



APRACA FinPower Program

Linking Banks with Self-Help Groups:

A Technical Guide for Grass Roots Animators and Volunteers



By
NABARD Consultancy Services

With Special Sponsorship of the
International Fund for Agricultural Development (IFAD)

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MESSAGE from the APRACA Chairman

I am indeed very happy to know that the IFAD-APRACA FinPower Program commissioned the National Bank for Agriculture and Rural Development (NABARD) and its consulting arm, NABARD Consultancy Services, to produce this technical guide that would be useful for grass roots animators and volunteers on the formation of self-help groups (SHGs) and their linkage with rural financial institutions.

I believe this would also be an effective tool that can be used by APRACA members and their partners in their quest for reducing poverty in the region and for ensuring greater development and empowerment of the rural poor, particularly of women and other disadvantaged groups.

It is my fervent hope that all key rural finance and microfinance stakeholders will use this technical guide to their greatest advantage.

**Pham Thanh Tan
APRACA Chairman**

MESSAGE from the Managing Director, NABARD

India has seen rapid strides in the field of microfinance over the last two decades. The Bank-SHG Linkage Program, a program initiated by APRACA in collaboration with GTZ in several countries beginning 1988 and launched by NABARD in India in 1992 became a mass movement that encompassed the entire country and replicated in other parts of the world. A large number of banks, microfinance institutions and self-help group promoting institutions have been involved in the program for the benefit of the rural poor. Due to inherent flexibilities in the rural financial system, there have been a number of innovations which need to be encouraged.

It is indeed a matter of immense happiness and pride that the IFAD-APRACA FinPower Program has collaborated with NABARD to publish this technical guide for the use of grass roots animators and volunteers in their community work.

I commend IFAD and APRACA for this timely gesture, under the FinPower Program, in sponsoring the technical guide, which is an important publication to enhance financial inclusion, facilitate poverty alleviation and promoting women empowerment in the region. The Bank-SHG Linkage Program in India has already benefited close to one hundred million poor households. The endeavor of APRACA and NABARD, through its consulting arm, NABARD Consultancy or Nabcons, in disseminating this field-level knowledge and experience will be a boon to all interested community volunteers, mobilizers and animators in extending the program to those rural households, who are deserving but without full access to formal financial services.

Dr. K.G. Karmakar
Managing Director
NABARD

FOREWORD

The International Fund for Agricultural Development has provided APRACA with a five-year technical and financial assistance grant covering the period 2007-2011 to implement the APRACA Regional Program of Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations or dubbed as the FinPower Program.

FinPower's goal is to promote the financial empowerment of the rural poor in Asia-Pacific countries through policy dialogue, innovative pilot programs, and knowledge-sharing among actors in the rural finance sector. Its objectives are to foster an enabling, pro-poor and client-friendly policy environment and regulatory framework for sustainable rural financial systems, encourage innovative approaches to rural finance through the adoption of reforms and improvement of rural finance mechanisms that empower the rural poor and extract lessons from the wealth of rural finance innovations promoted by IFAD-supported projects and APRACA initiatives for information sharing and replication in the region.

Rural finance interventions provide small-scale credit and other financial services to poor households and very small informal businesses. They provide a mechanism for the poor to smooth the effects of income shocks on consumption, find safe and affordable repositories for their savings, take advantage of profitable investment opportunities, and insure against risk. Microfinance is firmly established as a cost-effective approach for poverty reduction, particularly in the rural areas. Experience worldwide shows that when microfinance services reach women, the benefits are particularly longer-lasting. Savings rates are higher; group-life is more intensive; repayment rates are remarkable; enterprise growth and graduation is stronger; and there are measurable improvements in child nutrition and education, family health, household sanitation and shelter, and general household welfare.

However, the expansion of financial services to poor households in developing countries is hindered by many obstacles. These include ineffective enforcement of laws, lack of usable collateral, poor communication infrastructure, and weak prudential oversight over saving institutions. To address these problems, rural and microfinance institutions have developed a number of innovative techniques. For example, in microcredit, repeated lending breaks down loans into small instalments with a frequent repayment schedule to help establish the trustworthiness of the borrower. Progressive lending increases loan disbursements gradually over time, so that failure to repay an early loan causes borrowers to lose a larger loan in the future, enhancing their incentives to repay. Another mechanism is joint liability, whereby members of a lending group take turns at receiving loans, and are jointly responsible if a group member fails to repay.

This time, the IFAD-APRACA FinPower Program revisits the Bank-SHG Linkage Program, a program initiated by APRACA in collaboration with GTZ in several countries beginning 1988 and launched by the National Bank for Agriculture and Rural Development (NABARD) in India in 1992. The NABARD linkage banking program became a mass movement that encompassed the entire country and is being replicated in other parts of the world.

Thus, FinPower has collaborated with NABARD Consultancy Services (Nabcons), the consulting subsidiary of NABARD, in publishing this technical guide on linkage banking for animators and volunteers as well as for bank officers, who are tasked to implement the linkage banking concept.

The handbook has been developed based on NABARD's successful experience in up-scaling the program in India through supportive promotional and developmental interventions. This guide is written in simple language to help the readers understand the subject in a simple way. Comments and suggestions are welcome.

Benedicto S. Bayaua
APRACA Secretary General
and
FinPower Regional Program Manager

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HELPING TO FORM SHGs



We read and hear about self-help groups (SHGs) often. Very poor people form SHGs.

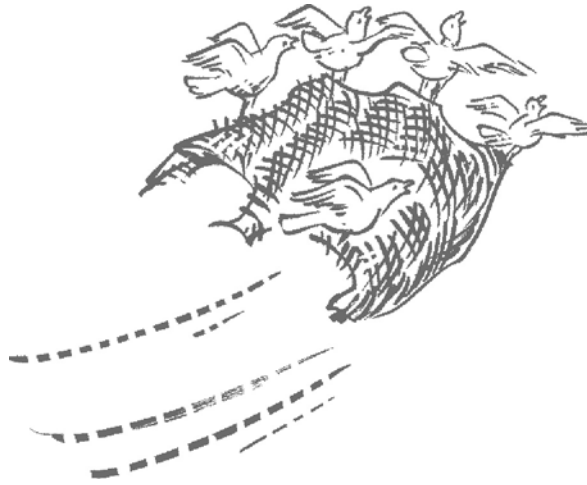
They save very small amounts of money.

They lend these small amounts to each other in the SHG. They also try to solve many of their problems together.

- ▣▶ **Can SHGs be formed in our own village?**
- ▣▶ **Can we help the poor people form SHGs?**
- ▣▶ **What do we do to help them?**

This technical guide tells you in simple terms how to help the poor form self-help groups.

WHAT IS SELF-HELP?



From our childhood days, we hear sayings like –

- 'Self-help is the best help'
- 'Unity is strength'
- 'United we stand, divided we fall'

We have heard the story of the birds caught in a net.

They could not escape one by one.

But when they flew together in a group, they escaped.

We know that one stick is easy to break.

But it is difficult to break a bundle (group) of sticks.

The SHGs show us how unity is strength.

They show us how self-help could be the best help.

It is useful if we can encourage and help poor people form SHGs.

HOW DO WE START?

Even a thousand-mile journey starts with a single step forward. The first step for forming an SHG is also simple –

- ➡ Visit the very poor families in your village
- ➡ Talk to them
- ➡ If the people do not know you, first talk to them about yourself.

It is important to be known to the people and to win their trust.

- ➡ Talk to the elders in the village, explain your plan to them and request for their support.



You will need to keep a small Notebook. A List of items is given on Page 5. Copy this List in your Notebook and use it for every family you visit.

Whenever you visit a poor family,

- ▣➤ Speak to the womenfolk.
- ▣➤ Ask what the most important issue for the family is.
- ▣➤ Write all details as per your list copied from page 5.

Every time you visit such families, please tell them that you are not distributing or promising any grant or subsidy under any government scheme. This is very important to avoid misunderstanding at later stages.

This is called a 'preliminary survey'. This helps you understand the needs of each individual family.

You will need to visit the same families again. When you see them for the second time, you will be able to tell each family how you have seen and spoken to other families, who also have very similar problems like them.

By visiting the families, you will be able to know which of those families could come together in self-help groups. You will also understand what their common requirements and problems are.



HOW ARE SELF-HELP GROUPS FORMED?

When you speak to families in a locality, you will find that some kind of mutual liking already exists between and among many of them. Some known reasons for mutual affinities are:

- ▣ Similar experience of poverty
- ▣ Similar living conditions
- ▣ Same kind of livelihood
- ▣ Same community
- ▣ Same place of origin

It will be easy at this stage to find out which families are likely to get together better.

What type of families do we visit for forming SHGs?

Ask these questions about each family

1. Does the family have only one earning member?
2. Does the family bring drinking water from far-off places?
3. Are the women compelled to go out in the open in the absence of in-house toilet?
4. Are there old illiterate members in the family?
5. Are there permanently ill members in the family?
6. Are there children in the family who do not go to school?
7. Is there a drug addict or a drunkard in the family?
8. Is their house made of mud?
9. Do they regularly borrow from a village moneylender?
10. Do they eat less than two meals a day because they are poor?
11. Do they belong to an economically backward class?

**IF 'YES' IS THE ANSWER TO THREE OR FOUR OF THESE QUESTIONS,
YOU CAN CONSIDER THE FAMILY AS POOR.**

HOW ARE SELF-HELP GROUPS MEETING ORGANIZED?

Before self-help groups are formed, hold a meeting of the community leaders and elders of the village. Explain to them your plan to form SHGs. You will get support from them. This is very important.

- ➡ This is called community participation.
- ➡ This will also give acceptance to your work in the village.

This is the right time to tell everyone that the meetings are not for “giving” anything, but to “enable” the poor families to come together and help each other.

It will be very useful if you explain the basic principles of self-help group in this meeting.



HOW DO SHGs TAKE SHAPE?

After meeting the elders and community leaders, you are now ready to call the SHG members for a meeting. You can get one member from each of the identified families to come for a meeting on a convenient day. This can be called “a **start-up meeting**”.

During the meeting, you will get a lot of questions. Your answers will help them slowly understand the concept further.

Please allow sufficient time for the members to understand the different aspects of group formation.

- ▣▶ The process of forming groups normally takes five to six months.
- ▣▶ Once the group is formed, it takes one to one and a half years to settle to a stable pattern.

Membership

During the initial meetings, the following things may happen:

- ▣▶ Some members leave.
- ▣▶ Some new members come in.
- ▣▶ The members slowly learn to decide subjects for meetings.
- ▣▶ They learn to conduct meetings.
- ▣▶ They understand the value of records and documents.
- ▣▶ They want to remain together and help each other.

These are normal stages. This will give you the confidence that you are moving in the right direction.

Leadership

One member of the group needs to take the lead. How is this person identified?

The best way is to ask the following questions within the group:

QUESTIONS	ANSWERS
Who should decide everything for the SHG?	All members should decide.
Who benefits from the SHG?	All members benefit.
Who should do the work?	All should share the work.
How can the work be shared?	Agree on one person to take up the work by rotation.

This way, the members will understand the reason for the rotation of responsibilities. This will make it easy to choose a member to take the initiative for the following main activities:

- Bookkeeping
- Organizing Meetings



Simple rules are required for SHGs to function. The following are some important rules:

- Common agreement on when to meet;
- Decision on time and place of meetings;
- Agreed penalties for non-attendance;
- Agreement on amount of savings;
- Giving small loans to each other; and
- Taking loan from banks and developing repayment habits.

Training of members is an important need for the proper functioning of SHGs. These areas for training would be helpful to members:

- Basic mathematics;
- Writing of books;
- Scheduling of meetings;
- Social aspects like women empowerment; and
- The basics of lending money, borrowing and repaying.

The most effective method of training of SHG members is to take them to a good working SHG and allowing free interaction with the latter's members.

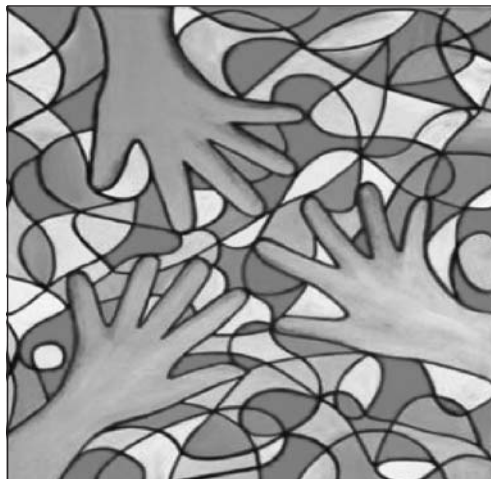
Let us now look into an SHG a little more closely and understand its characteristics and functions.

WHAT ARE THE CHARACTERISTICS AND FUNCTIONS OF SHGs?

- The ideal size of an SHG is 10 to 20* members.
(In a bigger group, members cannot actively participate.)

* The upper limit for the size of the group would also be based on the laws of the land so as to ensure that the group remains informal and the poor do not have to face the hassles of registration.

- The group need not be registered.
- From one family, only one member.
(More families can join SHGs this way.)
- The group consists of either only men or of only women.
(Mixed groups are generally not preferred.)
- Women's groups are generally found to perform better.
- Members have the same social and financial background.
(Members interact more freely if this is so.)
- The group should meet regularly.
(Members understand each other better if they meet weekly.)
- Compulsory attendance.
(Full attendance is needed for larger participation.)



BOOKKEEPING BY SHGs

Simple and clear books for all transactions should be maintained.

The Bookkeeper

- ➡ If no member is able to maintain the books, someone should be engaged by the group for the purpose.
- ➡ An animator can also help.

Minutes Book

The proceedings of meetings, the rules of the group, names of the members, etc. are recorded in this book.

Savings and Loan Register

This shows the savings of members separately and of the group as a whole.

Details of individual loans, repayments, interest collected, balance, etc. are entered here.

➡ **Weekly Register**

Summary of receipts and payments is recorded on a weekly basis. This is updated in every meeting.

➡ **Members' Pass Books**

Individual members' passbooks encourage regular savings.

FUNCTION OF SHGs

(a) Savings and Thrift

- The amount may be small, but savings have to be a regular and continuous habit among all the members.
- **Savings First – Credit Later**’ should be the motto of every group member.
- Group members learn how to handle large amounts of cash through savings. This is useful when they use bank loans.

(b) Internal Lending

- The savings should be used as loans for members.

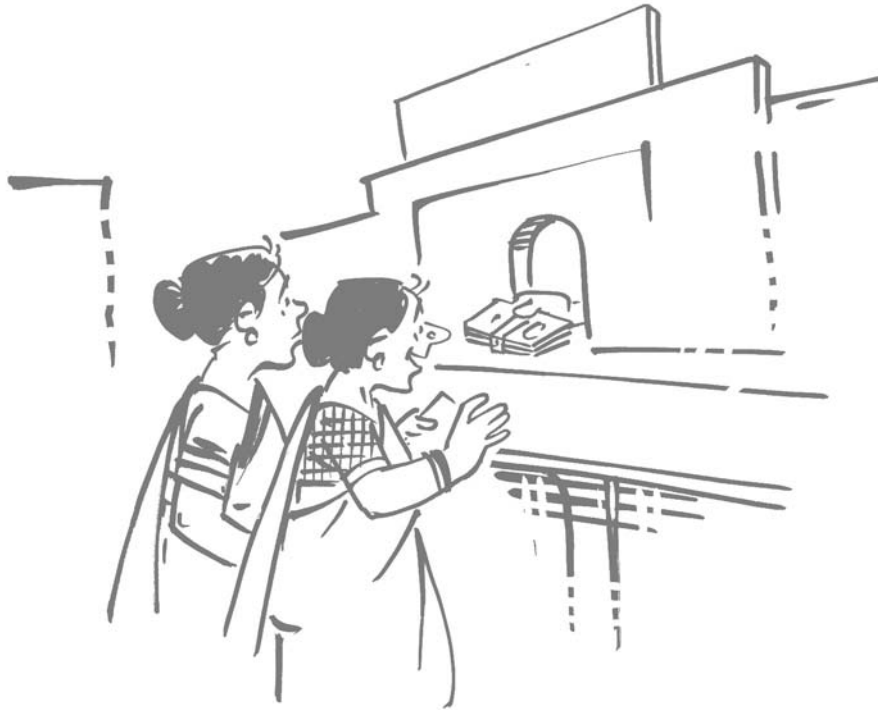
(Internal lending enables increasing the size of the kitty as the interest earned remains within the group).

- The purpose, amount, rate of interest, etc., should be decided by the SHG itself.
- Proper accounts should be maintained by the SHG.
(Specimen formats given as an Annexure at the end of this technical guide)
- Opening savings bank account with a bank.
- Enabling SHG members to obtain loans from banks, and repaying the same.
(Details may be seen in the next Chapter)

(c) Discussing problems

- During every meeting, the group will discuss and try to find solutions to the problems faced by the members of the group.

HOW CAN SHGs BE LINKED TO BANKS?



- **Opening of Savings Bank Account**
- **Internal Lending by the SHG**
- **Assessment of the SHG**
- **Checklist for assessment of SHG**
- **Repayment of loans by the SHG**

Soon after an SHG is formed and one or two meetings held where the savings are collected, a savings bank account can be opened in the name of the SHG.

The following steps will explain as to how this can be done:

Step 1 – Opening of Savings Bank Account for an SHG

The Central Bank of the country has to issue instructions to all banks, permitting them to open Savings Bank Accounts of SHGs.

The savings bank account in the name of SHG could be opened after obtaining from the group the following documents:

➡ **Resolution from the SHG**

The SHG has to pass a resolution during a group meeting, signed by all members, indicating their decision to open a savings account with a bank. This resolution should be filed with the bank.

➡ **Authorization from the SHG**

The SHG should authorize at least three members, any two of whom may jointly operate upon their account. The resolution, along with the filled in application form duly introduced by the promoter, may be filed with the bank branch.

➡ **Copy of the Rules and Regulations of the SHG**

This is not a must. If the group has not formulated any such rules or regulations, loans can be sanctioned without them.

A savings bank account passbook may be issued to the SHG. This should be in the name of the SHG and not in the name of any individual/s.

Step 2 – Conduct of Internal Lending by an SHG

After saving for a minimum period of 2 to 3 months, the common savings fund should be used by the SHG for lending to its own members.

- ▣▶ The purpose, terms and conditions for lending to its members, rate of interest etc., may be decided by the group through discussions during its meeting. The interest rate is usually fixed per month. However, the group should be free to decide on the interest rate which could vary depending on the purpose for which the loan is taken by the member. Please remember that interest per month is better understood in villages, than annual interest.
- ▣▶ Simple and clear books of account of savings and lending should be kept by the SHG. ***(Specimen formats of books to be kept by the SHGs are annexed to this technical guide.)***

Through internal lending, members of an SHG will learn to properly manage, utilize and repay their SHG loans. This will be of help, when they borrow from the bank.

Step 3 – Assessment of SHGs

We need to know whether the SHG has been functioning well.

- ➔ The **Check List** given on the next page will help us to assess each SHG in a simple, but effective manner.

CHECK LIST TO ASSESS THE PERFORMANCE OF AN SHG

Sr. No.	Factors to be checked	Very Good	Good	Unsatisfactory
1.	Group Size	15 to 20	10 to 15	Less than 10
2.	Type of members	Only very poor members	2 or 3 not very poor members	Many not poor members
3.	Number of meetings	Four meetings in a month	Two meetings in a month	Less than two meetings in a month
4.	Timings of meetings	Night or after 6 p.m.	Morning between 7 and 9 a.m.	Other timings
5.	Attendance of members	More than 90 percent	70 to 90 percent	Less than 70 percent
6.	Participation of members	Very high level of participation	Medium level of participation	Low level of participation
7.	Savings collection within the group	Four times a month	Three times a month	Less than three times a month
8.	Amount to be saved	Fixed amount	Varying amounts	–
9.	Interest on internal loan	Depending upon the purpose	24 to 36 percent	More than 36 percent
10.	Utilization of Savings amount by SHG	Fully used for loaning to members	Partly used for loaning	Poor utilization
11.	Loan recoveries	More than 90 percent	70 to 90 percent	Less than 70 percent
12.	Maintenance of books	All books are regularly maintained and updated	Most important registers (minutes, savings, loans, etc.) are updated	Irregular in maintaining and updating books
13.	Accumulated savings	More than \$ 100	Rs. \$ 60 - \$ 100	Less than \$ 60
14.	Knowledge of the Rules of the SHG	Known to all	–	Not known to all
15.	Education level	More than 20 percent of members can read and write	–	Less than 20 percent of members can read and write
16.	Knowledge of Government programs	All are aware of Government programs	Most of the members know about Government programs	No one knows

Important

1. SHGs with 12 to 16 “**very good**” factors can be given loans forthwith.
2. SHGs with 10 to 12 “**very good**” factors need 3 to 6 months’ time to improve, before loan is given.
3. SHGs with rating of less than 10 “**very good**” factors will not be considered for loan.

Step 4 – Sanction of Credit Facility to an SHG

☛ In whose name is the loan issued?

The loan is *always sanctioned* and issued in the name of the group. **(Not in the name of individual members.)**

☛ What is the quantum of loan? How is it decided?

Initially, the amount of loan to the SHG in general can be 1 to 4 times of its savings. However, depending on the local conditions, credit absorption capacity and assessment of the banker, the ratio can go up to even 10 times.

☛ What constitutes the savings of the group?

- ☛ The group's balance in the savings bank account;
- ☛ Amount held as cash with the authorized persons;
- ☛ Amount internally lent amongst the members;
- ☛ Amount received as interest on the loans;
- ☛ Any other contributions received like grants, donation, etc.

☛ What are the purposes that the loans are given for?

Loan may be granted by the SHG for various purposes to its members. The bank does not decide the purposes for which the SHG gives loans to its members. The purpose can be emergency needs like illness in the family, marriage, etc. or buying of assets for income-generation, acquisition of assets, etc. The group will discuss and decide about the purpose for which loans are to be given to its individual members by the SHG. They will also prioritize the issue of loan to any member depending upon his need and urgency.

☛ Who makes the repayment?

The SHG makes the repayment to the bank. **(The group is collectively responsible for the repayment of the loan.)**

What is the collateral security for the bank?

No collateral security should be taken from SHGs by banks. The Central Bank of the country has to look into this and stipulate necessary norms including upper limit of loan amount up to which no collateral would be required.

Collateral security is not necessary for the loans sanctioned to SHGs because:

- ☛ The members of SHGs know that the bank loan is their own money like savings.
- ☛ They are aware that they are jointly responsible for the repayment.
- ☛ Therefore, they exert peer pressure on the borrowing members for repayment.
- ☛ Due to this, the bank gets a much better repayment from the SHG.

➡ **Can the bank hold the savings bank account balance of the SHG as a security?**

No. This will prevent the SHG from lending from its internal savings.

➡ **What is the rate of interest to be charged for the loans granted to SHG by the bank?**

The Central Bank of the country has to decide on the interest rate to be charged to the SHGs. It is suggested that banks may be given freedom to decide the rate of interest unless the country has a regulated interest rate regime.

➡ **What is the rate of interest to be charged by the SHGs to its members?**

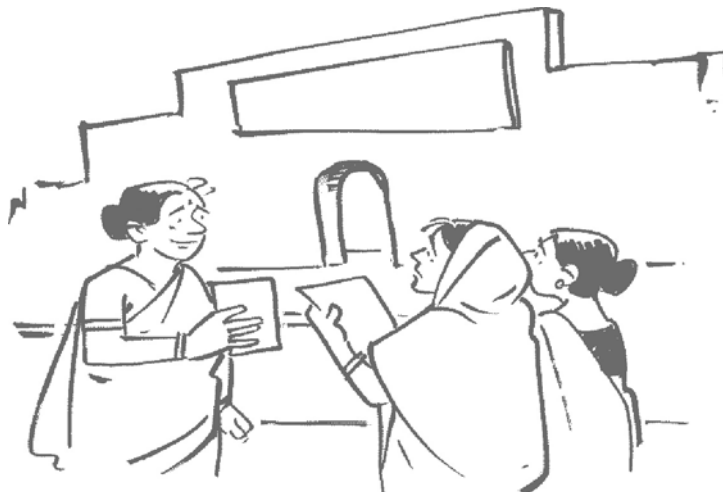
The rate of interest to be charged by the group to its members should be left to the group. This is usually fixed per month. However, the group should be free to decide on the rate of interest wherein the rate could vary with the purpose for which the loan is given. The members should be able to understand that the overall interest charged should be easily covering the cost of credit taken from the bank.

➡ **List of documents required by banks for lending to SHGs**

- (i) *Inter-se Agreement* to be executed by all the members of the self-help group. (This is an agreement by the members with the bank, authorizing a minimum of three members to operate the group's account with the bank.)
- (ii) Application to be submitted by SHG to a bank branch while applying for loan assistance. (This includes details of the purposes for which the SHG gives loan to its members.)
- (iii) Articles of Agreement for use by the bank while financing SHGs.

(This contains the duly stamped agreement between the bank and the SHG wherein both the parties agree to abide by the terms and condition set thereon. All the above sample formats are given as **Annexures** to this book.)

The group members are collectively responsible for the repayment of loans to the bank. Under no circumstance should the SHG allow any of its members to default to the bank.



SPREADING THE MESSAGE OF SHGs

How can you spread the message of SHGs?

You can involve effectively in formation, nurturing and linking the SHGs to a local bank. Please get in touch with your Controlling Office, who should be happy to provide you with all information and support in this regard.



Annex I

SAMPLE INTER SE AGREEMENT TO BE EXECUTED BY THE MEMBERS OF THE SELF-HELP GROUP*

THIS AGREEMENT made on this _____ day of _____ 201_____.

BETWEEN

1. Mr./Mrs./Ms. _____ Son/Wife/Daughter of _____, aged _____ years.
residing at _____;and

2. Mr./Mrs./Ms. _____ Son/Wife/Daughter of _____, aged _____ years.
residing at _____;and

3. Mr./Mrs./Ms. _____ Son/Wife/Daughter of _____, aged _____ years.
residing at _____;and

4.

5.

20.

who are members of the _____ group, hereinafter referred to collectively as
“**The Self-Help Group (SHG) Members**” which expression shall, unless repugnant to the context or meaning,
include every members of the said SHG and their respective legal heirs, executors and administrators.

WHEREAS all SHG members are residents of _____ Village in _____ Development Block of
the _____ State and are known to each other.

WHEREAS the SHG members above named have joined voluntarily together and formed the SHG with intent
to carry on savings and credit and other economic activities for mutual benefit subject to the terms and
conditions hereinafter appearing:

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT:

1. Each member of the SHG shall save a sum of \$. _____ (Dollar _____ only) or such sum
as may be decided by the Group, on weekly fortnightly/monthly basis which shall be deposited with the
authorized member of the group.

2. Each member shall strive for the success of the SHG and shall not act in any manner detrimental to the
business interests of the SHG.

3. The SHG members shall be jointly and severally liable for all the debts contracted by the SHG.

4. All assets and goods acquired by the SHG shall be in the joint ownership of all the members of the SHG
and shall ordinarily be in the constructive custody of such member as may be authorized by the group and
shall be kept at the place of business at _____ which shall not
be changed without consent of the SHG members.

5. The SHG members hereby duly elect and appoint Mr./Mrs./Ms. _____ as _____,
Mr./Mrs./Ms _____ as _____
Mr./Mrs./Ms _____ as _____

[by whatever name designated] to look after and manage the day-to-day affairs of the SHG’s activities and
also act in their name and on their behalf in all matters relating thereto. The authorized representatives, may
however, be removed at any time by majority vote of the members and new representatives elected.

6. Each of the SHG members hereby agrees to abide by and ratify all such act, deeds and things as the authorized representatives may do in the interest of the said activities.

7. The authorized representatives shall take decisions in the day-to-day working of the SHG and each representative shall actively involve herself or himself and cooperate in looking after the day-to-day affairs of the SHG activities in particular to attend to the following activities.

– Every member of the SHG hereby authorizes the representatives to apply for the loan on behalf of the SHG and execute necessary agreements/documents on behalf of the SHG for the purpose. The authorized representative may collect loan amounts from the bank on behalf of SHG, deposit the same in the savings account of the SHG for on-lending to members in accordance with the decision of the SHG and also deposit recovery of loan installment from members in the loan account/s of SHG with the bank.

8. The SHG members hereby specifically authorize the representatives:–

(i) To open Savings, Fixed Deposits and other accounts in (_____) bank approved by the SHG and operate the same under the joint signature of any two of the following authorized representatives:

Mr./Mrs./Ms. _____

Mr./Mrs./Ms. _____

Mr./Mrs./Ms. _____

(ii) To keep or cause to be kept proper books of accounts of the savings, made by the SHG Members, loans granted to them and the recoveries made from them and render every year the full accounts to the SHG members for their approval and adoption;

(iii) To receive all payments due to the SHG and issue requisite receipts or acknowledgements for and on behalf of the SHG;

(iv) To institute and defend on behalf of the SHG members any legal proceedings and safeguard the interests of each member of the said SHG and for this purpose engage or disengage any lawyer or advocate or agent and incur the necessary legal expenses in connection therewith.

9. In the event of death of any of the members of the SHG, his/her legal heirs shall be entitled for the benefits and be liable for the obligations of the deceased member under this agreement.

10. It is agreed that no new person shall be inducted as a member of the SHG without consent of all the existing members.

IN WITNESS WHEREOF the aforesaid members of the SHG have set their respective hands hereunto at the place _____ and on _____ day of _____ month year first herein appearing.

<i>Name of SHG Member</i>	<i>Signature/s/Thumb of the impression</i>
(1)	
(2)	
(3)	
(4)	
(20)	

WITNESSES:

(1)

(2)

(Note: The SHG shall not comprise more than 20 persons)

 * It should be attuned with the law of the land.

Annex II

SAMPLE OF APPLICATION TO BE SUBMITTED BY SHG TO BANK BRANCH*

Name of the Self-Help Group:

Address:

Formed/Established on:

If registered: Give number and date and furnish true copy of the Certificate of Registration.

Number of members in the group:

Name of SHPI/NGO/VA assisting the group, if any:

To:

The Branch Manager

Date

_____ Bank

_____ Branch

Dear Sir

Application for Loan

We, the duly-authorized representatives of the above SHG, hereby apply for loan aggregating \$_____/-(Dollar_____only) for on-lending to our members. The financial particulars of the group as on_____are given in the enclosed sheet.

REPAYMENT SCHEDULE

2. We agree to repay the loan amount as per the repayment schedule which may be fixed by the bank.
3. A copy of the *Inter-se* Agreement executed by all the members of the group authorizing us inter alia to borrow on behalf of the SHG is enclosed.
4. We hereby declare that the particulars given above are true and correct to the best of our knowledge and belief.
5. We hereby authorize the Bank to disclose all or any particulars or details or information relating to our loan accounts with the Bank, to any other financial institution including the Central Bank, Government or any agency as may be considered necessary or desirable by the Bank. It will be in order for the Bank to disqualify the SHG from receiving any credit facilities from the Bank and or recall the entire loan amount or any part thereof granted on this application, if any of the information pertaining to the group, furnished herewith is found incorrect and/or containing misrepresentation of facts.

Yours faithfully

1. _____

2. _____

[Authorized Representatives)

Self-Help Group – Financial Particulars as on

Sr. No.	Particulars	Amount (In Dollars)
	Savings from Members	
	Seed Money from SHPI (NGO/VA, if any)	
	Borrowings Outstanding (Please specify sources.)	
	Loans Outstanding against Members	
	Amount in default, if any, Against Members	
	Recovery Percentage	
	Cash/Bank Balance	

* It should be simple and attuned with the rules and regulations of the country. The Central Bank has to play a lead role in simplifying the procedure.

Annex III

SAMPLE FORMAT OF ARTICLES OF AGREEMENT FOR USE BY BANKS WHILE FINANCING SHGs*

The Articles of Agreement made on this _____ day of _____ 201__ at _____ By and Between M/s. _____ [Name of SHG], an unregistered association of persons/individuals having its office at _____ represented by its authorized representative Mr./Mrs./Ms. _____ (Name) _____ who are fully authorized by all the members of the SHG, (a copy of such Authorization is annexed hereto and forms part of this agreement), hereinafter referred to as the “**borrower**” which expression shall unless repugnant to the subject or context thereof, mean and include members of the unregistered association for the time being, their respective successors, legal heirs, administrators and assigns of the one part and (name of the bank) a body corporate constituted under the _____ Act have its Head Office at and the Branches, inter alia, one at _____ hereinafter called “**the 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 inter se agreed to help each other as self-help group with a view to developing and ameliorating the socio-economic conditions of their members;

Whereas having formed the association as an SHG, the Borrower as per application dated _____ made by the said Mr./Mrs./Ms. _____ (Designation) _____

and Mr./Mrs./Ms. _____, (Name) (Designation) _____

duly authorized to borrow in terms of its resolution dated _____ [copy enclosed] requested the Bank to *grant a loan/extend credit facility of *\$ _____/- up to the limit of \$ _____/- (Dollar _____ only) for on-lending to its members;

And whereas the Bank has agreed to grant the *loan/extend credit facility to the borrower on certain terms and conditions;

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

Now, therefore, this agreement witnesses as follows:

1. The Bank has agreed to grant and the borrower has agreed to borrow by way of term loan/cash credit (clean) up to the limit of \$ _____/- (Dollar _____ only) and the bank has opened (SPECIFY THE KIND OF LOAN ACCOUNT) A/C No. _____ of date _____/- in the name of the borrower in its book of accounts.

2. In case the facility availed is cash credit, the Borrowers will operate the cash credit 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 (*Delete whichever is not applicable) interest and other within the period stipulated in terms of sanction.

4. In case the credit facility availed of by the borrower is a term loan, the same shall be repayable in installments in the manner specified herein below in the repayment schedule (to be specified). Besides, the borrower will pay interest at the rates that may be prescribed for such lending by the concerned authorities from time to time.

- 5. It is clearly understood by and between the parties hereto that in the event of the borrower's failure to utilize the proceeds of the credit 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 without prejudice to Bank's right to initiate other legal action.
- 6. The borrower shall pay interest on the loans to be calculated on the daily balances in the loan account and be debited thereto at quarterly rests or as the bank may decide.
- 7. The borrower should utilize the proceeds of the credit facility for the purpose of on-lending to its members to improve the socio-economic conditions of their members and their families.
- 8. The borrower shall repay the credit facility availed of together with interest payable as per the interest rates that may be fixed by the concerned authorities from time to time for such lending.
- 9. 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.

REPAYMENT SCHEDULE

Please specify

In witness whereof the parties hereto have affixed their signature on the date _____
and the _____ month and _____ year first herein above written.

FOR SHG

AUTHORISED REPRESENTATIVE

FOR BANK

AUTHORISED REPRESENTATIVE MANAGER

* It should be simple and attuned with the rules and regulations of the country. The Central Bank has to play a lead role in simplifying the procedure.

Annex VII

**RESERVE BANK OF INDIA CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT CENTRE
WORLD TRADE CENTRE, CUFFE PARADE, COLABA, MUMBAI 400 005**

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

January 4, 1993

**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/organizations. 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. No. 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 the 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

