

## **RESERVE BANK OF INDIA**

Ref. No. RPCD. No. Plan BC.13/PL-09.22/90-91

July 24, 1991

All Scheduled Commercial Banks  
(excluding Regional Rural Banks)

Dear Sir,

### **Improving access of rural poor to banking- Role of intervening agencies-Self Help Groups**

Despite the vast expansion of the formal credit system in the country, the dependence of the rural poor on money-lenders continues in many areas especially for meeting emergent requirements. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks. For various reasons, credit to these sections of the population has not in practice been institutionalised. Non-governmental organisations have actively promoted informal groups of the rural poor to encourage thrift with a view to helping them in financing their emergent needs and warning them away from the money lenders. The studies on these informal groups over the last few years by NABARD, APRACA and ILO have brought out that Self Help savings and credit Groups have the potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working has been encouraging.

2. The NABARD is accordingly launching a pilot project for the purpose. It would be supporting the pilot project by way of refinance. It will also provide technical support and guidance to the agencies participating in the programme. It is proposed to cover about 500 Self-Help Groups (SHGs) promoted by Non-Governmental Organisations, banks and other agencies under the pilot project. As this is a novel concept to be tried in the country on a pilot basis and needs all possible support, it may be necessary to deviate somewhat from the existing norms applicable to lending by commercial banks. The following criteria will be broadly adopted by NABARD for selecting SHGs.

- a) The Group should be in existence for atleast six months.
- b) The Group should have actively promoted the savings habit.
- c) Groups could be formal (registered) or informal ((unregistered).
- d) Membership of the groups could be between 10 to 25 persons.

3. The NABARD proposes to have meeting with banks in this regard and further details regarding the pilot project etc would be made available by them in this meetings. The banks are advised to actively participate in the pilot project. As NABARD would be providing refinance to the banks, they may charge interest on the finance provided to the Groups at the rates indicated by the National Bank. Further, the groups will be free to decide on the interest rate to be charged to its members provided the rate of interest is not excessive. The advances given by the banks to the groups will be treated as advances to weaker sections' and therefore, banks will have to bear the guarantee fees payable to the DICGC. The NABARD

in consultation with the banks will decide as to the type of loan documents to be obtained from SHGs. While the present norms relating to margin, security as also the scales of finance and unit cost will broadly guide the banks for lending to the SHGs deviations therefrom can be made by the banks, where deemed necessary.

4. It is clarified that the aforesaid relaxations in interest rates, margin, security norms, etc are only in respect of SHGs to be financed under the pilot project.

Yours faithfully

**(S.K. Gupta)**  
**Joint Chief Officer**