



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/ 2011-12/82

RPCD. FID. BC.No.06/ 12.01.001/ 2011-12

July 1, 2011

The Chairman/ Managing Director/

Chief Executive Officer

All Scheduled Commercial Banks

Dear Sir,

Master Circular on SHG-Bank Linkage Programme

The Reserve Bank of India has, from time to time, issued a number of guidelines/instructions to banks on SHG-Bank Linkage Programme. In order to enable the banks to have instructions at one place, a Master Circular incorporating the existing guidelines/instructions on the subject has been updated and enclosed. This Master Circular consolidates and updates the circulars issued by Reserve Bank on the subject up to June 30, 2011 as indicated in the Appendix.

Yours faithfully

(Deepali Pant Joshi)

Chief General Manager in-Charge

Encl: As above

Master Circular on SHG-Bank Linkage Programme

1. Despite the vast expansion of the formal credit system in the country, the dependence of the rural poor on moneylenders somehow continued in many areas, especially for meeting emergent requirements. Such dependence was pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks. For various reasons, credit to these sections of the population had not been institutionalized. The studies conducted by NABARD, APRACA and ILO on the informal groups promoted by Non-Governmental Organizations (NGOs) brought out that Self-Help Savings and Credit Groups had the potential to bring together the formal banking structure and the rural poor, for mutual benefit and that their work had been encouraging.
2. Accordingly, NABARD launched a pilot project to cover Self-Help Groups (SHGs) promoted by Non-Governmental Organizations, banks and other agencies under the pilot project and supported it by way of refinance. The quick studies conducted by NABARD in a few states to assess the impact of the linkage project brought out encouraging and positive features like increase in loan volume of the SHGs, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100% recovery performance, significant reduction in the transaction costs for both the banks and the borrowers etc., besides leading to gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project was that about 85% of the groups linked with the banks were formed exclusively by women.
3. With a view to studying the functioning of SHGs and NGOs for expanding their activities and deepening their role in the rural sector, in November 1994, RBI constituted a working Group comprising eminent NGO functionaries,

academicians, consultants and bankers under the Chairmanship of Shri S.K. Kalia, the then Managing Director, NABARD. The Working Group was of the view that the linking of SHGs with the banks is a cost effective, transparent and flexible approach to improve the accessibility of credit from the formal banking system to the unreached rural poor, which is expected to offer the much needed solution to the twin problems being faced by the banks, viz. recovery of loans in the rural areas and the high transaction cost in dealing with small borrowers at frequent intervals. The Group, therefore, felt that the thrust of the policy should be to encourage the formation of SHGs and their linking with the banks and in this regard, the banks have a major role to play. The Working Group had recommended that the banks should treat the linkage programme as a business opportunity and they may design area specific and group specific loan packages taking into account inter alia the potential, local needs, available talent/skills etc.

4. The Reserve Bank constituted four informal groups in October 2002 to examine various issues concerning micro-finance delivery. Linking of SHGs with banks have been emphasized in the Monetary Policy of Reserve Bank of India and Union Budget announcements from time to time and various guidelines have been issued to banks in this regard. To scale up the SHGs linkage programme and make it sustainable, banks were advised that they may consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level. They may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff and implement it as a regular business activity and monitor and review it periodically.
5. **Separate segment under priority sector:** In order to enable the banks to report their SHG lending without difficulty, it was decided that the banks should report their lending to SHGs and/or to NGOs for on-lending to SHGs/members of SHGs under the new segment, viz. 'Advances to SHGs' irrespective of the purposes for which the members of SHGs have been disbursed loans. Lending to SHGs should be included by the banks as part of their lending to the weaker sections.

6. **Opening of Savings Bank A/c:** The SHGs registered or unregistered which are engaged in promoting savings habits among their members would be eligible to open savings bank accounts with banks. These SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts.
7. **SHG lending to be a part of planning process:** Bank lending to SHGs should be included in branch credit plan, block credit plan, district credit plan and state credit plan of each bank. While no target is being prescribed under SHG bank linkage programme, utmost priority should be accorded to the sector in preparation of these plans. It should also form an integral part of the bank's corporate credit plan.
8. **Margin and Security Norms:** As per operational guidelines of NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, loans may be given beyond the limit of four times the savings as per the discretion of the bank. Experience showed that group dynamics and peer pressure brought in excellent recovery from members of the SHGs. The flexibility allowed to the banks in respect of margin, security norms, etc. under the pilot project continues to be operational under the linkage programme even beyond the pilot phase.
9. **Documentation:** A simple system requiring minimum procedures and documentation is a precondition for augmenting flow of credit to SHGs. Keeping in view the nature of lending and status of borrowers, banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse credit by delegating adequate sanctioning powers to branch managers. The loan application forms, procedures and documents should be made simple. It would help in providing prompt and hassle-free credit.

10. **Presence of defaulters in SHGs:** The defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

11. **Capacity Building and Training:** An important step in the Linkage Programme would be the training of the field level officials and sensitization of the controlling and other senior officials of the bank. Considering the need and magnitude of training requirements of bank officers/staff, both at field level and controlling office level, the banks may initiate suitable steps to internalize the SHGs linkage project and organize exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/sensitization programmes may be conducted for their middle level controlling officers as well as senior officers.

12. **Monitoring and Review of SHG Lending:** Having regard to the potential of the SHGs, banks may have to closely monitor the progress regularly at various levels. In order to give a boost to the ongoing SHG bank linkage programme for credit flow to the unorganized sector, banks were advised in January 2004 that monitoring of SHG bank linkage programme may be made a regular item on the agenda for discussion at the SLBC and DCC meetings. It should be reviewed at the highest corporate level on a quarterly basis. Further, the progress of the programme may be reviewed by the banks at regular intervals. A progress report may be sent to NABARD (Micro Credit Innovations Department), Mumbai, on a half-yearly basis, as on 30 September and 31 March each year so as to reach within 30 days of the half-year to which the report relates.

13. **Encourage SHG Linkage:** Banks should provide adequate incentives to their branches in financing the Self Help Groups (SHGs) and establish linkages with them, making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions. The group dynamics of

working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon. The approach to financing of SHGs should be totally hassle-free and may include consumption expenditures.

14. **Interest rates:** The interest rate applicable to loans given by banks to Self Help Groups/member beneficiaries would be left to their discretion.

15. **Total Financial Inclusion and Credit Requirement of SHGs:** Banks have been advised to meet the entire credit requirements of SHG members, as envisaged in the Paragraph 93 of the Union Budget announcement made by the Honorable Finance Minister for the year 2008-09 where in it was stated as under: *"Banks will be encouraged to embrace the concept of Total Financial Inclusion. Government will request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping".*

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List of Circulars consolidated in the Master Circular

Sr. No.	Circular No.	Date	Subject
1.	RPCD.No.Plan.BC.13/PL-09.22/91/92	July 24,1991	Improving Access of Rural poor to Banking- Role of Intervening Agencies- Self Help Groups
2.	RPCD No.PL.BC.120/04.09.22/95-96	April 2,1996	Linking of Self Help Groups with banks- Working Group on NGOs and SHGs- recommendations –Follow up
3.	DBOD.DIR.BC.11/13.01.08/98	February 10,1998	Opening of Savings bank accounts in the name of Self Help Groups(SHG's)
4.	RPCD.PI.BC/12/04.09.22/98-99	July 24,1998	Linking of Self Help Groups with Banks
5.	RPCD.No.PLAN.BC.94/04.09.01/98-99	April 24,1999	Loans to Micro Credit Organizations- Rates of Interest
6.	RPCD.PL.BC.28/04.09.22/99-2000	September 30,1999	Credit delivery through MicroCredit Organizations/ Self Help Groups
7.	RPCD.No.PL.BC.62/04.09.01/99-2000	February 18,2000	Micro credit
8.	RPCD.No.Plan.BC.42/04.09.22/ 2003-04	November 03,2003	Micro Finance
9.	RPCD No.Plan.BC.61/04.09.22/2003-04	January 09,2004	Credit flow to the unorganized sector
10.	RBI/385/2004-05, RPCD.No.Plan.BC.84/04.09.22/2004-05	March 03,2005	Submitting progress report under micro credit
11.	RBI/2006-07/441 RPCD.CO.MFFI.BC.No.103/12.01.01/2006-07	June 20,2007	Microfinance-Submission of progress reports
12.	RPCD.MFFI.BC.No.56/12.01.001/2007-08	April 15,2008	Total Financial inclusion and Credit Requirement of SHGs.