



**APRACA FinPower Program**

# **Linking Banks with Self-Help Groups:**

**A Technical Guide for Bank Officers**



By

**NABARD Consultancy Services**

With Special Sponsorship of the

**International Fund for Agricultural Development (IFAD)**



**APRACA FinPower Publication: 2009/2**

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The Secretary General  
Asia-Pacific Rural and Agricultural Credit Association (APRACA)  
39 Maliwan Mansion, Phra Atit Road  
Bangkok 10200, Thailand  
Tel: (66-2) 280-0195  
Fax: (66-2) 280-1524  
E-mail: [apraca@apraca.org](mailto:apraca@apraca.org)  
Website: [www.apraca.org](http://www.apraca.org)

Editing: Benedicto S. Bayaua  
Layout credit: Sofia Champanand  
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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 bank officers on the linkage of self-help groups (SHGs) with rural financial institutions. I believe this would be an effective tool that can be used by APRACA member and partner institutions 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 in the region.

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 benefited almost 86 million poor households. The endeavor of APRACA and NABARD, through its consulting arm, 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 deserving but without access to 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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# PART

# 1

## GENERAL INFORMATION ON SELF-HELP GROUPS



### **What are self-help groups?**

Self-help groups are small groups of poor people. The members of an SHG face similar problems.

They help each other to solve their problems.

SHGs promote small savings among their members. The savings are kept with the bank. This is the common fund in the name of the SHG.

The SHG gives small loans to its members from its common fund.

After six months, if the SHG satisfies the bank as per the check list for quality, the bank can give loans to the SHG.

## **How is an SHG relevant to you as a banker?**



Very poor people can save small amounts.

Like the little drops of water making an ocean, their savings will slowly grow into large sums. In some branches, such savings have become thousands of dollars.

### **Let it grow in your branch too!**

Maintaining large number of small savings accounts is difficult for your branch. It is also difficult to keep very small loan accounts. By opening an account for the group, you allow about **20** persons to save in a single account. Your costs are less and time is saved.

The members of SHGs realize that like their savings, the bank loan is also their own money. The group as a whole commits repayment of the loan to the bank. Moral pressure is exerted on the borrowing members for repayment of loan. Because of this, the repayment of loans by the SHGs is almost one hundred percent.

Banking with a larger number of people enables banks to gain goodwill.

SHGs provide good business opportunities to banks.

They provide better margins to the banks.

### **Is it necessary to officially recognize banking with informal groups?**

Yes, the Central Bank of a country has to approve banking with SHGs and may also consider giving it a special status. For example, in India, the Reserve Bank of India, which is the Central Bank, has classified loans to SHGs as "Priority Sector Lending".

## Who helps to form SHGs?

A reasonably educated and helpful local person has to initially help the poor people form groups. He or she tells them about the benefits of thrift and the advantages of forming groups.

This person is called an '*animator*' or '*facilitator*'.

Usually, the animator is a person whom you already know. Any of the following persons can be a successful animator:

- Retired school teacher or a retired government servant, who is well known locally;
- A field-level functionary of an NGO;
- An unemployed educated local person, having an inclination to help others;
- A member/participant in the Association of Farmers, Artisans, etc.;
- A health worker/field officer/staff of a development agency or department of the State Government; or
- **YOU** yourself! (*The field officer or a staff member of a commercial bank/regional rural bank or a field staff from the local cooperative bank or society can also help the poor in forming groups.*)

Woman animators can play a more effective role in organizing women SHGs.

The animator cannot organize the groups all alone. He or she will need guidance, training, reading material, etc. Usually, one of the following agencies, called self-help promoting institutions (SHPIs) helps:

- A voluntary agency or non-governmental organization (NGO);
- The development department of the State Government; and
- The local branch of a bank.

## What does the animator do?

- The animator talks to people in the village or at their homes.
- He or she explains the benefits of thrift and group formation.
- No promise of bank loan is given to anyone.
- He or she helps the group members hold one or two initial meetings.
- The group finds a group leader, for holding meetings, keeping books, etc.
- The animator guides and encourages the leader and the group members.

# PART

# 2

## FUNCTIONING OF SHGs



Let us now look at the SHGs a little more closely.

### **1. What are the characteristics of an SHG?**

#### **Ideal Size**

The ideal size of an SHG is 10 to 20 members.

***(Advantage: In a bigger group, members cannot actively participate. Also, ideally, it is required that an informal group should not be of more than 20 people.)***

The group need not be formally registered. 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.

#### **Membership**

From one family, only one person can become a member of an SHG.

***(More families can join SHGs this way.)***

The group normally consists of either only men or of only women. Mixed groups are generally not preferred.

Women's groups are generally found to perform better.

***(They are better in savings and ensuring proper use of loans and timely repayments.)***

Members should have the same social and financial background.

***(Advantage: This makes it easier for the members to interact freely with each other. If members are both from rich as well as poor class, the poor may hardly get an opportunity to express themselves.)***



### **Some common factors for membership in an SHG**

- ▣ Women/men from very poor households.
- ▣ Those who depend on moneylenders even for daily necessities.
- ▣ Those with a per capita income not exceeding \$ 5 per month.
- ▣ Those having dry land holding not exceeding 1 hectare.

### **Common living conditions for the group members**

- ▣ Living in *mud* houses
- ▣ Having no access to safe drinking water
- ▣ Having no sanitary toilets
- ▣ Those who have only one or no one employed in the family
- ▣ Presence of illiterate adults in the family
- ▣ Presence of an alcoholic or drug addict in the family or a member suffering permanently from prolonged illness
- ▣ Presence of children who do not go to school
- ▣ Family eating less than two meals a day.
- ▣ Borrowing regularly from local money-lenders

*If a family has at least four of the above 9 common living conditions, it can be considered poor, and one member of that family can be encouraged to become a member of an SHG.*

**(These are only examples. You can also use locally important conditions to decide whether a family is poor.)**

## **Meetings**

The group should meet regularly. Ideally, the meetings should be weekly or at least monthly. ***(Advantage: They become closer, if they meet regularly. This helps them to understand each other's difficulties better.)***

Compulsory attendance: Full attendance in all the group meetings will make it easy for the SHG to stabilize and start working to the satisfaction of all.

Membership register, minutes register, etc. are to be kept up-to-date by the group by making the entries regularly.

***(Advantage: This helps you know about the SHG easily. It also helps in building trust among the SHG members.)***

## **2. What are the books maintained by an SHG?**

Simple and clear books for all transactions should be maintained.

If no member is able to maintain the books, the SHG may take outside help.

***(It has been seen that a boy or a girl from the village with some educational qualification does this job enthusiastically. After some months, the group can even consider giving him or her a small reward for this job.)***

An animator can also help.

All registers and account books should be written during the course of the meeting.

***(Advantage: This creates confidence in the minds of members who are unable to read and write.)***

### **☛ Minutes Book**

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

### **☛ Savings and Loan Register**

This register 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/Fortnightly/Monthly Register**

This register records the summary of receipts and payments, updated in every meeting.



#### ▣▣▣▣ **Members' Passbooks**

Individual members maintain passbooks wherein savings and loan balance outstanding are regularly entered.

*(Advantage: This encourages regular savings.)*

### **3. What are the major functions of an SHG?**

#### ▣▣▣▣ **Savings and Thrift**

All SHG members regularly save a small amount. 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 SHG Member.

SHG members take a step towards self-dependence when they start small savings. They learn financial discipline through savings and internal lending.

*(Advantage: This is useful when they use bank loans.)*

#### ▣▣▣▣ **Internal Lending**

The SHG should use the savings amount for giving loans to members.

The purpose, amount, rate of interest, schedule of repayment etc., are to be decided by the group itself.

Proper accounts should be maintained by the SHG.

*(Specimen formats given as an **Annex** at the end of this book.)*

#### ▣▣▣▣ **Discussing Problems**

In every meeting, the SHG should be encouraged to discuss and try to find solutions to the problems faced by the members of the group. Individually, the poor people are weak and lack resources to solve their problems. When the group tries to help its members, it becomes easier for them to face the difficulties and come up with solutions.

#### ▣▣▣▣ **Taking Bank Loan**

The SHG takes loan from the bank for on-lending to its members.

*(Details may be seen in the next part.)*

**PART**

**3**

## **LINKING SHGs TO BANKS**





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 to you how this can be done:

### **Step 1 – Opening of Savings Bank Account for an SHG**

Official Instructions: The Central Bank of the country has to issue instructions, permitting banks to open Savings Bank Accounts of registered or unregistered SHGs. (*Circular issued by the Reserve Bank of India in this regard is given as an **Annex** to this technical guide as an example.*)

A 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 in its group meeting, signed by all members, indicating their decision to open a savings bank account with the 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**

The SHG may frame its own rules and regulations. However, this is not a must. If the group has not formulated any such rule or regulation, 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 on-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 is usually kept fixed per month. However, depending on the decision of the group, interest charged may vary based on the purpose for which the money is lent by the group to its members. 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 used by the SHGs are annexed to this technical guide.)***

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

### Step 3 – Assessment of SHGs

We need to know whether the SHG has been functioning well. *(We will need this information as bankers, before deciding on extending credit facilities to the SHG.)*

The following check list will help you 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 p.a.
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 USD 100	USD 60-100	Less than USD 60
14.	Knowledge of the Rules of the SHG	Known to all	Known to majority	Not known to all
15.	Education level	More than 20 percent of members can read and write	About 80 percent of members can read and write	Less than 20 percent of members can read and write
16.	Knowledge of Government development programs	All are aware of Government programs	Most of the members know about Government programs	No one knows

#### Important Points

1. SHGs with **12 to 16** “**very good**” factors may be granted loans immediately.
2. SHGs with **10 to 12** “**very good**” factors may be given **3 to 6 months’** time to improve, before loan is given.
3. SHGs with rating of **less than 10** “**very good**” factors need **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 the individual members.)*

### **What is the quantum of loan? How is the quantum decided?**

The amount of loan to the SHG can be to the tune of 1 to 4 times of its savings, *(You can consider higher ratio, if you are satisfied with the SHG's health and functioning.)*

### **What constitutes the savings of the group?**

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

### **What are the purposes for which the loan can be given to the SHG?**

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. The group will discuss and decide about the purpose for which loans are to be given to its individual members by the SHG.

### **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. This needs to be stipulated by the Central Bank of the country as bank lending is otherwise based on collateral securities in general. 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 moral pressure on the borrowing members for repayment.
- ▣▣▣ Because of this, the bank gets a much better repayment from the SHG.

### **Can the bank hold the savings 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 has to allow the banks freedom to decide on the interest rates to be charged to the SHGs.
- ▣➡ Controlling Offices of the banks have to issue necessary instructions to the branches.

### **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. However, based on the decision of the group, interest charged to members may vary based on the purpose for which the loan is given to the group.

### **List of documents for lending to SHGs**

- ▣➡ Inter-se Agreement which is 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.)*
- ▣➡ Application to be submitted by SHG to bank branch while applying for loan assistance. *(This includes details of the purposes for which the SHG gives loan to its members.)*
- ▣➡ 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.)*

### **Additional documents for bulk loans to NGOs, to enable them to lend to SHGs**

- ▣➡ Sponsorship letter from NGO.
- ▣➡ Application to be submitted by the NGO to branch while applying for loan assistance for onlending to SHGs. *(Purposes for lending to SHGs will be listed in this).*
- ▣➡ Articles of Agreement for use by the bank while financing the NGO.

*(This contains the duly stamped agreement between the bank and the NGO wherein both the parties agree to abide by the terms and condition set thereon.)*

*(All the above formats are given as **Annexes** to this book.)*

### **How are the loans disbursed?**

The authorized functionary of the SHG withdraws money from the bank by way of cash or by cheque. The loan amount is handed over to the individual borrowers in the group's meeting.

## **Step 5 – Repayment of Loan by an SHG**

A repayment schedule is drawn up with the SHG, and the loan is to be repaid regularly. Small and frequent installments will be better than large installments covering a long period.

### **What about defaults?**

The group, using their collective authority, discourages defaults. Every member is made to realize that the money belongs not only to him, but also to the other members of the group.

The group members are collectively responsible for the repayment of loans to the bank. It has been the experience of bankers who lend to SHGs that the repayments from SHGs are far better when compared to individual accounts.



## PART

# 4

## SPREADING THE MESSAGE OF SHGs



### **1. Advantages of banking with SHGs**

#### **Transaction costs are reduced**

Only one savings account is required for a 20-member group. If 100 SHGs have savings account in your branch, you are servicing 2,000 customers through just 100 accounts!

#### **Increase in the deposit base**

Though the amounts are very small, it pays to have such small savings with the bank. Over a period of time, you will find that SHG financing would become big business.

# Little drops of water make the ocean, after all!

## Very little cost for appraisal and monitoring of the loan

The moral authority of the group members on the borrowing member is an effective means of control over both proper utilization and repayment of loan amount.

## Increase in the social base in rural area

Through banking with the SHGs, your branch will get social recognition and command goodwill of people. This will also help in developing your business with the development of the village.

## 2. Quality Control of SHGs

It is necessary for an SHG to maintain its high quality. Attend a meeting of the SHG during your field visit. Speak to its members.

### What are your observations on the following points?

- ▣▣▣▣ Are all the members comfortable with each other?
- ▣▣▣▣ Do they share a sense of belonging to the SHG? Are the President and Vice-President elected democratically on a rotational basis? (Desirable as it gives a sense of belonging to each member)
- ▣▣▣▣ Does the group have a person to write the books of account and maintain all the books?
- ▣▣▣▣ Are they heavily dependent on the animator or any one person for all these?
- ▣▣▣▣ What are the alternatives for them?

### Can one member of the group be trained right now, though there may not be any immediate need?

Please have a look at their books to see the quality.

- ▣▣▣▣ Was the group formed only with the intention of availing of bank credit? Has someone given them any false promises in the matter? Is there any chance of the SHG degenerating into an undesirable political forum or a religious forum?
- ▣▣▣▣ Please interact with the SHG members yourself, so that you get a correct impression. Please take steps to correct mistaken practices or attitudes, with the help of the animator and the group leader.

## 3. Spreading the Message

How can you, as a member of the large banking network, spread the message of SHGs?

You can involve effectively in formation, nurturing and linking the SHGs to your bank. Supportive policies to help the banks become Self-Help Promoting Institutions (SHPIs) need to be formulated by the Central Bank of the country duly backed up by the banks through their Controlling Offices.

# 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**

<b>Sr. No.</b>	<b>Particulars</b>	<b>Amount (In Dollars)</b>
	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	

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\* 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 SELF-HELP GROUPS\*

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

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\* 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 IV

### SPECIMEN OF SPONSORSHIP LETTER FROM NGO/SHPI

To,

The Branch Manager

\_\_\_\_\_ Bank

\_\_\_\_\_

**Subject:** Linking of SHG with bank – Submission of proposals

Dear Sir,

We forward herewith the loan proposals from the following SHGs for availing credit facilities from your bank under the SHG-Bank Linkage program.

Sl. No.	Name of the SHG	No. of members	Loan required
1.			
2.			

Kindly consider the request and do the needful at your earliest. With regards

Yours sincerely

( )

\_\_\_\_\_  
\*To be used when NGO/SHPI is sponsoring SHGs loan application to bank for direct linkage.

## Annex V

### SELF-HELP GROUP

#### Saving Bank A/c

A/c No. \_\_\_\_\_

Member's Name: \_\_\_\_\_

Address: \_\_\_\_\_

Date	Particulars	Debit/withdrawal	Credit/Deposit	Balance	Initials
		\$	\$	\$	

#### SELF-HELP GROUP *Loan A/c*

Member's Name \_\_\_\_\_ S.B.A/c No. \_\_\_\_\_

Loan A/c. No. \_\_\_\_\_

Purpose of loan \_\_\_\_\_

Repayment Installment Monthly / Quarterly / Half yearly / Annual \$. \_\_\_\_\_

Date	Particulars	Loan Amount	Interest	Amount repaid		Balance		Signature of A/c holder/ Member
				Principal	Interest	Principal	Interest	



## **Annex VII**

**RESERVE BANK OF INDIA CENTRAL OFFICE  
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT  
“CENTRE – I” 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 27<sup>th</sup> 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 24<sup>th</sup> July 1991 and No. DPD 104/DPD. FS.4631/92-A/91-92 dated 26<sup>th</sup> 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**



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ASIA-PACIFIC RURAL AND AGRICULTURAL CREDIT ASSOCIATION (APRACA)

39 Maliwan Mansion, Phra Atit Road

Bangkok 10200, Thailand

Tel: (66-2) 280 0195

Fax: (66-2) 280 1524

E-mail: [apraca@apraca.org](mailto:apraca@apraca.org)

Web site: [www.apraca.org](http://www.apraca.org)