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JOINT LIABILITY GROUPS UNDER MICROFINANCE

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ABSTRACT: *We have presented that financing of Joint Liability Group (JLGs) is a good business proposition. It needs simplified documentation, group dynamics, timely repayment culture and prospects of credit enhancement to quality clients. Keeping in view the need and findings of the studies, NABARD has issued comprehensive guidelines on JLGs to Banks focusing on small and marginal farmers, oral lessees, tenant farmers engaged in farm sector and other clients under non-farm activities. NABARD supports banks for nurturing and financing of JLGs for the initial three years.*

KEYWORDS: *Micro Finance, poverty Alleviation & Liability groups*.

1. INTRODUCTION

SHG-Bank linkage program me has proved to be successful in providing financial services from the formal banking sector to the poor. However, the issue of linking the small/marginal farmers, tenant farmers/oral lessees, share croppers and the rural non-farm entrepreneurs with the formal banking sector is concern for NABARD as their demand are not met through the SHG as in SHGs, loan amount is linked to savings. Let us define tenant-any person who holds land under another person's name and pays rent to such other person on account of the use of land is called tenant i.e. tenant is a person who has taken the lease and is liable to pay rent for the piece of land. Oral lessees mean the term refers to tenancy without legal sanction and permission or without any written agreement. Sharecroppers mean tenants who pay rent to landlords by way of sharing crops grown. (in lieu of rent by cash).

NABARD has piloted Joint Liability Groups (JLGs) program during 2004-05 in eight states of the country with the help of 13 RRBs through the mechanism of joint liability approach. The JLGs promoted in 2004-05 are 285 with bank finance of Rs. 4.48 crores and to 488 JLGs with bank loan of Rs. 6.79 crores in 2005-06. Besides the above pilot project, the Government of Andhra Pradesh through its Agriculture Department primarily designed the initiative by promoting Rythu Mithra Groups (RMGs) on the SHG model. During 2005-06, banks extended finance of Rs. 131.78 crores to 12,468 RMGs. RMGs are also expected serve as a conduit for technology transfer, facilitate access to market information and assist in carrying out activities like soil testing, training, health camps, access input requirements, etc., to its members.

Over the last few years NABARD has been propagating the idea of JLGs at various fora, Based on the experience obtained in implementation of the pilot project, a scheme for financing JLGs by the Commercial Banks, RRBs and Cooperative Banks has been formulated and circulated to RRBs and Cooperative Banks by NABARD and to Commercial Banks through Reserve Bank of India/Indian Banks Association. The salient features of the scheme are as given below:-

Main Features

1. To augment flow of credit to tenant farmers cultivating land either as oral lessees or sharecroppers and small farmers who do not have proper title of their land holding, through formation and financing of JLGs.
2. To extend collateral free loans to target clients, including rural micro entrepreneurs through JLGs.
3. To build mutual trust and confidence between banks, tenant farmers, entrepreneurs, etc.

General Features

1. JLG is an informal group of preferably 4 to 10 individuals but can be up to 20 members as in the case of SHG.
2. The JLG members would offer a joint undertaking for bank loans.
3. The JLG members are expected to engage in similar type of economic activities like crop production.

2. PROMOTIONAL SUPPORT-MFI BANK LINKAGE

NABARD has taken three major initiatives to support Micro Finance Development Fund (MFDF) to strengthen them as:

Capital Support to MFIs

The Scheme

The Micro Finance Development Fund (MFDF) was set up with NABARD by Government of India in 2000-01 with the initial corpus of Rs. 100 crore to be contributed by Reserve Bank of India (40%), NABARD (40%) and Commercial Banks (20%). The MFDF was redesignated to Micro Finance Development and Equity Fund (MFDEF) in 2005-06 and the corpus was increased to Rs. 100 crore and the same has been increased to Rs. 400 crore during 2010-11. Accordingly, NABARD presented a scheme called "Capital/Equity Support to MFIs" in 2007-08 for providing Capital/Equity to various types of MFIs to enable them to leverage commercial and other funds from banks. This would help MFIs in providing financial services at an affordable cost to the poor.

During 2009-10, NABARD presented a new scheme for "Capital Support to Start-up MFIs" having potential to scale-up their activities but lacking in capital, infrastructural facilities and managerial skills. Micro Finance Organizations (MFOs) and MFI- NBFCs, identified as "Start-ups" on the basis of area of operation, client outreach, lending model, borrowing history etc., are eligible for support under the scheme. Financial support will be in the form of 'subordinated debt' which shall be sub-ordinate to the claims of all other creditors. The quantum of support will be commensurate with the business plan of the MFO/MFI-NBFC but not exceeding Rs. 50 lakh in any case. The rate of interest has been fixed at 3.5% to be repaid over a period of 7 years including moratorium of 2 years.

Progress under Scheme

During 2009-10, RFA of Rs. 23 crore was sanctioned to 13 MFIs taking cumulative RFA sanction to 65.98 crore to 51 agencies. The disbursements made during 2009-10 were at Rs. 22.55 crore and the cumulative disbursement reached Rs. 55.49 crore. As on 31 March 2010, the total RFA outstanding was Rs. 33.27 crore against 22 MFIs.

Besides Capital Support and RFA from MFDEF, refinance assistance of Rs. 30 crore was also released during 2009-10 of which outstanding as on 31 March 2010 was Rs. 28.33 crore.

Rating of MFIs

In order to identify, classify and rate Micro Finance Institutions (MFIs) and empower them to function as intermediaries between the lending banks and their clients, NABARD had introduced a scheme for providing financial assistance by way of grant to CBs, RRBs and Co-operative Banks to avail of the services of accredited rating agencies for rating of MFIs. Banks may avail the services of credit rating agencies viz. CRISIL, M-CRIL, ICRA, CARE and Plant Finance for rating of MFIs and also avail financial assistance by way of grant to the extent of 100% of the professional fees of the credit rating agency.

During 2009-10, the scheme has been refined and the grant support has been increased to a maximum of Rs. 3.00 lakh. The facility is available for the first rating and an MFI with a minimum loan outstanding of Rs. 50.00 lakh and maximum loan outstanding of Rs. 10.00 crore. During 2009-10, NABARD has provided grant support of Rs. 15.83 lakh for rating of 13 MFIs to Banks or MFIs.

3. CENTRE FOR MICRO FINANCE RESEARCH

With funding support from MFDEF, a centre for Micro Finance Research (CMR) has been setup in Bankers Institute of Rural Development, Lucknow to take up research studies in the field of microfinance with the mission of strengthening microfinance sector through supply of research inputs to facilitate policy initiatives and improvements to design and delivery system that provide poor with sustainable access to quality financial services. The CMR along with four sub-centers viz. Indian Institute of Bank Management (IIBM) Guwahati, Institute of Financial Management and Research (IFMR), Chennai, Institute of Development Studies (IDS), Jaipur, and Chandragupta Institute of management, Patna (CIMP) had initiated several studies on critical issues of microfinance. Grant assistances of Rs. 375.00 lakh were sanctioned to CMR from MFDEF to pursue the above-envisaged activities.

4. NABARD-GTZ TECHNICAL COLLABORATION IN RURAL FINANCE

Institutions Program

Under the purview of technical collaboration in Rural Finance Institutions Program between GTZ and NABARD, technical assistance continued to be extended to NABARD during the year for, interlay, promotion and development of microfinance as well as improvement in the quality and viability of financial services under SHG-Bank Linkage Program. Exposure-cum-studies, capacity building interventions and documentation, etc., were undertaken in collaboration process for furtherance of the sector.

The report of the 'Committee on Financial Inclusion' has indicated the need for addressing the remittance needs of the poor and NABARD has to play an important role in this direction. Keeping in view, NABARD and GTZ have undertaken a quick study on present practices of remittance and the team leader was Dr. Y.S.P. Thorat (ex-chairman, NABARD). Based on the findings of the study report, a joint appraisal mission on remittance discussed the issue with various partners viz., Ministry of Finance, Gol, Reserve Bank of India, State Bank of India, India Post, Mr. Nandan Nilekani (Unique ID), etc. On the basis of the discussions of the appraisal team, NABARD and GTZ signed 'Agreed Minutes on the Joint Appraisal of the Program' on 19 January 2010. The NABARD and GTZ have now commissioned a detailed study on "Remittance needs of the poor" in different corridors (Eastern Uttar Pradesh and Mumbai, Intra State between various parts of Maharashtra and Mumbai and Orissa and Kolkata).

5. CRITERIA FOR SELECTION OF JLG MEMBERS

JLGs may be formed primarily consisting of tenant farmers and small farmers cultivating land without possessing proper title of their land/rural entrepreneurs engaged in non-farm activities.

1. Members should be of similar socio-economic status and background carrying out farming activities/non farm activities and who agree to function as a joint liability group.
2. The members should be residing in the same village/area and trust each other to take up joint liability for group/individual loans.
3. The members should be engaged in agricultural activity for a continuous period of not less than one year within the area of operations of the bank branch.
4. The group members should not be a defaulter to any other formal financial institution.
5. There should not be more than one person from the same family in the JLG.
6. The group would extend mutual guarantee for the group or individual loan.

6. FORMATION OF JLGS AND SAVING BY JLGS

Banks may initially form JLGs by using their own staff wherever feasible. Banks may also engage business facilitators like NGOs and other individual rural volunteers to assist banks in promoting the concept and formation of groups.

The JLG is intended primarily to be a credit group. Hence, savings by JLG members is voluntary and not compulsory as in the case of SHG. All the JLG members may be encouraged to open an individual 'no frills' account. However, if the JLG chooses to undertake savings as well as credit operations through the group mechanism, such groups should open a saving account in the name of JLG with at least two members being authorized to operate the account on behalf of the group.

7. JOINT LIABILITY GROUP MODELS (JLGMS)

Banks may finance JLG by adopting any one of the following two models:-

Financing individuals in the Group The group would be eligible for accessing separate individual loans from the financing bank. All members would jointly execute one inter-se document (making each one jointly and severally liable for repayment of all loans taken by all individuals in the group). The financing bank could assess the credit requirement, depending on the activities being undertaken and credit absorption capacity of the individual. However, there has to be mutual agreement and consensus among all members about the amount of individual debt liability that will be created.

Financing the Group

The JLG would consist preferably of 4 to 10 individuals and function as one borrowing unit. The group would be eligible for accessing one loan, which could be combined credit requirement of all its members. In the case of crop loan, the credit assessment of the group could be based on crop/s to be grown and the available cultivable area by each member of the JLG. All members would jointly execute the document and own the debt liability jointly and severally.

8. CONCLUDING REMARKS

We have presented that financing of Joint Liability Group (JLGs) is a good business proposition. It needs simplified documentation, group dynamics, timely repayment culture and prospects of credit enhancement to quality clients. Keeping in view the need and findings of the studies, NABARD has issued comprehensive guidelines on JLGs to Banks focusing on small and marginal farmers, oral lessees, tenant farmers engaged in farm sector and other clients under non-farm activities. NABARD supports banks for nurturing and financing of JLGs for the initial three years. Banks may use the services of JLG-promoting agencies. In addition, NABARD would also extend support for training, exposure visits, experience-sharing, etc., for bank's staff.

Joint Liability Group (JLG) has created the way to microfinance in helping to reduce the poverty and making in stability in the income of the poor people. JLG also showed how microfinance helps in social and economic development in India. We have also examined the methodologies adopted by JLG to reach the poor segment. JLG helps in identifying the target segment. In this way we have assessed the extent to which microfinance has lead the reduction of poverty of the target group. In this way we have obtained our objectives.

We hope that all the stakeholders under microfinance sector would use the information presented here as input and feedback relating to the sector for bringing about policy changes and improvement in operational strategies. More analysis is expected from all the microfinance players.

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