



भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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June 2, 2011

The Chief Executive Officers
All Primary (Urban) Co-operative Banks

Madam / Dear Sir,

Financing of Self Help Groups (SHGs) and Joint Liability Groups (JLGs) by Primary (Urban) Co-operative Banks (UCBs)

As announced in the Monetary Policy 2011-12 [para 100 - appended], with a view to further expanding the outreach of UCBs and opening an additional channel for promoting financial inclusion, it has been decided to allow UCBs to lend to Self Help Groups (SHGs) and Joint Liability Groups (JLGs). UCBs may with the approval of their Board frame a policy in this regard based on the guidelines given in the Annex, before undertaking such activity.

2. Please acknowledge receipt of this Circular to the Regional Office concerned.

Yours faithfully

(Uma Shankar)
Chief General Manager

Guideline for Lending to Self Help Groups (SHGs) / Joint Liability Groups (JLGs)

1. Lending Policy

Lending to SHGs / JLGs would be considered as normal business activity of the bank. UCBs will be required to frame, with the approval of their Board, a comprehensive policy on lending to SHGs / JLGs. This policy, including the maximum amount of loan, interest rate chargeable on loans etc. should form part of overall credit policy of the bank.

2. Method of Lending

UCBs may follow the method of lending directly to SHGs / JLGs. Lending through intermediaries will not be permitted.

3. Enrollment of SHG / JLG as Member

SHGs are small groups, formal/informal, of individuals promoting savings habit among members. These savings are then lent by the group to the members for income generating purposes. On the other hand, JLG is an informal group of individuals coming together for the purpose of availing of bank loan either singly or through the group mechanism against mutual guarantee in order to engage in similar type of economic activities.

The SHG would normally consist of 10 to 20 members whereas a JLG would normally have between 4 and 10 members. Membership matters are governed by the bye laws adopted by the bank and provisions of respective State Co-operative Societies Acts or the Multi State Co-operative Societies Act, 2002. UCBs would, therefore, be required to be guided by the provisions contained in the respective Act and **take prior approval of the RCS/CRCS**, wherever required, while enrolling such members and granting loans to SHGs / JLGs. The bye-laws of UCBs also need to provide for such lending.

4. Share-linking Norms

The extant instructions on share linking to borrowing would apply for lending to SHGs / JLGs.

5. Nature of Loan - Secured or Unsecured

The extant limits (individual and total) on grant of unsecured loans and advances will not apply to loans granted to SHGs. However, loans granted by

UCBs to JLGs, to the extent not backed by tangible security, will be treated as unsecured and will be subject to the extant limits on unsecured loans and advances.

6. Nature of Exposure - Individual or Group

Loans granted to SHGs / JLGs would be governed by the extant guidelines on individual exposure limits.

7. Amount of Loan

The maximum amount of loan to SHGs should not exceed four times of the savings of the group. The limit may be exceeded in case of well managed SHGs subject to a ceiling of ten times of savings of the group. The groups may be rated on the basis of certain objective parameters such as proven track record, savings pattern, recovery rate, housekeeping etc.

JLGs are not obliged to keep deposits with the bank and hence the amount of loan granted to JLGs would be based on the credit needs of the JLG and the bank's assessment of the credit requirement.

8. Margin and Security for the Loan

Margin / security requirement will be as per Board approved policy of the UCB concerned.

9. Documentation

UCBs may prescribe simple documentation for loans to be granted to SHGs / JLGs keeping in view the purpose of the loan and the status of the borrower.

10. Priority Sector

Loans to SHGs / JLGs for agricultural and allied activities would be considered as priority sector advance. Further, other loans to SHGs / JLGs up to Rs. 50,000 would be considered as Micro Credit and hence treated as priority sector advances. Lending to SHGs, which qualify as loans to priority sector, would also be treated as part of lending to weaker sections.

11. Opening of Savings Bank Account

The SHGs / JLGs would be eligible to open Savings Bank account with UCBs.

12. KYC Norms

The UCBs need to adhere to the KYC guidelines in respect of each member of the SHG / JLG before opening savings bank account / grant of loans.

Monetary Policy 2011-12 - Extract of Para 100

100. With a view to further expanding the outreach of UCBs and opening an additional channel for promoting financial inclusion, which would also help the UCBs in achieving the sub-target of lending to weaker sections, it is proposed:

- to permit UCBs to lend to SHGs/JLGs; and
- to keep lending to SHGs out of the norm on unsecured advances.