



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

www.rbi.org.in

RBI/2017-18/11

FIDD.FID.BC.No.02/12.01.033/2017-18

July 03, 2017

The Chairman/ Managing Director/
Chief Executive Officer
All Scheduled Commercial Banks

Madam/ 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, the Master Circular incorporating the existing guidelines/instructions on the subject has been updated and enclosed. This Master Circular consolidates the circulars issued by Reserve Bank on the subject up to June 30, 2017, as indicated in the Appendix.

Yours faithfully

(Uma Shankar)
Chief General Manager-in-Charge

Encl: As above

वित्तीय समावेशन और विकास विभाग, केंद्रीय कार्यालय, 10वीं मंज़िल, केंद्रीय कार्यालय भवन, शहीद भगत सिंह मार्ग, पो.बा.सं.10014, मुंबई 400 001

टेलीफोन: Tel: 022-22601000 फैक्स Fax: 91-22-22621011/22619048 ईमेल E-mail: cgmifidd@rbi.org.in

Financial Inclusion and Development Department, Central Office, 10th Floor, Central Office Building, Shahid Bhagat Singh Marg, P.Box No.10014, Mumbai 400001

हिंदी आसान है, इसका प्रयोग बढ़ाइए

चेतावनी: रिज़र्व बैंक द्वारा ई-मेल, डाक, एसएमएस या फोन कॉल के जरिए किसी की भी व्यक्तिगत जानकारी जैसे बैंक के खाते का ब्यौरा, पासवर्ड आदि नहीं मांगी जाती है। यह धन रखने या देने का प्रस्ताव भी नहीं करता है। ऐसे प्रस्तावों का किसी भी तरीके से जवाब मत दीजिए।
Caution: RBI never sends mails, SMSs or makes calls asking for personal information like bank account details, passwords etc. It never keeps or offers funds to anyone. Please do not respond in any manner to such offers.

Master Circular on SHG-Bank Linkage Programme

1. Despite the vast expansion of the formal credit system in the country, dependence of the rural poor on moneylenders somehow continued in many areas, especially for meeting unforeseen 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 has not been institutionalized to the extent desired. 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 working 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 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 per cent recovery performance, significant reduction in the transaction costs for both the banks and the borrowers etc., besides leading to a gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project was that about 85 per cent of the groups linked with 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 linking of SHGs with 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 costs 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 linking them with banks, and in this regard, banks have a major role to play. The Working Group also recommended that banks should treat the linkage programme as a business opportunity and they may design area and group specific loan packages, taking into account *inter alia* the potential, local needs, available talent/skills etc.

4. Linking of SHGs with banks has been emphasized in the Monetary Policy Statements 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 for on-lending to members of SHGs under the respective categories, 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 already availed of credit facilities from banks before opening savings bank accounts. KYC verification of all the members of SHG shall not be required while opening the savings bank account of the SHG as KYC verification of all the office bearers shall suffice. No

separate KYC verification of the members or office bearers shall be necessary at the time of credit linking of SHGs.

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 issued by 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.

9. Documentation: A simple system requiring minimum procedures and documentation is a precondition for augmenting flow of credit to SHGs. 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: 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. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

11. Capacity Building and Training: 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 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, progress of the programme may be reviewed by banks at regular intervals. A progress report, as prescribed vide [circular FIDD.FID.BC.No.56/12.01.033/2014-15 dated May 21, 2015](#), 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 simple and easy. The group dynamics of working of the SHGs need neither be regulated nor formal structures imposed or insisted upon. The approach to financing of SHGs should be totally hassle-free and may also include consumption expenditures.

14. Interest rates: The banks would have the discretion to decide on the interest rates applicable to loans given to Self Help Groups/member beneficiaries.

15. Service/ Processing charges: No loan related and ad hoc service charges/inspection charges should be levied on priority sector loans up to ₹ 25,000. In the case of eligible priority sector loans to SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole.

16. Total Financial Inclusion and Credit Requirement of SHGs: Banks have been advised to meet the entire credit requirements of SHG members, as envisaged in Paragraph 93 of the Union Budget announcement for the year 2008-09, made by the Honourable Finance Minister, wherein 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".

Appendix

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)
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 Micro Credit 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.
13.	DBOD.AML.BC.No.87/14.01.001/2012-13	March 28, 2013	Know Your Customer Norms/Anti Money Laundering Standards/ Combating of Financing of Terrorism/Obligation of banks under Prevention of Money Laundering Act, 2002 – Simplifying norms for Self Help Groups
14	FIDD.FID.BC.No.56/12.01.033/2014-15	May 21, 2015	SHG-Bank Linkage Programme – Revision of progress reports
15	Master Direction DBR.AML.BC.No.81/14.01.001/2015-16	February 25, 2016	Master Direction - Know Your Customer (KYC) Direction, 2016