

## Design Features

The product design features combine the collective wisdom of the poor, organizational capabilities of the social intermediary and the financial strength of banks. Its features are

- 1. Group Size:**

SHGs are informal associations (cohesive groups) of 10-20 members, particularly women residing in the same / nearby village(s). In difficult regions like NER States / Hilly places like (Himachal Pradesh, Jammu & Kashmir, Uttarakhand, parts of West Bengal) / districts in Rajasthan falling under Thar Desert where the communities are dispersed, an SHG can comprise of 5-10 members also.
- 2. Self-selection:**

Members select their own co-members to form groups. The members residing in the same neighborhood ensure better character screening and tend to exclude deviant behaved ones.
- 3. Focus on women:**

As regular meetings and savings are compulsory ingredients in the product design, it becomes more suitable for women clients - as group formation and participatory meetings are a natural ally for the women to follow.
- 4. Savings first and Credit later:**

The Saving first concept enables the poor to gradually understand the importance of savings, appreciate the nuances of credit concept using their own money before seeking external support (credit) for fulfilling future needs. The poor tend to understand and respect the terms of credit better.
- 5. Panchsutras :**

Regular group meetings, Regular Savings, Internal lendings, Timely repayment of loan, and Maintenance of proper books of accounts are the Panchsutras for success of an SHG. Small and fixed Savings made at regular intervals coupled with conditions like compulsory attendance, penal provisions to ensure attendance, timely repayments etc. form a deterrent for the rich to join the SHG system - thereby enabling exclusion of the rich.
- 6. Intra group appraisal systems and prioritization :**

Essentials of good credit management like (peer) appraisal for credit needs (checking the antecedents and needs before sanction), (peer) monitoring of end use of credit, (peer sympathy) re-schedulement in case of crisis and (peer pressure) collateral in case of willful non-payment etc. all seem to co-exist in the system – making it one of the best approaches for providing financial services to the poor.
- 7. Credit rationing :**

The approach of prioritization i.e. meeting the critical needs first serves as a useful tool for intra-group lending. This ensures the potential credit takers/users to meticulously follow up credit already dispensed, as future credit disbursements rely on repayments by the existing credit users.
- 8. Shorter repayment terms :**

Smaller and shorter repayment schedule ensures faster recycling of funds, greater fiscal prudence in the poor and drives away the slackness and complacency that tends to set into long duration credit cycles.
- 9. Market rates of interest :**

Self-determined interest rates are normally market related. Sub-market interest rates could spell doom; distort the use and direction of the credit.
- 10. Progressive lending :**

The practice of repeat loans and often, higher doses - is followed by SHGs in their intra-group loaning, thereby enticing prompt repayments.

11. **A multiple-eyed operation:**

The operations of the SHGs are transacted in group meetings thus enabling high trust levels and openness in the SHG system. SHG members facilitating openness and freedom from unfair practices also generally conduct the banking transactions.

