

Guidelines For Financing Self-Help Groups

(Checklist for assessment of self-help credit management groups before linking with banks and other financial institutions)

This checklist has been developed by MYRADA based on its experience of working with self-help credit management groups and promoting the direct linkage of self-help groups with banks.

Bankers who have had little or no prior experience of working with self-help groups often ask us what they should be looking for in assessing the creditworthiness of a group before lending to them; this checklist is intended to provide them with a few of the guidelines that they are looking for.

1. The Self-Help Group should have had credit transactions (i.e. lending to and recovering from its members) with its own Common Fund for atleast 6 months prior to application for external finance/bank loan.

Verified and found to be satisfactory : _____

Verified and found to be unsatisfactory : _____

Not verified : _____

Comments : _____

2. The groups internal overdues of principal and interest on loans taken by members from its own Common Fund - prior to application for external finance/bank loan - must not be more than 15% of its total outstanding loan amount. The length of such delayed payments must not have exceeded 12 months at the time of applying for external finance/bank loans.

Verified and found to be satisfactory : _____

Verified and found to be unsatisfactory : _____

Not verified : _____

Comments : _____

3. Atleast 80% of the group members should have taken loans from the group's own Common Fund prior to application for external finance/bank loans (i.e. all loans should not have been cornered by a few members only).

Verified and found to be satisfactory : _____

Verified and found to be unsatisfactory : _____

Not verified : _____

Comments : _____

4. The trend of borrowing within the group should be in favour of production activities (atleast a ratio of 1 : 1 between production and consumption loans).

Verified and found to be satisfactory : _____

Verified and found to be unsatisfactory : _____

Not verified : _____

Comments : _____

5. There should be evidence of regular savings by all members (i.e. a steady growth in savings), and per capita savings of atleast Rs.300/- prior to application for external finance/bank loans.

Verified and found to be satisfactory : _____

Verified and found to be unsatisfactory : _____

Not verified : _____

Comments : _____

6. The Group's Minutes Books and Books of Accounts should be properly and independently maintained (assistance of a literate person can be hired, if necessary, and paid for by the group out of its own funds).

Verified and found to be satisfactory : _____

Verified and found to be unsatisfactory : _____

Not verified : _____

Comments : _____

7. There should be evidence of regular meetings as per the norms established by the group, with minimum 80% attendance at any given meeting.

Verified and found to be satisfactory : _____

Verified and found to be unsatisfactory : _____

Not verified : _____

Comments : _____

8. The Group's Common Fund should be in regular circulation as evidenced through minimum bank balances in the group's bank account (an average of less than 15% of the group's Common Fund over the preceding 12 months).

Verified and found to be satisfactory : _____

Verified and found to be unsatisfactory : _____

Not verified : _____

Comments : _____

Other points :

- The banker should have attended more than one regular meeting of the group that has applied for the loan.
- The banker should ask for and study the Audit Report of the group for the preceding year (the Audit need not necessarily be done by a Chartered Accountant).
- The loan cheque should be handed over to the group in the presence of as many members as possible.
- The banker must also play an active role in ensuring that the loan is repaid as per the terms of the Agreement.

