MicroSave India Focus Note 44

Savings Mobilisation in SHGs: Opportunities and Challenges

Anjaneyulu Ballem and TVS Ravi Kumar

May 2010

Introduction

The importance poor people attach to savings is evident in the ingenious ways they adopt to save. These include investing in assets like poultry, goats etc., hiding money in secure places or use of informal sources of savings like chit funds etc. (Wright, 1998)[1]. These efforts underscore the importance of providing secure, account-based savings facilities that poor people can access easily. Formal financial institutions like banks do not offer saving services tailored to the requirements of the poor. At the same time, regulations do not allow MFIs and non-bank financial institutions to offer savings services. As a result, SHGs (Self-Help Groups) are among the most promising options available with the poor to save. The table below shows the total savings of SHGs in the banks.

Savings Performance of SHGs as of 31st March 2009[2]

Total Number of SHGs	Amount Saved (Rs. Billion)	Average Amount Of Savings per SHG (Rs.)
59,89,019	54,465	9,090

The table below shows SHGs' high level of dependency on external institutions for loans. The 2008 impact study of NCAER (National Council of Applied Economic Research, New Delhi), showed that the average loan taken by SHGs grew at 20.5% per annum, whereas SHG savings increased by only 14.2%. This note analyses the opportunities available to leverage savings through SHGs and the associated challenges.

Savings to Loans Ratio under SHG-Bank Linkage Programme as of 31st March 2008[3]

Average Savings per Group	Average Loan Disbursed (Rs.)	Average Loan Outstanding (Rs.)	O/s Loan to Savings Ratio	O/s Loan to Savings Ratio
7,556	72,076	46,884	6.2	6.2

Opportunities and Challenges to Save in SHGs

According to a study conducted by GTZ[4] in 1997, the major attributes which poor people look for in a savings scheme are: security, convenience, liquidity and positive returns. We consider these in turn.

Security: SHGs are groups of 10-20 women from the same neighbourhood. Theoretically, the group members should know each other and belong to the same locality; and all the decisions related to savings and loans should be taken during regular group meetings. All transactions are recorded in group-level records and in the member's pass book. Members should therefore theoretically know how their savings are maintained. All this should make SHGs very secure for the members. However, lack of regulatory protection and the informal nature of groups limit their governance and longevity, especially when institutions promoting and supporting the SHG exit. As the group grows older, the savings collected increases. This complicates the groups' book-keeping and also increases the insecurity of members regarding their (ever larger) savings. These issues are complicated by a variety of challenges including illiteracy, non-availability of books and poor leadership. A recent study[5] by APMAS and EDA noted that only 15% of SHGs have good quality records.

Convenience: Generally, savings are mobilised at the SHG meeting, conducted in the village at a mutually agreed time and place. The amount members save is also according to their choice. Both these points make SHGs convenient for members. But in practice, though members need not go out of the village to save in an SHG, they have to spend considerable time in group meetings, which means that sometimes members cannot perform casual labour work and thus lose valuable income. According to a recent study[6], SHG members spend about 17 hours and SHG leaders spend 102 hours per annum in meetings.

Liquidity: Generally in SHGs the amount collected is not liquid as it is used for internal lending - members only get their savings back when they leave the group. This protects against the temptation to spend money in trivial ways, thus meeting Shipton's famous "illiquidity preference". But it also means that if any member wants money she can only get it in the form of a loan – if the cash is available. This (together with the security issues highlighted above) makes members reluctant to save beyond the basic, agreed, compulsory savings required by the SHG, even when they have additional surplus cash at home. To mitigate this, some SHGs do maintain a certain

---

[1]**Wright**, G.A.N. "Moving the Mountains: Savings as a Human Right in Bangladesh", *MicroSave*, 1998
[2]**Srinivasan**, N. "State of the Sector Report 2009", *Sage Publications*, Delhi, 2009
[3]**Srinivasan**, N. *Ibid*.
[4]**GTZ**, "Comparative Analysis of Savings Mobilisation Strategies - Bank Rakyat Indonesia", *CGAP Savings Mobilization Working Group*, Eschborn, 1997.
[5]**EDA Rural Systems** and **APMAS**, "Self Help Groups in India: A Study of Lights and Shades", *Delhi*, 2006, p. 104
[6]**Harper**, Malcolm, "What's Wrong with Groups?" in "What's Wrong With Microfinance?", *Practical Action*, London, 2007

amount of cash on hand to meet emergencies. PRADAN-promoted SHGs, for example, keep excess cash with group representatives in a locked cash box. In case of an emergency any member can get rapid access to cash with the consent of the group.

Positive return: Since the group earns income through internal lending, most of the SHGs are able to provide a return higher than that given by public sector banks on savings deposits. Normally the retained earnings (after meeting expenses) are added to the group corpus. But there is significant risk of misuse of retained earnings by group leaders since members are less able to track of retained earnings than they are to monitor savings placed with the group. Retained earnings would ensure savings do not yield negative real returns (relative to the rate of inflation), but if they are misused by leaders, members may end up only with their savings. Moreover, when SHGs face any default on loans, loses are recovered from the group's savings. These types of situations discourage members from saving with SHGs.

Access to External Loans

Financial institutions like banks and MFIs lend to SHGs based on their internal savings. For example BFL[7] lends up to 20 times the accumulated savings of "A" grade (high quality) SHGs. Under the SHG-bank linkage programme, some of the banks in Andhra Pradesh are lending SHGs up to10 times their accumulated savings. The groups usually want to access external funds, which are available at lower than market rates. This opens the door to hijacking of the group as politicians try to take recognition for the offer of cheap credit. When SHGs access funds at lower interest rates this also attracts the better-off to join, which in turn creates governance issues within groups as they often try to take control of the group.

Other Challenges to Saving in SHGs

Various studies show that there is no significant increase in savings balances with SHGs over a period of time. Even in SHGs where there is an increase in savings, this is typically because the group wants access to credit through external sources[8], either from banks or from Government subsidised programmes like SGSY.[9] These 'savings' are to fulfil the minimum eligibility criteria to access loans.

The factors outlined above have meant that the vast savings potential of the members remains unfulfilled. In a recent CGAP study,[10] all the SHGs sampled were offering only compulsory savings. The report concludes that this may be because members do not consider SHGs to be useful for storing surplus cash and therefore use other savings mechanisms.

Conclusion

SHGs are formed on the foundation of savings, and could play an important role for the poor to manage their savings. However, SHGs have been unable to evolve into strong savings-based institutions. SHGs might overcome the challenges outlined above by:

1. The promoting institutions focusing on developing SHGs' capacity to offer customised and voluntary savings products to their members.[11]
2. Enhancing members' confidence in SHGs and addressing unhealthy practices in the groups. Support institutions should encourage groups to perform periodical audits. For example BFL, with support from *MicroSave*, has pilot tested "Field Balance Sheet Method"[12] to protect member savings, retained earnings and to verify existence and quantum of group assets. This is very popular with the members.
3. Some experts have suggested the formation of a professionally run external fund from where SHGs can draw when cash flow needs are higher than usual, and deposit into that fund when excess cash is available, so as to solve liquidity problems. An external fund also may be used to invest excess cash in liquid instruments.[13]
4. Increased focus on using IT to bring about efficiencies like avoiding maintenance of a number of records, which demand literacy and consume a lot of time for maintenance. For example, about 350 SHGs in World Vision India's Palani Area Development Programme, maintain their accounts online through an SHG MIS, which has enhanced transparency in the groups' financial information and reduced required the number of records from eleven different books to just one receipt book.[14]

---

[7]**BFL (BWDA Finance Limited)** is an SHG-based MFI registered as an NBFC and working Tamil Nadu state
[8]**EDA Rural Systems** and **APMAS** *Ibid*, and **Harper**, Malcolm, "Promotion of Self-Help Groups in India" *NABARD*, 2002.
[9]Swarna Jayanti Gram Swarozgar Yojna (SGSY). As per NABARD's Annual Report 2007–08, the SHG linkage programme was refinanced to the extent of Rs 16.15 billion and the SGSY programme was refinanced to the extent of Rs.2.59 billion.
[10]**Isern** J., et al. "Sustainability of Self-Help Groups in India: Two Analyses", CGAP Occasional Paper No.10, Washington, 2007.
[11]Financial Products of MFIs and Regulatory Requirements, Dr. K G Karmakar and NP Mohapatra
[12]*MicroSave* India Focus Note # 54 "SHG-Audit a Field Balance Sheet Approach"
[13]**Isern** et al. *Ibid*
[14] "Mobile Enabled SHGs Thriving in Dindigul"