

Digitizing SHG transactions

A case of PaySe

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Introduction

Krishna Devi lives in Bighar village in Fatehabad, Haryana. She is a member of the Khalsa Self Help Group (SHG) in her village. SHG, a [community-based group](#) that women from a similar social and economic background form. Each SHG group is typically made of 10-20 members, who voluntarily come together to save small sums of money regularly. These SHG members pool their resources, which allows them to take loans from their collective savings in times of emergency, financial scarcity, important life events, such as marriages, purchasing assets, among other reasons. Beyond the primary function of being a savings group, SHGs also offer poor women a [platform to build solidarity](#). It allows women to come together and discuss various issues that affect their lives, like health, nutrition, governance, and social justice.

The SHG members use [collective wisdom and peer pressure](#) to ensure proper end-use of credit and timely repayment of the loans. In India, the Reserve Bank of India's regulations mandate that banks in the country have to offer financial services—including collateral-free loans—to these groups at low-interest rates. The idea is to empower these poor women to overcome the challenges of [financial exclusion](#).

The Government of India has two programs to empower SHGs in India:

- Deendayal Antyodaya Yojana—National Rural Livelihoods Mission (DAY-NRLM) under the Ministry of Rural Development
- Deendayal Antyodaya Yojana—National Urban Livelihoods Mission (DAY-NULM) under the Ministry of Housing and Urban Affairs

The government believes that these two programs can ensure the [socio-economic development](#) of women in SHGs. Both social and economic development of SHGs is vital for the sustainability of the SHG model. The economic development of the SHGs include bringing operational efficiency in finance management and internal lending exercises. However, manual cash-based operations have been the Achilles' heels for SHGs in India.

PaySe—a [digital payment solution](#) provider from India-based Nucleus Software—intends to digitize the SHG payment operations with its unique disruptive offline payment solution. PaySe believes there is a huge opportunity to digitize cash-based operations of SHGs in India with its solution that is immune to challenges like transaction failure because of server downtime.

Function of SHGs

Krishna Devi attends her SHG meetings regularly. These meetings require attendance from all members of the group. They collect their savings, update their accounting registers, and discuss the problems and issues they face in their day-to-day lives. Krishna Devi's SHG has these four major functions:

- Savings and thrift: All SHG members save a small amount in these meetings regularly. These meetings provide the convenience of saving in small amounts, which is generally not possible in a formal institution like a bank.

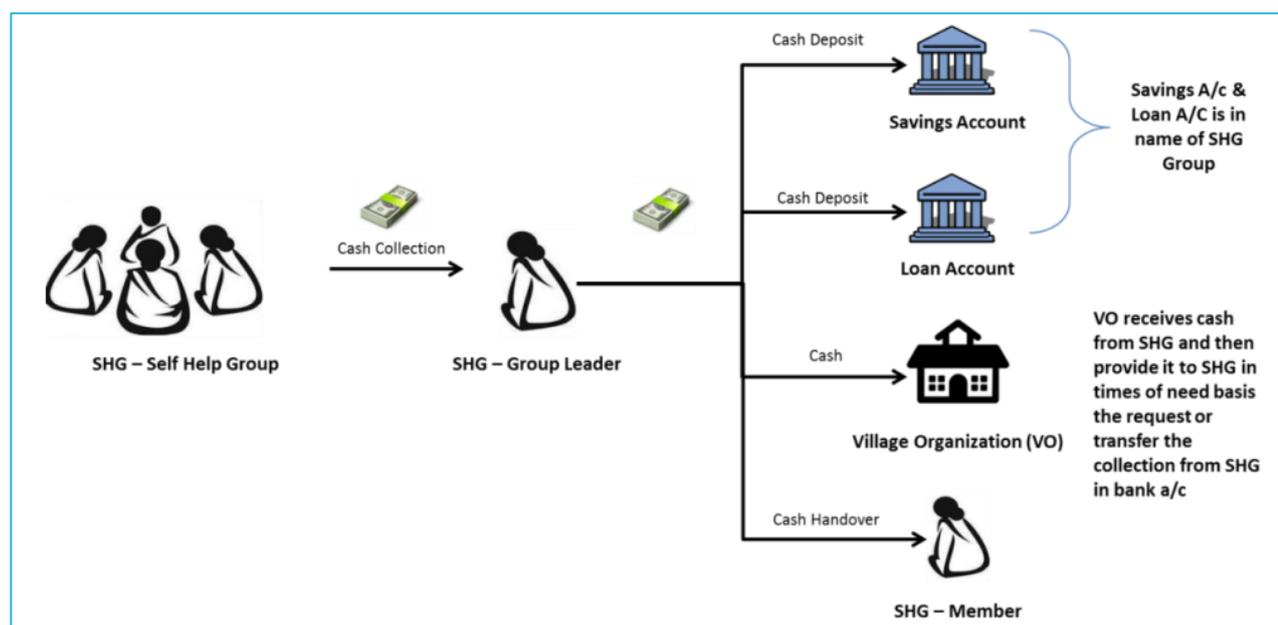
- Internal lending: The SHG uses these savings to lend internally to the group members. This way, the members can borrow small amounts of money at relatively short notice.
- Discussing social problems: The SHG meetings are a great way to socialize. Members discuss their problems and try to find solutions for them.
- Taking a bank loan: The SHG is also a great medium to approach a bank for a formal loan, based on the strength of the group; the SHG builds a corpus from this loan to lend to the group members.

Key operational challenges

Krishna Devi mentions the general operations of her SHG. Members of the SHGs collect cash and hand it over to their SHG Group Leader. The group leader then takes the cash and does one or more of these operations:

- Deposits to savings account at a bank
- Deposits to the loan account at a bank
- Deposits at a [village organization](#)
- Uses cash for the internal lending in the SHG

The current operations of micro-savings collections and repayment of a loan are a completely cash-based process due to the lack of digital infrastructure and poor smartphone penetration in rural areas. SHG members record all the transactions manually in the group register. The group leader or any other designated member collects cash and deposits in the SHG’s bank account.



The manual process and involvement of cash at each step of collection and repayment bring lots of operational challenges and risks like:

- Lack of transparency and traceability;
- The opportunity cost of daily wages or loss of business for the person visiting the bank branch as that takes most of the day;
- Risk of carrying cash to the nearest branch;
- Cash reconciliation issues with limited literacy within the SHG members;

- Accounting error during recordkeeping;
- Loss in revenue for SHGs due to counterfeit currency notes collected during cash repayment;
- Risk of the cash that the SHG collects being diverted for personal use;
- Guidance and support that members need to carry out their banking transactions.

These manual processes not only affect SHGs at the bottom level but also have an impact on the operational efficiencies of staff at SRLM due to lack of accurate and timely availability of data and delays in processes that stem from the time-consuming and cumbersome manual process of loan disbursement, collection, and recording.

These processes are slowed down further by poor Internet connectivity at the federation or block levels. These manual processes usually require more number of loan officers or block officers for processing.

Digitization of SHGs by PaySe

The Government of India has been building the capacity of SHGs through its [NRLM](#) program. These include providing the SHG women with access to a range of financial and livelihood services. The Haryana state government has its flagship [HSRLM](#) program to empower women in SHGs through similar activities.

PaySe solution developed by Nucleus Software got associated with HSRLM to digitize their SHG transactions to overcome most of the operational challenges, as mentioned earlier. PaySe eliminates the need for cash collection and disbursements by bringing in the concept of digital money.

To validate the concept, the PaySe project started as a pilot in Bighar village in Fatehabad, Haryana on 6th June 2018. Buoyed by the initial success, PaySe has now been implemented in all the blocks of Fatehabad district. All the SHG transactions like savings collection, loan repayment collection and repayment to village organizations have been digitized now. The implementation of PaySe has made the repayment collection and disbursement exercise cashless for the SHGs. They are not required to spend time managing, counting, and depositing the collected cash to the bank branches and helped eliminate the risk associated with carrying a large amount of cash. This also brought transparency and traceability in the system. Digitization has also eliminated the risk of carrying cash and counterfeit currency.

Krishna Devi tells us how they used to update their registers manually after each SHG meeting. They would consider cash management risky, until one day she and the other SHG members were introduced to PaySe. She is now happy that their money immediately reaches the group bank account using PaySe. They save a lot of time and energy now that they can utilize in something productive.

In many family structures, women are the designated caregivers and arbiters of household resources. Digital financial services facilitated by PaySe make it easy to budget, which helps women take care of essentials. Today these women are not closed in the four walls of their houses. Making

chapattis (flatbread) or taking care of children are not the sole motives of their lives. Today they are empowering themselves by earning money and helping out their husbands to run the house.

PaySe has catalyzed the empowerment process for women by opening up avenues for them and by encouraging them to become rural entrepreneurs. Once these women in rural areas become familiar with how digital transactions using PaySe works, they can begin small businesses—the transaction for which can be conducted digitally. It eventually helps in raising their social status and leads to the generation of livelihood.

PaySe has been acquiring merchants in villages of SHGs to accept digital payments from members to build the digital ecosystem further.

The impact of PaySe on the lives of these women could be seen in their financial behaviour, especially the aspect of saving, which has translated into their changing occupational choices by graduating from subsistence agriculture and other jobs to business ownership.

Local women who have become well-versed in using PaySe are being appointed as PaySe agents—the conversion point. These PaySe agents teach other women how to use PaySe and this, in turn, helps build women’s confidence and trust in accepting the digitization process. This also plays an instrumental role in empowering women with an entrepreneurial and independent spirit.

Anju from Dhangar village and Seema from Bighar village are local women who work as PaySe agents. They explain how their association with PaySe has enabled them to gain pride and respect in their village. They have become confident social entrepreneurs and have been able to supplement their monthly housekeeping income with transaction fees earned through work. On average, Anju and Seema earn an income of INR 2,900 and INR 4,000 per month respectively working as PaySe agents. Besides, the contribution of these women in the earnings of the household paves the way for greater decision-making in household affairs and empowers them significantly. Rural poor women become powerful agents of change when opportunities arise.

While women’s family responsibilities take many hours out of their day, using PaySe puts hours back in. PaySe users can transact on the fly and do not need to walk long distances to pay a bill or take a bus and waste half a day to reach the nearest bank.

After experiencing the PaySe solution, Krishna Devi recalls, “standing in a queue in the bank for long hours used to be hectic.” She adds, “When it was my turn to go to the bank, I used to waste my whole day in travel and in waiting to deposit cash in the bank branch and lose a full day of wage.”

Besides SHG members, NRLM has also benefitted from the digitization of loan disbursement and collection as concerns on accountability and transparency were removed. The need to travel to deliver or collect information has reduced, resulting in savings of time and greater operational efficiencies. Digitizing all the processes of the SHG operations resulted in cost reduction and process optimization. NRLM was also able to optimize its monitoring activity.

Impact and road ahead

In Fatehabad district, PaySe has successfully implemented its digitization model in nearly 200 villages from seven blocks. In total, the programs cover 1,500 SHGs and 97 village organizations. The program has improved the lives of 18,500 SHG members and continues to encourage digital payments through 146 merchants.

Looking at the extent and degree of operational challenges SHGs face in terms of cash management, digitization is the most obvious way forward. Outcomes of the pilot project from PaySe provide a precise and clear way for a stage-wise implementation of this model across larger geographies. This solution will make the lives of people like Krishna Devi a bit simpler and move them towards adopting digital means, which is also one of the key goals of the Digital India Campaign.

With digitization, detailed and reliable information about SHG credit and transaction histories would be available to banks and credit bureaus, making it easier for banks or financial institutions to grade them accurately and provide them with requisite financial services. Penetration and usage of affordable financial services would help in financial inclusion, which in turn would help in the social and economic betterment of people at the bottom of the pyramid. PaySe can play a major role in this journey.



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