

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

Ref .No. NB.DPD .SHG.2353/92-A/94-95

19 October 1994

Circular No.DPD.11/94-95

All Scheduled Commercial Banks

Dear Sir,

Pilot project for Linking Banks with Self Help Groups

Please refer to our circular letter No.NB.-DPD.FS/4631/92-N91-92 dated 26 February 1992 forwarding the operational guidelines regarding the captioned Pilot Project.

2.In terms of Para 11 of the guidelines it has been indicated that the size of the group should be preferably between 10 to 25. We have 'been informed that there is a legal flaw and the position is as under:

Section 11 (2) of the Companies Act forbids any company, association or partnership consisting of more than 20 persons for the purpose of carrying on any business that has for its object the acquisition of gain by the said association or by the individual members thereof, unless it is registered as a company under the Companies Act. As the SHGs will be availing loan from the Banks with a view to developing and ameliorating socio-economic condition of the individual members and their respective families, the said group will be covered by the prohibition under Section 11 of the Companies Act. Such an association would not be recognized by Law and it cannot sue to recover any debt or other property nor can be sued to recover money lent to it to carry out its object.

3. In view of the above, it would be advisable to have SHGs with not more than 20 persons for the linkage activities.

Yours faithfully,

(Y.C.NANDA)
General Manager