

MICRO CREDIT - SHG FORMATION & LINKAGE

SHG has emerged as an innovative concept for providing Banking access to the rural poor who have not been benefited by various Government Sponsored Poverty Alleviation Programmes. SHG commences its activities as a "thrift group" by mobilizing Savings among the members for consumption purposes like food, health, social functions etc. Such groups consist of marginal farmers, petty rural artisans, agricultural laborers etc. mostly belonging to the socially and economically backward strata of village population.

EMERGENCE OF SHGs -

Such groups are emerged out of their genuine need and work on the principle of helping each other.

For example 10 - 15 poor rural villagers come together and form an informal group. They save small amount regularly on weekly or monthly basis. The corpus fund thus created is used for financing among them selves. The group members among themselves discuss about credit worthiness, need and requirement of the exact amount, the possibility of income generation and repayment, priorities etc. about loan proposals received from the group members. They arrive at some practical and at the same time humane decisions. The group members are aware of each other's problems, needs and capabilities. The group may have it's own bylaws, terms and conditions of financing among themselves. Thus the functioning of the group is on democratic basis.

Initially such groups lend to its members for consumption purposes like food, health, social functions etc. However, with the passage of time there is shift towards the production needs such as crop loan, purchase of milch animals, sheep /goat, silk worms etc. after this the SHGs will find it difficult to meet the increased credit requirement of the members for economic activities due to paucity of funds and at this stage Bank can finance to SHGs to augment their income.

WAYS OF PROVIDING ASSISTANCE TO SHGs -

There are four ways by which assistance to these SHGs can be given by branches -

1. Finance directly to the SHG, which may be informal group.
2. Financing to SHGs through voluntary agency (V.A.) or NGO.
3. Direct financing to member of SHG.
4. Financing directly to SHG for creating common service facilities or certain group activity.
5. Financing to SHG, this has been registered.

I. FINANCING DIRECTLY TO THE SHG WHICH MAY BE INFORMAL GROUP -

Eligibility criteria for financing the SHGs -

1. The group should be of rural poor, marginal farmers, landless laborer etc. and preferably of women households. The member of this SHG should not be covered under B. P. L.
2. The SHG members should preferably have homogeneous background and interest.
3. The group size should not be more than 20, the members should not involve in another SHG.

4. The group should have been in active existence for at least a period of Six months before financing.
5. The group should have been maintaining required proper accounts/ records.
6. The group should have opened Saving Bank Account with branch in the name of SHG signed by all members with proper instructions about operation of the account.
7. The SHGs should prepare their own byelaws for operation of group fund.
8. The saving per member per month should not be less than Rs. 50/- or Rs. 100/-. Internal Savings mobilisation is the core of SHG.
9. The members of SHG should not be willful defaulter of any financing Bank/ Institution.

Application Form -

1. The group should select among themselves the Chairman and Secretary to manage routine affairs, operate Bank account and to deal with Bank to avail of loan etc. The resolution to that effect be passed in meeting of members of SHG and all members should sign the resolution. A copy of such resolution be submitted to bank.
2. The Chairman (President) and Secretary of the SHG should apply for loan giving full details. On application, signatures of all members should also be obtained with all members photographs.
3. A copy of rules framed by the SHG for its internal working (bye laws) be submitted along with loan application.

LENDING NORMS TO SHG's -

a. Size of Advance -

The size of loan shall be determined in proportion of the Savings of the group. The proportion of Saving to Bank loan may vary from 1:1 to 1: 4 respectively.

The proportion of loan can be increased as under -

	<u>Savings</u>	:	<u>Loan</u>
- First Year of Financing	1	:	1
- Second Year of Financing	1	:	2
- Third Year of Financing	1	:	3
- Fourth Year of Financing	1	:	4

However, if Groups are strong & requirement is genuine, proportion of loan can be relaxed maximum by one stage. The Savings for this purpose includes -

- i. Balance in Saving Bank account with Bank
- ii. Cash on hand kept for its use in emergency.
- iii. Outstanding amount of internal loaning.
- iv. Amount of interest, penal charges etc. received from members.
- v. Amount of interest received on Savings Bank balance.
- vi. **The ceiling of advance / loan to SHGs as proportion of Savings as above or Rs. 3.00 lacs, which ever is less.**

b. Purpose of loan -

The loans to individual members of the SHG may be for consumption or productive purposes. The group should be given initially freedom for deciding purpose of loan based on common wisdom of the group.

c. Rate of Interest -

The SHG should not charge rate of interest more than 3% p. m. to their members. The interest rate to be applied by the Bank is as per interest rate applicable for this scheme, subject to revision from time to time.

d. Security -

If some common assets are created, then hypothecation be obtained otherwise it is a clean loan.

As per recent amendment in Bombay Stamp Act, 1958 vide order No. Mudrank-2003/C-R.494/M-1, dated 17.11.2003, Stamp duty chargeable on the instruments executed by Women's Self Help Groups (WSHG) in favour of the Bank for obtaining loans like Agreement (L-2), Power of Attorney (L-1), Hyp. etc. are exempted from Stamp duty as per **Government of Maharashtra** directives

g. Repayment

The repayment shall be decided by the branch after discussion with SHG by taking into consideration of mobilisation of fund, nature of activities etc. within one year. Longer repayment upto 3 years may be prescribed depending upon collection of Savings from group members and repayment of loan from member of SHG.

II. FINANCING TO NGO

RBI has advised to form our own guidelines on financing NGOs/ SHGs. However, Bank has decided to finance NGOs, which are assisted by NABARD for formation of SHGs. Further it has been decided to adopt the following norms while lending to NGO for onward lending to an SHGs -

- a. NGO should be registered as a trust with Charity Commissioner or as a society under society act.
- b. Their bye laws of the trust deed/ society should have the provision of suitable borrowing/ lending. The trust should also obtain permission from Charity Commissioner/ Registrar of Society to borrow from the Bank. A resolution to borrow loans from Bank should be obtained.
- c. They should have minimum 2 years existence. Apart from the existence, they should have undertaken social/ rural development activities and related experience.
- d. Their books of accounts should have been audited and should be submitted for scrutiny.
- e. NGO should have sufficient manpower and infrastructure to undertake the job.
- f. Lending Norms for financing to NGOs:

i. Format of application

The NGOs should apply for Bank loan in the format specifically devised.

ii. Size of advance

This may be decided on the basis of number of groups the NGO proposes to finance. The quantum of finance to NGO may be decided on the savings of the groups, which are to be financed. In the initial stages 1:1 proportion may be the quantum of loan. This may gradually be increased upto 1:4 depending on the satisfactory experience with that NGO.

iii. Margin

No separate margin to be insisted.

iv. Rate of Interest

As per interest rate applicable for this scheme, subject to revision from time to time.

NGO should charge interest to SHG's to maximum ceiling of 1.50% higher than Rate of Interest sanctioned by Bank to NGO.

v. Repayment

The repayment shall be mutually decided i.e by the branch and NGO by taking into consideration mobilisation of funds by SHG, nature of activity, repayment stipulated by SHG to its members etc. Longer repayment up to 3 years may be considered depending upon collection of savings from group members and repayment of loan from members to SHG and SHG to NGO.

*for latest details please contact our nearest branch