MYRADA **Rural Management Systems Series** **Paper – 73** **Date: May 25, 2022**	**No.2, Service Road,** **Domlur Layout,** **Bangalore – 560 071, India** **Telephone : +91-080 25 352028, 25353166** **e-mail id: myrada@myrada.org** **website: http://www.myrada.org**

DOCUMENTS OF RBI & NABARD - PROVE THAT SELF HELP GROUPS ORIGINATED IN INDIA

and

ARE DIFFERENT IN ORIGIN AND FUNCTIONS FROM THE GRAMEEN BANK GROUPS OF BANGLADESH

but

THE FUNCTIONS OF SHGS CHANGED AFTER 2005 DUE to NRLM & the MFIs; THEY NOW RESEMBLE THE GRAMEEN BANK GROUPS

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Padmashree Awardee 2000[1]

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Acronyms

CMGs - Credit Management groups

IRDP – Integrated Rural Development Program

Jati – Caste or sub-caste

MFI-Micro Finance Institution

NBFC – Non-Banking Financial Company

NABARD -National Bank for Agriculture and Rural Development

NRLM - National Rural Livelihood Mission

PACS - Primary Agricultural Cooperative Credit Societies

SGSY – Swarnajayanti Gram Swarozgar Yojana

SHGs – Self Help (Affinity) Groups

WDCs- Women's Development Corporations

A. The Context and reasons for this article:

1. The major reason why studies carried out during the past ten years involving SHGs do not refer to documents and circulars issued between 1987 and 1996 is that they are very difficult to access. I have, therefore, reproduced in this paper important documents and extracts of RBI & NABARD released between 1987 and 1996 on the origin and process through which the SHGs emerged and became a national program in India. In the absence of these documents, most studies rely on the wealth of studies and reports which are readily accessible on the groups of Grameen Bank (GB) of Bangladesh and assume that the SHGs of India were derived from the GB's groups and are similar in concept, structure, and functions. The GB was incorporated as a Bank in 1983 but started a few years earlier as an action research initiative. I must say that I had not heard of the GB in 1984-85 when the SHGs emerged in Myrada's projects. This article also has extracts from reports of field visits made by Nabard Officers between 1989 and 1992 to those SHGs which had received support from the grant Nabard gave to Myrada in 1987 as well as from letters of RBI and Nabard officers to Banks and Myrada during this period.

2. One major reason for this blurring of these two different group models is the difference in the SHG structure and functions between the period 1985 -2000 and after 2005 when they became part of the Government program strategy and later when the MFI/NBFCs coopted the name for the groups they established. The period between 2000-2005 was when the SHG strategy, till then led by Nabard, Women's Development Corporations, and the NGOs were gradually taken over by Government programs like SGSY and later by NRLM and by Micro Finance Institutions (MFIs) which claimed to form groups which they called SHGs but which had no features of the SHGs formed up to 2005 which are mentioned below in para 4.

3. The documents of RBI and Nabard will show that the SHGs emerged in Myrada in 1984-5 and were called **Credit Management Groups (CMGs) till 1987-88**. They were genuine people's institutions and functioned as such, till a few years after 2005. The CMGs had all the features mentioned in the next paragraph. In 1987, Nabard in response to a request made a year earlier, gave a grant to Myrada of Rs 1 million and requested Myrada **to change the name to Self Help groups; but the features of the CMGs were adopted by the SHGs**.

4. Between 1987 and 1992, NABARD and RBI together with Myrada took the lead in assessing the CMGs/SHGs. The defining features of the SHG groups which emerged during this period were the following: **i)** the CMGs emerged in Myrada's projects in 1984-5 because the poorer families took a stand against

the practices of the Primary Agriculture Credit Societies (PACS) whose leaders used their power to exploit them**;** they spread all over as the poorer families found the SHGs to be far more supportive than the PACS**; ii)** each SHG self-selected its members on the basis of affinity (relations of mutual trust and support) which existed as a traditional strength; Myrada just happened to pick up this diamond and polish it to take on new responsibilities; **iii)** the SHGs started with regular meetings and voluntary savings which were deposited in each group's common fund and used by the SHG to lend to members; savings were not captured by the NBFC/MFI; **iv),** Training in Institutional Capacity Building (ICB) was provided by NGOs and funded by Nabard and private donors from abroad; **v)** internal lending of savings (and repayment) had to be practiced by the CMG/SHG for about three to six months, before one bulk grant was extended initially by Myrada to the CMGs and later a bulk loan by the Bank under the SHG-Bank Linkage program to the group; this left the group free to decide on loans to individuals, on the rate of interest, and schedule of repayment; **vi)** CMGs/SHGs added up to 3% above the Bank interest rate on individual loans, that was credited to the groups common fund. **vii)** loans were given to members from the CMG/SHG common fund which comprised savings, interest on loans, grants, fines, and loans from Banks; **viii)** Sanctions were agreed to by the group and enforced for coming late for meetings, absenteeism, delay in repayment without a valid reason, disturbing meetings, not sending the girl child to school, etc.; **ix)** the CMGs/SHGs were assessed by Myrada and the Banks as institutions. The criteria used were the following: Did they meet regularly and keep records and accounts? Did they carry out savings and internal lending? Did they show good performance in repayment? Did they undergo training in Institutional Capacity Building (ICB) and what was the group's cash flow. Loans taken by individual members were not assessed as this was the responsibility of the CMGs/SHGs**. x)** the contact between the SHG and the Bank was managed by the SHG members in rotation; they went to the Bank to deposit or withdraw money. The SHGs managed the last mile; the staff of the Bank did not visit the SHGs to collect repayment as the NBFC/MFI staff do today. These ten features of self-reliant institutions characterised the SHGs up to 2005; the Grameen Bank groups did not have most of them. In fact, the SHGs had the features of a genuine co-operative. Their members were all poor (mostly of lower castes), linked by relations of affinity and shared common problems to their progress in lives, livelihoods, and in their acceptance in society.

5. These were the ten features of the SHGs promoted by Nabard, NGOs, and Women's Development Corporations up to 2005. All the projects supported by

the International Fund for Agricultural Development (IFAD) promoted this model of SHGs in State-sponsored programs; the first was launched in Tamilnadu (1990) in partnership with the Women's Development Corporation (WDC) **and the Indian Bank which was the first Bank to come forward to extend one bulk loan to the SHG.**[2]

6. The Women's Development Corporations which implemented most of the State-sponsored SHG programs focused on self-reliance, balanced gender relations, and sustainable livelihoods; women emerged as joint decision-makers in domestic affairs and participated effectively in local institutions. The SHGs formed and nurtured by the WDCs (with the support of NGOs) are now being supported by the National Rural Livelihood Mission (NRLM) which is managed by the Rural Development and Panchayati Raj Dept. where the focus on women's empowerment is diluted.

7. After 2000 programs were launched by the Government of India like Swarna Jayanti Gram Swarozgar Yojana (SGSY)[3] which took a few years to be grounded and later the National Rural Livelihood Mission (NRLM). Both co-opted the SHG name as part of their delivery strategy but not the concept and functioning which characterized the SHGs at least up to 2005. As a result, the SHG groups which were genuine people's institutions and had all the features of civil society groups were gradually dismantled after 2005 and made part of the Government's delivery system; they were asked to manage various Government programs. The focus was on providing loans quickly, money was transferred directly to the individual members (not as a bulk loan to the group), voluntary savings and building a group common fund were not promoted, and size of loans to individual members and interest rates were set by the lending institution, not by the SHGs, speedy transfer of funds to SHG members (without adequate ICB required to build people's institutions) took priority; repayment schedules were standardised no matter the nature of the asset and the social objectives were marginalized; financial transactions dominated. These features of the groups resembled more the GB groups than the original CMGs/SHGs

[2] *Refer Occasional Paper 3 of IFAD by this writer published in 2007. After Tamil Nadu IFAD supported similar projects incorporating the SHG strategy in Maharashtra, Haryana and in three North Eastern States; it supported Swa Shakti in pockets of 6 States, and later in Jharkhand, Chattisgarh, Madhya Pradesh, Uttarkhand and Odisha. Most of these projects were in partnership with the Women's Development Corporations. IFAD therefore played a major role in promoting the SHG model in the country.*

[3] *SGSY launched in late 1999 amalgamated and restructured existing programs for poverty alleviation like IRDP, TRYSEM etc . It was slow in taking off and did not spread.*

8. MFIs too claimed to adopt the group approach but the groups that they formed also resembled the Grameen Bank groups. These features were also similar to those which prevailed in the mainline Banking ecosystem where loans were given directly to each individual. The groups formed by the MFIs in India were called Joint Liability Groups. All serious analysts report that they are seldom jointly liable; the pressure to share responsibility does not come from the internal dynamics of the group; it comes from the NBFC-MFIs which threaten not to lend to any member if there were defaulters in the group. While The GB groups still preserved some features of a group, the so-called Joint Liability Groups of the NBFC-MFIs were basically common meeting places for more convenient and speedy repayment of loans by the NBFC/MFI staff. As a wit remarked-they are neither joint nor liable. As a result, the staff of the MFI had to approach the defaulters in their homes and harassment resulted on a wide scale as the staff were under pressure from the NBFC-MFI to recover. Other mechanisms to ensure repayment also emerged like the Agent, who was often one of the SHG members with political or local mafia support; he/she captured the loan in collusion with the staff and ensured full repayment, of course for a price which the borrower had to pay.

9. Together the Government's program of NRLM and the NBFC-MFI growth effectively dismantled the SHG as a poor people's or a civil society institution which was able to protect their interests. There was no need up to 2005 for "consumer protection" to be led by regulatory institutions. Most studies today draw from the experience of SHGs as they functioned after 2005. These groups were no longer genuine peoples institutions where the members were united by relations of mutual trust and support or affinity; they received no training in ICB and did not build a group common fund. Group decisions no longer played a major part in the process of deciding the size and purpose of the loan or in monitoring the use of a loan and the repayment. The model of the SHGs in India today resembles the Grameen bank groups; this is another reason why recent studies find little difference between the two models. However, there is a significant number of genuine SHGs which are still associated with NGOs and which resemble those before 2005.

10. While reviewing the studies and articles which have emerged on the SHGs during the past ten years, a colleague pointed out that it has now been taken for granted that the SHGs of India are a take-off from the groups of the Grameen Bank of Bangladesh. Some of these articles originate from studies supported by the American India Foundation; one of them states – "the SHGs emerged in India early 1980s, but have roots in Bangladesh". (Dominique Dutremble). This finally jerked me into action – and this article is the result. In fact, the SHGs of

India had roots in the CMGs comprising only poor families which broke off from the Primary Agricultural Credit Societies (PACs) when the poorer families reacted to the exploitative practices of the powerful families in the village which also controlled the PACs.The SHGs spread because the poorer families found them to be far more supportive than the PACs. The Grameen bank groups were put together by Mohammed Yunus with the objective of being co-guarantors of loans. Unfortunately, studies by Indians including prominent journalists who rely on studies made after 2005, often by authors with international connections, have followed this trend of blurring the two models. Some hyper-nationalists see this as an attempt to downplay India's policy to promote self-reliance through local institutions and technology which is today enshrined in the policy of Atmanirbhar Abhiyan (Self Reliant mission). Interestingly, in my interaction with him, Mohammed Yunus himself acknowledged the differences between the two group models and the Indian origin of the SHG groups.

11. This blurring of the two concepts of the SHGs and GB groups has been directly or indirectly influenced by the World Bank, where the Consultative Group to Assist the Poor (CGAP) is housed. CGAP aggressively promoted the GB group model and spread it in other countries. I was visited by a team from CGAP (one of whom was the son of an old and esteemed friend). During the course of the discussion, it was pointed out that the SHG model was too complex for on-time monitoring. It was far more difficult to collect data on loans since the SHGs decided on the purpose, size, and repayment schedule; their books would have to be scrutinised to collect this data- a long process requiring large number of field staff. Besides the SHGs lent from their common fund which comprised savings, grants, and interest levied on loans to individuals (the SHGs added up to 3% over the interest rate of the Banks); this made it difficult to differentiate the Bank loans. This ecosystem was too complex to be compatible with the software which had been designed to cope with the GB model which was also in line with the practices of normal banking financial flows. Other powerful US institutions, like International Development Finance Corporation (DFC) and ACCION also promoted the GB model. The World Bank did not adopt the SHG model in its India programs, but chose to incorporate groups which they called Common Interest groups among others; they did not take off.

12. As a result, the SHG groups which promoted self-reliance through self-management of savings and credit over the last mile and which were flexible enough to cope with the diversity in the informal sector were sidelined. The SHGs provided a basis not only for financial inclusion but also for social change which created a more level playing field and gradually for collective

marketing of products, without which the livelihoods of the poor are not sustainable. They were therefore part of a holistic transition strategy to integrate those in the informal sector/economy not only in the formal financial system but also in the growth process. The groups formed after 2005 especially those by NBFC-MFIs focused only on the repayment of loans; it was not a holistic strategy.

13. Having gone through the history of the ‘rise and fall’ of the SHGs and the impact of official Government programs and of NBFC/MFIs on the concept, many ask – what is their future? This is a subject for another paper, but the brief comment on whether the SHGs as originally conceptualized have a role in future will be made at the end of this paper.

B. Timeline of handposts (documents) between 1984/5 and 1996 in the journey of CMGs/ SHGs; during this period they emerged and were integrated in official strategy for financial inclusion and growth of the rural poor.[4]

14. I thought it may be useful to start with a timeline of documents for two reasons. One it gives a rapid overview of important handposts in the journey from the origin of the SHGs to their integration in the strategy of national programs. Many of the articles I referred to give dates of these documents which are not correct. One article by Bappaditya Biswas of the Dept of Commerce,Univ. of Calcutta, Kolkata, for example, gives 1984 as the date when "Nabard advocated SHG Linkage as an important tool for poverty alleviation". In fact, what he probably refers to is the SHG Bank linkage program the framework of which was put together only around 1990; it was launched as a pilot in 1992.

15. **Origin of CMGs/SHGs : They emerged in 1984/85** when the poorer families broke away from the Primary Agricultural Credit Societies (PACS) with which Myrada was working; the PACs were intended by Government to be institutions to promote development of **all sectors of society**. However, we discovered that this was not the case. The poorer families came to Myrada in small groups (10-15)to complain that the president and other office-bearers of the PACS were exploiting them in several ways.: For example, while I stayed in Huthur and Talawadi Projects in the early 1980s, both rain shadow areas – the poorer families informed me that the President and his clique took loans from the PACS at 7%-8% and on-lent to them at 30%; besides if they got a loan they had to work after the first showers in the fields of the President and the other powerful families in the village, leaving their own fields for later showers which came usually after a gap; I received this information and more in the same strain while sitting with them in a liquor shop in Huthur**.** As these groups stabilised Myrada called them, Credit **Management Groups** (CMGs) with the focus on savings and management of credit. This occurred in Myrada's Huthur and Talawadi projects. The CMGs (later changed to SHGs), therefore, originated as a reaction of the poorer families to the PACs.The Grameen Bank

[4] *My sincere thanks to Ms Chandra Singh, Myrada CFO, who diligently and with care preserved these documents and made then accessible when required.*

groups, I understand from reading their history, were started by Muhammed Yunus in the late 1970s with the major purpose of mobilising members to stand as co-guarantors for loans. A major reason for the rapid spread of SHGs in India was the support that they provided the poor who were disillusioned with the PACs; they also realised that the SHGs provided a platform for wider engagement to trigger and sustain change in their livelihood activities as well as in their lives, in the home and society; their acceptance by the Bankers after the success of the SHG Bank Linkage program was an added bonus.

16. **During the first few years (late 1980s) there were 3 categories of CMGs** – All men, all women, and mixed. The all-men and mixed groups lasted till the late 1980s. Men initially objected to women meeting on their own and created several obstacles. We found that men had other places like the local pub to meet in the evenings when SHG meetings were arranged. Besides many used the incomes from loans and often the loan itself for their personal (non-essential) consumption. The mixed groups did well and we had several examples of women standing up to men and imposing sanctions for disturbing the meeting or coming late, but men gradually opted out. However, with the spread of the IFAD programs in partnership with the Women's Development Corporations, the focus on women's groups increased. We found that with women having access to loans and the support of an SHG group, they were able to influence decision-making in the home as well as in public affairs; men began to respect them; the income women earned was used for the whole family.[5]

17. **The CMGs adopted the features of a genuine cooperative of the poor**. Members of CMGs were all poor (economically homogeneous) unlike in the PACs, they shared the same problems related to their lives and livelihoods and they were united by relations of mutual trust and support which we called "affinity". Each CMG/SHG self-selected its members and set its own agenda which was drawn up before each meeting. Training in ICB and organisational practices (like drawing up an agenda before every meeting to which everyone contributed, changing the Chairperson of the meeting every month) promoted participation of every, member. The agenda included not only financial matters but also issues which they brought up related to livelihoods, health, Anganwadi management, water availability, sanitation, etc…. Above all they were

[5] *Please refer to a study on the social impact of SHGs both in the domestic as well as in the public domains by a team from Humboldt-Universitat zu Berlin entitled "NGO-Based Participatory Impact Monitoring of an Integrated Rural development Project in Holalkere Taluk, Karnataka State". It was published in 1988 by the Centre for Advanced Training in Agriculture and Rural Development (CATAD), Berlin, Germany.*

motivated by "self-help"- to reduce their dependence on the powerful families for loans especially in emergencies and for jobs and other handouts.

18. **CMGs started by regular Voluntary savings from the very beginning-- in 1984-85**; each group decided on the amount. This practice was suggested by Myrada as one of the pillars of "self-help", but it was a traditional practice in rural society, especially among women; it was a strength on which Myrada built. The savings were deposited in each group's common fund which was placed in a Bank in the Bank in the name of the SHG where they were safe from unjustified demands of men. The savings were not captured by Myrada or later by the Banks under the SHG-Bank Linkage program, as is the practice in Bangladesh and elsewhere; in many such cases, compulsory savings is the practice where an amount is deducted from the loan before it is advanced. In the CMGs/SHGs the savings resulted from their own decisions to give up something; each group decided on the amount. I recall that the members of the first CMGs decided to save Re 1 every week. By the late 1990s older SHGs savings had increased to Rs 25/- per week.

19**. Training in Institutional Capacity Building (ICB) started in 1985.** While the traditional relations of affinity based on neighborhood, origin, common work like daily wage labour, jati (caste, sub-caste), etc. supported mutual assistance required for daily living, Myrada expected the CMGs to take up new roles. For this Myrada had to strengthen them to develop new skills and to develop features of an institution. This was done through Institutional Capacity Building (ICB) Training. ICB was given priority by Nabard, Myrada, NGOs, and the Women Development Corporations (WDCs). Funds were provided by donors from abroad in the 198Os and early 90s to Myrada and NGOs and later by Nabard in a major way. ICB training included how to draw up an agenda and to encourage participation of all, how to maintain records and analyse relations in society, how to identify problems and come up with manageable solutions without causing tension since they had to live in the village, how to apply sanctions, etc.; in brief to build rules and conventions required for an institution to function, to strengthen mutual trust and to improve the skills required to take up new responsibilities.[6]

20. **After about 3 months of regular savings and some modules of ICB, Internal lending from savings was promoted.** CMGs/SHGs decided on the

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[6] *Refer to Training Manual entitled "The Myrada Experience – Capacity Building of Self-Help Groups". comprising 24 modules; it has been translated into several languages including Hindi and Basha Indonesia.*

purpose, size, interest, and repayment schedule. Grants from Myrada to CMGs before 1992 for extending loans to individuals and later (after 1992) and loans under SHG Bank Linkage were extended only after assessing (from SHG records) the performance of savings, internal lending, and repayment over a period of 4 to 6 months; a few session of ICB also had to be given.

21. **The First step in the process of integration into the formal system was taken in 1986** by Myrada when it approached Nabard with a request for Rs 3 million for a research grant to match savings of CMGs and to conduct training in ICB. **Rs 1 million was sanctioned in 1987** (Please **refer to Annexure I, Document 1 attached to this paper).** Note **that this document dated 24 October 1987 calls the groups <u>Credit Management Groups (CMGs)</u> - not Self-Help Groups (SHGs). It was only after this grant was sanctioned that Shri P.R.Nayak Chairman of Nabard requested me to change the name to Self Help Groups;** this change took time and evolved over a period of 3 to 4 years during which period they were till called CMGs by some Myrada staff and often Sanghas as this name resonated with the people. [7]

22. **Between 1988 and 1992,** a period which finds no place in the studies of SHG history which I have come across, several initiatives were launched to test and analyse the CHG/SHG model. Several meetings with bankers were also organised by Shri P.R. Nayak. Studies were conducted between 1989 and 1991 by Nabard. Nabard's officers visited CMGs in Myrada's projects which had received small grants from the Nabard grant of Rs 1 million to Myrada; extracts from reports on these field visits are reproduced below. Several extracts of letters of Shri S.C. Wadhwa (Chief General Manager Nabard Bengaluru) during this period, are also reproduced below

23. **Meetings were held at the instance of Shri P.R. Nayak with Senior officers from Banks and NABARD between 1989 and 1991.** I had the privilege of participating in some of them in Bangalore and Mumbai. I was unable to access the minutes of these meetings. NABARD commissioned a study by Dr.V. Puhazhendhi, a NABARD officer in 1991, which was later published by the Foundation for Development Co-operation, Brisbane, Australia

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[7] *Shri P.R, Nayak, Chairman of Nabard and Deputy Governor of the RBI asked me whether I was satisfied that only Rs 1 million had been sanctioned though I had asked for Rs 3 million.. I replied 'yes'. He was surprised. I told him politely that with this one million grant the ownership of the project was taken over by Nabard which was now responsible to take the CMG/SHG model forward and integrate it into official policy. NGOs cannot do this; it requires Champions in Government.*

which invested in supporting a similar movement in Nepal. It was entitled "Transaction Costs of Lending to the Rural Poor". The transaction costs of the SHG model were found to be far lower than others currently in vogue. Recent researchers and columnists may wish to access this study.

24. **Several visits of Nabard and Bank officers to CMGs/SHGs in Myrada's projects between 1988 and 1992 were organised by NABARD to get insights into how they functioned**. An extract from the report on a visit to CMGs in Kolar by Nabard officers on **8th December 1988** reads: "*We proceeded to Chikkakavanchi CMG which had received Nabard's funds. The Sangha (CMG) had already collected the savings amounting to Rs 120 and Rs 175 towards loan recovery. After financial transactions they discussed issues related to artificial insemination, milk procurement, and fodder availability; after that, they took up village issues related to road repairs; they invited members from Maruthi CMG from the same village. Seeing the jeep (of the visitors) the village leaders also joined the meeting*". The SHGs spent most of their meeting time (usually around two hours) discussing non-financial matters. Examples of social impact including the decision of SHG members to stand for Panchayat elections and their success are available in the RMS papers published regularly over the years by Myrada and available on its website www.myrada.org

25. **Between 1988 and 1992 many Nabard Officers took an active interest in analysing CMG/SHG performance. Prominent among them were Shri Y.C Nanda at Nabard Head Office and Shri S.C.Wadhwa as CGM Bangalore. They strongly supported the feature of extending one bulk loan from Banks to the group; this was a critical feature of the CMG/SHG model**. Myrada worked with them closely. Both realized that a bulk loan to the SHGs, allowing SHGs to take decisions on lending to the members was a critical feature of a transition strategy; it gave people ownership and provided the space to respond to their diverse requirements related to sizes, purposes, and repayment schedules. But it was not easy to change the traditional pattern of lending a standardised amount to individuals and a uniform repayment schedule which the practice adopted by Banks. Policy changes and incentives were required. They also realized that for the CMG/SHG to take ownership of the process of saving, and of lending and recovering the bulk loan, the NGO involved had to conduct several modules in Institutional Capacity Building (ICB). Though this ICB training was started by Myrada, **they took it forward and supported it with a large Nabard budget for over 20 years.** Myrada developed several training modules between 1987 and 1992 which were finally

put together in a Training **Manual called "Capacity Building of Self-Help Affinity Groups**".[8]

26**. Shri S.C.Wadhwa, in his letter dated 26 October 1990** to State Bank of Mysore, regarding linking CMGs to Banks wrote: "*I am very much interested that we should take up this experiment in Karnataka where the SHGs have already been promoted by a well-established NGO i.e. Myrada…kindly identify a few Branches in Kolar District and H.D.Kote Mysore District"*. Myrada had projects in both these Districts. **And again, on 30 December 1990, Shri Wadhwa wrote in a letter to the Banks**: *"The real linkage and the benefits will come when banks give loans to the group only and* ***maintain one account****";* he was referring to the CMG's group common fund. **The minutes of the December 22, 1990** meeting of Bankers which he organized recorded that: "*The groups will be left free to provide loans in regard to amount, repayment period, levy of service charges, etc., as per the joint decision of the group members*". **He organized a visit to CMGs/SHGs in Myrada's Kolar project on 8 March 1991 of officers** from Head Office/Regional offices/branches of State Bank of Mysore, Corporation Bank, Canara Bank, and Kolar Grameena Bank "with a view to operationalize this concept". (These letters of Shri S.C.Wadhwa are available in Myrada's records).[9]

27. **The first circular from RBI on SHGs was issued on 24 July 1991. (Ref RPCD.No. Pal.BC.13/PL-09-22/90-91 dated 24 July 1991). It** advised commercial Banks to participate in the pilot project for linking 500 SHGs to Banks**. It is reproduced in Annexure 1 as Document 2 signed by Shri SK. Gupta Joint Chief Officer and Shri M.V. Gondhalekar Asst. Chief Officer.**

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[8] *Institutional Capacity Building (ICB) modules include (i) Structural analysis of society: (ii) Analysis of local credit sources: (iii) Self-help affinity groups- a concept; (iv) How a meeting of the community-based organization is conducted: (v) Communication: (vi) Affinity: (vii) Vision-building: (viii) Organizational goals: (ix) Planning resource mobilization, implementation, monitoring and valuation (PRIME); (x) Rules and regulations; (xi) Responsibilities of group members; (xii) Book-keeping and auditing; (xiii) leadership; (xiv) Conflict solution; (xv) Collective decision-making; (xvi) Common fund management; (xvii) Self-assessment; (xviii) Group graduation; (xix) Linkages with other institutions; (xxxi) Federations; Building credit linkages; xxii) Credit plus; and) (xxiii) Analysing gender relations in the family and community.*

[9] *When Shri Wadhwa was faced with the reluctance of Bankers to extend a bulk loan to the CMGs/SHGs, he said: "I will guarantee your first loans by providing collateral from my salary". It was such examples that pushed the initiative forward.*

An extract from this document reads as follows: "non-Governmental *organisations have actively promoted informal groups*" …. "*The studies on these informal groups…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…. The Nabard is accordingly launching a pilot project for this purpose…. the group should have actively promoted the savings habit…. Groups could be formal (registered) or informal (unregistered).*

The SHGs, on their part, had to follow basic systems and procedures to win the confidence of the Banks; these were outlined in NABARD's **circular of 26 February 1992 (**No. NB DPD. FS/4631/92-A/91-92); it was signed by Shri Y.C. Nanda then General Manager. **It is reproduced in Annexure 1 as Document 3**. This document, an important one, covers 8 pages. But, in spite of all my contacts with NABARD, I failed to access a copy. I, therefore, sympathise with columnists and researchers who have the same problem. Fortunately, my colleague Ms. Chandra Singh, Chief Finance Officer, who keeps records meticulously, was able to locate it in Myrada's archives.

28. It is to the credit of Shri P.R. Nayak and his successors, especially Shri P. Kotaiah and Shri Y.C. Nanda, as well as to senior management of Nabard that they pursued these policy decisions over several years and took action on feedback periodically. The support of the RBI especially from Dr. C. Rangarajan as Deputy Governor and later as Governor, RBI, was also critical to put a stamp to the policy decisions which institutionalized the SHG movement in the formal financial system.

29. **The first initiative to incorporate or mainstream the SHG strategy in a State-sponsored program was taken in Tamil Nadu (TN) in late 1991; the project was co-sponsored by IFAD (International Fund for Agricultural development). The decision to link the SHGs directly to Banks with one bulk loan (allowing he members to decide on purpose and size) was also taken in TN by the Chairman of Indian Bank (Gopalswamy) even before RBIs circular on the Pilot project to link 500 SHGs with Banks which was issued in 1992. RBI, however, had shown its willingness in June 1991 to go ahead with the policy changes required.** This decision of the Indian bank allowed the State project to incorporate all the essential features of the SHG Bank Linkage program. The project was implemented by the TN Women's Development Corporation. It started in Dharmapuri District before NABARD had launched the SHG-Bank Linkage Program in 1992. The Indian Bank took the path-breaking decision to advance one bulk loan to the group, allowing the

members to take decisions on lending to their members. It was the first bank in the country to adopt the linkage model on a project scale. NABARD was involved in this program, as initiatives to adopt the SHG model had progressed considerably in the institution. This project which involved several NGOs all over Tamil Nadu in forming and training the SHGs took off in Dharmapuri District, TN, within Myrada's project area where Myrada had already fostered SHGs in 200 villages prior to 1990, together with programs related to education, health, agriculture and training in technical skills. Myrada was asked to play a lead role in training Government staff and NGOs in Tamil Nadu in the process of forming and training the SHGs. Many insights were picked up by Nabard from this program as regards the great diversity in livelihood choices by the SHG members and the management of subsidies; the potential of the SHGs to empower poor women in social and domestic life and in creating greater access to resources was also recognised. Dr. P.Kotaiah who succeeded Shri P.R. Nayak as Chairman played a crucial role in carrying the SHG movement forward at this stage, especially in TN.

30**. The first bulk loan in Karnataka to a CMG/SHG was given on September 13, 1991, by Shri Ramesh Gelli of Vysya Bank** who visited Myrada's project in Kolar. He gave a loan of Rs 10,000 to the Venkateswara Mahila Sangha, of Mudaguli village in Bangarapet Taluk. After the 1987 grant to Myrada, NABARD also involved other NGOs which had accepted the SHG model; one was PRADAN which had been exposed to Myrada's Credit Management Groups in a project in Talawadi, Tamil Nadu in the mid-eighties. But the Banks did not give a bulk loan to the groups allowing them to decide on loans to individuals; the decisions on size and purpose were discussed by the Bank/NGO with the groups and were recorded in the Bank's documents and the loans were distributed accordingly to each individual.

31. The **SHG-Bank Linkage Pilot project was launched in 1992**, The experiences described in the previous paragraphs provided a wealth of insights which gave Nabard the confidence to launch the SHG-Bank Linkage model as a pilot project to link 500 SHGs to Banks. The major feature of this model was that one bulk loan was extended by the Bank to the SHGs. The SHGs were free to decide on amount and size of loan and repayment schedule; none of these were standardised amounts but depended on the nature of the asset or purpose for which the loan was taken. This was radically different from the GB model and from the model adopted by NBFC/MFIs today. The Bank officials were satisfied that repayments were regular and almost hundred percent. There were exceptions of course. The Bankers then visited the SHG to resolve the problem and finally approached the NGO involved if its help was required.

32. **The RBI constituted a Working Group in November 1994** under the Chairmanship of Shri S.K. Kalia, MD Nabard which assessed the Pilot Project of linking 500 SHGs to Banks. The members of the Working Group visited 171 SHGs, and 97 Bank Branches; the SHG Bank Linkage had spread far beyond the targeted 500 SHGs of the pilot project; the RBI records show that by Dec 1994 about 2700 SHGs were linked to Banks.

33. **Based on the Report of the Working Group, the RBI took the next major step in integrating the SHG-Bank Linkage model into mainline Banking;** this step was taken in its **circular dated April 2, 1996**. It is reproduced **in Annexure 1 as Document 4; an extract is given below:**

"Working Group (Chaired by Shri S.K. Kalia) is of the view that the linking of SHGs with 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 and in this regard, the banks have a major role to play. The Group has recommended interalia, that the banks treat the linkage programme as a **business opportunity** for reaching the rural poor and making it a part of their **corporate strategy**, the programme be made a part of the Service Area Approach and LBR reporting system, and regular training curriculum of banks, lending of banks to SHGs being made a separate segment under the priority sector, introducing review and monitoring of SHGs linkage programme, etc. Simultaneously, the Group has suggested for capacity building of NGOs, training of their staff, etc. The recommendations of the Working Group have since been examined and generally accepted by us."

Much work, therefore, was done prior to 1992 when the pilot SHG-Bank Linkage project was launched and even after this date up to 1996 by the RBI and NABARD to integrate the findings from the SHG Bank Linkage program into mainline Banking operations which opened the path to take it to scale.

34. **The Documents mentioned above and annexed to this paper contain three major policy changes** which were made by RBI & Nabard; they were required to support the SHG-Bank Linkage model. These changes enabled the informal sector to relate with the formal financial institutions because they created a new institutional ecosystem in which the operational demands of these two sectors would support each other. The traditional approach required that the

borrowers in the informal system adapt to the practices of the formal one. But this was just not possible because the formal financial system could not accommodate the wealth of diversity and the timeframe of incomes of the informal economy/sector. The problems faced by the traditional approach in financial inclusion which demanded that the informal sector be integrated directly into the formal one - like a square peg in a round hole - were overcome by this new operational ecosystem in which both worked together. This new operational ecosystem worked, as its rapid expansion proved; it offered "*the much-needed solution to the twin problems being faced by the Banks, vi. recovery of loans in the rural areas and the high transaction costs in dealing with small borrowers at frequent intervals*". (Document 4 in Annexure 1 dated April 2, 1996.

35. **The formal financial system, however, had to change in order to accommodate the diversity and time frame of the informal economy/sector**. There were three policy changes required in the formal financial system for it to be able to integrate with and support the informal system. RBI and Nabard took the following policy decisions:

i) Banks were allowed to lend to **unregistered** SHGs. The issue of allowing unregistered SHGs to open an account in the Bank was widely debated in the RBI around 1990. In the mid-1980s Myrada had persuaded some Banks which handled its funds in the rural areas to open an account in the name of unregistered CMGs on the grounds that they were Associations of Persons. But this had to be brought into policy. The RBI, thanks to the initiative of Dr. C. Rangarajan, **issued a circular (Ref RPCD.No. Plan.BC.13/PL-09-22/90-91 dated 24 July 1991)** signed by Shri S.K. Gupta, Joint Chief Officer, and Shri M.V. Gondhalekar, Asst. Chief Officer, advising commercial Banks to participate in the pilot project for linking 500 SHGs to Banks. It stated clearly that: *"groups could be formal (registered) or informal (**unregistered**)….* Further, *the group will be free to decide on the interest rate to be charged to its members provided the rate of interest is not excessive".* **The circular is reproduced in Annexure 1 Document 2.**[10] The RBI once again informed Banks **on January 4, 1993, that**..." *it has been decided that such Self-Help Groups **registered or unregistered**, may be allowed to open Savings Bank*

[10] *This decision was taken by Dr. C, Rangarajan after he was informed by Myrada that the SHG maintained books of accounts and records of decisions, but did not want to be registered as they would be vulnerable to the demands of a petty Government officer*

Accounts with banks". Sd/ B.D. Nitsure, Deputy Chief Officer ***(Reproduced in Annexure 1 as Document 6)***

ii) Banks were allowed to give a bulk loan to SHGs, **leaving the group to decide on size and purpose of loans to individual members** (**refer to Annexure 1 Document 3 of Nabard); here** are a few extracts**:** i. "the banker is expected to provide credit **in bulk directly** to the group which may be **informal or formal (i.e., registered**). The group in turn would undertake on-lending to the members";

ii." The **purpose** for which the group will lend to the members **should be left to the common wisdom of the group";**

iii. "The SHGs would be **free to prescribe appropriate repayment period** and terms for loans as determined by the group".

iii) no physical security would be required; this was already the practice in IRDP and TRYSEM; livestock however were insured. This was in contrast to the practice in many countries where micro loans extended by MFIs are guaranteed by physical assets like house and land; this causes immense suffering -and even leads to suicides – when the assets of borrowers unable to pay for legitimate reasons are confiscated. Though the MFI concerned issues statements that it did not harass the borrower, there is ample evidence to prove that it exerted pressure on its staff (even threats to cut the unpaid loan amount from their salary) which in turn forced them to pressurize the borrowers; unfortunately, there is no legal system in place which the borrower can readily access to address such issues.

To expand the program, Nabard issued Circular No. DPD-NFS/36/96-97 on linking Self Help groups with **Cooperatives dated Oct 7, 1996, signed by Shri Y.C. Nanda, Executive Director. (Reproduced in Annexure 1 as Document 7)**

36. **Pressure to repay in the SHG model was exerted by the group**; the pressure was effective since the group had full ownership of assets and functions. The group also decided if the individual borrower had genuine problems to repay and made adjustments in the repayment schedule; however, the group was able to repay to the Banks as agreed because it had a common fund The SHGs members knew one another well so they could take these decisions; they were the Facebook of the 89s and 90s. There was no need for "consumer protection" which is today being promoted by regulatory institutions but easily circumvented, much less for MFI staff to visit the homes of defaulters and to harass them.

37. Interest rates on a bulk loan from Banks to SHGs hovered around 10-11 %. Footnote 11. ***Footnote This rate was much less than the interest rates of MFIs which range between 24% and 26% and are set to rise with the cap removed; these high rates with the practice of regular (monthly) installments starting about a month after the loan is extended practically exclude investment in larger assets with a gestation period**.)* SHGs added up to 3% to cover defaults and costs of management like paying a young person to take minutes and keep records, for travel of members weekly to Banks, for conducting annual audits, for repaying Banks in time, though one or two members may have delayed repayment by a few days due to genuine reasons, etc. The low rate of interest, together with flexible sizes of loans and repayment schedules made investment in a wide range of livelihood activities possible which the practices of the formal financial system (prior to the three policy changes) did not accommodate.

38. Officials in RBI and Nabard assumed that the dynamics of the self-help group and the SHG-Bank Linkage together would give the poorer families a chance to build relations of confidence and trust with the Bankers which **would lead them at their pace to open accounts in the Banking institutions and to operate them to support their livelihoods;** they also realised that this would take time. And this is exactly what happened. Bank officers visited the SHG once or twice before extending the loan. After the loan, however, the SHG members in rotation visited the Bank to deposit or withdraw money. This practice helped to establish mutual relations of trust and confidence between each SHG member and the Bankers. The staff of the Bank did not visit the SHGs to collect repayment.

39. Myrada asked the SHG members to list the three benefits they valued most that they had obtained from the SHGs. The first was easy access to credit without any harassment; the second was the respect that the Bank managers were now giving them when they visited to deposit or withdraw funds which they did in rotation. The result of this new relationship was that after about 2 to 3 years of depositing savings in the group common fund, many opened an account in the Bank where they deposited their savings; many of them took loans from the Banks which were larger than what the SHG was willing to give. The Banks checked their credit history in the SHGs before extending these loans.

40. The result of this major collaborative effort between RBI/Nabard/NGOs and Banks was remarkable. By 2004-5 there were 573 Banks lending to SHGs through 41323 branches, and 4323 NGOs involved in training and mentoring

SHGs. By March 2005 Banks had provided credit to 16,18,456 SHGs involving about 120 million poor people, making it the **"largest cooperative microfinance initiative** in the world" in the words of Dr. C, Rangarajan, the Governor of RBI. It is the largest example of Atmanirbhar Bharat Abhiyan (India Self Reliant Mission).

41. Developments after 2005 as a result of Government-sponsored programs like SGSY (which really did not take off), NRLM (which was managed efficiently and spread all over the country), and later the aggressive growth of Micro Finance Institutions (MFIs) together dismantled the SHG model and undermined the SHG Bank Linkage program. Banks no longer lent directly to SHGs at around interest rates of 10%-11%; instead, they lent to private MFIs to on-lend to groups. This increased the cost of credit to the borrower. It also implied that the objective of the SHG Bank linkage model to include SHG members into the official financial Banking system which as a result of the policy changes was far more responsive (than the MFI model) to their diverse needs was jettisoned.

42. NRLM gave priority to speedy transfer of loans. ICB was marginalized. Decisions were centralised. Loans were given to individuals; subsidies entered the picture in different forms. The Micro Finance Institutions which are now the major players claim to work with Joint Liability groups these groups do not receive any ICB training and loans are given directly to individuals, unlike the SHG Bank Linage model which gave one bulk loan to the SHG. Speed in transfer of funds to individuals, standardisation of loan sizes and repayment schedules and profiteering (maximizing profits to meet targets of investors) are the dominant drivers in MFI programs. They have replaced investment in institution building and decreased space for diversity and opportunities for empowerment. The ten features of the genuine SHGs as listed in para 4 have almost disappeared.

43. In the groups formed by MFIs, there is no joint liability in repayment of loans; group pressure is exerted to repay only when the MFI refuses to lend to anyone in the group if there are defaulters. This is not joint liability where pressure originates from within the group itself due to internal dynamics. Pressure on defaulters also originates from frequent visits of MFI staff to their homes where they are shamed in public. The claim that the MFIs work with groups has little credibility. The MFIs select places where the borrowers have to gather in order to meet their staff who come to collect repayments; this makes the Staff's work easier and quicker; meetings are over in less than an hour; only financial transactions take place. Overall then the ten features (outlined in par

4) of the original SHGs have almost disappeared. They are now very similar to the groups of the Grameen Bank of Bangladesh. I will not dwell further on developments after 2000-2005 since this paper focuses on the history of SHGs prior to 1996. For further analysis of developments in the SHG concept and functioning after 2005 please refer to my Book “50 Years of Learning -pg. 454

C. The roles played by Myrada between 1988 and 1996.

44. Myrada played several roles during this period. It assisted Nabard officers to visit and assess how the CMGs which had received grants from Nabard through Myrada had progressed; it conducted training in ICB for CMGs/SHGs and exposure visits to these groups by Nabard staff, Bankers, and NGOs; it was invited by Nabard to be present at the meetings organised with Banks where Bankers were asking for data on the performance of the CMGs/SHGs; it worked closely with Shri S.C, Wadhwa the CGM of Nabard Bangalore and with the TN Government to provide training in ICB for SHGs in the State's program.

45. It was in response to this demand from Bankers and Government officials who asked for data on SHGs that Myrada decided to collect and analyze data on the trends in sizes and purposes of loans and performance in repayment. It collected data from the SHGs in all its projects after 1990 and used Clipper 5.0 Software marketed by WIPRO and computers from MICROTEC to analyze it. It gave Myrada information on the wide variety of loans, many of which the Banks would not have accepted, and on the different sizes of loans for a particular asset like purchase of a cross-bred cow; there was no uniform loan amount for the same asset as in IRDP. (Refer **to Annexure 2 which gives a portfolio of loans that individual members took over several years).**

46. Annexure 2 gives a picture of the diversity of purposes and size of loans in three SHGs; two in Mysuru District (South Karnataka)- one in the West where the soils and rainfall are good and one in the East (in what is now Chamarajnagar District), a rain shadow area, where rainfall is erratic and soils just above average. The third SHG is in Chitradurga (Central Karnataka) where rainfall is erratic, much less than in Mysore District, and with average to poor soils. These are only three samples selected from several available with Myrada. The great diversity in the purposes and sizes of loans reflects the diversity and the differences between villages in the informal rural economy even in the same District like Mysuru. There are loans for purposes which no Bank would have given like loans for redemption of mortgaged land. The assumption that rural families gave priority to agriculture and livestock, as was the case in IRDP, is proved wrong, as loans for these purposes declined in areas where rainfall was erratic and soils poor like in Chitradurga. The trends in the purposes of loans show how each member graduated out of poverty. One indication of this progress is the loans for purchase of gold jewelry taken after several years. Gold in India is what gives women a sense of pride and security; if they take loans for gold jewelry, it means they are truly integrated.

47. This analysis of trends in size and purpose of loans also helped Myrada to assess whether additional services were required to support the SHG members to enhance the impact of the loan and decrease the risks of investment. When, for example, the data showed that a large number of loans were taken for agriculture on drylands, Myrada decided to take up watershed management in a major way to reduce the risk in dryland agriculture and enhance productivity. This watershed program was planned and implemented in a participatory manner where people (especially SHGs) took the lead.

48. Myrada also gave importance to the objective of empowerment in ICB, and the SHGs responded well. Some major examples in the late 1980s and early 90s were the decisions to keep the girl child in school till graduation and to construct and use toilets. The SHGs decided that loans would not be extended to members who did not comply. Several studies were conducted on the social impact, some by IRMA students. A major study was carried out by a team from Humboldt-Universitat Zu Berlin. It showed inter alia: i) remarkable change towards more balanced gender relations in the home and in society; ii) increasing interventions by SHG members (largely poor and from the lower castes) in public initiatives and iii) increasing respect from upper castes for the SHG members for their achievements.

D. The reasons why Nabard and RBI supported the concept of the SHG and conceived the SHG Bank Linkage program were the following :

49. Enlightened officials in these two institutions realized that the current programs in which loans (and subsidies) were advanced to the poor (like the IRDP) were not achieving their purpose. Several studies showed this. Corruption was endemic, loans and repayment schedules were standardised which did not fit the time frame and diversity of rural livelihoods. The standardized loan amount for an asset like a cross-bred cow or a flock of sheep (the standard 20 plus 1 unit) did not take into account the capacity of the beneficiary to manage the asset. For example, the loan amount (and subsidy) for a cross bred cow was fixed; the cow had to be at least 80% exotic to have the potential to yield the quantity of milk required to repay the loan and earn an income, but the capacity of the poor family to access water and fodder to manage such a high bred animal was not taken into account. Many would have preferred a 50% cross bred which required much less green fodder and water. Further many sold an older animal and did not require the full standardised amount to purchase a new one, yet had to take it. The monthly repayment was a standard amount even though the animal yielded much less during the summer months. Similarly looking after a standardized unit of 20 ewes and 1 ram (which was designed as a viable unit) was a full-time job; after receiving the unit she could not take up any other activity to provide for her daily needs; so she usually sold some sheep; that made the unit “unviable”. Livelihood activities under IRDP were restricted to a few, usually livestock which could be insured; recovery was poor and subsidies distorted the choice of assets and were unsustainable.

50. These officials were searching for an alternative that would respond to the great diversity of livelihood activities in the rural sector, credit for which was being provided by local private families who were well-to-do and powerful in the village. The model of repayment depended on when incomes were available in the rural sector; this increased the cost of credit since it was spread over a longer-term, but there was no pressure to return a fixed amount regularly as a result of which rigidity the borrower did not have enough money to survive in a situation of distress;

51. There was agreement in Nabard and RBI that an alternative to traditional schemes like IRDP was required which provided low-cost small loans and

which could be accessed quickly. Could repayment performance be improved? Could subsidies be stopped? Could this alternative be flexible enough to provide customised credit for the large diversity in rural farm and off-farm livelihoods most of which could not be addressed by the limitations of IRDP? These were the questions which were being asked by this group in the early 1980s,

52. There was also agreement among RBI and Nabard officials that a new Bank to meet the above requirements (like Grameen of Bangladesh) was not required. Programs (schemes) providing small loans with subsidies in the agricultural sector are not new; they were launched in the 1960s, though the term "micro credit" was not applied at that time. Besides, there existed a wide network of banks including the Regional Banks, and the Cooperative structure was established precisely to provide small loans which were easily accessible and at low cost; they were already doing this and could continue to do so. What they required was a new delivery model and policy change to support it. The underlying objective which gradually emerged was enshrined in the two words "Financial Inclusion". Dr. C Rangarajan carried this forward in the Rangarajan Committee on Financial Inclusion of which I was a member. Financial inclusion however has since become identified with opening of bank accounts; the strategy has to go further to foster "inclusion in growth" in which provision of finance is only one, though a major component.

53. The Chairman of Nabard Shri P.R.Nayak thought that the CMGs which emerged in Myrada had the potential to become an alternate model which could provide the ecosystem required to bring the informal system and the formal financial institutions together. This is why he provided a grant of Rs I million in 1987 to Myrada to match the savings of the CMGs and to train them in ICB. The period between 1987 and 1996 was used to test his assumption. He brought on board several officers from the RBI and Nabard. They found that the CMGs/SHGs had place for the diversity, risk, and lumpy cash flows which prevailed in the rural informal sector. But how could these features be incorporated into the official financial system? The answer was the SHG-Bank Linkage program. But to achieve this, the formal system had to change; policy changes were required. It is to the credit of Nabard and RBI that these policy changes were made; they are described in para no. 35.

E. Membership in the SHG was envisaged to be a transition strategy. New SHGs need to be promoted to include those left out after 2005?

54. The SHG movement was envisaged as a transition strategy for the rural poor who were expected to integrate (after a few years of membership in an SHG) into the formal banking system. As a result, it was expected that after the SHG members were integrated in the formal financial system and used it to support their livelihoods, the functions of the SHGs groups would change; some would morph into new institutions to support emerging livelihood requirements or even to function as social groups; women especially need such social groups which meet in locations of their choice, since they are not comfortable to meet in public spaces which are frequented by men.

55. As a transition strategy for the rural poor the SHGs together with the Bank Linkage was a success. Myrada's experience is that those members who had been in SHGs for several years, began to deposit savings directly with the Banks and to borrow from them loans larger than the SHGs were willing or able to provide. The SHG members also expanded their portfolio of livelihood activities and joined informal collectives to sell produce in bulk and/or add value. Some SHGs were disbanded after 10-15 years, others continued to meet but savings and loans declined while issues related to governance in the Gram Sabha and Panchayat gained importance. But millions of rural poor have not had the opportunity of becoming SHG members after 2006. They need to be included.

56. Hence, formation of new SHGs to include those left out is also necessary since they proved to be the appropriate institutional strategy to support the rural poor to take the first step to enter into the formal banking system and the growth process. Therefore, a continuous search has to be made by NGOs specially to identify poor families which are left out and to form and nurture them into genuine SHGs. Those who joined the SHGs were able to do so because they were not migratory, shared lives and livelihoods which had much in common, and found that they could meet regularly and abide by the norm that were generally accepted. But there are other groups who may not have been able to integrate with the SHGs; for example, some of them are socially marginalized. For example, the Devadasis remained away from SHG membership until Myrada took up a program dedicated to them in response to a request from the Karnataka Government. SHGs were organised exclusively of Devadasis; the

issues that affected their lives and livelihoods were different from those of the SHGs formed by other groups. Similar left-out groups have to be identified and nurtured to build their own SHG institutions which respond to the rhythm of their lives and livelihoods. The ten features of the original SHGs may have to be adapted in some cases to accommodate the life and livelihood demands of some of the left-out families; some may have to be removed and new ones added to respond to each group.

57. Unfortunately, after 2005, financial support to NGOs for formation and training in ICB of new SHGs along the lines originally envisaged has dwindled; this is a critical input for the growth of the SHGs as institutions of the poor. Nabard has moved to other priorities like Farmer Producer Organisations. Foreign donors have withdrawn. Banks have amalgamated into large institutions making their portfolio of small loans to individuals unviable. They have outsourced this verticle to the NBFC-MFIs which have taken the lead in forming groups and providing credit without any investment in ICB; they are increasingly driven by standardisation, speed, and profiteering -which undermine the objectives of the SHGs and the SHG-Bank Linkage program. Finally, NGOs which took the lead in nurturing and training SHGs are not welcome in the current dispensation; they are even considered to be a threat to security.

58. As a result, millions of the poor in the rural informal sector do not have the opportunity to become SHG members. They have been left out of the SHG experience; many of them have opened accounts in Banks to receive direct benefits and many have been provided loans by MFIs who claim that they are organised into Joint Liability groups, but they are not genuine SHGs as I have explained earlier. The genuine SHGs set their own agenda and were basically civil society institutions, not financial intermediaries or part of the Government's delivery system.

59. The SHG model should continue to be promoted by Nabard and other formal institutions and adapted in such a way that the left-out families can become members**. There is an urgent need to revive the SHG movement to include these millions and to maintain the SHG bank Linkage program where interest rates are low and which was able to cope with the diversity in the rural economy. This would provide a transition strategy for the millions of the rural poor in the informal sector/economy to gain the confidence and skills to enhance their self-reliance, to overcome hurdles in society to their progress, to enter into the growth process in a sustainable**

manner and to develop the networks to expand their livelihood base and maintain a level playing field.

May 25, 2022

Myrada

Bengaluru 560071

Annexures :

1. Annexure 1 – Document 1 – Nabard - dated 24 October 1987.
2. Annexure 1 – Document 2 – RBI - dated 24 July 1991.
3. Annexure 1 – Document 3 – Nabard - dated 26 February 1992.
4. Annexure 1 – Document 4 – RBI - dated 2 April 1996.
5. Annexure 1 – Document 5 – RBI - dated 4 January 1993.
6. Annexure 1 – Document 6 – Nabard - dated 7 October 1996.
7. Annexure 2 - Loan Portfolio of members of 3 SHGs.

<u>Annexure 1 - Document 1</u>

ECONOMIC ANALYSIS AND PUBLICATIONS DEPARTMENT

NABARD, Mumbai
<u>R&D Fund Division</u>

Ref.No.NB.EAPD/1434/R&D/Proj.56/97-98
24 October 1987
02 Kartika 1909(S)

Shri Aloysius P. Fernandez
Executive Director
MYRADA
Bangalore

Dear Sir,

Sub: Request for financial support from R&D Fund of NABARD for Credit Management Groups

Please refer to your letter No.15-1.66/86-4 dated August 29, 1986, and the subsequent correspondence (c.f. our letter No.NB. EAPD/1074/r&d/Proj.56/87-88 dated September 24, 1987) and discussions on the above subject. We advise that our sanction of a lumpsum grant of Rs.10 lakhs to MYRADA to be used as a seed money support to the Credit Management Groups is subject to the following terms and conditions:

1. The seed money should be provided to as many Credit Management Groups as feasible at a time and depending upon the growth of individual groups, it may be rotated among different groups over a period of time.

2. The seed money provided to the Credit Management Groups may be utilised for helping the members of the groups to borrow from the formal credit system, vis. either Cooperative Societies, Regional Rural Bank or Commercial Bank branches through meeting margin money/share capital contribution requirement.

3. MYRADA should maintain separate accounts of the seed money assistance provided from the R&D Fund of NABARD and its uses.

4. Statements of audited accounts and progress reports on the overall project should be submitted to NABARD on a half-yearly basis.

5. The detailed experiences of the CMGs assisted under the project especially with reference to mobilisation of savings, lending operations reducing dependence on moneylenders, economic activities, management of funds, supported linkage with banks/cooperative societies, etc. and the lessons learnt therefore should be suitably documented by MYRADA and furnished to NABARD annually.

6. MYRADA should undertake full responsibility for receiving the grant from NABARD and for its proper utilisation. MYRADA should refund to the National Bank the balance amount of the grant, which is either not required or cannot be utilised for the project and until such refund, it should hold the amount in trust for the National Bank.

7. The grant should not be used for any capital expenditure, including the construction of building, purchase of land or any other fixed asset.

8. The National Bank shall be entitled to depute one or more of its officers to the MYRADA and/or the Credit Management Groups to verify the progress of the project at any time and if necessary, suggest modifications in the approach or methodology or contents of the objectives of the project, which shall be considered by the MYRADA and implemented to the extent possible without causing any loss or damage to the MYRADA or the Credit Management Groups. The National Bank shall also have the right to depute its officers to verify the books of accounts, etc. to ascertain the proper utilisation of the funds provided under the grant.

9. The National Bank shall have the exclusive right to utilise the findings or outcome of the project in such a manner as may deem fit. The MYRADA shall not utilise or publish the findings or the outcome of the project without obtaining prior approval of the National Bank in writing.

10. The amount of grant sanctioned will be released to MYRADA in convenient instalments. The first instalment not exceeding 50 per cent of the grant will be released initially and the remaining amount in one or more instalments, depending upon the receipt of progress reports from the MYRADA, indicating utilisation of the grant to the satisfaction of NABARD.

If you are agreeable to the above terms and conditions, you may confirm accordingly by returning the enclosed copy of this letter duly signed by you, to enable us to take action for releasing the amount.

Yours faithfully,

(M.R.Krishnamurthy)
Manager

Encl. As above

Endt. No. NB. EAPD/1435/R&D/Proj.56/87-88 of date
Copy forwarded for information and necessary action to the Deputy General Manager, National Bank, Indian Express Building, No.1, Queens Road, P.B.No.5324, Bangalore, in continuation to our letter Endt.No. EAPD.1075/R&D/Proj.56/87-88 dated 24 September 1987.

(J.C.Mishra)
Deputy Manager

Doc 2
Doc 5
~~Doc 6~~

TELEGRAMS: RUPLACARD
TELEPHONE: 2861602-04
TELEX : 011-2455,011-2318

RESERVE BANK OF INDIA
RURAL PLANNING & CREDIT DEPARTMENT
CENTRAL OFFICE
CENTRAL OFFICE BUILDING
BOMBAY 400 023

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

July 24 , 1991
Sravana 2 , 1913 (S)

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 moneylenders 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 weaning them away from the moneylenders. The studies on these informal groups over the last few years by NABARD, AFRACA 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 Organisat[illegible]ns, 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 group could be between 10 to 25 persons.

3. The NABARD proposes to have meetings with banks in this regard and further details regarding the pilot project, etc. would be made available by them in these 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

....3

respect of SHGs to be financed under the pilot project.

Hindi version of this circular will follow.

Please acknowledge receipt.

Yours faithfully

S. K. Gupta

(S.K. Gupta)
Joint Chief Officer

Endt.RPCD.MO.Plan.BC. 152 /PL-09.22/90/91 of date.

Copy forwarded for information/necessary action to :

(M.V. Gondhalekar)
Asstt. Chief Officer

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 Secretary, Shri. 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 Mangaladevi Temple Road, Pandeshwar, Mangalore-575001 and branches interalia one at and represented by Shri. the principal officer, power of attorney holder of the bank, herein after 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 application dt. requested the bank to finance by extending credit facility of Rs. /up to the limit of Rs. /- (Rupees)only to promote the economic, social development activity of the members and the family of Borrowers.

And whereas bank has agreed to extend credit facility to the borrowers represented by its President and Secretary on certain terms and conditions.

And whereas Bank and the borrower are desirous of reducing the agreed terms into writing.

Now, therefore, this agreement witnessth as follows:

1) The bank has agreed to grant and the borrower has agreed to borrow by way of over draft/cash credit (clean)upto the limit of Rs. /- (Rupees)/Demand Loan/Term Loan (clean)of Rs. /- (Rupees) and the bank has opened [SPECIFY THE KIND OF LOAN]A/c NO. of dt. in the name of

the borrower in its book of accounts.

In case the facility availed is overdraft/cash credit the Borrowers will operate the OD/CC account satisfactorily and within the limit and 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.

) 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 herebelow 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

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Doc 3

राष्ट्रीय कृषि और ग्रामीण विकास बैंक

NATIONAL BANK FOR
AGRICULTURE AND RURAL DEVELOPMENT

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DEVELOPMENT POLICY DEPARTMENT

Ref.No.NB.DPD.FS. 4631/92-A/91-92

Circular No.DPD/104

26 February 1992
07 Phalguna 1913 (Saka)

To

All Commercial Banks

Guidelines for the Pilot Project for
<u>linking banks with self help groups</u>

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, had also advised that the details of the pilot scheme will be evolved by the National Bank in consultation with the 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 bankers to innovate and contribute to building and strengthening the project concept.

<u>Objective</u>

3. The pilot 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

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 a segment 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 credit requirements. Such dependence is pronounced in the case of marginal farmers, 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" purposes 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 the 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

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 <u>specific advantages to both the systems.</u> Under the 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 paperwork involved and a consequent reduction in the transaction costs. Improvement in recoveries and also in the margins would lead to a 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 meagre 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.

<u>Basic elements of the pilot project</u>

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. <u>Criteria for selection of SHGs</u>

   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 criterion

9. For the convenience of implementing and monitoring the projects, 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 group size 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 banker is expected to provide credit in bulk directly to the group, which may be informal or formal (i.e. registered). The group in turn would undertake on-lending to the members. The quantum of credit given to the group should be in 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 the 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 ...

bulk financing arrangement with VA.

16. In case some members of SHGs require large loans 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 SHG should be willing to accept the responsibility for proper credit utilisation 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. <u>The purposes</u> for which the group will lend to the members should be left to the common wisdom of the group.

19. <u>Assessment of credit</u>: 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. <u>Rate of interest</u>: 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 per cent. 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 installments 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 SHGs would not be in 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 the 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 Managers to have decision making powers

25. One of the key 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 Managers 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 prerequisites

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 opportunity.

27. If the bank manager so desires after an assessment of the SHG functioning, selected office bearers/members of the SHG should be given a short ...

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 projects. 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' outstandings 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 drawal 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 programmes 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

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 for institutionalising 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 interested parties.

35. The details given in this circular are mainly to serve as general guidelines. The banks are expected to innovate and help in the development of more models of linkages. The National Bank would welcome if depending upon local requirements and situations, the banks develop different strategies for the linkages programme. 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.

Dos and Don'ts

36. A few "Dos and Don'ts" for linking banks with Self Help Groups, are given in annexure II for general guidance. These may be examined by banks and also kept in view while implementing the project.

37. Hindi version of this circular will be sent separately.

Yours faithfully

Yogesh Nanda.

(Y C Nanda)
General Manager

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 Secretary, Shri. 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 Mangaladevi Temple Road, Pandeshwar, Mangalore-575001 and branches interalia one at and represented by Shri the principal officer, power of attorney holder of the bank, herein after 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 application dt. requested the bank to finance by extending credit facility of Rs. /up to the limit of Rs. /- (Rupees)only to promote the economic, social development activity of the members and the family of Borrowers.

And whereas bank has agreed to extend credit facility to the borrowers represented by its President and Secretary on certain terms and conditions.

And whereas Bank and the borrower are desirous of reducing the agreed terms into writing.

Now, therefore, this agreement witnessth as follows:

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

2) In case the facility availed is overdraft/cash credit the Borrowers will operate the DD/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 herebelow 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 BANK	association	for CORPORATION
1) PRESIDENT		MANAGER
2) SECRETARY		

ANNEXURE

Some Do's and Dont's for linking Banks with Self Help Groups

1. Pilot project for linking Banks with Self Help Groups (PPLBG)

a) Treat PPLBG as your own bank's programme or scheme.

b) Make use of the guidelines given by the National Bank but feel free to modify it to suit the local situation, type of target group, risks involved, etc.

c) Examine National Bank's guidelines carefully but don't disregard some of them without good reasons (eg guidelines regarding selection criteria of SHG, providing loans as a multiple of SHGs savings, providing loans of shorter maturity with no or very short grace period to begin with, etc.)

d) **Take your own initiativo.** Find your own NGO or SHG.

2. Prepare your Bank for PPLBG

Train the staff involved (Branch Managers, Development Manager (Agri), etc) by deputing to training programmes conducted by the National Bank or to programmes specially designed by your own training colleges.

3. Selection of NGO's for collaboration

a) Though the National Bank will select a few reputed NGOs for PPLBG banks may also select NGOs which are capable of providing adequate guidance to SHG's.

b) An NGO selected should meet the following criteria

- it should have a good track record
- a proper system of book-keeping and audited balance sheets for last 3 years.
- basic financial management capability
- approach of promoting and working with groups of people belonging to weaker sections.

4. Selection of SHG for linking

a) In addition to criteria mentioned in the circular Banks may consider following be the officer bearers or leaders of SHG.

-there should not be any interference from local authority.

-satisfactory internal savings and credit activity for at least 6 months.

-proper book keeping system and procedures for lending and savings.

b) If any of these criteria are not met steps should be taken to remedy the situation by training, by arranging visits to SHGs working well etc., if necessary, with the assistance of an NGO..

c) It would be prudent to select SHGs only from a smaller geographical area so as to provide effective guidance and exercise proper supervision.

d) Banks may be required to provide training to members of SHG in book keeping, financial management, income generating activities, etc with the help of an NGO.

e) No credit to SHG without training or before ensuring it has the necessary capability to participate in PPLBG.

5. Savings

a) Internal savings mobilisation is the core of Self Help.

b) External finance must not replace adequate self financing and internal savings.

c) Banks may provide proper guidance to stimulate savings of SHG.

d) SAVINGS FIRST : ALL CREDIT MUST BE PRECEDED BY SAVINGS

e) Banks may consider covering members of the group under Group Insurance Scheme of LIC.

6. Use of loans for productive purposes

a) Loans to SHGs for group enterprises be discouraged in the initial stages as they have usually failed. Exceptions should be very carefully examined and supervised.

b) Th

c) SHG should be strongly encouraged to use loans for productive purposes. Loans should normally not be used for non-productive purposes. However internal savings of SHG may be made use for meeting emergent needs of its members.

7. Loan ceilings

a) There is no general recommendation concerning loan ceilings to SHGs.

b) In principle, loan ceilings should be based on estimated absorptive capacity which in turn is based on the capacity to save, invest and repay.

8. Ratios of savings & credit

a) Banks may consider two alternatives. One, to begin with, provide loans to SHG which is two times the savings of the SHG. This ratio can be increased to a maximum of 1:4 as the bank gains greater confidence in the SHG.

b) Second, request a deposit of blocked savings before a loan is granted. To begin with, start with a conservative ratio of 1:1 or 1:2 of savings to credit depending upon the bank's assessment of risks involved. With satisfactory repayment, the ratio may be increased after each cycle, until the absorptive capacity of the group and its members have been reached.

c) Under both the alternatives it should be ensured that internal or blocked savings are genuine savings of the group and its members and it has not been borrowed from external sources.

9. Repayment period

a) Maturities should be differentiated and not uniform. Particularly, loans should not all be at the recommended maximum maturity.

b) Shorter maturities have two advantages which should be strongly emphasized in consultation with NGOs, SHGs and members :

-they are easier to handle and thus less risky

-they permit a more dynamic growth of the loan portfolio.

c) First loans under PPLBG to NGOs, SHGs or justified.

10. LEND FIRST CYCLE OF LOANS WITHOUT A GRACE PERIOD

a) First loans from banks or NGOs to SHGs and from SHGs to members should be without a grace period.

b) Exceptions should be carefully examined. Even if a loan is used for agricultural purposes, borrowers usually have income from various sources which permit monthly repayments.

c) If short grace periods (e.g., one, two or three months) are given, the loan amount should be kept small.

11. Insist on timely repayment

a) Banks, NGOs and SHGs must insist on timely repayments. This is to be strongly emphasised at the time of lending, during discussions prior to lending and in training programmes.

b) Loans from banks or NGOs to SHGs and from SHG's to members must be repaid in regular instalments.

12. Loan repayment instalments

a) Loans from banks to SHGs could be repaid normally in regular monthly instalments or as determined at the time of loaning based on local conditions, activities undertaken by members, etc.

b) Loans from SHGs to members should be repaid in appropriate instalments which may be daily, weekly on market days, fortnightly, monthly etc.

13. Deliver credit publicly

a) If possible, credit delivery to SHGs and members should be simultaneous and in public, i.e. during the regular meeting of the SHG.

b) If this is not possible, credit delivery to a SHG should always be in the presence of several office bearers of SHG and selected members, at least one or two of the major borrowers. A loan must never be handed over to a single representative of the group.

Annexure 1 - Document No. 4

RESERVE BANK OF INDIA
Rural Planning & Credit Department

RPCD No.PL BC 120/04.09.22/95-96
April 2, 1996
Chaitra 13, 1918 (Saka)

All Scheduled Commercial Banks (Excluding RRBs)

Dear Sir,

Linking of Self-Help Groups with Banks Working Groups on NGOs and SHGs Recommendation - Follow up

Please refer to our circular letter RPCD.No. Plan BC 13/PL-09.22/90-91 dated 24 July 1991 advising banks to actively participate in the pilot project launched by NABARD for linking 500 SHGs with banks. Pursuant to this, NABARD vide its circular letter No.NB DPD. FS/4631/92-A/91-92 dated February 26, 1992 issued detailed operational guidelines to banks for implementation of the project. Beginning from 255 SHGs linked with banks during 1992-93, it reached 620 SHGs in 1993-94 and 2122 SHGs by 1994-95 and upto 31, December 1995, around 2700 SHGs were linked and the amount of bank loan disbursed to SHGs was about Rs.332 lakhs. In all, 26 commercial banks and 46 RRBs have participated in the linkage programme. The quick studies conducted by NABARD in a few states to assess the impact of the linkage project have brought out encouraging and positive features like increase in loan volume of the SHGs, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100% recovery performance, significant reduction in the transaction costs for both the banks and the borrowers, etc. besides leading to gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project is that about 85% of the groups linked with the banks are formed exclusively by women.

2. With a view to studying the functioning of SHGs and NGOs for expanding their activities and deepening their role in the rural sector, the Governor, RBI had in November 1994 constituted a Working Group comprising eminent NGO functionaries, academicians, consultants and bankers under the Chairmanship of Shri S.K.Kalia, Managing Director, NABARD. The members of the Working Group visited a number of NGOs and SHGs, held widespread discussions and studied several issues concerning SHGs and NGOs through a sample of 171 SHGs, 49 NGOs and 97 bank branches. The Working Group has since submitted its report.

Important Recommendations

3. Working Group is of the view that the linking of SHGs with 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 and in this regard, the banks have a major role to play. The Group has recommended interalia, that the banks treat the linkage programme as a business opportunity for reaching the rural poor and making it a part of their **corporate strategy**, the programme be made a part of the Service Area Approach and LBR reporting system and regular training curriculum of banks, lending of banks to SHGs being made a separate segment under the priority sector, introducing review and monitoring of SHGs linkage programme, etc. Simultaneously, the Group has suggested for capacity building of NGOs, training of their staff, etc. The recommendations of the Working Group have since been examined and generally accepted by us.

Follow up Action
SHG Lending as Normal Lending Activity

4. 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 targetted 500 SHGs has already been achieved, it has been decided to extend the SHGs linkage programme beyond the pilot phase as a normal business activity of banks to improve the coverage of the rural poor by the banking sector. Accordingly, the 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.

Separate Segment under Priority Sector

5. In order to enable the banks to report their SHG lending without difficulty on account of divergent purposes in ground level disbursements from SHGs to members, it has been decided to incorporate an additional segment under the priority sector advances. Accordingly, the banks should report their lending to SHGs and/or to NGOs for on lending to the SHGs/Members of SHGs/ discrete individuals or small groups which are in the process of forming into SHGs under the new segment, viz. 'Advances to SHGs' irrespective of the purposes for which the members of the SHGs have been disbursed loans. Lending to SHGs should be included by the banks as part of their lending to the weaker sections.

Inclusion in Service Area Approach

6. The scope for lending to SHGs in a particular area may depend upon the extent of poverty, presence and availability of support from NGOs and above all upon the need and desire among the poor to form groups for mutual benefit. Banks may identify branches having potential for linkage and provide necessary support services to such branches and include SHG lending within their service area plan. Keeping in view the potential realisability, the Service Area Branches may fix their own programme for lending to SHGs as in the case of other activities under the priority sector. With a view to enabling the bank branches to get the benefit of catalytic services of NGOs, the names of NGOs dealing with the SHGs will be indicated on a block-wise basis in the "Background Paper for Service Area Credit Plans". The Service Area branch managers may have constant dialogue and rapport with the NGOs and SHGs of the area for effecting linkages. If a NGO/SHG feels more confident and assured to deal with a particular branch other than the Service Area Branch

and the particular branch is willing to finance, such a NGO/SHG may at its discretion deal with a branch other than the Service Area Branch. The lending to SHGs by banks should be included in the LBR reporting system and reviewed to start with at SLBC level. However, it has to be borne in mind that the SHG linkage is a credit innovation and not a targetted credit programme.

Opening of Savings Bank Account

7. In terms of RBI circular letter DBOD.No.BC.63/13.01.89/92-93 dated 4 January, 1993, banks were allowed to open Savings Bank Accounts of SHGs financed under the pilot project. In order to facilitate promotion of SHGs and their eventual credit linkage with Banks it has been decided that SHGs which are engaged in promoting the Savings habit among their members may be allowed to open Savings Bank Accounts. It is clarified that SHGs need not necessarily have already availed of credit from the banks before opening of Savings Bank Accounts.

Margin and Security Norms

8. As per the 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 letter dated 24 July 1991 referred to above will continue to be operational under the linkage programme even beyond the pilot phase.

Rate of Interest

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

NABARD to Banks (Refinance)	6.5%
Banks to SHGs	12.0%*
Banks to NGOs/VAs	10.5%*
NGOs/VAs to SHGs	12.0%
SHGs to members	As decided by the SHG

* Exclusive of Interest Tax wherever applicable.

Banks may charge interest on the finance provided to the groups/NGOs for on-lending to SHGs at the rates indicated by the National Bank from time to time. 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.

Documentation

10. Keeping in view the nature of lending and the status of borrowers, the banks may prescribe simple documentation for lending to SHGs. The Working group has suggested a set of documents for use of banks, while lending to SHGs directly or through NGOs to SHGs. The documents are inter-se agreement to be executed by the members of the SHGs, a loan

application to be submitted by SHGs, model loan agreement, sponsorship from NGOs/SHPI, specimen loan application by NGO/SHPI for loan assistance for on-lending to SHGs and loan agreement for lending to NGOs. The same are enclosed as Annexures 1 to 4. The banks may adopt these documents in consultation with their Law Department.

Presence of Defaulters in SHGs

11. 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 financing SHGs per-se by banks provided the SHG is not in default to it. However, the bank loan may not be utilised by the SHG for financing a defaulter member to the bank.

Training

12. An important step in the Linkage Programme would be the training of the field level officials and sensitisation of the controlling and other senior officials of the bank. After the launching of the pilot project, NABARD has conducted a series of training programmes for the field level officials of the banks and also their trainers. Programmes on SHG-Bank Linkage are also being conducted at CAB, Pune. Considering the need and magnitude of training requirements of bank officers/staff both at field level and controlling office level the banks may initiate suitable steps to internalise the SHGs linkage project and organise exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/sensitisation programmes may be conducted for their middle level controlling officers as well as senior officers. In the matter of training of their faculty, the training facilities available at Bankers Institute of Rural Development (BIRD), Lucknow could be utilised.

Monitoring and Review of SHG Lending

13. Having regard to the emerging potential of the SHGs and the related non-familiarity of the bank branches with lending to SHGs, banks may have to closely monitor the progress regularly at various levels. Further, the progress of the programme may be reviewed by the banks at regular intervals. A progress report may be sent to both the RBI (RPCD) and NABARD (DPD-NFS), Mumbai in the format as per Annexure VII, on a half yearly basis as on 30 September, and 31 March each year so as to reach within 30 days of the half year to which the report relates.

Operational Guidelines

14. The Working Group had endorsed the operational guidelines issued by NABARD to banks under the pilot project vide their circular letter No. NB. DPD.FS.4631/92-A/91-92 dated 26 February, 1992. Further modifications/ amendments as and when required will be advised to banks.

15. We shall be glad if necessary action is initiated by the banks to step up their credit to the unreached rural poor by extensively utilising the SHG route. A copy of the instructions issued to the branches may please be forwarded to us and NABARD. Please acknowledge receipt of this circular letter to the Chief General Manager, Rural Planning and Credit Department, Reserve Bank of India, Control Office, Mumbai and The Chief General Manager, National Bank for Agriculture and Rural Development, DPD-NFS, Head Office, Mumbai.

Hindi version of the circular follows.

Yours faithfully,

(J.R.Prabhu),
Executive Director

Note : A similar circular on the above lines has been issued by NABARD Head Office, Mumbai, vide circular No. NB.DPD.NFS/1238/CDID/92-A/96-97, dated 01 October, 1996 to all the Regional Rural Banks and their Sponsor Banks.

X. APPENDIX

ANNEXURE- I

RBI's INSTRUCTIONS TO BANKS FOR OPENING SAVINGS ACCOUNTS FOR SHGs.

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS &
DEVELOPMENT "CENTRE – 1"
WORLD TRADE CENTRE, CUFFE PARADE,
COLABA, MUMBAI 400 005

Doc 6

Ref. DBOD. No. BC. 63/13:01:08/92-93

January 4, 1993
Pausa 14, 1914 (S)

All Scheduled Commercial Banks
(including Regional Rural Banks)

Dear Sir,

Opening of Savings Bank Accounts in the name of Self Help Groups

Please refer to para 3 (I) of our directive DBOD. No. Dir. BC. 151/C.347-85 dated 27th December 1985 in terms of which banks have been prohibited from opening of Savings bank accounts in the name of certain bodies/ organisations. The issue relating to opening of savings bank accounts by Self Help Groups financed by banks under a pilot project launched by National Bank for Agriculture and Rural Development (c.f. circulars RPCD. Plan BC. 13/PL-09.22/90-91 dated 24th July 1991 and No. DPD 104/DPD. FS. 4631/92-A/91-92 dated 26th February 1992 issued by our Rural Planning and Credit Department and National Bank for Agriculture and Rural Development respectively) has been examined and it has been decided that such Self Help Groups, registered or unregistered, may be allowed to open Savings Bank Accounts with Banks.

Please acknowledge receipt,
Yours faithfully

(B.D. Nitsure)
Deputy Chief Officer

Annexure 1 - Document No. 6

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

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 Cooperatives

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 (copy enclosed for ready reference as Exhibits I and II).

2. The pilot project has been making steady progress over the years. Beginning from 225 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 costs 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 Cooperatives the Working Group felt that they can use the mechanism of SHGs to increase their outreach to the unserved rural people. The Group has recommended that the State Government 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 Cooperatives.

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 cooperative 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 & Security Norms

As per operational guidelines of NABARD, SHGs are sanctioned savings linked loans by the banks (varying from a saving to loan ration 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 letter dated 24 July 1991 addressed to the Commercial Banks (copy enclosed as Exhibit III) would also be applicable to the Cooperatives, 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 Apex Bank (refinance)	6.5% p.a.
PACs to SHGs	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 the 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 Cooperatives 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 concerned Regional Office as per the format in the Annexure VII on a half-yearly basis as on 30 September and 31 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. 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. Cooperatives will be suitably advised in this regard in due course.

12. Enabling provisions in Cooperative Societies Act/ Bye Laws and Rules

Considering the obvious advantages of lending through SHGs, it is envisaged that Cooperatives should have a significant role to play in making credit available to the rural poor through SHGs linkages. At present, Cooperative Societies Acts of only a few states provide for membership to a cooperative of any association or body of persons whether incorporated or not and whether established under any law, if such body is approved by the Government by a general or special order. Therefore, SHGs 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 Governments may consider making necessary enabling provisions through amendment in the respective Cooperative Societies Act/Bye Laws/Rules for bringing SHGs within the cooperative fold.

13. We shall be glad, if necessary, action is initiated and suitable enabling provisions incorporated in the State Cooperative 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 Cooperative Banks in the state may please be forwarded to us and to our concerned Regional Office.

14. Please acknowledge the receipt of this letter to our concerned Regional Office.

Yours faithfully, Y.C.NANDA, Executive Director

Annexure 2 - Loan Portfolio of members of 3 SHGs.

MYKAPS HD Kote Taluq –Mysore District (West), Rainfall 850 mm. Good soils

(1) Kempamma			**(2) Rathnamma**		
Date of Borrowing	**Amount (Rs.)**	**Purpose**	**Date of Borrowing**	**Amount (Rs.)**	**Purpose**
1995	1000	Agriculture	1996	1000	Agriculture
1996	1000	Agriculture	1997	3000	Milch Animal
1996	1000	Agriculture	1997	4000	Milch Animal
1997	2000	Agriculture	1999	2000	Agriculture
1997	3000	Agriculture	1999	6000	Agriculture
1998	3500	Agriculture	2000	8000	Agriculture
1998	2000	Agriculture	2000	10000	Consumption
1998	3000	Agriculture	2001	10000	Agriculture
1998	4000	Agriculture	2001	15000	Agriculture
1998	4000	Agriculture	2002	3000	Agriculture
1999	2000	Agriculture	2002	250	Tour
2001	6000	Agriculture	2002	18000	Agriculture
2001	15000	Agriculture	2003	1000	Agriculture
2002	4000	Agriculture	2003	12000	Milch Animal
2002	3000	Agriculture	2003	18000	Agriculture
2002	250	Tour	2003	12000	Milch Animal
2002	25000	Agriculture	2004	30000	Milch animal
2003	25000	Small Business Development	2005	40000	Agriculture
2003	25000	Agriculture	2006	12000	Agriculture
2004	25000	Agriculture	2006	50000	Agriculture
2005	15000	Agriculture	2007	60000	Agriculture
2006	62000	Agriculture	2008	20000	Agriculture
2007	60000	Agriculture	2008	2500	LIC Insurance
2007	70000	Agriculture	2009	20000	Jewellery

2008	20000	Agriculture	2009	1450	Tour
2008	2500	Agriculture	2009	65000	Agriculture
2009	20000	Agriculture	2010	60000	Agriculture
2009	70000	Agriculture	2010	10000	Agriculture
2009	20000	Agriculture	2010	4500	Agriculture
2009	60000	Agriculture			
2010	10000	Agriculture			
2010	4500	Agriculture			
2010	7000	Agriculture			
Total	**575,750**		**Total**	**438,700**	

Kollegal Chamarajnagar Dist. Rainfall 600 mm; above-average soils

(1) Rani W/o Ramesh			**(2) Mahadevamma**		
Date of Borrowing	**Amount (Rs.)**	**Purpose**	**Date of Borrowing**	**Amount (Rs.)**	**Purpose**
1998	500	Agriculture	1998	500	Health
1998	46	Insurance	1998	46	Insurance
1998	800	Agriculture	1998	3,000	House repair
1999	1,500	Clear old loans	1999	3,000	Business - Sweet & Toys at M.M.Hills
1999	4,000	Cow purchase	2000	600	House hold expenses
2000	500	Household expenses	2001	6,000	Business - Sweet & Toys at M.M.Hills
2000	5,000	Agriculture	2001	12,000	House construction
2001	5,000	Clear old loans	2003	2,000	Health
2002	5,000	House Construction	2004	6,000	Clear old loans
2002	12,000	Clear old loans	2004	30,000	Goat purchase
2004	10,000	Business - Maize	2005	2,000	Goat purchase
2004	3,000	Toilet Construction	2005	2,000	LPG for home use
2005	25,000	Business - Maize	2006	12,000	Business - Sweet & Toys at M.M.Hills
2006	4,000	Business - Maize	2006	11,000	Business - Sweet & Toys at M.M.Hills
2006	11,000	Business - Maize	2006	1,500	Insurance
2006	5,000	Agriculture	2007	25,000	Land Development
2006	27,000	Business - Maize	2007	3,000	Insurance

2006	1,500	Insurance	2008	11,000	Business - Sweet & Toys at M.M.Hills
2007	32,000	Business - Maize	2008	20,000	Business (SGSY)
2007	6,000	Business - Maize	2008	100,000	Purchase of land
2007	3,000	Insurance	2008	3,000	Insurance
2008	20,000	Business (SGSY)	2009	4,000	Insurance
2008	3,000	Insurance			
2008	30,000	Agriculture			
2008	45,000	Purchase of Land			
2009	80,000	Auto purchase			
Total	**339,846**		Total	**257,646**	

Chikkajajur, Holalkere Taluq, Chitradurga Dt., Karnataka, Rainfall 550 mm average to poor soils

(1) Shanthamma			(2) Kausar Banu		
Date of Borrowing	**Amount (Rs.)**	**Purpose**	**Date of Borrowing**	**Amount (Rs.)**	**Purpose**
1996	500	Household expenses	1996	1,000	Trading
1996	1,000	Cow Purchase	1996	3,000	Trading
1996	2,000	Education	1997	5,000	Trading
1996	3,000	Cow purchase	1997	500	Education
1997	3,000	Agriculture inputs	1997	5,000	Medical expenses
1997	3,000	Education	1997	300	Medical expenses
1997	4,000	Education	1998	4,000	Trading
1998	5,000	Education	1998	5,000	Trading
1998	6,000	Agriculture land purpose	1998	5,000	Trading
1999	8,000	Education	1999	5,000	Trading
2000	11,000	For job in Railways	1999	12,000	Trading
2000	15,000	Business	2000	25,000	To release house mortgage
2000	325	To purchase SHG uniform	2000	325	To purchase SHG uniform
2001	20,000	For telephone booth	2001	2,000	Education
2003	8,325	Sewing machine (SGSY)	2002	40,000	House purchase
2004	35,000	Education	2003	325	Household expenses

2004	2,300	LPG for home use	2003	8325	Sewing machine (SGSY)
2005	1,000	Jewellery loan	2003	50,000	Agriculture land purchase
2006	45,000	Agriculture land purchase	2004	2300	LPG for home use
2006	2,000	Jewellery loan	2005	58,000	To release agriculture land from mortgage
2007	2,000	Gold	2005	6,000	House repair
2008	2,820	Insurance	2005	1,000	Jewellery loan
2009	Nil	-	2006	2,000	Jewellery loan
2010	Nil	-	2007	2,000	Gold
			2008	53,820	Cycle shop business and gold
			2009	Nil	-
			2010	500	Gold
Total	**1,80,270**		**Total**	**4,59,390**	