

NATIONAL BANK FOR AGRICULTURE  
AND RURAL DEVELOPMENT

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To,  
All Commercial Banks

**Guidelines for the Pilot Project for  
linking banks with Self Help Groups**

The Reserve Bank of India has issued a Circular Ref. RPCD.No. Plan.BC.13/PL-09-22/90-91 dated 24 July 1991 to commercial banks advising them to actively participate in the pilot project for linking Self Help Groups (SHGs) with banks. The RBI, while giving general directions regarding financing of informal groups in the circular, has also advised that the details of the pilot schemes will be evolved by the National Bank in consultation with banks. Accordingly, after consultation with banks and voluntary agencies (VAs, also called non-governmental organisations or NGOs) the National Bank has finalised the following guidelines.

2. The guidelines have been deliberately kept flexible to enable participating banks and field level banks to innovate and contribute to building and strengthening the project concept.

**Objective**

3. The project aims at the following objectives.

- i. to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions.
- ii. to build mutual trust and confidence between the bankers and the rural poor.
- iii. to encourage banking activity, both on the thrift as well as credit sides, in assessment of the population that the formal financial institutions usually find difficult to cover.

**Background**

4. Despite the vast expansion of the formal credit system in India, the dependence of the rural poor on money lenders continues in some areas especially for meeting emergent landless labourers petty traders and rural artisans belonging to the socially and economically backward classes and the tribal population particularly in the resource-poor areas. For various reasons the credit flow to these sections of the population for meeting their full credit requirements has not come to be institutionalised. Some of the major causes lie in the difficulties in dealing effectively and economically with a large number of small borrowers who require credit frequently and in small quantities, limitations imposed by the legal framework on their

operations and also due to the bank's perceptions of the risks and credit worthiness of these borrowers.

5. The credit needs of the rural poor are determined in a complex socio-economic milieu where it is difficult to adopt project lending approach as followed by banks and where the dividing line between credit for consumption and productive purpose is blurred. Under the circumstances a non-formal agency of credit supply to the poor, in the form of Self Help Group of the poor could emerge as a promising partner of the formal agencies. In many instances the poor have demonstrated their potential for self help to secure greater economic and financial strength and many such self-help groups have come into existence spontaneously or with the active involvement of voluntary agencies or official development agencies. Such SHGs have been formed generally around specific issues confronting the poor or specific production activities and often they have mobilised savings among their members who would normally not be expected to have any savings and used such resources to meet the emergent credit needs of members of the group. The democratic functioning of the successful SHGs, their adroitness in assessing and appraising the credit needs of members, their business like functioning and efficiency in recycling the funds often with repayment rates nearing cent per cent are additional welcome features that the bankers may like to utilise for serving the credit needs of the poor.

6. A recognition by the formal credit structure of the self management capabilities of the poor through the SHGs and a link up between the two is expected to result in specific advantages to both the systems. Under linkage project the main advantage to the banks would be externalisation of a part of the work items of the credit cycle-assessment of credit needs, appraisal, disbursal, supervision and repayment-reduction in the formal paper work also in the margins would lead to wider coverage of the target group. A larger mobilisation of small savings would be equally advantageous. For the groups the advantages lie in the access to a larger quantum of resources as compared to their meager corpus generated through thrift, access to better technology and skill upgradation through different schemes of the banking sector and a general improvement in the nature and scale of operations that would accelerate economic development.

### **Basic elements of the pilot project**

7. The concerned bank, the NGO, if any, in the area and the National Bank together will identify the groups to be covered under the project.

### **8. Criteria for selection of SHGs**

- a. The group should have been in active existence for atleast a period of six months.
- b. The group should have successfully undertaken savings and credit operations from its own resources.
- c. Democratic working of the group wherein all members feel that they have a say should be evident.
- d. The group is maintaining proper accounts/records.
- e. The banker should be convinced that the group has not come into existence only for the sake of participation in the project and availing benefits thereunder. There should be a genuine need to help each other and work together among the members.
- f. The SHGs members should preferably have homogeneous background and interest.

- g. The interest of the NGO or the self help promoting institution (SHPI) concerned, if any, in the group is evident and the agency is helping the SHG by way of training and other support for skill upgradation and proper functioning.

### **Project location and selection criteria**

9. For the convenience of implementing and monitoring the project, it would be preferable to launch the projects in clusters of blocks or districts rather than in a scattered manner over the entire territory. Initially, when the projects are being launched with the involvement of SHPIs and existing SHGs this would be facilitated because most SHPIs and SHGs operate in a few selected districts. The Regional Office of the National Bank and the banks may identify NGOs/SHPIs and also the areas based on their experience.

10. Where NGOs/SHPIs and SHGs are already operating and are chosen to be covered under the pilot project the branch in whose service area the SHGs operate would participate in the project.

### **Size of group**

11. The groups should be preferably between 10 and 25 members to enable effective individual participation in the group's deliberations. Existing larger groups could also be considered for linking if the bank is convinced about their democratic and participatory conduct of business and suitability otherwise.

### **Linkage Programme**

12. The concerned bank may decide on the suitability of including particular branches under the project. Once the SHGs and branches are identified the linkage programme can start. The likely linkage could be in the following manner.

13. The bankers is expected to provide credit in bulk directly to the group which may be informal or informal (i.e. registered). The group in turn would undertake on-lending to the members. The quantum of credit given to the group should be proportion to the savings mobilised by the group. The proportion of savings to loan could vary from 1:1 to 1:4 depending on the assessment of the SHG by the bank.

14. In case of SHGs where the local bank branch does not have adequate confidence in lending to them or in case where SHGs for various reasons are not willing to be linked directly with the bank, the bank may finance such SHGs through the VA or SHPI that has promoted the SHG, if it is willing to borrow from the bank and the bank is also prepared to lend to the VA/SHPI. In such cases bulk financing of VAs could be considered.

15. Where bulk financing to VAs/SHPIs is resorted to, the concerned bank branch should closely observe the working of SHGs by attending their meetings and in other ways so that the branch may develop the necessary confidence in the SHG and link up with it directly at the end of the bulk financing arrangements with VA.

16. In cases of members of SHGs require large loan than that could be covered under the savings related loaning, the SHG could appraise the requirement and recommend the proposal

to the bank for direct lending by the bank to the concerned member. In such cases the SHGs should be willing to accept the responsibility for proper credit utilization and repayment by the member and for monitoring the same. In some cases the SHGs might apply to the bank for creating common service facilities or for certain group activities. The lending in such cases to the individual members of the SHGs or to the SHG for common activities would be subject to the usual terms and conditions of lending adopted by banks and the refinance facilities would also be on usual terms.,

17. The policy guidelines spelt out in this circular are applicable only to the situations spelt out at paragraphs 13 and 14 above. The other details regarding the linkage programme are discussed in the following paragraphs.

18. The purpose for which the group will lend to the members should be left to the common wisdom of the group.

19. **Assessment of credit :** It would be necessary that the group prepares a credit plan for its members and an aggregate of that is submitted to the bank. To ensure flexibility in the lending operations of the group this document would have to be simple giving only an indication of the proposed credit requirements.

20. **Rate of interest:** The rate of interest on the bank loan to the SHG would be 11.5% per annum and the National Bank refinance would be at 6.5% per annum where bulk financing of VAs is considered, the VA need to be compensated for the work done. For this purpose the bank may out of its 5% margin available on refinance from the National Bank , share the margin with the VA. The rate of interest to be charged at different levels could be as under.

Banks to VA	8.5% p.a.
VA to SHG	11.5% p.a.
SHG to Members	As decided by SHG

As the RBI has indicated in the earlier referred circular, the SHG would be free to decide on the interest to be charged to its members provided the rate of interest is not excessive. Usually, the SHGs have been observed to charge rates of interest between 24 to 36 percent. These rates are also purpose dependent.

21. **Repayment Period :** Depending on the negotiations with the group the banker may prescribe an appropriate period of repayment for the loan to SHG. In case the banker decides to fix a long repayment period, depending on the rolling over of funds by the SHG, he may like to prescribe collection of interest on the loan at shorter intervals of quarterly or half yearly rests and appropriate instalments for the capital.

22. The SHG would be free to prescribe appropriate repayment period and terms for loans to members as determined by the group.

23. **Security:** The SHG would not be a position to offer any collateral security other than the group savings. The RBI vide their circular referred to earlier, has relaxed the security norms under the pilot projects. The documentation to be submitted by the SHG to bank for availing the loan may be decided by the banks according to their convenience. Keeping in view the spirit and objectives of the pilot projects the documentation needs may be kept at the

minimum and simple. Like in all other matters concerning the pilot project, experience in regard to documentation, could be pooled between different banks during the periodic workshops to be organised.

24. A specimen of the document adopted by the Corporation Bank for lending to SHGs is enclosed at **Annexure I**.

### **Branch Manager to have decision making powers**

25. One of the kept concepts in the SHG Bank Linkage project is the need for flexibility in meeting credit needs of the poor. It is, therefore, necessary that the decision making levels within the banking sector should be as close to the SHG members as possible. Therefore, most of the decisions regarding financing the SHGs should be taken at the level of the Branch Manager. In cases where the concerned Branch Manager do not have such powers the banks may have to delegate such powers to the Branch Managers for the specific purpose of this project.

### **Training pre-requisites**

26. An important step in launching the linkage programme with a particular bank would be to depute the concerned staff of the branch for an exposure programme with the concerned NGO/SHPI and SHGs. In case the concerned staff is transferred midstream the new incumbent may also be deputed for an exposure programme at the earliest opportunities.

27. If the bank manager so desires after an assessment of the SHG functioning selected office bears/members of the SHG should be given a short duration training book keeping maintenance of records and financial discipline. Such training can be organised by the concerned bank with the involvement of the NGO/SHPI.

### **Support from the National Bank**

28. The participating banks may like to avail themselves of support from the National Bank on the following aspects.

### **Refinance support**

29. The banks may like to avail themselves of refinance from the National Bank for all lending undertaken through the SHGs under the pilot project.. Other than the usual conditions, refinance will be available on the following terms

Rate of refinance : 100 per cent

Interest rate on refinance : 6.5% p.a.

30. Banks will be sanctioned a term loan for lending to SHGs or VAs repayable over a period of 3 to 10 years depending upon the requirements of each case. The refinance provided by the National Bank should normally be covered by the banks outstanding with SHGs and VAs at any point of time. It is likely that when short loan maturities are prescribed by the bank to the SHG there could be a short period of time, between the date of repayment of the previous

cycle loan and the sanction and disbursement of a fresh loan to the SHG, when the loan outstanding does not cover the refinance provided by the National Bank.. The banks should ensure that, in general, there should be no gap between the earlier loan repayment and fresh sanction to the SHGs found to be working satisfactorily so that they are assured of the necessary credit.

### **31. Procedure for drawl of refinance**

The procedure for drawal of refinance will be advised separately.

### **Exposure and awareness programmes for Branch Managers**

32. The National Bank will help in organising exposure and awareness programme for participating branch managers and field staff as also for senior officers of the banks. Such programmes could be organised with the help of NGOs/SHPIs who have undertaken SHG activities on a significant scale.

### **Workshops**

33. In cooperation with the participating banks, the National Bank would be interested in organising periodic workshops at local, regional and national levels of NGO/SHPI and SHG personnel, participating bankers and senior bank executives to share experience from the pilot projects and gain insights of institutionalizing the methodology of poor oriented lending through the SHGs.

### **Documenting experiences**

34. The concerned bank staff may be encouraged to document their experience in the pilot linkage projects by way of case studies and papers. The National Bank would be happy to circulate selected papers/case studies to other bankers as well as interest parties.

35. The details given in this circular are mainly to serve as general guidelines. The banks are expected to innovate the help in the development of more models of linkages. The National Bank would welcome if depending upon local requirements and situations, the bank, develop different strategies for the linkages programmes. The National Bank's refinance support would be initially available on the lines of model discussed in this circular. However, the banks may approach the national bank with alternative proposals/models which could also be considered by us and if found suitable adopted under the Pilot Project.

Yours faithfully

**Y.C. Nanda**  
**General Manager**

**Annexure I**  
**FORMAT OF ARTICLES OF AGREEMENT FOR USE WHILE FINANCING**  
**SELF-HELP GROUPS**

This articles of Agreement is made and executed by and between M/s ----- an unregistered association of persons/individuals having its office at ----- and is represented by its President Shri ----- and its hereinafter called the "borrower" which expression shall, unless repugnant to the subject or context thereof, mean and include members of the unregistered association of the one part and Corporation Bank, a body corporate constituted under the Banking Companies Acquisition and Transfer of Undertakings Act, 1980 having its Head Office at Mangalodevi Temple Road Pandeshwar, Mangalore -575001 and branches interalia one at ----- and represented by Shri ----- Principal Officer, power of attorney holder of the bank, hereinafter called, "Bank" which expression shall, unless repugnant to the subject or context thereof, mean and include its successors and assignees of the second part.

Whereas, the borrower is an unregistered association of persons who have interse agreed to self help each other as a self -help group with a view to develop socio-economic condition of the members and their respective families.

Whereas having formed the association as a self-help group the borrower as per the application dated ----- requested the bank to finance by extending credit facility of Rs. -----/up to the limited of Rs. ----- (Rupees-----) only to promote the economic, social development activity of the members and the family of borrowers.

And whereas bank has agreed terms into writing.

Now, therefore, this agreement witnessh as follows:

1) The bank has agreed to grant and the borrower has agreed to borrow by way of overdraft/cash credit (clean) upto the limit of Rs. -----(Rupees -----)/Demand LoanTerm Loan (Clean) of Rs. -----(Rupees -----) and the bank has opened (SPECIFY THE KIND OF LOAN) A/c No. ----- of date -----in the name of the borrower in its book of accounts.

2. In case the facility availed is overdraft/cash the Borrowers will operate the OD/CC account satisfactorily and within the limit and the borrower shall repay the outstanding liability in the account inclusive of interest and other charges debited from time to time on demand without demur.

3. In case loan availed is Demand Loan, without prejudice to the right of the bank to recall the loan on demand the Borrower undertakes to repay the loan with interest and other charges within the period stipulated in terms of sanction.

4. In case the credit facility availed by the borrower is a term loan the same shall be repayable in instalments in the manner specified here below in the repayment schedule. Besides, the borrower will pay interest at the rates that may be payable as per the Banks lending rates that is in force for the time being and applicable to term loans.

5. It is clearly understood by and between the parties hereto that in the event of the borrower's failure to utilise the proceeds of the facility for the purpose for which the same has been made available by the bank to the borrower, the borrower, shall repay immediately on demand without demur together with interest at the Bank's highest lending rate.

6. The Borrower should utilise the proceeds of the credit facility exclusively for the purpose of lending to its members for the identified economic activity/income generating activity to promote the socio and economic condition of its members and members families.

7. The borrower shall repay the credit facility availed together with interest payable as per the Bank's lending rate that may be fixed by the bank from time to time as applicable to the type of facility depending upon the size and or purpose for which the facility is sanctioned by the bank and availed by the Borrowers. The Borrowers shall be liable to pay overdue interest in the event of failure to repay the facility availed in the stipulated manner and or failure to pay interest as stipulated.

8. The borrower shall be liable to repay the facility on demand together with the interest and other charges payable by the borrower to the bank in accordance with the rules of the Bank.

9. The bank shall be entitled to vary/change the rate of interest from time to time and charge at such rate as is applicable to the facility availed by the borrower within the terms or directives of RBI or determined by the bank at its discretion, without any further reference or notice to the borrower and the rate that the bank may decide to charge to the borrower shall be deemed to be agreed as the rate of interest for the purpose of this articles of agreement.

#### REPAYMENT SCHEDULE

In witness whereof the parties hereto have affixed their signature on the date ----- month and year ----- above writing.

for association for Corporation Bank.

1. PRESIDENT

MANAGER

2. SECRETARY