Role and concept of SHGs

SELF-HELP GROUPS

- Self-help groups are defined as "voluntary formation of small, homogeneous affinity group of people, formed with the objective of attaining certain collective goals, both social and economic in order to address some common need or respond to some common problem". They belong to the member-based organizations that use group lending as method of gaining access to loans.

- SHGs and other microfinance schemes target primarily poor women. Not only do women use the microfinance loans more productively than men but women controlling loans and engaging in groups.

SHG characteristics

Poor people have no or very little collateral, which is why they have been excluded from the formal financial sector historically; the risks of lending to the poor are too high. But instead of using financial or materialistic collateral, SHGs takes advantage of the social collateral in the form of joint liability.

Continue…………

Joint liability entails that each individual within the group, usually made up of 5 to 20 members, is responsible for the other members’ loans. That is, if one member is unsuccessful in the repayment of his or her individual loan.

Group Selection

A unique characteristic of the SHG method is group selection; it is made by the members themselves. A group of people who want to receive loans form a group first, and then apply together for loans. The reason for this method is because of the lenders' need for information. A lender needs to know if its clients are risky or safe to lend to, especially since there is no physical collateral available. The lender also needs to monitor the members to ensure repayment. By letting the clients create their own groups, the lender can take advantage of the knowledge that each individual within the group has.

Continue…………

A person will only form a group with other people that are trust worthy and responsible; people that she knows will repay loans. In this way, the lender does not actually need any information on the clients as the lender can assume that all members of a group are safe borrowers. Furthermore, the lender will no longer need to monitor the group, as the members themselves will monitor each other. The method is proven to work.

Nonfinancial services

SHGs often combine financial and nonfinancial services in order to reach their common goals. The nonfinancial services. The nonfinancial services include both household related matters, such as health education and family planning, and business related matters such as literacy training, skills development, and basic business and economic education including marketing and savings.

Origin of Self Help concept

Historically, Cooperative movement by British in 1912 was to bring together the farmer community together to solve their mutual problems. Conventionally, the Microfinance started on pilot basis on 1994-95 and at National level in 1999.

Rationale behind the SHGs

Win situation for stake holders and means of poverty alleviation measure Poor are bankable Women empowerment.

Three Models in vogue for SHG financing

Model – I : Formed by banks and financed by them;

Model – II: Formed by NGOs as SHPI and linked to;

Bank branches for credit Model – III: Bulk Finance by Banks to MFI for on lending to SHGs

Benefits of SHG models

- SHG movement created an institutional framework.
- Participation of women in SHGs improved their access to credit.
- Culture of thrift and disciplined loan repayment
- Winning confidence of mainstream financial sector as credit worthy institutions.
- Interest rates in the informal credit sector decreased.
- Consumption needs and certain production needs met.