

## **Self Help Group - a Link to Credit Strategy to Reduce Poverty**

**The World Development Report of 1990** focused on a strategy to reduce poverty that had the following core elements.

- Broad based economic growth
- Developing human capital and
- Social safety nets for vulnerable groups.

Saving is a great potential for further development.

### **Transition in Banking**

- Class to mass Banking
- Supervised to Generalized Banking
- Dispersed to Centralized
- Projects to Programme
- Discipline to Default
- Selection based to rejection based screening of charts.
- Social banking overshadowed by viability consideration.

### **Source of stress in Banking**

1. Speedy expansion and Diversification
2. Inadequate training of Staff posted in rural areas
3. High transaction cost
4. Lengthening of lines of supervision and control is weakening.

### **Inherent problems of the Micro credit system**

- Poor lacks collateral security & suffer indebtedness
- Loans are not flexible for Micro- Enterprise

### **Realities about Credit to Rural Poor**

- 84% of poor lack access to formal Banking system
- Less than 7% poor are availing savings facilities of Bank
- Poor can save and bankable
- Women are better credit risks and can manage credit
- Loan to women is the best way to attack poverty
- Poor needs form type of financial service viz. Consumption credit, saving production credit & Insurance
- Collective wisdom of the poor and peer pressures are good substitutes for collateral...
- SHG is a pre micro enterprise stage for a majority of rural poor
- Empowerment of poor and especially women is a major outcome of SHG.

### **Problems of banks in Rural Finance**

- Poor Recovery- high Overdues
- Non-viability operation due to high cost of transaction cost.

### **Whatis Self-Help Group?**

A SHG is a Voluntary Association

### **SHGs characteristics**

- Bottom up approach
- Homogeneous membership
- Self management
- Need - based activities

### **Advantages of SHGs**

- Low transaction cost
- Effectiveness supervision
- Easy Credit Delivery to poor
- Minimum Procedure
- Better Recycling of funds

### **The four in One Role of SHGs**

- a money lender (providing quick loans)
- a Development Bank (Providing production & Investment Credit to the poor without documentation security etc.)
- a Cooperative (Full participatory approach without Government Interference)
- a Voluntary agency.

### **Mission of SHGs**

**"Let us add our strength, subtract our differences, multiply our resources and divide our responsibility"**

### **STRUCTURAL FEATURES OF SHGs**

THRIFT & CREDIT :

**SAVINGS FIRST : CREDIT LATER**

### **AIMS OF SHGs**

- Economy of scale
- Reliance in Internal strengths through savings & credit operation

### **Development Dynamics of the poor through SHGs Routes**

- Mobilization of People
- Gender Focus (Women)
- Conscientization
- Awareness Building
- Leadership development
- Impart Skills & Knowledge
- Empowerment & Self Governance

### **Lending to the poor/ Alternatives/Way out**

Direct lending to the poor poses difficulties

### Need for SHGs as financial Intermediaries

		SHG	Formal Sector
1	Eligibility Criteria	simple	Complex
2	Lending Procedure	simple	Cumbersome details
3	Relending	frequent	poor
4	Repayment	good	poor
5	Thrift	Active	not active
6	Non credit inputs	focal	absent
7	Empowerment	Process	Negligible

### OBJECTIVES OF BANK LINKAGE PROGRAMME

- Evolve supplementary credit Strategy for reaching rural poor
- To build mutual trust and confidence between banks to the rural poor.
- To encourage that banking activities both thrift as well as credit.

### Financial scheme under SHG (CLP) Broad Principles

- saving first, no credit without savings
- savings loans to the group for on lending to members
- credit discussion for on lending to members by the groups
- Interest rates and other terms and condition for loans to members to be decided by members

### Advantages to Banks through linkage Programme

- Easy assessment of credit needs, appraisal disbursal, supervision and repayment
- Reduction in paper work - reduction in transaction cost
- Improvement in margins and Recovery (almost 100%)

Larger mobilization of savings -

- Joint liability as a substitute for physical collateral
- Ratio between saving & credit contingent upon Credit

### Selection criteria for Linkage

- group should be in existence for 6 months
- Groups should have successfully undertaken savings & credit operation from its own Resources
- Groups should maintain proper a/accounts record
- Groups formation should reflect genuine needs to help each other and work together

### Rate of Interest under SHG - Banks Linkage programme

Particulars	Existing rate of Interest p.a	Revised rate % p.a
NABARD to Banks Refinance	6.5%	6.5%
Banks to SHG	12%	
Banks to NGOs	10.5%	

**No of participating Bank** 202  
**Bank loan release** (Rs in Million) 570  
**Loan per family** 1,019

**No of NGO participating** 550  
**NABARD Refinance** 520  
 (release Rs in Million)

### **What SHGs can achieve ?**

Institutional Development at the Grassroots Level

- Economic independence to women
- Generation of mutual trust & cooperation
- Localized planning & participative decision making
- Financial discipline
- Inculcate the habits of savings
- Leadership development
- Economic Self Reliance & social solidarity

### **What is Micro-Credit**

Micro credit refers to a programme that provides credit for self employment & other financial & business services (including savings and technological assistance **Micro Credit** refers to small amounts of Credit both for production and consumption to poor households who remain or choose to remain outside the reach of formal credit system and have demonstrated their credit worthiness

### **Why Micro Credit**

- a powerful tool for sustainable development of the poor and removal of poverty on a term basis.
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### **Operational principle/ Strategy**

- Borrowers knows best
- simple procedure for loans
- quick disbursement of loans
- clear recovery procedure & strategies
- maintaining high repayment

### **Why Target Women**

Women are better credit risk, a loan to women is the best way to attack poverty. Empowerment of women is the first step to their wider socio-economic empowerment

### **Underlying Belief of Self Help Groups.....**

**“Give a man a fish and you feed him a day but teach him how to fish and you feed him a lifetime”**

**.....Many little things done in many little places, by many little people, will change the face of the world. - An old Chinese saying**