

SHG LINKAGE

Micro Credit, being part of Financial Inclusion, has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. Micro Credit Institutions are those, which provide these facilities.

Despite the vast expansion of the formal credit system in the country, 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, continues to depend on money lenders in many areas as credit to these sections of the population has not been institutionalized.

In order to minimize the dependence on money lenders, NABARD, APRACA and ILO have carried out a study and brought out the concept of Self Help Groups (SHGs) and launched a pilot project supported by refinance. The studies brought out that Self-Help Savings and Credit Groups had the potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working had been encouraging.

The selection of the SHGs should be:-

- a) SHGs should be in existence for at least 6 months;
- b) The group should have actively promoted the savings habit;
- c) Groups could be formal (registered) or informal (unregistered); and
- d) Membership of the group could be between 10 to 20 persons.

Linking of SHGs with banks has been emphasized in the Monetary Policy of RBI and Union Budget announcements from time to time and various guidelines have been issued to banks in this regard. To scale up the SHGs linkage programme and make it sustainable, banks were advised that they may consider lending to SHGs as part of their mainstream credit operations and include it 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.

The advances given by the banks to the groups were treated as advances to "weaker sections" under the priority sector. Banks are required to report their lending to SHGs and/or to NGOs for on-lending to SHGs/members of SHGs under the new segment, viz. 'Advances to SHGs' irrespective of the purposes for which the members of SHGs have been disbursed loans.

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.

The SHGs registered or unregistered which are engaged in promoting savings habits among their members would be eligible to open savings bank accounts with banks irrespective whether they have availed credit facilities or not.

As per operational guidelines of NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, loans may be given beyond the limit of 4 times of the savings and simple documentation as per the discretion of the bank.

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 utilized by the SHG for financing a defaulter member to the bank.

Banks should evolve/initiate adequate steps to impart suitable training to the field level officials and sensitization of the controlling and other senior officials of the bank being an important step in the Linkage Programme and organize exclusive short duration programmes for the field level functionaries.

Banks are required to monitor the progress under the project very closely considering the emerging potential of the SHGs and the relative non-familiarity of the bank branches with lending to SHGs. NABARD insists for the progress report in the prescribed format on a half yearly basis i.e. as on 30th September and 31st March every year so as to reach within 30 days of the period it relates on an ongoing basis.

Banks may provide adequate incentives to their branches in financing the SHGs and establish linkages with them, making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions. The group dynamics of working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon. The approach to financing of SHGs should be totally hassle-free and may include consumption expenditures.

The interest rate applicable to loans given by banks to Self Help Groups/member beneficiaries would be left to their discretion. Banks have been advised to meet the entire credit requirements of SHG members, as envisaged in the Union Budget announcement for the year 2008-09. Banks would be encouraged to embrace the concept of Total Financial Inclusion. All scheduled commercial banks have to meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping".

Source: RBI M. Circular

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