWER (DP) TO SHG**

| | | |
|---|---|---|
| 1 | Name of the SHG | Parvati svayam shayata samooh (SHG) |
| 2 | No. of SHG members | 15 |
| 3 | Periodicity of meeting and savings | Once a month |
| 4 | Monthly savings amount of each SHG member | Rs.100/- |
| 5 | Total monthly savings by the group | Rs.100 X15=Rs.1500/- |
| 6 | Projected savings of the group after 3 years | Rs.1500X36(month)=Rs.54,000/- |
| 7 | Four times of saving at the end of 3 years can be sanctioned as CCL | Rs.54,000 X 4 (times )=Rs.2,16,000/- |
| | Date of Formation of SHGs with holding first meeting and saving of the group | 01.07.2008 |
| | CCL sanctioned after six month on 01.01.2009 for a period of three years | Rs.2,16,000/- |
| | Fixation of Drawing power (DP) assuming that the group saves regularly | |
| | 1. DP for 1st year from 01.01.2009 to 31.12.2009 | |
| | Savings as on 31.12.2008 | Rs.1500 X 6(month)=Rs.9000/- |

| | | |
|---|---|---|
| | DP may be two times of the corpus | Rs.9000/- x 2(times) = Rs.18000/- |
| | 2. DP for 2nd year from 01.01.2010 to 31.12.2010 | |
| | Savings as on 31.12.2009 | Rs.1500 x 18(month)= Rs.27000/- |
| | DP may be three times of the corpus | Rs.27,000 X 3 (times)= Rs.81,000/- |
| | 3. DP for 3rd year from 01.01.2011 to 31.12.2011 | |
| | Savings as on 31.12.2010 | Rs.1500 x30 (months) = Rs.45,000/- |
| | DP may be four times of corpus | Rs.45,000 x 4(months) = Rs.1,80,000/- |
| | i. The CCL was sanctioned after six months of formation of SHG. Here, maximum four times of projected savings of the group has been considered for sanctioning of CCL and fixation of DP. However branches may sanction CCL/ DP beyond four times, of the projected corpus based on their experience and confidence about functioning of the group.<br><br>ii. Though DP is fixed for a period of time of one year, it may be enhanced on six monthly basis depending upon the requirement of SHG and experience of the bank. | |

1. The disbursement of limit should be released after six months of successful sanctioning of SHG.
2. In order to ensure financial discipline, branches should stipulate and insist reviewing of monthly interest applied in cash credit accounts.
3. The limit so sanctioned will be reviewed each year and disbursal limit may be issued in the ratio of saving corpus. At the time of annual review it should also be ensured that all or atleast 30% of the principal drawls review it should also be ensured that all or at least 30% of the principal drawls during financial year are repaid besides servicing of monthly interest.
4. Accordingly, existing standard term loans accounts of SHGs which are eligible may be brought under cash credit facility at the time of loans on repayment of earlier loans or upon receiving request.