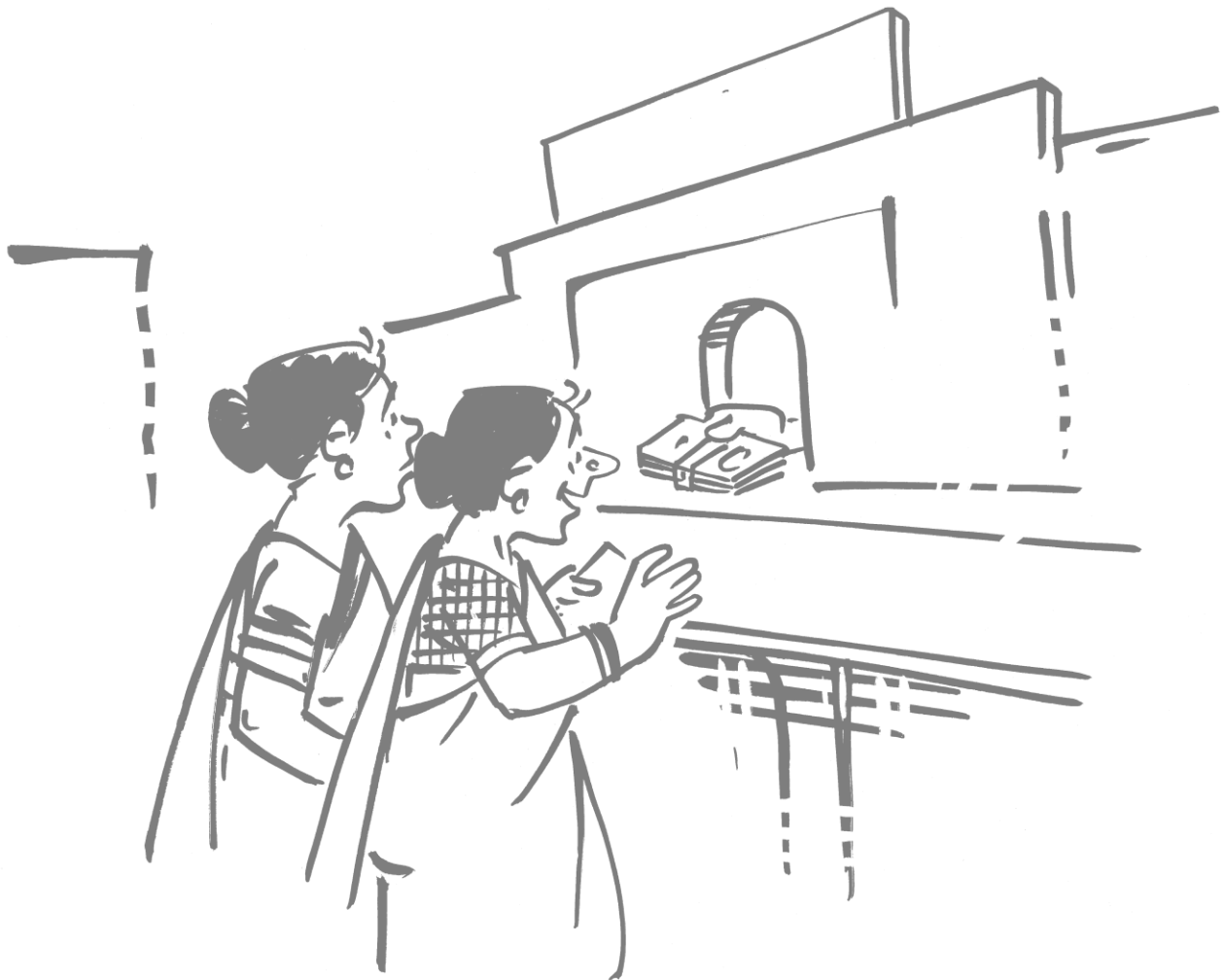


## Linking of SHGs to Bank

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- Opening of savings bank account
- Internal Lending by the SHG
- Assessment of the SHG
- Checklist for assessment of SHG
- Repayment of loans by the SHG

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

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The Reserve Bank of India has issued instructions to all commercial banks and regional rural banks, permitting them to open SB A/cs of registered or unregistered 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

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- ◆ 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. (RBI and NABARD have permitted the members to decide on these aspects.)

The interest is usually kept as 2 or 3 rupees per hundred rupee per month. Please remember that interest per month is better understood in villages, than annual interest.

- ◆ Simple and clear books of account of savings and lending should be kept by the SHG.

*(Specimen formats of books to be kept by the SHGs are annexed to this book)*

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

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We need to know whether the SHG has been functioning well.

- ◆ The check list given below will help us to assess each SHG in a simple, but effective manner.

### CHECK LIST TO ASSESS THE PERFORMANCE OF AN SHG

<i>Sr. No.</i>	<i>Factors to be checked</i>	<i>Very good</i>	<i>Good</i>	<i>Unsatisfactory</i>
1.	Group Size	15 to 20	10 to 15	less than 10
2.	Type of members	Only very poor members	2 or 3 not very poor members	many not poor members
3.	Number of meetings	Four meetings in a month	Two meetings in a month	Less than two meetings in a month
4.	Timings of meetings	Night or after 6 p.m.	Morning between 7 and 9 a.m.	Other timings
5.	Attendance of members	More than 90%	70 to 90%	Less than 70%
6.	Participation of members	Very high level of participation	Medium level of participation	Low level of participation

7.	Savings collection within the group	Four times a month	Three times a month	Less than three times a month
8.	Amount to be saved	Fixed amount	Varying amounts	—
9.	Interest on internal loan	Depending upon the purpose	24 to 36%	More than 36%
10.	Utilisation of Savings amount by SHG	Fully used for loaning to members	Partly used for loaning	Poor utilisation
11.	Loan recoveries	More than 90%	70 to 90%	Less than 70%
12.	Maintenance of books	All books are regularly maintained and updated	Most important registers (minutes, savings, loans,	Irregular in maintaining and updating books

			etc.) are updated	
13.	Accumulated savings	More than Rs. 5000/-	Rs. 3000-5000/-	Less than Rs. 3000/-
14.	Knowledge of the Rules of the SHG	Known to all	—	Not known to all
15.	Education level	More than 20 percent of members can read and write	—	Less than 20 per cent know to read and write
16.	Knowledge of Govt. programs	All are aware of Govt. programs	Most of the members know about Govt. programs	No one knows



## Important:

1. SHGs with 12 to 16 "very good" factors can get loans immediately.
2. SHGs with 10 to 12 "very good" factors — need **3 to 6 months' time** to improve, before loan is given.
3. SHGs with rating of **less than 10** "very good" factors will not be considered for loan.

## Step 4 - Sanction of Credit Facility to the SHG

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### ◆ 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.

- ◆ **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, etc.

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

Loan may be granted by the SHG for various purposes to its members.

The bank does not decide the purposes for which the SHG gives loans to its members. The purpose can be emergency needs

like illness in the family, marriage, etc. or buying of assets for income generation acquisition of assets. The group will discuss and decide about the purpose for which loans are to be given to its individual members by the SHG.

◆ **Who makes the repayment?**

The SHG makes the repayment to the bank.  
(The group is collectively responsible for the repayment of the loan.)

◆ **What is the collateral security for the bank?**

RBI/NABARD rules stipulate that no collateral security should be taken from SHGs by banks.

Collateral security is not necessary for the loans sanctioned to SHGs because :

- The members of SHGs know that the bank loan is their own money like savings.
- They are aware that they are jointly responsible for the repayment.
- Therefore, they exert moral pressure on the borrowing members for repayment.
- Because of this, the bank gets a much better repayment from the SHG.

- ◆ Can the bank hold the 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 Reserve Bank of India has allowed the banks 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 rupees per hundred rupees of loans.

◆ **List of documents required by banks for lending to SHGs**

- 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.)
- Application to be submitted by SHG to bank branch while applying for loan assistance. (This includes details of the purposes for which the SHG gives loan to its members.)
- Articles of Agreement for use by the bank while financing SHGs.

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

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

The group members are collectively responsible for the repayment of loans to the bank. Under no circumstance, the SHG should allow any of its members to default to the bank.

