

Financing of Self-help Groups (Non-NRLM)



Micro Credit can be defined as the provision of

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

Micro Credit is

- **financial services predominantly provides to low-income borrowers with loans of small amounts,**
- **for short-terms on unsecured basis,**
- **mainly for income-generating activities,**
- **with repayment schedules which are more frequent than those normally stipulated by banks/ Financial Institutions.**

HISTORY OF SHG

- Mohammed Yunus is a Bangladeshi banker, economist and Nobel Prize recipient. He developed the concept of Micro-credit and Micro Finance.
- In 1974, Mohd Yunus was teaching economics at a Chittagong University in southern Bangladesh, when the country experienced a terrible famine in which thousands of people starved to death. Everyone looked lean, sick and malnourished.
- Mohd Yunus wanted to help the poor. Thus SHG concept came into existence. Today, more than 250 institutions in nearly 100 countries operate micro credit programs.

WHAT IS A SELF-HELP GROUP ?

A Self-Help Group [SHG] is a small economically homogeneous and affinity group of rural poor with 10-20 members (special SHGs i.e., groups in the difficult areas, groups with disabled persons, and groups formed in remote tribal areas: minimum 5 members) voluntarily coming together:

- ➔ To save small amounts 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

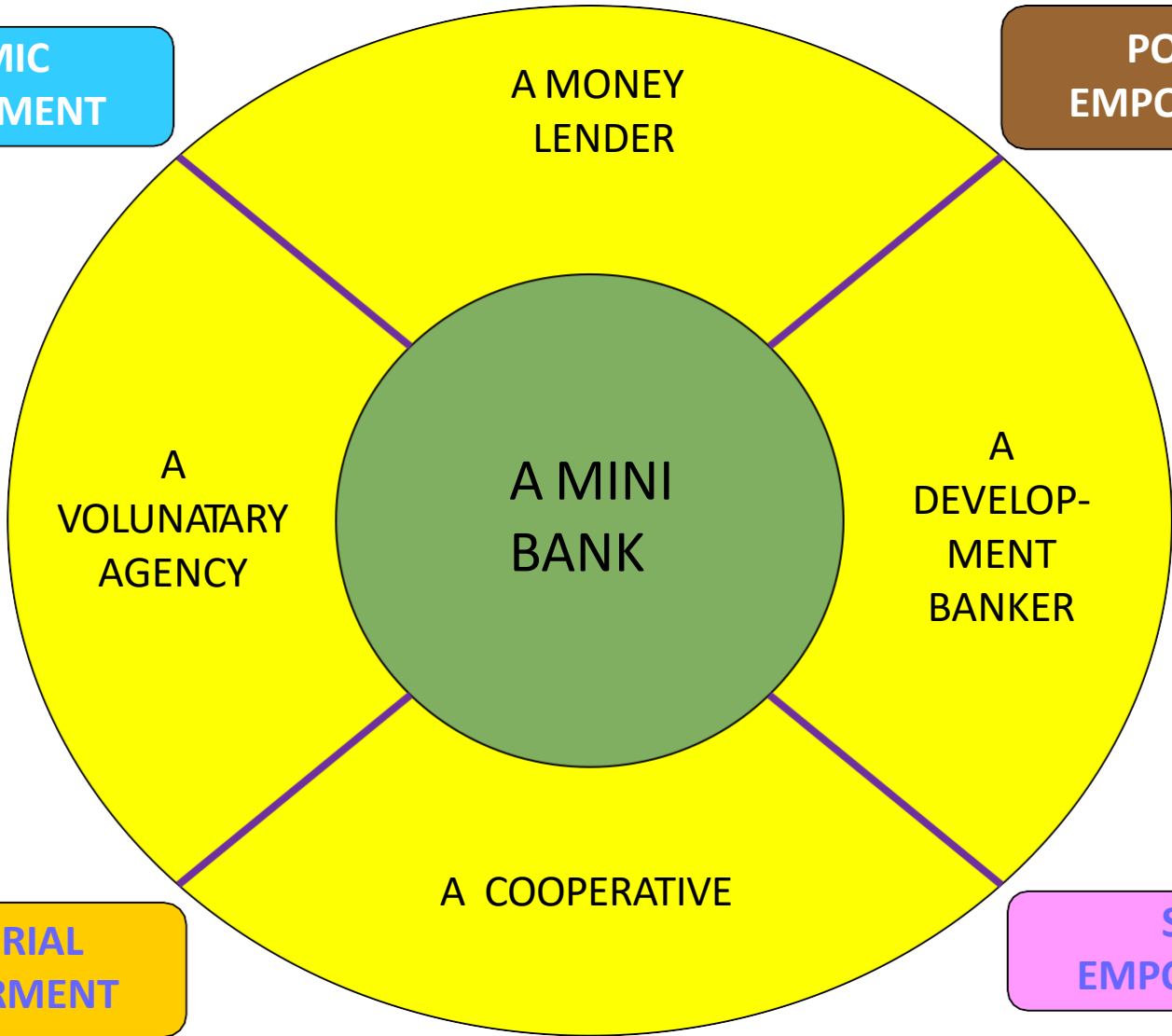
HOW SHGs ARE FORMED?

- Groups are formed with the help of:
 - N.G.O. (Non-government organization)
 - SHPI (Self help group promoting institution)
 - Government agencies
 - Banks

FOUR IN ONE ROLE OF SHGs

**ECONOMIC
EMPOWERMENT**

**POLITICAL
EMPOWERMENT**



**MANAGERIAL
EMPOWERMENT**

**SOCIAL
EMPOWERMENT**

FORMING & STORMING STAGE (1-2 months)

- Conduct of regular meetings and ensuring full attendance.
- Clarify the doubts of the members.
- Promotion of mutual trust and co operation among members.
- Training office bearers and allocation of duties.
- Training members in bookkeeping.
- Promotion of collective decision-making process
- Ensuring transparency in management of group funds.
- Helping SHGs in establishing links with Banks and other agencies.

NORMING STAGE (3-4 MONTHS)

- Members develop mutual trust
- Group becomes cohesive
- Peer pressure is applied and sustained
- Concern about the task and performance
- Start taking more group responsibilities

FUNCTIONING AND DEVELOPING STAGE

4 TO 6 MONTHS

- ◆ Starts performing various group functions
- ◆ Members' participation is visible with high attendance
- ◆ They start contributing to group responsibilities and joint ventures
- ◆ Capacity building is more visible through interactions with outsiders and group impact is felt by all members
- ◆ Involve in social and cultural activities in the area
- ◆ A perceptible change in the living style is observed

- ❁ **Financial Activities**
- ❁ **Managerial Activities**
- ❁ **Secretarial Activities**

BOOKS MAINTAINED BY SHGs

- ❁ Minutes Book
- ❁ Savings & Loan Register
- ❁ Weekly / Fortnightly / Monthly Meetings Register
- ❁ Members Passbook

Account of SHG

The current instructions under simplified norms for Self Help Groups (SHGs) mention that:

- a. CDD of all the members of SHGs as mentioned in the above direction shall not be required while opening the savings bank account of the SHG.

CDD of all the office bearers shall suffice.

- a. Customer Due Diligence (CDD) of all the members of SHG may be undertaken at the time of credit linking of SHGs. As part of KYC of SHG, beneficial owner (BO) must be identified and captured in the system.

DIRECT SHG BANK LINKAGE : ELIGIBILITY

- ⊕ The size of the SHG should be preferably between 10 and 20 members to enable effective individual participation in the group's deliberations
- ⊕ The group should have been in **active existence for at least a period of six months.** The group may be informal or formal (registered)
- ⊕ The group should have successfully undertaken savings and credit operations from its own resources

Direct SHG Bank Linkage : Eligibility

- SHG Members should **not have multiple memberships** in two or more SHGs.
- The group should have successfully undertaken **savings and credit operations** from its own resources.
- **Democratic working** of the group wherein all members
- The group is maintaining proper accounts / records.
- The branch should be convinced that the group has not come into existence only for the sake of participation in the project and availing benefits there under. There should be a genuine need to help each other and work together among the members.
- The SHG members should preferably have homogeneous background and interest.

ASSESSMENT PARAMETERS (First time)

Score 12 (out of 20) and above to be linked

Sl No	Factor to be checked	3 marks	2 marks	1 mark
1	No. of members	-	13-20 9-20* (NE)	10-12 5-8* (NE)
2	Composition of group Homogeneity	-	Similar economic status	Different economic status
3	No of meetings	3 meetings in a month	2 meetings in a month	1 meeting in a month
4	Residents of same neighbourhood	-	-	Members belong to the same village
5	Attendance of members	More than 90%	75-90%	60% or more and upto 74%
6	Savings (Percentage of members saving regularly)	>90%	75% to 90%	60% to 74%
7	Internal Lending	-	Taking place among the members	-
8	Repayment rate of internal loans	-	>90%	>= 70% to 90%
9	Maintenance of Books	-	Regular & upto date	Satisfactory in general

PANCHASUTRAS IN SHG FINANCE

- ⊕ Regular in conducting the meetings.
 - ⊕ Regular in Savings.
 - ⊕ Regular in internal lending.
 - ⊕ Regular in recovery.
 - ⊕ Regular in maintenance of Books/Registers.
-
- If the SHGs follows the above, the proposal may be considered positively.

MECHANISM OF FINANCE TO SHGs

- ❖ SHGs formed directly by the banks and financed by banks
- ❖ SHGs formed by NGOs & financed by banks
- ❖ Indirect finance to SHGs through NGOs/MFIS

FACILITY

- **Facility** : Cash credit may be sanctioned
- **Tenure** : 3 to 5 years as per projected savings to avoid repeated documentation.
- **Drawable Limit** : Each year can be fixed within aggregate limit.
- **Minimum age of the group** : After 6 month of successful functioning.
- **Financial Discipline** : Servicing of monthly interest applied.
- **Review of Limit** : Every year, at least 30% of the drawls are repaid besides servicing of interest.

FIXATION OF LIMIT for SHG

Saving(Corpus) to loan 1:1 to 1:4

& For matured SHGs: Beyond 4 times of corpus

Name of the SHG : ABC SHG

Date of formation of SHG group : 30-06-2022

No. of SHG members : 15

Savings in each meeting : Rs 50

No. of meeting in a month : 4

(Let us assume that all 15 members are contributing in each meeting)

When SHG Linkage will be done?

Calculate corpus amount and limit after 6 months.

Calculate corpus amount & limit after 18 months.

Calculate corpus amount & limit after 30 months.

Fixation of Drawing Power

a) DP for 1st year from 01.01.23 to 31.12.2023 :

Savings as 31.12.2022 : Rs. 3000 x 6 = Rs. 18000/-

DP may be 2 times of the corpus : Rs 18000 x 2 = Rs. 36000/-

b) DP for 2nd year from 01.01.24 to 31.12.2024

Savings as on 31.12.23 : Rs 3000 x 18 = Rs. 54000/-

DP may be 3 times of the corpus : Rs 54000 x 3 = Rs. 162000/-

c) DP for 3rd year from 01.01.25 to 31.12.2025

Savings as on 31.12. 24 : Rs. 3000 x 30 = Rs. 90000/-

DP may be 4 times of corpus: Rs.90000 x 4 = Rs 360000/-

Though DP is fixed for one year, it may be enhanced on six monthly basis depending upon the requirement of SHG and experience of the Bank.

It should also be ensured that all or **at least 30% of the principal draws** during the operational year are repaid besides servicing of monthly interest.

Finance to SHG for Higher amount

Bank may consider higher quantum of loans **beyond four times of the group's corpus** to SHGs availing repeat loan from banks after taking into consideration factors such as quality of SHG as reflected in its rating score, credit absorption capacity, managerial ability to handle income generating projects entailing higher outlay, risk taking ability, etc., **up to a limit of Rs.1,00,000/- per SHG member as defined by Reserve Bank of India provided directly by banks to individual members of SHG/JLG**

Loans **not exceeding 2.00 lakh** provided directly by banks to SHG/JLG **for activities other than agriculture or MSME**, viz., loans for meeting social needs, construction or repair of house, construction of toilets or any viable common activity started by the SHGs. (Ref. Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020- 21 September 04, 2020).

DOCUMENTS

- Loan document signatories: Authorised representatives of the group
- Documentation (Direct loan): As prescribed by RBI
 1. An application by the authorized representative of the SHG.
 2. **Inter se agreement** to be executed by **all members** of the SHG (To be stamped)
 3. Articles of agreement to be executed by the authorized representatives.
 4. Sponsorship letter from the NGO / SHPI if any.
 5. Resolution Copy.

Others

- **Loan Disbursement:** Loan amount can be disbursed fully in “cash”. All transactions are routed through the Savings Bank Account of the SHG.
- **Processing and Inspection charges:**
Loan amount up to Rs.500000/- - NIL

Purpose of Loan:

- a) Income Generation activities (Max. component)
- b) Social needs
- c) Debt swapping

Risk coverage – Credit Guarantee Fund for Micro Units (CGFMU)

- SHGs are eligible for Guarantee cover under CGFMU wef 01.04.2020.
- Loans sanctioned under NRLM/SRLM/NULM are also covered.
- SHG loans should not be backed by any collateral.
- Risk coverage is 75%.
- Loans sanctioned to SHGs > 10 lakhs and up to Rs.20 lakhs are eligible.
- Guarantee fee for SHGs shall be 0.25% for first year and 0.5% on subsequent years.
- Guarantee fees charges on Outstanding balance.

To Banks/Institutions

- ❖ Wider coverage
- ❖ Less desk work to field staff
- ❖ Low transaction cost to bank
- ❖ High recovery and less NPAs
- ❖ Goodwill creation and image building
- ❖ Meeting social objective and Profitability

TO SHG MEMBERS :

- ❖ Credit delivery at the doorstep
- ❖ Flexible norms in credit dispensation
- ❖ Development of thrift habit among poor
- ❖ Financial and social empowerment of members
- ❖ Employment generation in villagers
- ❖ Improvement in standard of living
- ❖ Asset creation



THANK YOU