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Circular No./ 230/ MCID - 05/ 2018

23 August 2018

The Chairman
All Regional Rural Banks

Managing Director/ Chief Executive Officer
All State Coop Banks and All District Central Coop Banks

Dear Sir/ Madam,

Master Circular on Self Help Group-Bank Linkage Programme

NABARD has, from time to time, issued a number of guidelines/instructions to RRBs and Cooperative Banks on Self Help Group-Bank Linkage Programme (SHG- BLP). In order to enable banks to have instructions at one place, the Master Circular incorporating the existing guidelines/instructions on the subject has been updated. This master circular consolidates the circulars issued by NABARD on the subject upto 30 June 2018 as indicated in the Appendix-I.

Yours faithfully

(K. Venkateswara Rao)
Chief General Manager

Enclo.: As above.

राष्ट्रीय कृषि और ग्रामीण विकास बैंक

National Bank for Agriculture and Rural Development

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Self Help Group Bank Linkage Programme

1. Introduction

Microfinance is all about access to basic financial services. The effectiveness of microfinance is better realised by the deprived sections when their capacities are also enhanced along with access to financial capital. This principle is germane to the Self Help Group – Bank Linkage Programme (SHG – BLP), which provides savings, credit and other facilities to these financially excluded poor.

NABARD, in partnership with other stakeholders, developed this strategy to enable the banking system to transcend the confines of an existing savings and credit delivery mechanism, which was neither cost effective for the banks, nor user friendly for the very poor segment.

SHG-Bank Linkage Programme is a major plank of the strategy for delivering financial services to the poor in India and facilitate the realms of building financial capabilities and self-confidence in the rural poor, through internal savings and lending from own funds of the SHGs. This unique initiative has about 3000 partners and is the most cost effective and fastest growing microfinance initiative in the world, enabling more than 100 million poor household access to sustainable financial services from the banking system.

Since the linkage of targeted 500 SHGs under pilot programme had been achieved, SHG bank linkage was mainstreamed in 1996 and it was decided to extend the SHG linkage programme beyond the pilot phase as a normal business activity of banks to improve the coverage of the rural poor by banking sector.

Linking of SHGs with banks has been emphasized in the Monetary Policy Statements of Reserve Bank of India and Union Budget announcements from time to time and various guidelines have been issued to banks in this regard. To scale up the SHGs linkage programme and make it sustainable, banks were advised that they 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.

2. Basic features of SHGs

2.1. Size of the SHG:

SHGs are small informal group of 10-20 individuals, who are homogenous with respect to social and economic background and come together voluntarily for promoting savings habit among members and for a common cause to raise and manage resources for the benefit of group members. However, in hilly tracts / regions and predominantly tribal dominated areas where communities are dispersed, smaller groups of minimum 5 members are also formed into SHGs. The internal savings mobilised by the group are then lent by it to its members for emergent needs or such other purposes as decided by the group.

2.2. Characteristics of the SHG:

Some of the basic characteristics for provision of credit by the bank to the group are-

- a. SHG members should preferably have homogeneous background and common interest.
- b. It should have been in active existence for at least a period of six months.
- c. It should have successfully undertaken savings and credit operations from its own resources.
- d. It should be democratically working, wherein all members feel that they have an equal say.
- e. The group is maintaining proper accounts/records.
- f. Banker should be convinced that the group has not come into existence only for the availing benefits and there should be genuine need to help each other and work together among the members

2.3. Opening of savings bank account:

The SHGs, which are informal and unregistered groups engaged in promoting savings habits among their members would be eligible to open savings bank accounts with banks. The saving account of the SHG will be operated by the office bearers duly authorised to this effect by the way of group resolution. .

2.4. Quantum of Loan:

SHGs may be sanctioned savings linked loans by banks (varying from a saving¹ to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, loans may be given beyond the limit of four times the savings as per the discretion of the bank. However, the Banks may make the credit decision on the basis of certain objective parameters such as proven track record, savings pattern, recovery rates, credit history, housekeeping, etc.

2.5. Documentation:

Keeping in view the nature of lending and status of borrowers, the banks normally prescribe simple documentation for lending to SHGs. Three basic documents which were prescribed for use of banks were 1) an inter-se agreement to be executed by the members of the SHGs, 2) a loan application to be submitted by SHGs and 3) loan agreement between bank and SHG.

2.6. Presence of defaulters in SHGs:

The defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of banks financing SHGs provided the SHG has not defaulted to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

¹ It is also often termed as corpus of the SHG, which, inter alia, include the savings, mobilised by SHG members, the interest earned by inter-lending by the SHG, penalties or such other resources of the SHG. The corpus, which is reckoned as a multiple for loan sanctions should be based on the balances in the books of the SHG and **NOT** balances maintained by SHG with the bank.

2.7. Separate Segment under priority sector :

In order to enable the banks to report their SHG lending without difficulty, RBI has issued instructions to banks that they should report their lending to SHGs for on-lending to members of SHGs under the separate category, viz. 'Advances to SHGs' irrespective of the purposes for which the members of SHGs have been disbursed loans. Lending to SHGs should be included by the banks as part of their lending to the weaker sections.

2.8. Grading of SHGs for Bank Finance:

Banks are expected to finance such SHGs which show certain minimum level of group dynamics, financial management capabilities and behavioural discipline. Financing of SHGs by banks has undergone a shift with the spread of the programme, substantial increase in quantum of credit disbursed, adoption of cash credit system of lending, as also increasing delinquencies in SHG etc. Banks may use grading formats/ norms as indicated in Annexure I and II of our Circular No. NB.MCID/153/SHG-1(Policy)/2013-14 dated 27 May 2013

- i. At the time of first credit linkage of SHGs- Annexure-I and
- ii. For mature SHGs where higher quantum of credit is required (i.e. credit in excess of four times of the group corpus could be considered)- Annexure-II.

3.9. Rate of Interest:

The SHGs are free to decide the interest rate to be charged to their members provided the rate of interest is not excessive.

The banks have the discretion to decide on the interest rates applicable to loans given to Self Help Groups/member beneficiaries

3.10. Margin and Security norms:

As per the guidelines issued by RBI from time to time.

3. Voluntary savings/ Thrift

Although SHGs save fixed amounts as compulsory savings in weekly/ fortnightly / monthly meetings, savings capacity and potential tend to vary across members over the period. Therefore, members of SHG may be allowed voluntary savings over and above the compulsory savings mandated in the group and a suitable accounting system may be started in the SHG for this purpose.

Voluntary savings can be reckoned in two ways;

- (1) Not forming a part of the group corpus and
- (2) As a part of group corpus and utilized for intra group lending.

In case of (2), it will also be reckoned for assessing the quantum of loan to the group from bank. However, it is desirable that the additional savings by group members does not entitle the concerned members to seek proportionately higher dosage of credit for themselves. The SHGs should have freedom to decide as to whether the voluntary savings by members of the group are eligible for proportionate share in the interest income or dividend from the group.

4. Purpose of bank loan

Loan granted by the bank to the SHG is purpose neutral as the group decides the purpose for which loan can be given to its members. As indicated by RBI in its circular (Ref: RPCD. FID. BC.No.06/ 12.01.001/ 2011-12 dated 1 July, 2011) the banks are expected to meet the entire credit requirements of SHG members for (a) income generation activities, (b) social needs like housing, education, marriage, etc., and (c) debt swapping, etc.

5. Cash Credit / overdraft for SHGs

There are instances of non-sanction of repeat loans to SHGs, as also cases of limiting need based credit. Sanction of a cash credit / overdraft system of lending for SHGs for a longer operational tenure may therefore be adopted to overcome these issues and to permit SHGs to have larger loans in tune with increasing pooled savings. This approach will provide considerable flexibility to SHGs in meeting their frequent needs as well as help them in reducing their cost of borrowings.

The loan limit may be sanctioned for a period of three to five years based on the projected savings of the SHGs upto the end of 3 to 5 years, thus avoiding repeated documentation. Drawable limits for each year can, however, be fixed within this aggregate ceiling as a multiple of actual pooled savings reached. The following measures may therefore be adopted:

- a. Though the cash credit facility is to be sanctioned by the bank to SHG, the sanction of credit by SHG to its individual members will be guided as per their terms and duration as decided by the groups. This is expected to remain unchanged and thus ensure continuance of financial discipline at the member level.
- b. In order to ensure that the financial discipline is maintained between the SHG and the banks, banks may insist for servicing of interest at monthly rests.
- c. Bank may also introduce appropriate prudent mechanisms for review and continuance of limit by ensuring that all or part of the principal drawals is repaid in an operational year. Similar to approaches applicable in KCC, the bank could insist that every drawal be repaid within twelve months from the date of drawal or insist for turnover of atleast 25-30% of the principal drawn in the first half of the year while reviewing the operations of the credit limit
- d. Banks approving repeat cycles of cash credit to SHGs may sanction larger credit limits beyond a multiple of four times of SHG's corpus. These approvals may be done based on the performance review of existing operations, actual growth in SHG's own corpus and the debt servicing history and capacity of SHG.
- e. In mature SHGs that have been supported with a few cycles of credit, the requirement of credit for purchase of capital assets, etc would increase. This would necessitate that the bank approves a different type of credit accommodation like term loans to these groups in addition to the cash credit limit.

6. Enabling Joint Liability Groups (JLGs) within SHGs

A few members of an SHG may graduate faster to start or expand economic activities requiring much higher levels of loans than required by other SHG members. In such

cases, all other members may not like to stand mutual guarantee for a few large sized loans. In such cases, a smaller “Joint Liability Group (JLG)” from members of an SHG may be created. The members of JLG will continue to remain members of the SHGs and continue to participate in the activities of SHGs as earlier. Banks may encourage creation of such enterprise / livelihood based JLGs as a separate entity.

Banks may use financial and other support extended by NABARD for this purpose. These JLGs may be created and financed by the bank on the lines of NABARD guidelines on JLGs already in vogue and such financing would be in addition to the loan / credit limit to the SHG. (A reference may be made to NB.MCID/1563/SHG-1 (Policy)/ 2011-12; Circular No.: 65(A)/MCID-04/ 2011-12 dated 27 March 2012 and NB.MCID/812/SHG-1 (Policy) / 2014-15; Circular No.: 233/MCID-18/ 2014 dated 26 Nov. 2014 for details)

7. Improving Risk Mitigation Systems

In order to further strengthen the banker’s comfort and confidence in financing of SHGs, a few risk mitigation mechanisms, viz; self-rating tools by SHGs, conduct of audits at SHG level, etc. are recommended.

Audit of SHGs is a third party assessment of SHGs’ operations while keeping SHGs’ own functioning free and flexible. Audit, *inter alia*, should cover aspects like regularity in meetings, savings, internal lending process, correctness of interest application, accounting for all receipts and payments, drawing out final accounts of SHGs, etc. The audit may be informal in nature, but be made compulsory for credit expansion beyond the normal limit of four times of the savings of SHGs.

Banks could source SHG-level Business Facilitators (Auditors) from amongst active SHG members or NGOs or other agencies, which promote SHGs, or existing BCs of the bank to enable the audit process in SHGs.

8. Building second tier institutions

Experience gathered over the years in promotion and nurturing of SHGs suggests the need for a much longer and sustained hand holding by SHG Promoting Institutions (SHPIs) to ensure SHG’s sustainability. Members of well-functioning SHGs or active members of SHGs and NGOs or other entities engaged in promotion of SHGs best provide these support services to SHGs. Such entities may be engaged by banks to serve as Business Facilitators for helping the bank monitor the functioning of SHGs and take corrective action.

Besides nurturing SHGs and conducting their audits, they could also facilitate financial literacy, help SHG members’ to open individual savings accounts, guide and improve existing livelihoods.

9. Training and Capacity Building

An important aspect in the Linkage Programme is the training of field level officials and sensitisation of the senior officers. Banks may initiate suitable steps to internalize

the SHGs linkage project and organize exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/sensitization programmes may be conducted for their middle level controlling officers as well as senior officers.

10. Monitoring and Review of SHG Lending

Bank should closely monitor the progress of the programme and may be reviewed at regular intervals. A progress report in regard to the linkage programme should be reported to NABARD on a quarterly basis in the NABARD's on-line portal –ENSURE within 15 days of end of each quarter.

In order to give a boost to the SHG - Bank Linkage programme for credit flow to the unorganised sector, monitoring of SHG bank linkage programme may be made a regular item in the agenda for discussion in the SLBC, DCC and BLBC meetings.

11. Refinance support to banks for financing SHGs

NABARD provides 100% refinance to banks for their direct lending to SHGs. Rate of interest on refinance will be determined by NABARD from time to time. Refinance provided by NABARD should normally be covered by banks' outstanding with SHGs at any point of time.

Annexure - I

Assessing Self Help Groups for credit linkage

Sr.No.	Factors to be checked	Parameters	Maximum Marks	Marks obtained
1	Number of members	13-20* ----- 10-12**	2 ----- 1	
2	Composition of group – Homogeneity	Similar economic status ----- Different economic status	2 ----- 1	
3	Residents of same neighbourhood	Members belong to the same village/cluster of hamlets	1	
4	Group meetings	Once in every week ----- Once in every fortnight ----- Once in every month	3 ----- 2 ----- 1	
5	Average attendance of members in group meetings	More than 90% ----- 75% or more and upto 90% ----- 60% or more and upto 74%	3 ----- 2 ----- 1	
6	Savings (Percentage of members saving regularly)	More than 90% ----- 75% or more and upto 90% ----- 60% or more and upto 74%	3 ----- 2 ----- 1	
7	Internal Lending	Taking place among the members	2	
8	Repayment rate of internal loans	More than 90% ----- 70% or more and upto 90%	2 ----- 1	
9	Maintenance of records of SHG	Books are regularly maintained and upto date ----- Book maintenance is not in arrears for more than one meeting and satisfactory in general	2 ----- 1	
	Maximum Marks		20	

***9-20 & **5-8 for NE in hilly tracts/districts of North Eastern Region and Himalayan Region (Jammu & Kashmir, Himachal Pradesh, Uttarakhand, & parts of West Bengal)**

Score of 12 marks and above: SHG may be considered for credit linkage

Annexure - II

Assessing Credit requirement of matured SHGs @

Sr. No.	Factors to be checked	Indicators	Maximum Marks	Marks obtained
1	Rotation of group Leader/s	Every year ----- Once in two years	2 ----- 1	
2	Maintenance of records of SHG	Books are regularly maintained and up to date ----- Book maintenance is not in arrears for more than one meeting and satisfactory in general	2 ----- 1	
3	Refresher training programme	SHG has undergone a refresher training programme on capacity building	2	
4	Repayment rate of intra group loan	More than 90% ----- 75% or more and upto 90%	2 ----- 1	
5	Credit History (Repayment of dues to bank)	If the SHG has never defaulted ----- Default was subsequently cleared	2 ----- 1	
6	Percentage of Members undertaking Income Generating Activities (IGA)	75% or more ----- 50% or more and upto 74%	2 ----- 1	
7	Activity/business/livelihood/credit plan	Member wise plan is prepared by SHG	2	
8	Utilisation of bank loan	Bank loan is not divided equally among the members and disbursement is need based	2	
9	Audit	Informal audit of SHG is done or Account of SHG is checked by a third party other than the SHG and SHPI	2	
10	Financial Services – % of members who have availed at least one of the financial services like individual S/B accounts, insurance etc.	More than 50% ----- Between 30-50%	2 ----- 1	
	Maximum Marks		20	

@A matured SHG assumed as one that has availed at least two cycles of credit from a bank and repaid it .

Score of 12 marks and above: Higher quantum of credit (more than four times of the group corpus) may be considered for sanction to mature SHGs

Appendix-I

Sr. No.	Circular No.	Date	Subject
1	No.NB.DPD.FS.4631/92-A/91-92 Circular No.DPD/104	26 February 1992	Guidelines for the Pilot Project for linking banks with Self Help Groups
2	NB.DPD.SHG.618 / 92A/93-94 Circular No.DPD.14/93	29 May 1993	Pilot Project for Linking Banks with Self Help Groups
3	NB.DPD. / 92A/93-94 Circular No.DPD/15	12 June 1993	Pilot Project for Linking Banks with Self Help Groups
4	NB.DPD.SHG/2353/92A/94-95 Circular No.DPD.11/94-95	19 Oct. 1994	Pilot Project for Linking Banks with Self Help Groups
5	No.DPD.NFS/1238/CDID/92A/96-97	01 October 1996	Project of linking self Help Groups (SHGs) with banks
6	NB.MCID/1563/SHG-1(Policy)/ 2011-12 Circular No.: 65(A)/MCID-04/ 2011-12	27 March 2012	SHG 2 : Revisiting the SHG Bank Linkage Programme
7	NB.MCID/153/SHG-1 (Policy) / 2013-14 Circular No.: 122/MCID-04/ 2013-14	27 May 2013	SHG-Bank Linkage Programme - Assessing SHGs for Bank Finance
8	NB.MCID/812/SHG-1 (Policy) / 2014-15 Circular No.: 233/MCID-18/ 2014	26 Nov 2014	Financing Joint Liability Groups (JLGs) of Small Farmers (SF)/Marginal Farmers (MF)/Tenant Farmers/Oral Lessees/Share Croppers/MicroEntrepreneurs/Artisans
9	NB.MCID/501/SHG-JLG-Mon/ 2018-19 Circular No.: 118/ MCID-02/ 2018	25 May 2018	Submission of Progress Report under SHG- Bank Linakage/ JLG Programme
10	NB.MCID/502/SHG-JLG-Mon/ 2018-19 Circular No.: 119/ MCID-02/ 2018	25 May 2018	Submission of Progress Report under SHG- Bank Linakage/ JLG Programme

(In case of clarification, if required on specific issue, circulars indicated above may please be referred to)