

**NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT  
MUMBAI**

NO. NB. DPD.NFS/CDID/1330/92-A/96-97

07 October 1996

Circular No. DPD-NFS/36/96-97

The Registrar of Co-operative Societies  
All States/Union Territories

Dear Sir

**Project of linking Self Help  
Groups (SHGs)with Co-operatives**

Please refer to our Circular No. NB.DPD/SHG/618/92-A/93-94 dated 29 May 1993 addressed to you and also the Circular No. NB.DPD.FS.4631/92-A/91-92 dated 26 February 1992 addressed to Commercial Banks on Pilot Project for linking banks with SHGs which were sent to you earlier by us .

2. The pilot project has been making steady progress over the years. Beginning from 255 SHGs linked with banks during 1992-93, by 31 March 1996 around 4750 SHGs were linked with bank loan of Rs.605.84 lakhs and NABARD refinance of Rs.566.12 lakhs covering 28 commercial banks, 60 RRBs and 7 Cooperative Banks in 16 States and 1 Union Territory. The quick studies conducted by NABARD to assess the impact of the linkage project have also brought out encouraging and positive trends like increase in loan volumes and savings, shift from non-income generating activities to production activities, excellent recovery percentage, reduction in the transaction cost for both banks and the borrowers, large participation of women, etc besides leading to gradual increase in the income level of the SHG members.

3. With a view to studying the functioning of SHGs and NGOs and suggesting measures to expand their activities and deepening their role in rural areas, RBI had constituted a Working Group under the Chairmanship of Shri S.K.Kalia, Managing Director, NABARD. The Working Group in its report had made far-reaching recommendations and the same had been generally accepted by RBI and NABARD.

4. The Working Group is of the view that the linking of SHGs with the banks is a cost-effective, transparent and flexible approach to improve the accessibility of credit from the formal banking system to the unreached rural poor. It is expected to offer the much needed solution to the twin problems being faced by the banks, viz., recovery of loans in the rural areas and the high transaction cost in dealing with small borrowers at frequent intervals. The Group, therefore, felt that the thrust of the policy should be to encourage the formation of SHGs and their linking with the banks. The Group has recommended, inter-alia, that the banks may treat the linkage programme as a business opportunity for reaching the rural poor and make it a part of their corporate strategy. As regards co-operatives, the Working Group felt that they can use the mechanism of SHGs to increase their outreach to the underserved

rural people. The Group has recommended that the State Govts may actively involve themselves in such initiatives and amend the respective Co-operative Societies Act/Bye-Laws/Rules to have enabling provision for enrollment and financing of SHGs by co-operatives.

## 5. **Follow-up Action**

### **SHG Lending as Normal Lending Activity**

As the efficacy of the SHGs as an effective mode for rural savings mobilisation and credit delivery to the poor has been demonstrated in the pilot phase and since the linkage of targeted 500 SHGs has already been achieved, it has been decided to extend the SHG linkage programme beyond the pilot phase as a normal business activity of all banks to improve the coverage of the rural poor by the banking sector. Accordingly, the co-operative banks may consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level. They may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff and implement it as a regular business activity and monitor and review it periodically. However, it has to be borne in mind that the SHG linkage is a credit innovation and not a targeted credit programme.

## 6. **Margin and Security Norms**

As per operational guidelines of NABARD, SHGs are sanctioned savings linked loans by the banks (varying from a saving to loan ratio of 1:1 to 1:4). Experience has shown that group dynamics and peer pressure have brought in excellent recovery from members of the SHGs. The flexibility allowed to the banks in respect of margin, security norms., etc under the pilot project vide RBI circular dated 24 July 1991 addressed to the commercial banks (copy enclosed as Exhibit III) would also be applicable to the RRBs, even beyond the pilot phase.

## 7. **Rate of Interest**

NABARD would continue to provide refinance support to the banks under the linkage project. The present interest rate structure stipulated by NABARD at different levels under the SHG-Bank Linkage Programme is as under:

NABARD to Banks (Refinance)	6.5% p.a.
PACS to SHG	12.0%p.a.
SHG to members	As decided by SHG

The SHGs will be free to decide on the interest rate to be charged to their members provided the rate of interest is not excessive. The margin of 5.5% is to be shared between Apex bank, DCCB and PACS as per general norms applicable for term lending.

## 8. **Documentation**

Keeping in view the nature of lending and status of borrowers, the PACS may prescribe simple documentation for lending to SHGs.

9. **Training**

An important aspect in the Linkage Programme would be the training of field level officials and sensitisation of the controlling and senior officers. NABARD will be organising some Orientation/Exposure/other training programmes to be conducted by our Regional Offices/reputed Voluntary Agencies, training institutions, etc. The co-operatives may take full advantage of such programmes.

10. **Monitoring and Review of SHG Lending**

Having regard to the emerging potential of the SHGs and the related non-familiarity of the PACS/branches of DCCBs with lending to SHGs, SCBs/DCCBs may have to closely monitor the progress regularly at various levels. Further, the progress of the programme may be reviewed at the apex level at regular intervals. A progress report in regard to the linkage programme may be sent by the DCCBs and the SCB to our concerned Regional Office as per the format in the Annexure on a half-yearly basis as on 30th September and 31st March each year, so as to reach within 30 days from the end of the half-year to which it relates.

11. **Operational Guidelines**

The Working Group has also endorsed the operational guidelines circulated to banks vide NABARD's circular letter dated 26 February 1992 (Exhibit II). It may be observed that the guidelines have been deliberately kept flexible to enable participating banks to innovate and contribute to strengthening the linkage programme. Other recommendations of the Group are being examined by us. Banks will be suitably advised in this regard in due course.

12. **Enabling Provisions in Co-operative Societies Act/Bye-Laws and Rules**

Considering the obvious advantages of lending through SHGs, it is envisaged that Co-operatives should have a significant role to play in making credit available to the rural poor through SHGs' linkages. At present, Co-operative Societies Acts of only a few States provide for membership to a co-operative of any association or body of persons whether incorporated or not and whether established under any law, if such body is approved by the Govt., by a general or special order. Therefore, self-help groups can be legally admitted as a member(s) in the capacity of a group, even when such groups are informal or not registered under any law. In those states where there is no provision for enrollment of informal SHGs as members, State Govt., may consider making necessary enabling provisions through amendment in the respective Co-operative Societies Act/Bye-laws/Rules for bringing SHGs within the co-operative fold.

13. We shall be glad if necessary action is initiated and suitable enabling provisions incorporated in the State Co-operative Societies Act/Bye-laws/Rules to facilitate linkage process and the flow of credit to the unreached rural poor by utilising the SHG route. A copy of the instructions issued to the Co-operative Banks in the State may please be forwarded to us and to our concerned Regional Office.

Yours faithfully

(Y.C.Nanda)  
Executive Director