

# FINANCIAL LITERACY for

# Self Help Groups





**Message 1**

Know your Customer (KYC) for Savings Bank Accounts of Self-help Groups (SHGs)

**Message 2**

Margin and Security Norms

**Message 3**

Voluntary Savings

**Message 4**

Good Principles of SHGs – Part I

**Message 5**

Good Principles of SHGs – Part II



## Self-help Groups (SHGs)



## Message 1: Know your Customer (KYC) for Savings Bank Accounts of Self-help Groups (SHGs)

Suppose you have formed a Self-help Group (SHG) of 10–20 people for engaging in thrift and credit activities and you would like to now open a savings bank account for the SHG.

### Self-help Groups

**Purpose of coming together:** Savings & loan facilitation for the SHG



Elect/Select/Nominate

### OFFICE-BEARERS

#### CHECKLIST for Opening a Bank Account



KYC of all office-bearers



Resolution authorising office-bearers to open an account on behalf of the SHG

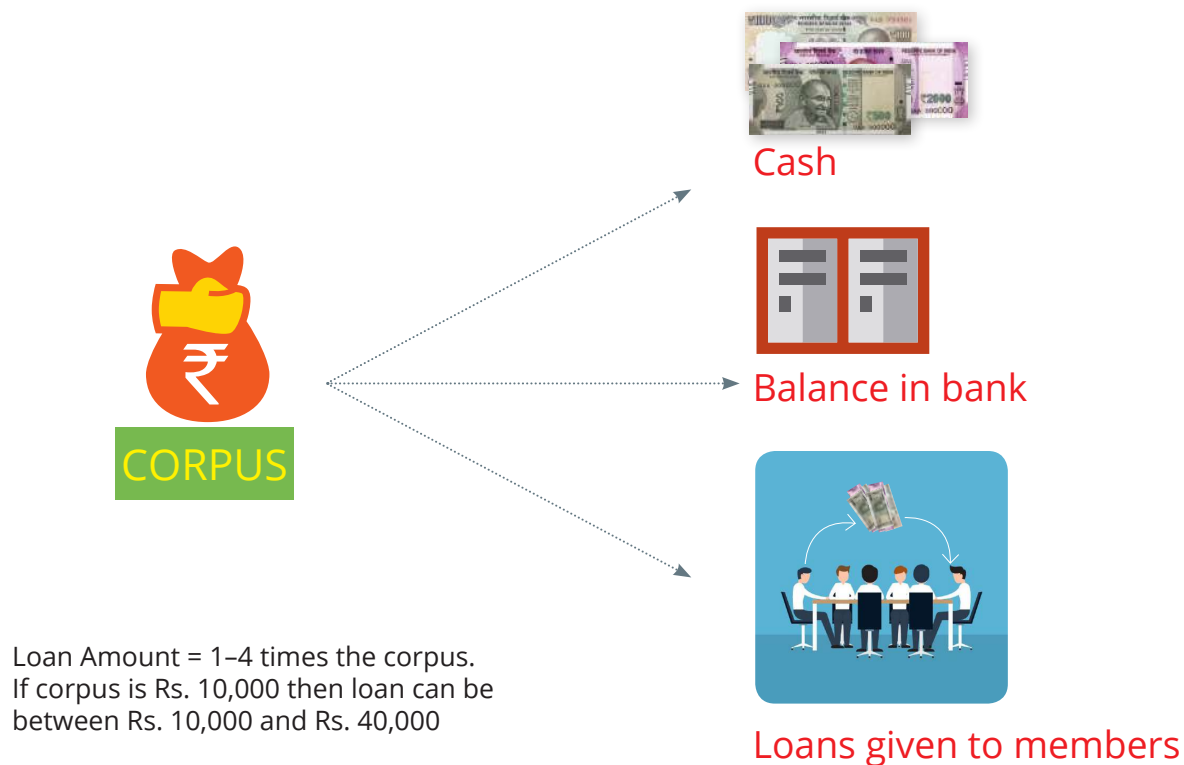


KYC of All group members



You should be aware that the KYC verification of all the members of the SHG need not be done while opening the savings bank account of the SHG. The KYC verification of all the office-bearers would suffice. However, resolution of SHG indicating the name of office-bearers authorised to open the account on behalf of the SHG is required to be submitted.

## Message 2: Margin and Security Norms



The bank may sanction your SHG, a loan based on your total corpus. Suppose your SHG has a corpus of Rs. 10,000 (in the form of cash balance with the SHG + savings account balance with bank + amount lent to members), the loan amount may vary from Rs. 10,000 to Rs. 40,000.

**No collateral security  
to be obtained  
from SHGs for  
availing loans**

Loan amount of more than four times of the corpus is possible if:

- SHGs are functioning successfully for many years.
- The SHGs have repaid past loans on time.
- The SHGs have used the credit facility responsibly.

## Message 3: Voluntary Savings

Generally, as a member of an SHG, you would contribute a fixed amount as compulsory savings in weekly/ fortnightly/monthly SHG meetings. Your capacity to earn and capacity to save would increase substantially over time and it may be different from the other members of the group. You may voluntarily contribute more than the fixed amount of savings that the other members contribute.

An individual member of a group can have two savings contributions, one fixed by the group and the second voluntary.



### Compulsory Savings

This is a contribution fixed by the group.

### Voluntary Contribution

If income is higher than that of group members.

You may open an individual bank account/revive your existing individual basic savings account by depositing your surplus so that your planned expenditure in the future is met from such savings. Alternatively, you can park your surplus within the SHG itself in the form of voluntary savings over and above the compulsory savings mandated in the group. You need to ensure that there is a suitable accounting system in place with SHG for this to be separately kept track of.

Voluntary savings can be reckoned in two ways:

- 1) Not forming a part of the group corpus.
- 2) As a part of the group corpus and utilized for intra-group lending.

In the case of (2), voluntary savings will also be reckoned for assessing the quantum of loan to the group from bank which might benefit your SHG as the SHG might get a larger quantum of loan from the bank. The members of the SHG will jointly decide whether the voluntary savings by members of the group are eligible for proportionate share in the interest income or dividend from the group.

## Message 4: Good Principles of SHGs – Part I



### Periodic Meetings

The members of the SHG shall decide the periodicity of the meetings. Such meetings should preferably be on a weekly basis but can also be on fortnightly/ monthly basis, based on the convenience of the group.

**Regular Meetings and Regular Attendance:** Holding regular group meetings and total participation in group meetings lends strength to the effectiveness of SHGs. To achieve this, the SHGs should place strong emphasis on regular meetings and attendance of all members in the group meetings. Such meetings will bring them closer to each other as they will understand each other's challenges better.

Full participation by all members in the group meetings will facilitate stabilisation of the group, which will start working for the benefit and satisfaction of all.



### Periodic Savings

The members of the SHG shall decide the weekly/ periodic savings to be contributed by the members of the group, based on the ability of the poorest members.

The habit of thrift (small savings) is fundamental to the SHG and helps in building a strong common fund. (Advantage: Disciplined thrift will increase the group's corpus to such a level that no member will have to depend on moneylenders for her/his emergent needs. Internal lending from own corpus will meet such needs. Increased corpus will also enable the group to avail higher loan from the bank.)



### Regular Internal Lending

Once an SHG has accumulated a sizable amount in the form of savings, e.g., for a period of about three to six months, the members can be allowed to avail a loan against their savings for emergent consumption and supplementary income-generating credit needs.

- The group shall take up internal lending to the members from the group fund by prioritising the felt needs of the members.
- By initially managing their own common fund for some time, SHG members not only take care of the financing needs of each other, but develop their skills of financial management and intermediation as well.
- Lending to members also enhances the knowledge of SHG members in setting the interest rate and periodic loan instalments, recovering the loan, etc.
- The purpose, amount, rate of interest, schedule of repayment, etc., are to be decided by the group itself.



## Message 5: Good Principles of SHGs – Part II



### Regular repayment

Lending and borrowing is fundamentally based on trust and creditworthiness of the borrower. It is the duty of the borrower to pay back instalments on time. Delayed payment of instalments results in paying more interest, leads to bad credit history and makes future borrowing difficult on account of poor credit record/scores.

### Credit Score of Individual Members

A credit score is a statistically derived numeric expression of a person's creditworthiness, arrived at by credit information companies (CIC), that is used by banks to assess the likelihood that a person will repay his or her debts. A credit score is based on, among other things, a person's past credit history. It is a number between 300 and 900—the higher the number, the more creditworthy the person is deemed to be.



## Bookkeeping

It is important that all financial and non-financial transactions are transparent in an SHG. This promotes trust, mutual faith and confidence among all members. Books of accounts as also other records like the membership register, minutes book, attendance register, cash book, etc., are to be kept up to date by making regular entries. All the transactions of the SHG, including member-wise thrift, voluntary savings and internal loans should be recorded and communicated in a continuous manner enabling members to understand them.

Advantages:

1. All decisions taken by the group are known to the members from time to time, which enables them in better decision-making in the future.
2. Bookkeeping helps in assessing the financial status of the group like member savings, loans, members' attendance, group fund, recovery percentage, etc.
3. It helps in building confidence and unity among members.
4. It promotes institutional development by increasing the creditworthiness of the group.
5. It enables the group to monitor its performance.
6. Good bookkeeping arrangements enable the group to attract outside resources like loans from banks and other agencies.
7. Good bookkeeping arrangements encourage transparency of financial transactions to its members, leading to strengthening and sustainability of the group.
8. It brings recognition to the group in the eyes of public institutions.
9. Good bookkeeping helps in rating the group's performance.



## TARGET SPECIFIC FINANCIAL LITERACY MATERIAL

One of the recommendations of the Committee on Medium-term Path on Financial Inclusion chaired by Shri. Deepak Mohanty, Executive Director, Reserve Bank of India was 'A 'one size fits all' approach for Financial education might be less than ideal as different target groups need different kinds of financial education. As a result, the content needs to be customised for different target groups'.

The Financial Inclusion and Development Department of the Reserve Bank of India has come up with customised financial literacy content for five different target groups, namely farmers, small entrepreneurs, school children, self-help groups (SHGs), and senior citizens. This book is one among the series of five books on customised financial literacy content.

### **Disclaimer**

This book is presented as reading and teaching material with the sincere purpose of making the reader financially literate. It is not intended to influence the reader into making a decision in relation to any particular financial product/s or service/s.

### **Copyright**

First Edition – April 2018

Reproduction is permitted provided the source is acknowledged.

### **Written and published by**

Financial Inclusion & Development Department

Reserve Bank of India

10th floor, Central Office Building

Shaheed Bhagat Singh Marg

Fort

Mumbai

### **Acknowledgements**

Design: Kaushik Ramachandran

**Financial Inclusion and Development Department**

**RESERVE BANK OF INDIA**  
10th Floor, Central Office  
Mumbai 400001, INDIA