

APRACA FinPower Programme

Completion Report of the

**Exposure Visit to India, Lucknow**

**16-19 August 2011 and**

**Pre-Pilot Testing of SHG Bank Linkage**

**Programme in Cambodia Rattanakiri**

**5-8 September 2011**

**Dathathree**

**An APRACA Finpower Publication with Special Sponsorship of  
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This book is published during the incumbency of Mr. Abdivakhob Tamikaev, APRACA Chairman, and Mr. Won-Sik Noh, APRACA Secretary General.

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## Message

Despite several initiatives taken by Sovereign Governments, institutional credit systems could not meet the credit needs of the poor. Inability of poor to meet the institutional requirement on the one hand and products not suiting to the requirements of the poor on the other were the culprits. Consequently informal system found business opportunity and started purveying credit to meet the requirement of poor to a large extent. Over the years, informal system has grown parallel to institutional system. Although it is hassle free and easy to access, it is exploitative. Borrower finds it difficult to come out of the octopus like strong hold of money lenders.

Social engineering and philanthropic experiments the world over has developed microcredit models to meet the credit needs of poor in a non-exploitative way. Different countries have different models. In India, the self-help group (SHG) bank linkage model (linkage banking) developed during 1990s has developed as the world's largest microfinance programme. It has many unique features and a holistic approach is adopted to address financial and non-financial requirements of the poor. Linkage banking is worth replicating.

APRACA, being a regional forum for exchange of information, facilitates cross-learning among member countries. Farmers in Cambodia face problems akin to the problems faced by the poor in India. With the help of APRACA, a learning and replication support to the IFAD Rural Livelihood Improvement Programme (RULIP), aimed at credit support to farmers, is implemented in Cambodia. Also, a scope exists in the programme for implementation of a microfinance programme similar to SHG-Bank Linkage in India. Accordingly, APRACA-Finpower made an arrangement, in association with Bankers Institute of Rural Development, Lucknow, for exposure visit of a RULIP team to India and pilot testing of the project in Cambodia.

It is heartening to note that exposure visit and pilot testing had been completed successfully. It is hoped that the exposure visit and pilot testing would facilitate a better understanding of the SHG-Bank Linkage concept and a robust micro finance programme similar to SHG-Bank Linkage in India is implemented in Cambodia for the benefit of rural poor there.

Mr. Abdivakhob Tamikaev  
Chairman, APRACA

## Message

It is indeed heartening to know that APRACA-Finpower is supporting the replication of the SHG-Bank Linkage Programme in Cambodia. The SHG-Bank Linkage Programme, started by APRACA and the then GTZ in 1988, was adopted by NABARD and since then has brought the programme to perfection.

I am glad to observe that the Bankers Institute of Rural Development (BIRD), the premier training institute promoted by NABARD, was selected for arranging exposure visit to a team responsible for implementing the project in Cambodia and to pilot test in that country. I am pleased to know that the assignment has been completed by BIRD to the satisfaction of participants from Cambodia as well as APRACA-Finpower.

I wish that SHG Bank Linkage, the largest microfinance programme in the world, which is branching out to Cambodia, will bring prosperity to the rural poor in Cambodia and develop as an effective and efficient alternate credit delivery model in that country. In its endeavor to promote an alternate credit delivery mechanism, NABARD would be happy to extend all necessary assistance to APRACA Finpower in the future in its endeavor to promote this microfinance methodology.

Dr. Prakash Bakshi  
Chairman  
NABARD

## Message

After independence India took several initiatives to meet the credit needs of rural poor particularly small and marginal farmers and rural artisans. The establishment of credit co-operatives, nationalization of major commercial banks and their branch expansion in the rural areas and the promotion of specialized institutions in Regional Rural Banks are major steps in this direction. Despite these initiatives, large number of rural poor could not avail the services of institutional credit system due to a mismatch between products offered by banks and services required by the poor.

The National Bank for Agriculture and Rural Development (NABARD) which is mandated for achieving integrated rural development initiated several policy and financial products to achieve the goal of integrated rural development. In the year 1992-93, the promotion of self-help groups and the design of several models, including savings-credit linkage were initiated under a pilot project. On successful implementation of the pilot project, it was made a mainstream banking product and today, in terms of coverage, it is the largest microfinance programme in the world.

It is heartening to note that APRACA Finpower is inclined to support the replication of the SHG-Bank Linkage programme in Cambodia and selected BIRD for arranging the exposure in India of a team from Cambodia and pilot test SHG-Bank Linkage over there. Exposure visit and pilot testing have been successfully completed and based on the field level conditions, modified guidelines for replication of SHG Bank Linkage in Cambodia has been prepared. I am hopeful that the new project would succeed in mitigating the credit related problems of rural poor and usher an era of prosperity In Cambodia. In the future, if need be, BIRD would be willing to assist in the capacity building of RULIP project officials.

S. K. Chatterjee  
Director, BIRD

## Message

The exposure visit and pilot testing of self-help group promotion and bank linkage under the FinPower Program is dependent upon the willingness and active participation by the delegates as well as by host institution. The most important is the enthusiasm for learning and sharing the experiences and best practices. I would particularly like to thank Mr. S.K. Chatterjee, Director of Bankers Institute of Rural Development (BIRD), Mr. Ranjit Kumar Das, Joint Director of BIRD, Mr. Dathathree and Mr. P. C. Lenka, Faculty Members of BIRD, as well as other BIRD's colleagues for their willingness to share their good experiences and best practices for improving access to credit and savings services to the poor farmers of the target groups in the Rural Livelihoods Improvement Project (RULIP), including the warm welcome and hospitality extended during RULIP's delegation's visit to Lucknow.

Special thanks must go to Mr. Won-Sik Noh, Secretary General of APRACA, and his staff of APRACA Secretariat in Bangkok, in particular Ms Thanawan Ampaipanvijit, Administrative Officer, and Ms Unchana, Accountant, as well as Mr. Benedicto S. Bayaua, former Secretary General of APRACA and the consultant for FinPower Programme for organization, coordination and making arrangements for the IFAD RULIP Project's exposure visit to BIRD Lucknow from 16-19 August 2011. Likewise I would like to thank APRACA for deputing an expert from BIRD for pilot testing of self-help group promotion and bank linkage in RULIP Ratanakiri province from 05-08 September 2011.

The mission would not have succeeded without the strong support and coordination by Provincial Department of Agriculture as well as making arrangement for the mission to meet with field staff, target farmers and local authorities to get understanding on identification, selection and formation of self-help group in RULIP Project.

Finally, a word of thanks to the staff of Provincial Department of Agriculture of Ratanakiri province for both provincial support team and district support team as well as commune extension workers, RULIP's target farmers, and local authorities who once again demonstrated their interest in working for their own and their neighbor's well-being. They took valuable time away from their work to meet with the international expert from BIRD and project staff from management level and thereby demonstrated their commitment.

Ouk Vuthirith  
Deputy National Project Coordinator  
Rural Livelihood Improvement Project



## List of Acronyms & Abbreviations

BIRD	Bankers Institute of Rural Development
SHG	Self-Help Groups
BLP	Bank Linkage Programme
SHPI	Self-Help Promoting Institutions
MEDP	Microentrepreneurship Development Programme
RG MVP	Rajiv Gandhi Mahila Vikas Pariyojana
NABARD	National Bank for Agriculture and Rural Development
DNPC	Deputy National Project Coordinator
DPPC	Deputy Provincial Project Coordinator
MAFF PSU	Ministry of Agriculture, Forestry and Fisheries/Project Support Unit
M&E	Monitoring and Evaluation
PAA	Provincial Agriculture Advisor
PDA-RAT	Provincial Department of Agriculture-Ratanakiri
PDOWA	Provincial Department of Women's Affairs
PPC	Provincial Project Coordinator
PST	Provincial Support Team
RULIP	Rural Livelihood Improvement Project
SKDRDP	Sri Kshetra Dharmasthala Rural Development Project
FFA	Formal Financial Agencies
IAS	Indian Administrative Service

## Acknowledgement

The Government of India took several steps to widen the network of institutional credit delivery system for making credit to play a catalytic role in rural development. The establishment of short-term credit co-operatives, the nationalization of large private sector commercial banks and guiding them to rural areas, the establishment of Regional Rural Banks and mandate for priority sector lending and propagation of subsidy linked investment activities under poverty alleviation schemes are important milestones in this direction. Although these initiatives led poor an access to institutional mechanism, large number of poor could not avail the required financial services from them. It was mainly due to both supply side as well as demand side constraints.

In 1992, NABARD initiated a pilot project for promotion and linkage of SHGs. The success of pilot project led to the mainstreaming of the SHG-bank linkage project which has grown as the world's largest microfinance programme in as much as coverage of households is concerned.

The socio-economic condition in Cambodia is more or less similar to India. A large number of rural poor are deprived of institutional credit support and are exploited. The APRACA FinPower Programme desires to promote SHG Bank Linkage programme in Cambodia. In this connection, they entrusted BIRD to arrange an exposure visit of Cambodian officials in India and arrange my visit to Cambodia for pilot testing SHG Linkage over there. During the process of my discharging the responsibility, I place my thanks to Mr. Won-Sik Noh, for placing his confidence on BIRD. I am also a grateful to Mr. S. K. Chatterjee, Director for reposing in me the confidence of handling the assignment. I am also thankful to Mr. Ouk Vuthirith, Deputy National Co-ordinator, RULIP, for facilitating successful completion of exposure visit and pilot testing. My special thanks to the Provincial Agriculture Department of Ratanakiri for making all necessary arrangement for training and pilot testing. My sincere thanks are also to the villagers of the pilot testing area for their splendid co-operation.

Dathathree  
Expert, Linkage Banking  
BIRD - India

## Acknowledgement

The APRACA Finpower Programme wishes to thank the APRACA Centre for Excellence (ACE), BIRD, for agreeing to take up the assignment of pilot testing SHG Bank Linkage Programme in Cambodia and thereby facilitating replication of the world's largest microfinance programme. I also like to thank the IFAD-supported RULIP programme in Cambodia for extending the logistical support to the exposure visit of Cambodian team to India and Indian expert's visit to Cambodia.

I sincerely thank Mr. Sampath Kumar of the Indian Administrative Service and CEO of Rajiv Gandhi Mahila Vikas Pariyojana, Raebareli for sparing his valuable time and arranging thought-provoking presentation on their women empowerment initiatives and giving an insight in to the SHG-bank linkage programme in their project area.

My thanks are also due to Mr. S. K. Chatterjee, Director, BIRD and Mr. R. K. Das, Joint Director, BIRD for their hospitality and sparing their time for discussion on SHG Bank linkage in India. My thanks are also due to Mr. R. Amalorpavanathan, Principal, National Bank Staff College for sparing his time for an interaction.

Lastly, the APRACA Finpower Programme is deeply indebted to Mr. Ouk Vuthirith who worked behind the scene and beyond the call of service to make the programme a success.

Won-Sik Noh  
Secretary General  
APRACA

# Chapter I

## Country and Microfinance profile

### A. Country Profile

#### 1. Cambodia

Cambodia is bordered by Thailand, Vietnam and Lao PDR. The total area of Cambodia is about 181,035 square kilometers. The total population is about 14.2 million (2006). About 80 percent of the population live in rural areas. During 2007, the GDP growth was 9.6% and the per capita GDP was US\$628.00. Agriculture is the mainstay of Cambodia and accounts for 40% of GDP and absorbs 70% of the national labor. Garment, tourism and construction are the other important drivers of the Cambodian economy.

Considering the country's reliance on agriculture and rural sector, microfinance has an important role to play in the country's economic development. The Cambodian microfinance system started emerging in the early 1990s as part of financing projects by non-governmental organization (NGOs). The NGOs used part of their financial aid by international donors to provide credit to the poor in improving their living standards, health care and education. Along with the above, humanitarian services, savings and credit services were also packaged. Simultaneously, economic reforms also started in Cambodia.

Microfinance has been recognized globally as a major inclusive financial tool to tackle poverty. With access to financial services, marginalized people can participate actively in the economy of the countries, create employment for themselves and others, and realize their full potential. The benefits received by the family members of microfinance clients also secure food, health, education, and social engagement of the rural citizens. The microfinance sector in Cambodia experienced a faster growth after the UN declaration of 2005 as "The International Year of Microcredit" and 2006 as the "Year of Microcredit in Cambodia. The public awareness has thereafter increased noticeably. The regulatory and supervisory framework has been established to support the growth of microfinance sector in terms of outreach, governance, diversified products and services, funding sources and others. The National Bank of Cambodia (NBC), the supervisory authority, has implemented the supervisory strategy in a prudential way in order to create a convenient and favorable environment that helps further expand transactions of microfinance institutions.

There are 27 commercial banks and six specialized banks in Cambodia. The deposit in these banks is about 32% of GDP and lending is 27%. Banks have limited financial product range and long-term lending to small and medium enterprise is almost absent. In the above backdrop, the microfinance sector in Cambodia has found its way into the country's financial map. There are 26 registered MFIs and 20 of this are licensed and regulated. Since 2001, a legal framework to regulate MFIs has been in place.

## 2. India

Microfinance sector in India has traversed a long journey from microsavings to microcredit and then to microenterprises and now entered the field of microinsurance, microremittance and micropension. This gradual and evolutionary growth process has given a great opportunity to the rural poor in India to attain reasonable economic, social and cultural empowerment, leading to better living standard and quality of life for participating households. Financial institutions in the country continued to play a leading role in the microfinance programme for nearly two decades now. They have joined hand proactively with informal delivery channels to give microfinance sector the necessary momentum.

NABARD has been instrumental in facilitating various activities under microfinance sector, involving all possible partners at the ground level in the field. NABARD has been encouraging voluntary agencies, bankers, social spirited individuals, other formal and informal entities and also government functionaries to promote and nurture SHGs. The focus in this direction has been on training and capacity building of partners, promotional grant assistance to self-help promoting institutions (SHPIs), Revolving Fund Assistance (RFA) to MFIs, equity/capital support to MFIs to supplement their financial resources and provision of 100 per cent refinance against bank loans provided by various banks for microfinance activities.

There are two models of microfinance in India.

- SHG-Banks Linkage Model: This model involves the SHGs financed directly by the banks viz., CBS (Public Sector and Private Sector), RRBs and Cooperative Banks.
- MFI-Bank Linkage Model: This model covers financing of microfinance institutions (MFIs) by banking system for on-lending to SHGs and other small borrowers.

The overall progress under these two models is depicted in the table below:

**Table 1: Overall Progress under Microfinance During the Last Three Years**

(Rs. In Million)

Particulars		2007-08		2008-09		% Growth (2008-09)		2009-10		% Growth (2009-10)	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amt %	No. of SHGs	Amount	No. of SHGs	Amount
<b>A. SHG-Bank Linkage Model</b>											
Savings of SHGs with Banks as on 31 March	Total SHGs	5009794	37853.9	6121147	55456.2	22.2	46.5	6953250	61987.1	13.6	11.8
	Out of which SGSY	1203070	8095.1	1505581	15633.8	25.1	93.1	1693910	12926.2	12.5	(17.3)
Bank	Total	1227770	88492.6	1609586	122535.1	31.1	38.5	1586822	144533.0	(1.4)	17.9

Loans disbursed to SHGs during the year	SHGs										
	Out of which SGSY	246649	18577.4	264653	20152.2	7.3	8.5	267403	21980.0	1.0	9.1
Bank Loans outstanding with SHGs as on 31 March	Total SHGs	3625941	169999.1	4224338	226798.4	16.5	33.4	4851356	280382.8	14.8	23.6
	Out of which SGSY	916978	48168.7	976887	58617.2	6.5	21.7	1245394	62510.8	27.5	6.6

<b>B. (1) MFI-Bank Linkage Model</b>											
Particulars	2007-08		2008-09		Growth during 2008-09 (%)		2009-10		Growth during 2009-10 (%)		
	No of MFIs	Amount	No of MFIs	Amount	No of MFIs	Amt	No of MFIs	Amount	No of MFIs	Amount	
<b>Bank Loans disbursed to MFIs during the year</b>	518	19701.5	581	37323.3	12.2%	89.4%	691	80627.4	18.9%	116.0%	
<b>Banks Loans outstanding with MFIs as on 31 March</b>	1109	27488.4		50090.9	72.7%	82.2%	1513	101475.4	(21%)	102.6%	
<b>Note:</b> Actual number of MFIs provided with bank loans would be less as several MFIs could have availed loans from more than one bank.											

### C. Pilot Project on SHG-BLP in Cambodia

On the lines of SHG-Bank Linkage in India, Cambodia desires to promote a microfinance programme in that country with assistance from IFAD. Accordingly an exposure visit to SHGs in India was arranged for the officials of Cambodia from 16<sup>th</sup> to 19<sup>th</sup> of August 2011. Further, from 5<sup>th</sup> to 8<sup>th</sup> of September 2011 pilot testing and training to the officers of RULIP project was conducted in Ratanakiri province, Cambodia.

Details of exposure visit to India and pilot testing and training in Ratanakiri, modified guidelines, etc., are furnished as part of the report.

### D. Contents

The twin reports contain three chapters. Chapter I is the present country scenario of MF for Cambodia and India. Based on the observations of the workings of present system of group functioning in Cambodia, the report tried to suggest measures for pilot testing of SHG-BLP. This is indicated in Chapter II of the report. The observations are specific to the groups visited by the expert and suggestions made are on the basis of lessons drawn from the visit. Based on the experience of SHG-BLP in India an attempt has been made to provide modified guidelines. RULIP may adopt the guidelines after suitable modifications to adapt to local conditions. The modified guidelines are indicated in Chapter III.

Annexures I and II of the Chapter III contain field observations by the expert in Cambodia and comparative features of SHG in India and livelihood improvement groups in Cambodia. The report also contains background material for linkage banking, a technical guide for replicating the linkage banking, list of participants, schedule of activities in India, list of places visited and the curriculum vitae of the expert in the Annexure.

## Chapter II

### Pilot Testing of Groups in Cambodia: Observations and Suggestions

For pilot testing of SHG linkage project in Cambodia, a field visit was undertaken on 7<sup>th</sup> September 2011. A visit was arranged to one group each promoted in village 4, village 5 and village 6 in TroPeng Chees commune in Khon-Mon district of Ratanakiri province. Details of the groups are furnished in Annexure I. Observations made on the basis of interaction with group members and discussion with the officials of the Agriculture Department, which is implementing the programme, is as under.

#### **A. Group Formation:**

Group formation was initiated by a community extension worker. All three groups consisted of 25 persons, one member from one poor family. The identification and selection of poor families is done by a team consisting of the commune chief, the village chief and the oldest man in the village who know all villagers. Wealth ranking was the basis of selection of families for forming groups. Common felt need and volunteerism for mutual help was not observed at the point of initiation.

The success of an SHG depends upon mutual acceptability. Thus, after conduct of wealth ranking and identification of those who are poor, group formation may be facilitated by commune chief, village chief and oldest man in the village with the help of a village extension worker. For ensuring homogeneity among members, the selection of members and formation of group should be left to the wisdom of members themselves.

#### **B. Size of the Group**

All the three groups visited consisted of 25 members each. Although, there are no legal constraints to the size of the group, it was observed that the conduct of meeting and mutual interaction between members was difficult as the distance between member households, in a number of cases, was up to 10 kilometers. Member families were not able to meet frequently.

In case of SHGs it is assumed that the members stay in a compact area and function as neighborhood groups. This facilitates frequent interaction between member families resulting in better understanding and better response to each other's needs. As the families are highly dispersed, it may be difficult to form groups of 25 members in compact areas. Thus, instead of having 25 members, group size may be restricted to 5 as in Pragathibandhu model (Labour-sharing groups) promoted by SKDRDP in scarcely populated villages in western *ghat* areas in Karnataka (India).



### **C. Common Group Objective**

Group formation was initiated through a State policy as a part of its poverty alleviation programme. Subsidy was the motivating factor and there was no attempt to identify common problems and those that could be addressed through mutual help.

There is a need for capacity building of members to understand the concept of SHG. Capacity building programmes may be conducted for creating awareness about the concept of self-help among members, identification of common problems and effectiveness of mutual help in resolving such problems.

### **D. Group Meetings**

It was observed that the groups are not regular in conducting meetings. Group members are not aware of the importance of regular and frequent meetings. Although groups have been told to meet once in a month, it was gathered that meetings were rarely held. It was observed that during cropping seasons, farmers stay in their farms and rarely return to their village which is several kilometers away from the farm.

As the houses are far from the farm land, the problem appears to be genuine. As the success of an SHG depends on regular meeting, frequent interaction among members and home-grown solutions for common problems, importance of meeting should not be undermined. Thus, there is a need to cultivate the habit of meeting regularly. This may be possible by limiting the size of the group to a smaller number and a compact area.

Although it was informed that the groups meet once in a month, proof to substantiate conduct of meeting was not available. Groups have not maintained any records about the date of meeting, members attended, issues discussed, decisions taken, etc.

It is therefore suggested that the concept of regular meeting may be introduced. Members may be educated on the importance of holding meetings and the advantages of generating group dynamics. Groups may be motivated to conduct meetings at a place convenient to all members regularly and discuss issues confronted by member families and possible solutions.

### **E. Group Savings**

Groups have introduced the concept of regular savings. In all the three groups visited, each member of the family saves an equal amount of 1,000 riel per month per family. Although, per group constitution, members are required to save regularly on a monthly basis, it was informed that farmers do not have any regular source of income other than agriculture, and defaults are there. However, on completion of harvest, farmers clear their backlog.

It was also observed that there is a practice of collecting savings outside the group meetings. As per SHG concept all group transactions including collection of savings should be conducted during group meetings.

#### **F. Group Loans**

The group corpus/common fund consists of the amount saved by individual members, contributions made by the project and the amount of interest earned on loans formed. Common fund is used for extension of loans to needy members.

It was observed that farmers largely borrowed money for consumption purposes and occasionally for agriculture purposes. Groups are charging an interest of 2% per month for agriculture loan and 5% per month for consumption purposes. Consumption loans are extended for one month and agriculture loans for one crop season. Generally loans are borrowed for a maximum period of one month.

As the group members are poor, there is a need to diversify loan portfolio of the group by extending loans for other income-generating purposes. For this purpose, groups have to facilitate skills development of group members.

#### **G. Concept of Penalty**

Groups have introduced the concept of penalty for non-repayment of loan installments. They charge 10% penalty for non repayment of loans. Penalty is not levied for irregular savings or for not attending the meeting.

#### **H. Repayment**

Loans taken by members are closely watched by other group members. As a result of close monitoring, members of the groups are regular in repayment of loans. In case of default, penalty would be levied. On the date of visit, there were no overdue loans in any of these groups.

#### **I. Bank Account:**

Banking in Cambodia has not yet reached the villages. Financial exclusion is predominant in villages. In the absence of bank branches, the common resources of the group are maintained in liquid cash with the group leaders. Maintenance of liquid cash is fraught with high risk such as theft, misuse, etc.

In the absence of bank branches in rural areas, in a number of cases, any subsidy available under State-sponsored programmes is routed through MFIs operating in the area. Similar initiatives are required to be taken and find alternatives to bank branches. The Reserve Bank of India, when SHG concept was taking root in India, has issued instructions to the banking sector to open SB account in the name of an SHG. Even KYC norms were liberalized. Similar pro-active steps are required in Cambodia.

Maintenance of liquid cash with one individual is fraught with risks. There is a need to make institutional arrangements for keeping common fund resources with some institution. As the State patronage is available for MFIs, a policy decision may be taken to facilitate MFIs to open the SB A/C accounts of SHGs. State initiative is needed in this direction.

#### **J. Rotation of Leadership**

In self-help groups, group leaders are regularly rotated. As a result, no member would feel overburdened and the work is shared between members turn by turn. This will also help all the members to develop capacity and feeling of indispensability could be avoided.

In all the three groups visited during the pilot test, leaders have not been changed regularly. As a result members are not aware about the role of leaders. There is a need to take up capacity building training of groups covering various aspects like group formation, role and responsibility of members, thrift and credit management, conduct of meetings, bookkeeping, leadership, skill development, etc. If this is not done, the groups are bound to wither after the project period.

#### **K. Microenterprises**

Lack of skills among rural poor is one of the causes of poverty. The role of SHG is not only to provide access to credit but also to identify areas of interest of individual members and arrange for skill upgradation to enable them to set-up enterprises. An enterprise may be in manufacturing or production or service activities which can be taken-up by SHG members as an additional income-generating activity or as a group activity. This also facilitates members to spread their risks.

During the course of interaction with SHG members, it was gathered that they have not been imparted with any training on rural activities, except training on agriculture for increasing productivity of rice, which have capacity to generate employment avenue for SHG members. Thus capacity building and skill upgradation of SHG members may be taken-up on a priority basis.

#### **L. Rules and By-Laws**

SHGs should develop their own rules and by-laws which would be non-discriminatory in nature. It should encompass all activities of an SHG as decided by members. This will facilitate smooth functioning and fast decision making. Rules and by-laws are not developed overnight. As the SHG grows and capacity of members is kept building, demand pattern from members may undergo a change. Accordingly, existing rules and by-laws are revised and new ones are added.

In the groups visited during the pilot test, they have not maintained any document wherein rules and by-laws of groups are maintained. There is a need to guide SHG members to maintain group specific rules and regulations for reference by members.

## Chapter III

### Modified Guidelines for Promoting SHG in Cambodia

Classroom training for the participants of RULIP project in Cambodia was arranged for a day initially where they were briefed about the concept of SHG in India. Then, an exposure visit to NGO implementing SHG-Bank Linkage programme was arranged. During field visit, NGO briefed the participants about the process of social intermediation, formation and credit linkage, capacity building and skill up-gradation of members and promotion of microenterprises by SHG members. Subsequently, for two days other aspects of SHGs like capacity building, skill upgradation, role of self-help promoting institution (SHPI), etc., were discussed and their doubts were clarified.

Subsequently, Cambodia was visited to pilot test the programme. During the pilot test, groups promoted under RULIP were visited and elaborate discussions were held to finalize the modalities to be followed to implement the project in Cambodia. As the socio-economic and demographic conditions in Cambodia are different from India, it is observed that there is a need to modify the guidelines for promotion and linkage of SHGs in Cambodia. Suggested modifications are as under.

No.	Parameter	Modified Guideline
1	Social Mobilization	NGOs or Individual Rural Volunteers (IRV) should be identified to organize poor in to SHGs. There should be a national policy to adequately compensate the NGOs or the IRVs
2	Identification of poor	Poor who require institutional credit support should be identified based on parameters acceptable to all NGOs and IRVs may be engaged to facilitate the work.
3	No. of members per group	5-10 members per group and all their houses should be close to one another. If members are from distant villages, it would be difficult to attend meetings and understand other members. If required, depending up on the poor families in a village, more than one group may be formed.
4	Homogeneity	Homogeneity should be ensured. Lack of homogeneity among members acts as a dividing factor and the group will suffer in the long run when members fail to support each other.
5	Group composition	Initial emphasis may be for formation of women groups.
6	Meetings	Groups should meet weekly at a predetermined place and time. Attendance in the meeting should be made compulsory. Abstaining from meeting without a valid reason should be counseled and penalized All problems related to members and possible solutions should be discussed in the meeting.

7	Savings	<p>All members should save a predetermined amount every week. The amount may be decided taking into account the capability of the poorest of the group.</p> <p>Money should be collected during the meeting in the presence of members.</p>
8	Bank/MFI Account	<p>Money should not be kept with leader or with any other member. An account should be opened with Bank/MFI and money collected should be deposited.</p> <p>As in India, a policy decision to this effect may be taken to this effect by the Central Bank of the Country.</p> <p>Members should go to bank to deposit the amount on rotation basis, so that no member is overburdened</p>
9	Credit to members	<p>Savings mobilized by members should be utilized to extend internal loan to needy member on terms acceptable to all members.</p> <p>Loan given should not be free of interest. Rate of interest to be charged is to be decided by the group. Care should be taken to fix interest in a way which will facilitate calculation of interest in a simple way.</p>
10	Repayment of loans	<p>Members should abide by the terms of sanction and should repay as per repayment schedule prescribed.</p> <p>Any default in repayment should be penalized as per terms decided by the group</p>
11	Leadership	<p>Group should select its leader.</p> <p>Leader is one among equals. He is only a facilitator and has no special powers.</p> <p>Leadership should be rotated at regular intervals. It helps to develop leadership quality among all the members.</p>
12	Capacity Building of members	<p>In association with other developmental agencies, steps should be taken for capacity building of members by means of training, exposure visit, etc. Special emphasis is to be given for bookkeeping and understanding simple accounts so that the group will be able to maintain the books of accounts.</p>
13	Skill Upgradation	<p>Keeping in view the interest and aptitude of members, skill upgradation training may be provided to facilitate taking up of income generating activities .</p>
14	Bank linkage	<p>Whenever there is a need for credit in excess of group savings, Bank/MFI should support the group with credit.</p> <p>In view of absence of policy on extension of credit to SHGs, a policy decision may have to be taken by the Government. The Agriculture Department which is acting as nodal department should co-ordinate.</p>
15	Rules and byelaws	<p>Groups should develop their own rules and by-laws encompassing all activities of the group.</p> <p>Rules and by-laws should be recorded.</p>
16	Books and records	<p>SHGs should maintain simple but adequate records about all aspects of group functioning.</p>

## Annexure - 1

### Field Visit Observations in Cambodia

Sl.No.	Items	Group 1	Group 2	Group 3
1	Name of the Group	Village 4	Village 5	Village 6
2	Commune	Tropeng Chees	Tropeng Chees	Tropeng Chees
3	District	Khon Mon	Khon Mon	Khon Mon
4	Group	Livelihood Improvement Group	Livelihood Improvement Group	Livelihood Improvement Group
5	Year of establishment	2008	2009	2010
6	No. of families covered	25 Families	25 Families	25 Families
7	Leader	Pon Orch	Heang Hen	Brak Von
8	Dy. Leader	Bon Nhorm	Siev Khieng	Yel Nouv
9	Bookkeeper	Teum Thearith	Pon Vanny	Svay Orn
10	Promoter	Agricultural Department	Agricultural Department	Agricultural Department
11	Basis of Selection	Wealth Ranking and Consultation with commune chief	Wealth Ranking and Consultation with commune chief	Wealth Ranking and Consultation with commune chief
12	Savings	1,000 riel per family per month	1,000 riel per family per month	1,000 riel per family per month
13	Regularity of savings	Not regular but paid in full	Not regular but paid in full	Not regular but paid in full
14	Penalty for delay	No penalty	No penalty	No penalty
15	Bank Account	Not Opened. Bank branch not nearby	Not Opened. Bank branch not nearby	Not Opened. Bank branch not nearby
16	Cash maintained with	With group leader	With group leader	Cash kept in commune safe & key with group leader

17	Periodicity of Meeting	Monthly	Monthly	Monthly
18	Leadership- who presides over the meeting	Group leader. Group leader has not been changed since beginning	Group leader. Group leader has not been changed since beginning	Group leader. Group leader has not been changed since beginning
19	Issues discussed	No record but reported discussion on savings, loan, repayment and agriculture	No record but reported discussion on savings, loan, repayment and agriculture	No record but reported discussion on savings, loan, repayment and agriculture
20	Use of savings	Based on demand, loan to members. Generally loans are taken for meeting consumption needs	Based on demand, loan to members Generally loans are taken for meeting consumption needs	Based on demand, loan to members Generally loans are taken for meeting consumption needs
21	Procedure of collective decision making process	Different alternatives discussed and decision taken should acceptable to all.	Different alternatives discussed and decision taken should acceptable to all.	Different alternatives discussed and decision taken should acceptable to all.
22	Tenure of loan	Emergency-One month. Agri. loan- Six months	Emergency-One month. Agri. loan-Six months	Emergency-One month. Agri. loan- Six month
23	Rate of interest	5% p m for emergency 2% p m for agriculture loans	5% p m for emergency 2% p m for agriculture loans	5% p m for emergency 2% p m for agriculture loans
24	Penalty for default	10%	10%	10%
25	Books maintained	Only in relation to savings, loan, recovery. Books are not maintained for discussing social or other economic issues.	Only in relation to savings, loan, recovery. Books are not maintained for discussing social or other economic issues.	Only in relation to savings, loan, recovery. Books are not maintained social or other economic issues.
26	Book writing	One of the group members chosen as Bookkeeper	One of the group members chosen as Bookkeeper	One of the group members chosen as Bookkeeper

## Annexure II

### Comparative Features of SHG in India and LIG in Cambodia and Recommendations

	<b>Characteristic Features</b>	<b>SHGs in India</b>	<b>Features of LIG under RULIP in Cambodia</b>	<b>Recommendation</b>
1	<b>Objective</b>	Socio-economic empowerment of the poor, particularly women by making available financial services at affordable cost. Capacity building is an integral part of SHG programme. Skill development of members for taking up micro enterprises and awareness creation for social development of poor forms an integral part of the programme.	Ensuring food security, nutrition and sustainable income generation through intensification and diversification of crop, livestock production and group savings mobilization	Objective of the SHG programme in Cambodia should envisage socio-economic development including food security, nutrition and sustainable income generation through intensification and diversification of crop, livestock production
1	<b>Group composition</b>	SHG consists of 10-20 members from poor families in the normal course. In exceptional cases like hilly regions, SHGs may be formed consisting 5 members or more.	20 – 25 poor farmers. As the villages are sparsely populated in some cases distance between house holds is as high as 10 K.M.	As the villages are sparsely populated, groups may be formed consisting of 5-10 members. Stronger members may exploit the weaker, if homogeneity is sacrificed.
2	<b>Homogeneity</b>	Homogeneity among members is the most important consideration as it binds the members.	Socio-economic homogeneity is not an important consideration	Concept of homogeneity should be incorporated to make the group sustainable.
3	<b>Selection of members</b>	Selection of members is done by mutual acceptance. Outsiders have no say in selection of members.	Selection of members is not by mutual acceptance. Based on wealth ranking, selection of members is done by commune leaders.	Selection of members should be done by mutual acceptability and not by outsiders.
4	<b>Group Composition</b>	Although groups of men, women and mixed groups can be formed, the programme is perceived as a women empowerment programme and more than 90% of the seven million groups in the country are women groups	Generally mixed groups consisting of men and women	Importance may be given for forming women group considering its contribution to women empowerment



5	<b>No. of groups in one village</b>	There is no restriction on number of groups in a village. Depending upon number of population/poor in the village, as many number of SHGs can be promoted as required.	Irrespective of the population, only one group has been formed in project villages.	More number of groups may be formed depending up on the population and willingness of poor to join SHGs
6	<b>Group Meetings</b>	In an SHG group, meetings are very important to facilitate understanding each other's problems and suggest possible solution and help each other to solve the problem.	There is no concept of weekly meetings. Although meetings are required to be held on a monthly basis, meetings are not held regularly.	There is a need to educate groups on the importance of meeting in capacity building process. Weekly meeting concept should be introduced.
7	<b>Discussion in Meetings</b>	All issues relating to members and their families are discussed in group meetings and none of the group related issues are discussed outside the group forum. Group meeting regularly on a weekly basis is considered as the bench mark in determining the quality of group.	All issues confronted by member families are not discussed in group meetings.	Groups should develop the habit of weekly meeting and discuss issues related to member families in group meetings.
8	<b>Savings/ Thrift</b>	Regular savings of a predetermined amount is a must in an SHG. The amount of savings is determined by members in the meeting and it is binding on all members. Savings is collected during the meeting.	It was observed that the groups have the concept of equal savings. However savings was not regular and often collected outside the meeting.	Weekly savings should be made compulsory and it should be collected during weekly meeting.
9	<b>Opening of Bank account</b>	Keeping cash in physical form is risky. Thus, SHG must open a savings bank account in a branch convenient to operate. It should be operated by two or three members jointly.	Cash is maintained with the group leader in physical form. As the bank branches or any other institutional set up is not available in rural areas, SHGs find it difficult to open SB A/C in banks.	State should take the responsibility of making an alternate arrangement by either opening the bank branch or branch of an MFIs in rural areas and permitting them to accept deposits from SHGs.
10	<b>Credit</b>	SHG is considered as an alternate credit delivery mechanism. Thus the savings mobilized by SHGs should be used for meeting the credit needs of the needy members on terms determined by members themselves to avoid them going to money lenders for small loans.	It was observed that savings mobilized were not fully utilized for lending to members. Lack of mutual understanding appeared to be the reason for not using the amount for on-lending to members.	SHGs should develop the habit of understanding members' needs and extend credit from out of group savings.
11	<b>Rules and by-laws</b>	SHGs have their own rules and by-laws to govern the operation of the group. Depending up on the need these are developed/amended gradually. These rules and by-laws are non discriminatory.	Although the operations of these groups are governed by the members in an unbiased way, rules and by-laws are limited in number due to limited activities they perform.	When the group matures and perform functions other than thrift and credit, they should enforce implementation of written rules and by-laws as agreed by the

				group members. These rules and by-laws should also change from time to time depending up on the needs of members and supported by group decisions
12	<b>Collective Decision Making</b>	In an SHG it is expected that the functions are performed democratically. All members participate in discussions involving various issues such as loans, penalty, rate of interest, training, etc., and freely express their opinion facilitating to take decisions acceptable to all. Decisions, once taken, are binding on all members.	Although collective decision making process is implicit, there is scope for improvement. It appears that the influence of group leader on decisions is dominant.	There is a need to make collective decision-making explicit and restrict the role of group leader to facilitator.
13	<b>Equality</b>	In an SHG all members are equal and there is no discrimination between members.	All members are equal and no discrimination between members was observed.	There is a need to make it clear to SHG members.
14	<b>Bookkeeping</b>	Bookkeeping is very important in an SHG. All transactions between members in the group, discussions in meetings, decision in meetings, savings and thrift management, capacity building and skill upgradation trainings should be recorded and apprised to members. Record is important from the point of view of external agencies like banks and government agencies who extend support to SHGs through loan and subsidy respectively. Based on records they grade SHGs and based on grading decision to extend or otherwise is determined.	Although records are maintained, it is confined to thrift and credit management by the group. Other issues are not recorded adequately.	Groups should develop a proper record keeping system so that external agencies intending to assist these groups can assess them before taking decision on extending assistance.
15	<b>Sharing of responsibility</b>	SHG members are expected to share the responsibility. Sharing would make member not over burdened and helps all members to learn and contribute.	Work is generally concentrated in the hands of group leader affecting sense of belongingness.	Responsibilities like conduct of meeting, record writing, transaction with banks, etc., should be taken up by members turn by turn.
16	<b>Leadership</b>	For developing leadership amongst SHG members, rotation of leadership is advocated. All members should play the role of group leader turn by turn. No single member should	Chief, Dy. Chief and Bookkeeper are elected and they are assigned with specific duties/responsibilities. Group leaders were not changed in any of the	Groups may be advised to rotate leaders regularly

		continue as a leader for an unduly long period. This will deprive other members from the opportunity of developing leadership qualities.	groups visited.	
17	<b>Capacity Building</b>	Capacity building of SHG members is an important activity. SHGs take steps to conduct training programmes on various social issues like health, sanitation, education, addiction, Book keeping, corresponding with line Deptt. etc., for creation of awareness amongst members.	Capacity building of group members do not form a part of the programme. Thus no such training programme was taken up by any of the groups visited.	Capacity building of SHG members should form a part of the programme envisaged.
18	<b>Skill upgradation</b>	Rural poverty is on account of lack of assets and lack of skills. By upgradation of the skill through skill upgradation trainings, SHG members acquire income generating assets and improve their living standards.	Scope is limited to skill upgradation training in agriculture. There is no mention of training on non-agriculture activities.	Skill upgradation in the area of interest should be taken-up to spread the risk and broad base the livelihood.
19	<b>Income generation activities/ micro finance to micro enterprises</b>	Although SHG is extend loan for consumption purposes, it is observed that SHGs gradually shift to availing loan for income generating activities.	Except agriculture, no other activity is taken up for training by these groups.	There is a need to include development of micro enterprise as an integral part of the programme.
20	<b>Grading of SHGs</b>	Grading and assessment is an important step in SHG Bank linkage programme. Matured SHGs i.e. SHGs functioning as per guidelines and capable of taking up income generating activities may require credit support from institutional sources. In such cases, banks intending to sanction credit assess strengths and weaknesses of SHGs for ascertaining the risk involved in financing SHGs.	There is no system of grading of groups in Cambodia	Assessment and grading of SHGs is important. Keeping in view the importance of various characteristic features of SHG, project should provide for assessment and grading of SHGs and take steps to strengthen groups which are not showing the expected level of maturity. Grading and assessment may be made compulsory before extending any financial support by bank or by the Govt.
21	<b>Bank Linkage</b>	Generally after about six months from date of promotion, an SHG is expected to be capable of availing credit from bank. It is expected that SHGs require about six months to understand	There is no concept of grading or bank loan in RULIP project.	As poor farmers require credit support to scale up their operations or to diversify their activities, they need credit support.

		the concept, promote thrift and credit management, book-keeping, meeting regularly, etc., which is assessed during grading. If the group functions as per stated norms, the bank extends credit which is a multiple of the group corpus. To begin with it is normally up to 1:4.		Internal savings or subsidy by the Department may not be adequate. Thus, there is a need to provide credit support to SHGs through institutional mechanism.
22	<b>Sponsorship</b>	At the initial period, the linkage programme had no State support. Subsequently, Government of India has launched its anti-poverty programme (SGSY) with SHG as its base.	It is a State-sponsored IFAD supported programme and each group will have an identification number under the RULIP project	Hand holding support for the weak groups may be ensured after the closure of the project period.
23	<b>SHPI</b>	As most of the rural poor are not well conversant with social mobilization techniques, organizing rural poor in to SHGs is done by self help promoting institutions (SHPI) generally NGOs working in villages on aspects like health, education, etc. Such NGO-SHPIs take up SHG promotion as an add-on activity.	Groups are generally promoted by the officials of Agriculture Department. Involvement of NGOs is not there.	As the promotion of SHG requires capabilities to mobilize people through meetings, counseling and other social mobilization techniques, services of communes may be availed.

## Annexure III

### Microfinance- An Approach to Linkage Banking –

#### Background Material

Catchphrase in the banking circles is “Poor are Bankable” and “Poor are the nexgen fuel for propelling the Financial Institutions”. Many financial institutions are devising ways to woo the poor but the intransigent poverty and the stigma associated with it is not allowing many of them to reap the benefits. What could be the reason that is holding back these people to share the fruits of the growth being witnessed by the country? This being a fundamental question puzzling everyone, introspection into the happenings so far may give us some insight into the facts.

#### I) Bottom of the Pyramid

It is estimated that nearly 400 million people need very small financial interventions to have two square meals a day and a roof to cover the head while another 300 million people need little higher dose to start small enterprises both in farm and non-farm sectors to ensure a decent living. Despite the expansion of the banking network and proliferation of branches in the nook and corner of the country, approximately 50% of rural households are still out of the banking coverage which compels us to take a serious view as to what are the specific needs of this segment of population.

There are three types of risks which poor confront:-

- Structural risks – are often long-term or permanent changes in the national and international economy which impact the ability of the poor households to sustain the income. Product substitutions, import decontrols, interest rate changes, banning certain products etc., would contribute to this risk
- Crisis risks – sudden, unexpected shocks to household that disrupt its ability to generate income or force it to allocate a certain portion to an area not included in its established economic portfolio. Illness, fire / accident, theft, robbery
- Life- cycle risks-certain degree of predictability but entails expenditure

This segment of the population which is at the bottom of the pyramid requires a specific poverty alleviation intervention which ensures income distribution and at the same time purchasing power redistribution since they do not have enough purchasing power to participate in the market economy. Further, unlike their wealthier counterparts for whom most of the banking products were devised this segment requires very safe and affordable savings and credit products which are flexible, accessible, sensitive and responsive to their needs. Since the safety net to fall back on any reserves or savings is almost non-existent, this segment of the population needs products tailored to meet their emergent needs and would be happy if the same are delivered at their doorstep so as to minimize the wage loss.

The fundamental and non-negotiable norm to support this segment is all loans should be extended without any collateral in a non-bureaucratic way.

## **II) Evolution of microfinance**

Keeping the above in view, a new initiative christened as “microfinance” had evolved over a period of time. Though there is no universally accepted definition, the Task force on supportive policy and Regulatory framework for Microfinance has defined microfinance as under:

"Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards"

While microfinance is one of the key tools of poverty reduction, several challenges are faced while implementing microfinance initiatives such as, developing interventions which not only give access to services but also increase client incomes and decrease vulnerability; ensuring that targeting women contributes to gender equality; deepening poverty reach to the poorest and most disadvantaged groups; resolving potential tensions between these development aims and financial sustainability; design and delivery of appropriate products and services required by the poor; ensuring a balanced geographical spread of the access to micro- finance; and encouraging commercial banks to downscale to provide microfinance.

Due to the above complexities a new mechanism to dispense credit to the poor and forgotten lot of population has evolved over a period of time. The new format essentially takes care of thrift, savings; need based small loans, non-rigidity about the loan usage, flexible repayments depending on the family's cash flow rather than project based cash flow etc. Collateral securities have been done away with and in its place social collateral is being used to ensure proper recovery. Group loaning and lending skewed towards the fairer sex are other two major ingredients of this format.

## **III) Are poor interest sensitive?**

Economic fundamentals exhort that every borrower is interest sensitive and the capacity of borrowing increases with reduction in interest rates. This is a universal phenomenon and most of the corporate borrowings directly reflect this but the borrowings by poor quite often defy this fundamental rule since they borrow at any cost from which ever source provided the credit is made available when they want. This propensity of the poor to borrow at any cost led to evolution and expansion of microfinance activities with interest rates varying from 12% to 60% per annum.

## **IV) Approach to extend microfinance**

Since poor are bankable but can't afford any collateral, method of reckoning 'Social Collateral' had been considered and to achieve this 'Self Help Group' approach was adopted.

What is a Self Help Group :-

A self-help group as defined in India is a small (20), economically homogeneous and affinity group of the rural poor, voluntarily coming together for the following reasons: -

- To save small amounts of money regularly
- To mutually agree to contribute to a common fund
- To meet their emergency needs
- To have collective decision making
- To solve conflicts through collective leadership and mutual discussion
- To provide collateral free loans with terms decided by the group at market driven rates

The self-help groups (SHGs) are informal voluntary associations of people formed to attain a collective goal. People who are homogeneous with respect to social background, heritage, caste or traditional occupations come together for a common cause to raise and manage resources for the benefit of group members. Usually, the focus is on poor and that too on women.

The process through which selected people, usually poor, representing a specific economic strata of society, with some specific identity are encouraged to form small homogeneous groups for the purpose of participating in development activities i.e. savings, credit, income generation etc. is called 'group formation' or 'group promotion' or 'group evolution'.

In the formation of new SHGs, basically two stages are involved viz. pre-group formation stage and the promotion stage.

#### **Pre - group formation stage**

In this stage, it is important that the SHG promoter visits the village frequently, gathers information about various facets of the village life, its environment and people. During this stage the promoter also builds up rapport with the villagers.

#### **Promotion Stage**

There are four stages in this phase:

- i. **Forming:** In this stage, people come together informally and meet. They are encouraged to talk about their problems and solutions. During this stage, based on the felt need, homogeneous groups emerge naturally.
- ii. **Storming:** During this stage conflicts between individual interest and group interest surface and are dealt with. The leadership emerges. The procedures, rules and roles are established.
- iii. **Norming:** Trust develops among group members leading to cohesiveness in the group.

iv. **Performing:** This is the final stage when the group becomes operational and starts functioning for the benefit of its members.

The SHGs can be formed for any common cause or development activity. Normally it is found that initially though the groups are formed for a specific activity, gradually they diversify and take up more than one development activity in the area. SHGs practicing saving and credit along with other activities have been more successful and sustainable generally. The various types of possible groups are: (i) savings and credit groups, (ii) joint farming groups (iii) social forestry groups (iv) water users' groups (vi) watershed development groups (vii) farmers' interest groups, etc.

The formation of homogeneous groups of 10 to 20 persons are generally promoted consisting of members who (1) live under similar economic and social condition (2) accept mutual responsibility for joint self help (3) trust each other to such an extent that none of them would dominate or exploit the group. Other factors which promote cohesiveness could be gender, occupational affinity, caste, etc. There is one member from one family in a group.

In the new development initiative of group approach, it will be unrealistic to attempt group formation process without identifying and discussing the possible areas of common interests. At the same time offering packages or preplanned activities is contrary to the concept and practice of participatory development. The organization of better opportunities for child and adult education, primary health care, literacy classes, etc. could serve as an 'entry point' for group formation. These activities require the organization of people into associations and groups.

Educating the masses and inculcating the values of self help takes considerable time to start with.

#### **V) Participation of various agencies**

For effective micro finance penetration in Cambodia, there is a need for every single banking and non-banking financial institution to participate in the microfinance activities. The major players in the microfinance sectors can be made into three categories:

1. Formal Financial Institutions – which includes public-sector commercial banks, private-sector commercial banks, cooperative banks, if any.
2. Microfinance Institutions (MFIs)- NGO promoted, not for profit NBFCs, for profit NBFCs and MFIs registered under various Acts of the Government.
3. Government – In association with Provincial Governments in implementing any poverty alleviation programme.

#### **Group Functioning**

Formation of a group is only the beginning. The group has to function vigorously with the active participation of its members in the development process. For the group process to be effective, the group has to have some characteristics, as discussed below :



### **Group Meeting**

The periodicity of the meeting could be weekly, fortnightly or monthly. The time and place of the meeting should be such that it is convenient to majority of the group members.

### **Evolution of Norms**

The group has to decide on a set of rules and decision-making arrangements for its functioning. The bylaws could include criteria for membership, saving loans, fines, sanctions etc.

### **Saving Mobilization**

The group has to decide on the amount as also the periodicity of saving of the members. The members of the group must save accordingly.

### **Loaning Activity**

The group must decide the purposes for which loan will be given, in addition to the rate of interest, repayment period and the loaning process.

### **Recycling of Funds**

The recovery of both principal and interest on loan is essential. The rotation of capital is also important. The capital is formed by the savings of the group members as also from contributions from outside.

### **Leadership**

Generally there are 2 to 3 group leaders with different designations, such President, Secretary and Treasurer. The election process also varies from weekly rotation to as long as 5 year period.

### **Maintenance of Books**

The books maintained by SHGs are Saving Registers, Loan Registers, Meeting proceedings and attendance books. Individual pass books in some cases are also maintained.

The books are to be maintained by Group members themselves.

### **Management of funds and operation of bank account**

The group is to manage its own funds as also the fund it receives from outside. Normally the sources of funds for the group are membership fees, savings, fines, donations, interest on loans, bank loan, bank interest, and contribution from outside. The fund is used for normal loaning as decided in the meetings as also for meeting emergencies faced by the group members. The cash is handled at three stages.

1. Secretary / treasurer holding cash meet emergencies.
2. Secretary / treasurer holding the savings before depositing in the bank.

3. The office bearers who are authorized to withdraw cash/loan from bank for disbursement among members.

All the members of the group must be gradually exposed to operating the bank account.

### **Group Discipline**

The group must function democratically and in disciplined manner. The repayment ethics, effectiveness of peer pressure, implementation of norms and sanctions reflect the discipline and dynamics of the group.

### **Role of Banks**

#### ***Rural Credit Delivery System***

The acceptance and implementation of the recommendations of Rural Credit Survey Report, (1954), Narasimham Committee (1975) and Nationalisation of Banks (1969) resulted in massive expansion and extensive proliferation of branches of the co-operative and commercial banking sectors. In spite of the fact that there has been growth in deposits and credit owing to quantitative expansion of the credit delivery system, the fact remains that, a large number of rural households still do not have access to institutional credit. Against this backdrop it is necessary that the existing arrangements for purveying of credit be reviewed critically and alternatives arrived at. An attempt towards this objective is made through this paper.

The rural money market in India consists of many types of formal and informal lenders sources. The approach taken in this paper is that informality and flexibility of operations are the defining characteristics of the informal sector. Some other features that distinguish the informal sector from the formal sector are (i) blending of the lending with other types of economic activities, (ii) sometimes smallness of the loan and scale of operations, (iii) not necessarily direct linkage to development.

### **Types of Informal Finance**

There are four broad categories of informal finance existing in the rural areas. They are (i) financing by individuals who have temporarily surplus funds (ii) specialized financiers like money lenders, etc., (iii) credit and trade-linked finance by traders (iv) and group finance. For the purpose of this paper, the discussions are restricted to the fourth type i.e. the Group Finance. The 'Group Finance' is the finance with group of individuals pooling their savings and lending to each other or to persons outside the group. Our interest lies primarily with that type of group finance wherein savings and lending is mutual and hence appropriately named as 'Self Help Group' (SHGs). A separate paper has been devoted exclusively on SHGs covering their various aspects.

### **Types of Formal Financial Agencies**

In India, at the national level, we have the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), and Small Industries Development Bank of India (SIDBI) which are primarily the monetary control and refinancing agencies. There are three other types of field level

agencies i.e. the commercial banks, regional rural banks and co-operative banks, which through their branches/ societies disburse credit and receive deposits directly from the people. The formal financial markets are operative under certain credit laws implemented by the state. This paper confines itself to linkages between the field level agencies and the SHGs.

**Objective and Need for Linkages Between the SHGs and Formal Financial Agencies (FFA)**

From a study of formal and informal financial sectors in Indonesia, in 1993 World Bank concluded that, “The traditional assessment of the informal sector has been that it is exploitative, usurious and dysfunctional and the formal financial agencies are often aimed at dismantling the informal sector. Such an approach depreciated the functional role that informal markets and may result in policies which displace informal sector without offering alternate sources of institutional credit”.

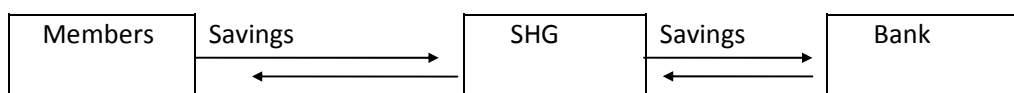
This has what has happened in case of India where we are unable to meet the demand for the rural finance through our FFAs. Moreover in the process of directed lending many of our FFAs have themselves become weak. Under the new liberalized policies for the economy, it is all the more important that the group finance be encouraged. By emphasizing the advantages and addressing the concerns raised by the informal finance, it is however not suggested that one can supplant the formal finance. Both the formal and informal have their comparative advantages as well as disadvantages. Therefore, the emphasis for a better economy is that both sectors develop linkages.

**Linkage Models**

The linkage between the self-help groups and the FFAs has to be a symbiotic relationship. In most of the developing countries, the savings and credit schemes of FFAs are separate, each with its own set of clientele. For the purpose of linking the SHGs to FFAs two basic models with number of modifications are at present working in India. In each model there exists a two way flow of funds as shown below.

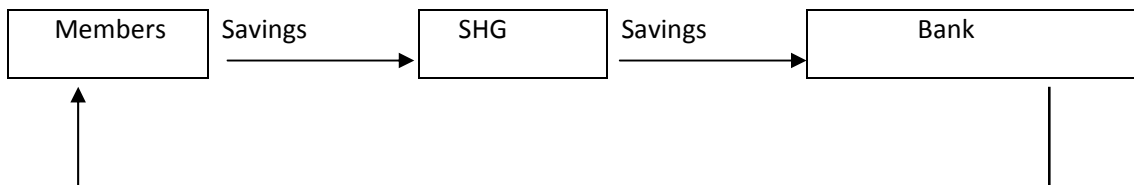
**i) Direct linkage model**

In case of the direct linkage model the bank identifies the group (or facilitates evolution of the group) and deals with the SHG directly for both mobilising the savings and for making available credit facilities to the group as a whole or to individual members. Group cohesion acts as social collateral. In this (model) the credit is generally made available to the Group and members to be financed are identified by the group itself which takes the responsibility of loan repayment.



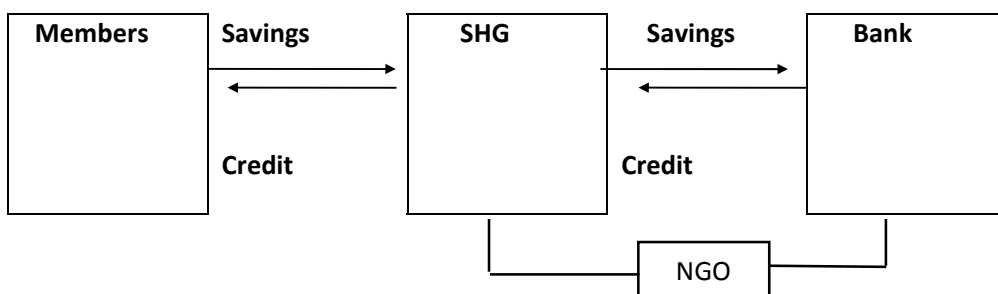
**ii) Modified Direct Linkage Model I**

Here the activity and member to whom loan is given is identified by group. The group is morally responsible for repayment but credit is given as in an individual loan.



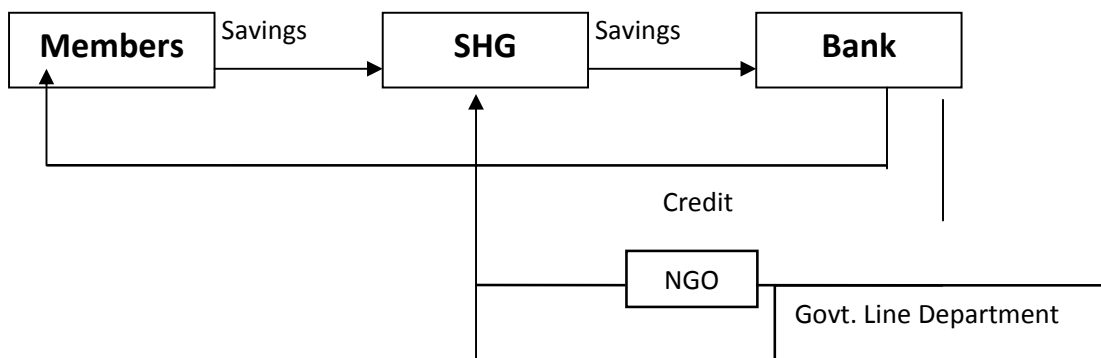
**iii) Modified Direct Linkage Model II**

In this model NGO is not the financial intermediary. The NGO's role is only in group evolution and stabilisation, where as the financial linkage is directly with the group.



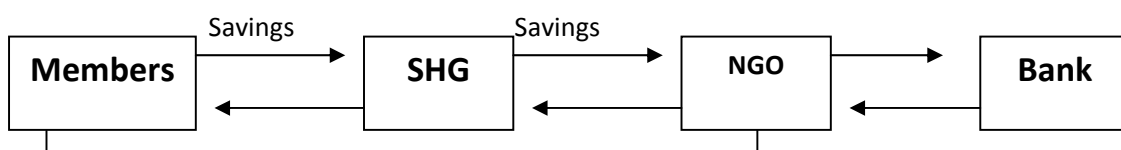
**iv) IFAD Model**

In this model, the NGO is involved as in (iii) above but the line departments of Government like Women Development Corporation, Sericulture, Rural Development are also involved in identification of activity, beneficiary etc. The model is in existence in areas where IFAD projects are being implemented in the States of Tamil Nadu, Maharashtra and Uttar Pradesh in India.



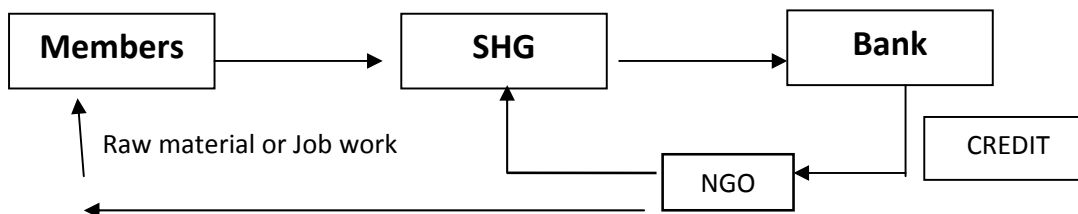
**v) Indirect Linkage Models**

In this model basically the funds flow through the NGO i.e. the NGO is the financial intermediary. In case of this linkage model, various types are existing as follows:



#### vi) Modified Indirect Model

This model exists in cases where the groups are artisan/handicraft groups and NGO support for marketing is also available like SEWA, Lucknow.



In the above models, apart from two-way flow of funds, there is also flow of services, extension, consultancy, training etc., from the banks and the voluntary agencies.

The self-help group approach to the development of rural poor appears to be an effective and viable proposition as a supplementary microcredit delivery system. The models of linkage between SHGs and FFAs could be specific to the needs of the group. A strong linkage and continued development dialogue between the SHGs and FFAs appear to be the panacea for many of the ills in the present system.

#### Role of Banks

Before embarking on the linkage programme, the banks have to consider certain aspects so that the linkage programmes are effective and objective of the linkage is fulfilled. Some of the aspects envisaged are,

#### Commitment of the Top Management

Most of our conventional developmental programmes, and the subsidized target group approach of government has failed due to non-participation by the people in the developmental process. Therefore, it is essential that the management of the formal financial agencies (banks) appreciate the importance and is committed to participatory approach in rural developmental banking. Only this will enable implementation of this innovative banking approach by adopting suitable policy changes and strategies to influence the organizational behavior to take up the challenges of the linkage programme.

#### Training of Field Workers / Field Officers

The field worker/field officer of the bank is an important intermediary in the linkage programme. It is very essential that the field worker is sincere and committed to the concept and process of the linkage. In India, the bankers' experience is that a few excellent and well-motivated field workers do better than a multitude who don't understand and appreciate the concept and process of the linkage programmes. Training, mobility and motivation by participation in various forums as well as exposure to successful cases may be successful strategy that can be adopted by banks.

## **Training**

Majority of the personnel are urban-oriented, thereby lack the skills to identify and appreciate the needs of the rural poor. Efforts through training should be made to bridge up the gap in the psyche of the bank personnel, so that they appreciate and commit themselves to the idea of participatory development. For this purpose, exposure at field is felt to be very essential as also the use of 'participatory training methodologies.'

## **Decentralisation - Policy Changes**

The bank management should initiate appropriate policy changes and decentralization procedures so that the decision making power for lending and the effective linkage programme is vested with the grass roots level functionaries. The procedures laid down should be such that bank goes to the people and not the oriented and customer friendly. Easy and transparent procedures and transactions simplified forms, documentation, and modification in saving and credit schemes to suit local conditions and needs, are suggested. The bank has to play a 'catalytic role' than a mere financing agency and also respect the groups' identity.

## **Communication**

There is a need for communication process between the field workers with different tiers of management in the organization as also effective communication with the SHG, NGO and other banks. The communication both within and outside the organization should be participatory, based on mutual trust and respect. This helps in not only attuning the bank personnel to the need of rural poor, there is experiential learning promotion of healthy competition and it also motivates them to achieve the organizational goal.

## **Information System**

Circulation of case studies, success stories, action research, impact evaluation studies could be some of the methods the banks could adopt to motivate the field workers and sustain their commitment to the participatory approach. Regular monitoring and evaluation by the bank, of the linkage programme with a view to make necessary adjustments and changes is also suggested.

## **Conclusion**

The concept of Self Help Groups and participatory approach to development appears to be a workable and viable proposition as a supplementary credit delivery system. The workable linkage model is the one involving the NGO for group formation and strengthening and minimum involvement of Government departments. To attain a balance between the macrolevel impacts like environment and ecological balance and the microlevel needs, a mixed approach rather than total target-oriented approach may be adopted by Government departments and formal financial agencies. The self-help groups may not prove to be a panacea for all ills of the present credit delivery system but they are surely supplementary conduits whose strong linkage with the FFAs will enable coverage of large number of small borrowers with production potential. Therefore, it is necessary to develop linkages

between the SHGs over a large number and area apart from refining the linkage models based on practical field experiences.

## **Annexure IV**

### **Technical Guide for Replicating the Linkage Banking Approach**

#### **A.About SHGs**

➤ **What are Self-help Groups?**

- Self Help Groups (SHGs) 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, bank can give loans to the SHG.

➤ **How is an SHG relevant to 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 millions of rupees.

➤ **Does SHG makes business sense to all banks?**

- Maintaining large number of small savings accounts is difficult for a bank branch. It is also difficult to keep very small loan accounts. Opening an account for the group allow about 20 persons to save in a single account. Your costs are less and time is saved.
- The members of SHGs realise 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 cent 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 officially recognized to bank with informal groups?**

- Yes. National Bank of Cambodia (NBC) has to approve banking with SHGs,



- NBC has to classify loans to SHGs as priority sector lending.
- Commercial banks/ MFIs have to give loans to SHGs and realise that SHGs are good business.
- Lending to SHGs fulfill social commitment of banks.

➤ **Who helps to form SHGs?**

- A reasonably educated and helpful local person has to initially help the poor people to 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 health worker/a field officer/staff of a development agency or department of the Government.
  - YOU yourself! (*The field officer or a staff member of a bank a field staff from the local MFI can also help the poor in forming groups.*)
  - A field level functionary of an NGO.
  - An unemployed educated local person, having an inclination to help others.
  - Woman animators can play more effective role in organizing women SHGs.
  - The animator cannot organise the groups all alone. He or she will need guidance, training, reading material, etc.
  - Usually, one of the following agencies help:
    - (i) A voluntary agency or Non Governmental Organization (NGO).
    - (ii) The development department of the Government.
    - (iii) The local branch of a bank/MFI.

➤ **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 to 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.

## B. Functioning of SHGs

### ➤ **Size of the SHG**

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

### ➤ **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 they usually ensure proper use of loans.)*
- 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 say USD 10 or 15 per month.
- Those having very small land holding say not exceeding 2.5 acres.

### ➤ **Common living conditions for the Group Members**

- Living in thatched houses
- Having no access to safe drinking water
- Having no sanitary latrine
- 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
- Children in the family not going to school
- Family eating two meals or less a day  
*(These are illustrative and not exhaustive. If a family has at least four or five of the above living conditions, it can be considered poor, and one member of that family can be encouraged to become a member of an SHG.)*

➤ **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 stabilise 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 to know about the SHG easily. It also helps to build trust among the SHG members.)*

➤ **Keeping of Accounts by the SHG:**

- Simple and clear books for all transactions to 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.)*
- 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.)*

➤ **What are the books kept by an SHG?**

- **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:**
  - 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:**
  - Summary of receipts and payments.
  - Updated in every meeting.
- **Members' Passbooks:**
  - Individual members' pass books in which individual's savings and loan balance outstanding is regularly entered. *(Advantage: this encourages regular savings.)*

## C. 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 with 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 to be kept by the SHG.

### ➤ **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 and gives it as loan to its members.

## D. Linking of SHGs to Bank

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 S/B Account for the SHG**

- **Check list for opening SB A/c in the name of an SHG:**
  - *Official instructions:* The National Bank of Cambodia has to issue instructions, permitting banks to open SB a/cs of SHGs.
  - SB A/c 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 the group meeting, signed by all members, indicating their decision to open SB A/c with the bank. This resolution should be filed with the bank.
  
- **Authorisation from the SHG:**
  - The SHG should authorise at least three members, any two of whom, to 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 the 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 is usually kept as 2 or 3 per cent per month
  - Simple and clear books of account of savings and lending should be kept by the SHG.
    - Through internal lendings, the members of the SHG will learn to properly manage, utilise 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. The check list given below will help to assess each SHG in a simple, but effective manner.

  - **Check List for Assessing the Performance of an SHG**

An illustrative assessment format is as under. Format may be modified depending up on the requirement

Sr. No.	Category	Indicators	Rating
i.	Number of members	Less than 10	02
		Between 10 – 15	03
		From 16 and up to 20	05
ii.	Composition	Target group only	05
		Having 1 to 5 Target Group members	03
		Having more than 5 non-target group members	01
iii.	Age of the SHG	More than 2 years	10
		1 – 2 years	07
		6 months to 1 year	05
iv.	Monthly meetings during last six months.	Four and above	05
		Two to three	03
v.	Attendance of members in the group meetings.	More than 90%	10
		70% to 90%	05
		Less than 70%	02
vi.	Participation of members at group meetings (should be ascertained through interview).	High	05
		Medium	03
		Low	02
vii.	<b>Savings :</b> a) Regularity	If default rate is up to 10%	10
		If default rate is up to 25%	07
		Up to 50%. But default is met during succeeding month.	05
	b) Quantum of savings (through members only)	More than (Say USD 300)	10
		<i>Between. (Say USD 200 and above)</i>	07
		Below (Say less than USD 200)	05

viii.	Group's Internal Loaning: a) Utilisation of savings for internal loans.	Above 90%	10
		51% to 90%	07
		30% to 50%	05
	b) Interest rate on groups' internal loans.	Depending upon purpose	05
		2% to 3% per month	03
		Less than 3% per month	02
	c) Group's internal loan Recovery Rate	100%	10
		Between 80% to 95%	07
		Between 70% to 80%	05
	d) Members benefited out of group's internal loaning	More than 50%	05
		Between 25% to 50%	03
		Less than 25%	02
ix.	Awareness among members; knowledge of SHG rules, functions, procedure of meeting, maintenance of books and records, etc.	Known to all members	05
		Known to 50% or more	03
		Known to less than 50%	02
x.	Educational level	If 50% or more members read, write, speak and sign.	05
		Read and sign.	03
		Sign only.	02
xi.	Rotation of group leaders.	Once in two years	03
		Between 1 – 2 years	04
		Every year.	05
xii.	Maintenance of books and Records	<u>Without outside assistance</u>	<u>With outside assistance</u>
	a) Attendance Register	1	1
	b) Minute Book	4	2
	c) Loan Ledger	4	2
	d) Savings Ledger	4	2
	e) Internal Pass Book	2	1

### Selection criteria of SHGs for Bank Credit

Sr. No.	Scoring (out of 120)	Status for Selection
I.	SHG scoring more than 90 points	Selection without any reservation
II.	SHG scoring 60 – 89 points	Selection with caution.
III.	SHG scoring less than 60 points	Not suitable for linkage.

#### ➤ Step 4 – Sanction of Credit Facility to the 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, *(Bank/MFI can also consider higher ratio based on low risk perception.)*
- **What constitutes the savings of the group?**
  - The group's balance in the SB A/c.
  - Amount held as cash with the authorised persons.
  - Amount internally lent amongst the members.
  - Amount received as interest on the loans.
  - Any other contributions received by the group like grants, donation, fines, 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, school fees, 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?**
  - National Bank of Cambodia may stipulate that no collateral security should be taken from SHGs. Collateral security is not necessary for the loans sanctioned to SHGs because
    - i. The members of SHGs know that the bank loan is their own money like savings.
    - ii. They are aware that they are jointly responsible for the repayment.
    - iii. Therefore, they exert moral pressure on the borrowing members for repayment.
    - iv. Because of this, the bank /MFI gets a much better repayment from the SHG.
- **Can the bank/ MFI hold the SB A/c 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 National Bank of Cambodia may allow banks/MFIs freedom to decide on the interest rates to be charged to the SHGs.
- *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 2 or 3 per cent per month.

**Note: List of documents 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, authorising a minimum of three members to operate the group's account with the bank.)*
- ii. 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.)*
- 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.)*

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

- i. Sponsorship letter from NGO.
- ii. Application to be submitted by the NGO to bank branch while applying for loan assistance for onlending to SHGs *(purposes for lending to SHGs will be listed in this).*
- iii. Articles of Agreement for use by the bank while financing the NGO. *(This contains the agreement between the bank and the NGO wherein both the parties agree to abide by the terms and condition set thereon.)*

- **How are the loans disbursed?**

- The authorised 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 the SHG**

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

- **What about defaults?**

- The group using their collective authority discourages defaults. Every member is made to realise 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.

## **E. SPREADING THE MESSAGE OF SHGs**

- **Advantages of banking with SHGs**

- **Transaction costs are reduced**

- Only one SB A/c is required for a 20-member group. If 100 SHGs have SB A/cs in a bank branch implies 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 us. Over a period of time, you will find that SHG financing will become big business. *Little drops of water makes 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 utilisation and repayment of loan amount.

- **Increase in the social base in rural area**

Through banking with the SHGs, the bank branch will get social recognition and command good will of people. This will also help in developing the business with the development of the SHG members.

- **Quality Control of the SHG**

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

- **Make your observations on the following points?**

- Are all the members comfortable with each other?

- Do they share a sense of belonging to the SHG?
  - Do ask some of them.
- **Does the Group have a person to write the books of account and maintain them?**
- 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 personally, 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.

## Annexure V

### List of Experts Met by the Participants in India

Sl.No	Name	Position/Designation
1	Mr. Sampath Kumar, IAS	CEO, RGMVP
2	Mr. S. K. Chatterjee	Director, BIRD
3	Mr. R. K. Das	Joint Director, BIRD
4	Dr. P. L. Yadav	Consultant, RGMVP
5	Mr. V. D. Bohra	Academic In-charge, BIRD
6	Mr. Dathathree	Faculty Member, BIRD
7	Mr. Prabhakar Behera	Faculty Member, BIRD
8	Mr. P. C. Lenka	Faculty Member, BIRD
9	Mr. S. K. Roy	Asst.General Manager, NABARD, Lucknow
10	Mr. T. Sudheerr	Manager, BIRD
11	Mr. G. K. Bhattacharjee	Asst.Manager, BIRD

## Annexure VI

### List of Participants in Ratanakiri

Program Director of BIRD - Visit to RULIP Ratanakiri for  
Pilot Testing Linkage SHG to MFI/Banking  
(5-8 September 2011)

No.	Name of Participants	Sex	Position	Organization
1	<b>OUK</b> Vuthirith	M	DNPC	MAFF PSU
2	<b>SRENG</b> Chhea Heng	M	DPPC	PDA-RAT
3	<b>POK</b> Borin	M	M&E	PDA-RAT
4	<b>EM</b> Visoth	M	PAA	PDA-RAT
5	<b>CHHIENG</b> Nora	M	PST	PDA-RAT
6	<b>KRIEN</b> Sokhom	M	M&E	PDA-RAT
7	<b>PRUM</b> Vimean	M	PAA	PDA-RAT
8	<b>PHAT</b> Puthy	M	M&E	POC
9	<b>BUNRY</b> Kanharith	M	PST	PDA-RAT
10	<b>SOY</b> Sona	M	PPC	PDA-RAT
11	KANG Near	F	Deputy Director	PDOWA
12	<b>SAO</b> Bunthay	M	PST	PDA-RAT
13	SEM Reoun	M	PST	PDA-RAT

## Annexure VII

### Schedule of Activities of RULIP Team to India

A team of three officials from RULIP, Cambodia visited BIRD from 16-19 August 2011 for a four-day training cum exposure on SHG Bank Linkage Programme. The team consisted of Mr. Ouk Vuthirith, Mr. EAR Hong and Mr. NGET Veng. Mr. Won-Sik Noh, Secretary General of APRACA, also attended the programme for one day and participated in the field visit. The four-day exposure cum training programme was co-ordinated by Mr. Dathathree and Mr. P. C. Lenka, Faculty Members.

On 16 August 2011, Mr. S. K. Chatterjee, Director, BIRD, inaugurated the training programme. Mr. R.K. Das, Joint Director, BIRD, Mr. Dathathree, Mr. P. C. Lenka, both Faculty Members, Mr. T. Sudhir, Manager and Mr. G. K. Bhattarjee, Asst. Manager, attended and interacted with the participants. During interaction, the Director familiarized the participants with the facilities available in BIRD for enhanced learning. The Director and Joint Director discussed with participants the socio-economic conditions prevailing in Cambodia. Explaining the position in India, they observed that despite huge network of financial institutions like co-operative banks, commercial banks and regional rural banks in the country, large section of poor people especially in rural areas are not able to access financial services from formal financial agencies. However, the implementation of pilot project of self-help group-bank linkage in 1992 and its positive impact and success led to its mainstreaming. The SHG Bank Linkage Programme in India has grown as the world's largest microfinance programme touching the lives of over 80 million people. It has not only emerged as an alternate credit delivery mechanism to the rural poor but also led to other developments such as women empowerment, skills development and microenterprise development, etc., were made clear to the participants.

#### **A brief note on the training programme is as under:**

Day-to-day training schedule, Reading material on SHG Bank Linkage Programme and power point presentations were supplied to the participants in advance.

**Day One:** In the beginning, with a view to familiarize the participants to Indian economic situation an overview of structure of co-operative banks in India meeting agriculture credit needs, nationalization of private sector commercial banks and branch expansion in rural areas, promotion of regional rural banks for meeting the credit needs of target group, introduction of directed lending and causes and impact of Exclusion on the rural poor, growth of SHG movement, were explained in detail. During the discussion, difference in the macroeconomic situations in India and Cambodia were discussed for enabling the participants

Subsequently, participants were briefed about the concept of self-help and use of self-help concept for addressing the issues confronted by the excluded, characteristic features of SHGs viz., homogeneity, size of the group, conduct of meeting, thrift and credit management, development of byelaws and

rules for group operations, importance of recordkeeping, sharing of responsibility, rotation of leadership, etc. through power point presentation and discussions.

**Day Two:** During the second day i.e. on 17 August 2011, the team visited Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP), a project promoted by Rajiv Gandhi Charitable Trust for development of rural poor in the country. The project has promoted a large number of SHGs in and around Raebareilly and it has brought in substantial positive changes in the life of SHG members. During the course of field visit, participants visited the offices of RGMVP at Raebareilly. Mr. Won-Sik Noh, Secretary General of APRACA, accompanied the participant during field visit. Mr. Sampat Kumar, IAS, CEO of the project made a presentation, through a documentary, on the socio-economic conditions of poor, objectives of the project, various socio-economic intermediations like promotion of SHG, promotion of various development activities like health, education, women empowerment, microenterprise development, etc., done by the NGO. The participants had an interaction with the CEO for about two hours and their doubts were cleared. After interaction with the CEO, the participants visited SHGs and SHG Federation in Rahi block and had interaction with SHG members and NGO facilitators. During the course of their field visit SHG members and facilitators explained the participants about the process of entering a village, identification of poor selection of members, formation of homogenous groups, thrift and credit management, rules and by-laws, training on micro enterprises, women empowerment and socio economic changes it has brought into the lives of member families, etc. SHG members also shared the condition of their families before formation, difficulties they were facing and the empowerment they have achieved after becoming SHG Memberst.

**Day three:** Third day, a documentary viz., "Luminous Link" highlighting the various stages involved in SHG promotion and linkage was shown to participants for making clear the stages involved in developing sustainable SHGs.

On successful implementation of SHG-Bank Linkage project during 1992-95, banks were advised to take up promotion and credit linkage of SHGs as a banking product to reach the poor and excluded in rural areas. For facilitating banks to take up SHG Bank linkage as a mainstream banking product, NABARD introduced a number of initiatives like capacity building of bank officers, through training, arranging exposure visits to successful SHGs, recognition of performing branches, documenting success stories, preparation of model grading charts, financial support to RRBs and DCCBs for functioning as SHPIs, sanctioning of SHPI assistance to NGOs, etc., were also discussed.

Considering the limited capacity of banks to promote SHGs and the vastness of excluded to be organized as SHGs, concept NGOs and IRVs functioning as SHPI was introduced. It helped to multiply the number of SHGs within a short time. The role of these SHPIs i.e. from promotion of SHG to capacity building and withdrawal from SHG was also discussed.

SHG members are poor, lack skill for producing marketable products. This is leading to poor credit absorption. For increasing the credit absorption capacity of rural poor, NABARD introduced several promotional programmes for skills development, microentrepreneurship development, marketing of

SHG products, etc., These programmes are expected to help SHGs to sell their products and for production they require additional credit and the credit becomes self liquidating.

Banks, being the custodians of public money, are required to ensure that at the end of tenure the loan given is going to be repaid with interest. As the banks were new to SHG concept, models for grading of SHGs for assessing risk was also developed by NABARD. Model assessment formats, usage of these formats and the benefit of regular grading accruing to bank, SHPI and SHG themselves were discussed with the participants.

Dr. P. L. Yadav, Consultant, Rajiv Gandhi Mahila Vikas Pariyojana, was invited to handle two sessions. During his session, Dr. Yadav briefed the participants about various interventions made by the NGO to strengthen the SHGs, improve credit absorption capacity, inculcate repayment habits, cross learning by SHGs, training in income generating activities, awareness creation on social issues, instilling confidence in banks about the capacity of SHGs to recycle credit.

**Day Four:** On fourth day a brief presentation was made to discuss lessons learned from the field visit. A session was also arranged to discuss the importance of microenterprises for the members of SHG through microfinance. Microenterprises will help the members to generate small additional income which will supplement the existing livelihood activities, in farm and non-farm sector. Accordingly, importance of graduating SHGs to microenterprises was presented to participants.

At the end of the programme, the participants were able to appreciate the working of SHG Bank Linkage programme in India. The novelty of the programme lies in linking the formal financial institution with the poor through group mode. The participants opined that the replication of the programme in Cambodia will require more sustainable groups which require continuous handholding and guiding them to start microenterprises. They also observed that, the linkage banking could be an effective medium to address the problem of poverty and exclusion in Cambodia.

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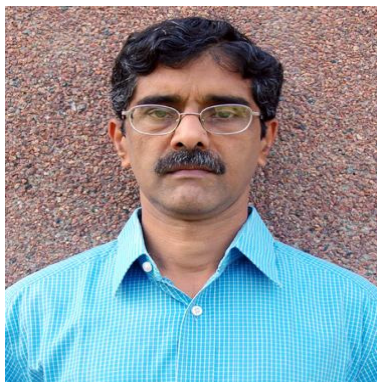


## **Annexure VIII**

### **List of Places Visited by RULIP Team in India**

Sl.No	Date	Places Visited
1	16th, 18th and 19th August 2011	Lucknow
2	17 <sup>th</sup> August 2011	Raebareli
3	17 <sup>th</sup> August 2011	Rahi Block in Raebareli District

## Expert's Profile



<b>Name:</b>	Dathathree
<b>Designation</b>	Deputy General Manager, National Bank for Agriculture and Rural Development (NABARD). Presently on deputation to Bankers Institute of Rural Development, Lucknow, India as a Faculty Member
<b>Profile</b>	Mr. Dathathree is a post graduate in Commerce with specialization in Foreign Trade & Foreign Exchange and a Certified Associate of Indian Institute of Bankers. He has more than three decades of experience of working with Reserve Bank of India and NABARD in the areas of Credit Planning, District Development, Microfinance and Institutional Development. He has also the experience of associating with NGOs and training establishments during his stint as District Development Manager of Shimoga district in the Indian province of Karnataka. His areas of interest include microfinance, gender development and rural non-farm sector. He has undergone training on microfinance at BRI, Jakarta, Indonesia and Bank for Agriculture and Agricultural Co-operatives, Bangkok, Thailand.
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