Self-help group (finance)

A **self-help group** (**SHG**) is a village-based financial intermediary committee usually composed of 10–20 local women or men. A mixed group is generally not preferred. Most self-help groups are located in India, though SHGs can be found in other countries, especially in South Asia and Southeast Asia.

Members also make small regular savings contributions over a few months until there is enough money in the group to begin lending. Funds may then be lent back to the members or to others in the village for any purpose. In India, many SHGs are 'linked' to banks for the delivery of micro-credit.

Mobile self-help group banking in Uttar Pradesh, India

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Structure

A SHG may be registered or unregistered. It typically comprises a group of micro entrepreneurs having homogeneous social and economic backgrounds, all voluntarily coming together to save regular small sums of money, mutually agreeing to contribute to a common fund and to meet their emergency needs on the basis of mutual help. They pool their resources to become financially stable, taking loans from the money collected by that group and by making everybody in that group self-employed. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment. This system eliminates the need for collateral and is closely related to that ohjf solidarity lending, widely used by micro finance institutions.[1] To make the bookkeeping simple, flat interest rates are used for most loan calculations.

Goals

Self-help groups are started by -governmental organizations (GO) that generally have broad anti-poverty agendas. Self-help groups are seen as instruments for goals including empowering women, developing leadership abilities among poor and the needy people, increasing school enrollments, and improving nutrition and the use of birth control. In countries like India, SHGs bridge the gap between high-caste & low-caste members.

Financial intermediation is generally seen more as an entry point to these other goals, rather than as a primary objective.[2] This can hinder their development as sources of village capital, as well as their efforts to aggregate locally controlled pools of capital through federation, as was historically accomplished by credit unions.

NABARD's 'SHG Bank Linkage' program

Many self-help groups, especially in India, under NABARD's 'SHG Bank Linkage' program, borrow from banks once they have accumulated a base of their own capital and have established a track record of regular repayments.

This model has attracted attention as a possible way of delivering micro-finance services to poor populations that have been difficult to reach directly through banks or other institutions. "By aggregating their individual savings into a single deposit, self-help groups minimize the bank's transaction costs and generate an attractive volume of deposits. Through self-help groups the bank can serve small rural depositors while paying them a market rate of interest."[3]

NABARD estimates that there are 2.2 million SHGs in India, representing 33 million members, that have taken loans from banks under its linkage program to date. This does not include SHGs that have not borrowed.[4] "The SHG Banking Linkage Programme since its beginning has been predominant in certain states, showing spatial preferences especially for the southern region – Andhra-Pradesh, Tamil Nadu, Kerala and Karnataka. These states accounted for 57% of the SHG credits linked during the financial year 2005–2006."[5]

Advantages of financing through SHGs

- An economically poor individual gains strength as part of a group.
- Besides, financing through SHGs reduces transaction costs for both lenders and borrowers.
- While lenders have to handle only a triple SHG account instead of a large number of small-sized individual accounts borrowers as part of an SHG minimise expenses on travel (to and from the branch and other places) for completing paper work and on the loss of workdays in canvassing for loans.
- Where successful, SHGs have significantly empowered poor people, especially women, in rural areas.
- SHGs have helped immensely in reducing the influence of informal lenders in rural areas.
- Many big corporate houses are also promoting SHGs at many places in India.
- SHGs help borrowers overcome the problem of lack of collateral. Women can discuss their problem and find solutions for it.

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