

## Training Module No. 3

### **1 Day Training Programme on Formation of Self Help Group**

**Date :** \_\_\_\_\_

**Venue:** \_\_\_\_\_

#### **Participants: 30 Persons**

- Staff members of Partner NGO
- Forester /Forest Guard

#### **Objectives of the Training**

The objective of the training is to enable the participants to understand and put into the perspective for the need and justification of formation of Self- Help Groups (SHGs) in a participatory project.

#### **Training Outcomes**

Participants are able to

1. Define and explain “Self Help Groups” and its importance in implementation of any participatory project.
2. Understand the impact of Self Help Group in socio economic development of a community
3. Illustrate the role of SHG in a successful community mobilisation process.
4. Realize the roles and responsibilities of Self Help Groups.

#### **Registration of Participants (30 Minutes Prior to the Start of First Session)**

**Pre-requisite for this Training:** The participants must have completed the module on community mobilisation and institution building.

#### **Instructional Requirements**

1. White board with marker
2. Over head projector/Laptop
3. Pointer (stick/ Laser)

#### **Materials and Aids Required**

1. Drawing sheet
2. Flip chart
3. Colour sketch pen (2-3 sets)
4. Markers

### SESSION PLAN

Duration (Min)	Key Steps/ Key activities	Method
<b>Session-I: Formation of Self Help Groups</b>		
10	<b>Self Introduction</b> <ul style="list-style-type: none"> <li>• Educational background of the participants</li> <li>• Experience in rural development sector</li> </ul>	Lecture
60	<ul style="list-style-type: none"> <li>• Introduction on formation of Self Help Groups</li> <li>• Importance of SHG</li> </ul>	Lecture
10	Questions from participants	Group discussion
10	Class wrap up with concluding remarks from the trainer	Lecture
<b>Session-II: The Process of formation of Self Help Groups</b>		
10	Introduction to the topic	Lecture
60	<ul style="list-style-type: none"> <li>• How do we start?</li> <li>• How are groups formed?</li> <li>• What type of families do we visit?</li> <li>• How are group meetings organised?</li> <li>• How do SHGs take shape?</li> </ul>	Lecture
10	Questions from participants	Group discussion
10	Class wrap up with concluding remarks from the trainer	Lecture
<b>Session-III: The Characteristics and functions of SHGs</b>		
10	Introduction to the topic	Lecture
60	<ul style="list-style-type: none"> <li>• Characteristics of SHGs</li> <li>• How do SHGs function?</li> </ul>	Lecture
10	Questions from participants	Group discussion
10	Class wrap up with concluding remarks from the trainer	Lecture
<b>Session-IV: Bank Linkage of SHGs</b>		
10	Introduction to the topic	Lecture
60	<ul style="list-style-type: none"> <li>• Steps in Bank Linkage</li> <li>• Checklist to assess the performances of SHGs</li> </ul>	Lecture
10	Questions from participants	Group discussion
10	Class wrap up with concluding remarks from the trainer	Lecture

## **Session-I : Formation of Self Help Groups**

### **1.0 Introduction**

Self-Help Group is a small voluntary association of poor people preferably from the same socio-economic back drop. In other words, Self-help group is a method of organising the poor people and the marginalized to come together to solve their individual problem. The SHG method is used by the government, NGOs and others worldwide. The poor collect their savings and save it in banks. In return they receive easy access to loans with a small rate of interest to start their micro unit enterprise. Thousands of the poor and the marginalized population in India are rebuilding their lives, their families and their society through Self help groups. The 9th five year plan of the government of India had given due recognition on the importance and the relevance of the Self-help group method to implement developmental schemes at the grassroots level.

### **2.0 Why Self-Help Group is important ?**

1. To alleviate poverty
2. To increase employment opportunity
3. To accelerate economic growth
4. To promote income generating activities

### **3.0 What is Self Help?**

From our childhood days, we hear sayings like

- ‘Self help is the best help’
- ‘Unity is strength’
- ‘United we stand, divided we fall’

We have heard the story of the birds caught in a net. They could not escape one by one. But when they flew together in a group, they escaped.

We know that one stick is easy to break. But it is difficult to break a bundle (group) of sticks. The SHGs show us how unity is strength. They show us how self help could be the best help.

## Session-II :The Process of formation of Self Help Groups

### **1.0 How do We Start?**

Even a thousand-mile journey starts with a single step forward. In this context, the first step for forming an SHG is also simple –

- Visiting the very poor families in the village
- Talking to them
- If the people do not know us, first we should talk to them about ourselves.
- It is important to be known to the people and to win their trust. So, we need to talk to the elders in the village, explain our plan to them and request for their support

### **2.0 Primary Survey**

Every time we visit families, we need to tell them that we are not distributing or promising any subsidy money under any scheme. This is very important to avoid misunderstanding at later stages. This is called ‘Preliminary Survey’. This helps us to understand the needs of each individual family. We also will need to visit the same families again. When we see them for the second time, we will be able to tell each family how we have seen and spoken to other families, who also have very similar problems like them. By visiting the families, we will be able to know which of those families could come together in Self-Help Groups. We will also understand what their common requirements and problems.

### **3.0 How are Groups Formed?**

When we speak to families in a locality, we will find that some kind of mutual liking already exists between many of them. Some known reasons for mutual affinities are:

- Similar experience of poverty
- Similar living conditions
- Same kind of livelihood
- Same community or caste
- Same place of origin

It will be easy at this stage to find out which families are likely to get together better.

### **4.0 What type of families do we visit, for forming SHGs?**

Whenever you visit a poor family, we need to ask the following questions:

*(Speak to the womenfolk and ask what the most important issue for the family is)*

1. Does the family have only one earning member?
2. Does the family bring drinking water from faraway place?
3. Are the women compelled to go far in the open in the absence of latrine?
4. Are there old illiterate members in the family?
5. Are there permanently ill members in the family?
6. Are there children in the family who do not go to school?
7. Is there a drug addict or a drunkard in the family?
8. Is their house made of kuccha material?

9. Do they regularly borrow from the moneylender?
10. Do they eat less than two meals a day?
11. Do they belong to scheduled castes or scheduled tribes?

*IF 'YES' IS THE ANSWER FOR THREE OR FOUR OF THESE QUESTIONS, WE CAN CONSIDER THE FAMILY AS POOR.*

### **5.0 How are Group Meetings Organised?**

Before Self-Help Groups are formed, we need to hold a meeting of the community leaders and elders of the village and explain to them your plan to form SHGs as we will get support from them which is very important.

- This is called community participation.
- This will also give acceptance to your work in the village.

This is the right time to tell everyone that the meetings are not for “giving” anything, but to “enable” the poor families to come together and help each other. Further, it will be very useful if we explain the basic principles of Self-Help Group in this meeting.

### **6.0 How do SHGs take shape?**

After meeting the elders and community leaders, we are now ready to call SHG members for a meeting. We can get one member from each of the identified families to come for a meeting on a convenient day. This can be called “a start up meeting”. During the meeting, we will get a lot of questions. Our answers will help them slowly understand the concept further. We need to allow sufficient time for the members to understand the different aspects of group formation.

- The process of forming groups normally takes five to six months.
- Once the group is formed, it takes one to one and a half years to settle to a stable pattern.

During the initial meetings, following things may happen:

- Some members leave
- Some new members come in
- The members slowly learn to decide subjects for meetings
- They learn to conduct meetings
- They understand the value of records and documents
- They want to remain together and help each other

These are normal stages. This will give us the confidence that we are moving in the right direction.

One member of the group needs to take the lead. Then, the question is, how is this person identified?

The best way is to ask the following questions within the group:

QUESTIONS	ANSWERS
Who should decide everything for the SHG?	All members should decide
Who benefits from the SHG?	All members benefit
Who should do the work?	All should share the work
How can the work be shared?	Agree on one person to take up the work by rotation

This way, the members will understand the reason for rotation of their responsibilities.

## 1.0 Characteristics of SHG

- The ideal size of an SHG is 10 to 20 members.  
(In a bigger group, members cannot actively participate.)
- The group need not be registered.
- From one family, only one member.  
(More families can join SHGs this way.)
- The group consists of either only men or of only women.  
(Mixed groups are generally not preferred.)
- Women's groups are generally found to perform better.
- Members have the same social and financial background.  
(Members interact more freely this way.)
- The group should meet regularly.  
(Members understand each other better if they meet weekly.)
- Compulsory attendance.  
(Full attendance for larger participation.)

## 2.0 How do SHGs function?

### ***Broad functions:***

Simple rules are required for SHGs to function. The following are some important rules :

- Common agreement on when to meet
- Decision on time and place of meetings
- Agreed penalties for non-attendance
- Agreement on amount of saving
- Giving small loans to each other
- Taking loan from banks, repayment habits

### ***Specific functions :***

#### (a) Savings and Thrift :

- The amount may be small, but savings have to be a regular and continuous habit with all the members.
- 'Savings first — Credit later' should be the motto of every group member.
- Group members learn how to handle large amounts of cash through savings. This is useful when they use bank loans.

#### (b) Internal lending :

- The savings to be used as loans for members.
- The purpose, amount, rate of interest, etc., to be decided by the group itself.
- Proper accounts to be kept by the SHG.
- Opening savings bank account with bank.
- Enabling SHG members to obtain loans from banks, and repaying the same.

#### (c) Discussing problems :

- Every meeting, the group will discuss and try to find solutions to the problems faced by the members of the group.

### **3.0 Book keeping by the SHG :**

- Simple and clear books for all transactions to be maintained.
- If no member is able to maintain the books, someone to be engaged by the group for the purpose.
- Animator can also help.

#### *# Minutes Book :*

The proceedings of meetings, the rules of the group, names of the members, etc. are recorded in this book.

#### *# Savings and Loan Register :*

Shows the savings of members separately and of the group as a whole.

Details of individual loans, repayments, interest collected, balance, etc. are entered here.

#### *# Weekly Register :*

Summary of receipts and payments on a weekly basis. Updated every meeting.

#### *# Members' Pass books :*

Individual members' passbooks encourage regular savings.

## **1.0 Steps in Bank Linkage**

Soon after an SHG is formed and one or two meetings held where the savings are collected, a savings bank account can be opened in the name of the SHG. The following steps will explain to you how this can be done.

### ***Step 1 – Opening of S/B Account for the SHG***

The Reserve Bank of India has issued instructions to all commercial banks and regional rural banks, permitting them to open SB A/cs of registered or unregistered SHGs. SB A/c in the name of SHG could be opened after obtaining from the group the following documents:

1. Resolution from the SHG :The SHG has to pass a resolution in the group meeting, signed by all members, indicating their decision to open SB A/c with the bank. This resolution should be filed with the bank.
2. Authorisation from the SHG :The SHG should authorise at least three members, any two of whom, to jointly operate upon their account. The resolution along with the filled in application form duly introduced by the promoter may be filed with the bank branch.
3. Copy of the rules and regulations of the SHG :This is not a must. If the group has not formulated any such rules or regulations, loans can be sanctioned without them.

A savings bank account passbook may be issued to the SHG. This should be in the name of the SHG and not in the name of any individual/s.

### ***Step 2 – Conduct of internal lending by the SHG***

1. After saving for a minimum period of 2 to 3 months, the common savings fund should be used by the SHG for lending to its own members.
2. The purpose, terms and conditions for lending to its members, rate of interest etc., may be decided by the group through discussions during its meeting. (RBI and NABARD have permitted the members to decide on these aspects.) The interest is usually kept as 2 or 3 rupees per hundred rupee per month. Please remember that interest per month is better understood in villages, than annual interest.
3. Simple and clear books of account of savings and lending should be kept by the SHG. (Specimen formats of books to be kept by the SHGs are annexed to this book) Through internal lendings, the members of the SHG will learn to properly manage, utilise and repay their SHG loans. This will be of help, when they later borrow from the bank.

### ***Step 3 – Assessment of SHGs***

We need to know whether the SHG has been functioning well. The check list given below will help us to assess each SHG in a simple, but effective manner.

CHECK LIST TO ASSESS THE PERFORMANCE OF AN SHG

Sr. No.	Factors to be checked	Very good	Good	Unsatisfactory
1.	Group Size	15 to 20	10 to 15	less than 10
2.	Type of members	Only very poor members	2 or 3 not very poor members	many not poor members
3.	Number of meetings	Four meetings in a month	Two meetings in a month	Less than two meetings in a month
4.	Timings of meetings	Night or after 6 p.m.	Morning between 7 and 9 a.m.	Other timings
5. Less than 70%	Attendance of members	More than 90%	70 to 90%	Less than 70%
6.	Participation of members	Very high level of participation	Medium level of participation	Low level of participation
7.	Savings collection within the group	Four times a month	Three times a month	Less than three times a month
8.	Amount to be saved	Fixed amount	Varying amounts	—
9.	Interest on internal loan	Depending upon the purpose	24 to 36%	More than 36%
10.	Utilisation of Savings amount by SHG	Fully used for loaning to members	Partly used for loaning	Poor utilisation
11.	Loan recoveries	More than 90%	70 to 90%	Less than 70%
12.	Maintenance of books	All books are regularly maintained and updated	Most important registers (minutes, maintaining and savings, loans, etc.) are updated	. Irregular in updating books
13.	Accumulated savings	More than Rs. 5000/-	Rs. 3000-5000/-	Less than Rs. 3000/-

14.	Knowledge of the Rules of the SHG	Known to all	—	Not known to all
15.	Education level	More than 20 percent of members can read and write	—	Less than 20 per cent know to read and write
16.	Knowledge of Govt. programs	All are aware of Govt. programs	Most of the members know about Govt. programs	No one knows

**Important:**

1. SHGs with 12 to 16 "very good" factors can get loans immediately.
2. SHGs with 10 to 12 "very good" factors — need 3 to 6 months' time to improve, before loan is given.
3. SHGs with rating of less than 10 "very good" factors will not be considered for loan.

***Step 4 – Sanction of Credit Facility to the SHG***

- In whose name is the loan issued?

The loan is always sanctioned and issued in the name of the group.

(Not in the name of the individual members.)

- What is the quantum of loan? How is the quantum decided?

The amount of loan to the SHG can be to the tune of 1 to 4 times of its savings.

- What constitutes the savings of the group?

# The group's balance in the SB A/c

# Amount held as cash with the authorised persons

# Amount internally lent amongst the members

# Amount received as interest on the loans

# Any other contributions received by the group like grants, donation, etc.

- What are the purposes for which the loan can be given to the SHG?

Loan may be granted by the SHG for various purposes to its members. The bank does not decide the purposes for which the SHG gives loans to its members. The purpose can be emergency needs like illness in the family, marriage, etc. or buying of assets for income generation acquisition of assets. The group will discuss and decide about the purpose for which loans are to be given to its individual members by the SHG.

- Who makes the repayment?

The SHG makes the repayment to the bank. (The group is collectively responsible for the repayment of the loan.)

- What is the collateral security for the bank?

RBI/NABARD rules stipulate that no collateral security should be taken from SHGs by banks. Collateral security is not necessary for the loans sanctioned to SHGs because :

# The members of SHGs know that the bank loan is their own money like savings.

- # They are aware that they are jointly responsible for the repayment.
- # Therefore, they exert moral pressure on the borrowing members for repayment.
- # Because of this, the bank gets a much better repayment from the SHG.
- Can the bank hold the SB A/c balance of the SHG as a security?
  - No. This will prevent the SHG from lending from its internal savings.
  - What is the rate of interest to be charged for the loans granted to SHG by the bank?
    - # The Reserve Bank of India has allowed the banks freedom to decide on the interest rates to be charged to the SHGs.
    - # What is the rate of interest to be charged by the SHGs to its members?
      - The rate of interest to be charged by the group to its members should be left to the group. This is usually 2 or 3 rupees per hundred rupees of loans.
- List of documents required by banks for lending to SHGs
  - (i) Inter-se Agreement to be executed by all the members of the Self Help Group. (This is an agreement by the members with the bank, authorising a minimum of three members to operate the group's account with the bank.)
  - (ii) Application to be submitted by SHG to bank branch while applying for loan assistance. (This includes details of the purposes for which the SHG gives loan to its members.)
  - (iii) Articles of Agreement for use by the bank while financing SHGs. (This contains the duly stamped agreement between the bank and the SHG wherein both the parties agree to abide by the terms and conditions set thereon.)
    - The group members are collectively responsible for the repayment of loans to the bank. Under no circumstance, the SHG should allow any of its members to default to the bank.