



**NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT
MICRO CREDIT INNOVATIONS DEPARTMENT (mCID)**

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All State Co-Operative Banks
All Regional Rural Banks

Dear Sir,

Guidelines for financing joint liability groups of tenant farmers

As you may be aware, NABARD had pilot tested the concept of financing members of Joint Liability Groups through select banks in a few states. Based on the experience gained, a separate scheme for financing joint liability groups of tenant farmers, as per Union Budget 2006-07 pronouncements, has been formulated by us for commercial banks, State Cooperative Banks and Regional Rural Banks. The guidelines, cleared by the Reserve Bank of India, are enclosed.

We request you to give wide publicity to the scheme for formation and financing of Joint Liability Groups in your state. Progress made in implementation of the scheme in the prescribed format (Appendix- I) may be forwarded to our regional office concerned on a half yearly basis.

Yours faithfully,

(A. Ramnathan)
Chief General Manager
Encl- as above

Guidelines for Financing Joint Liability Groups of Tenant Farmers

1. Introduction

Innovations such as the SHG-Bank linkage programme have proved to be successful in providing financial services from the formal banking sector to asset-less or very poor. This is also in line with RBI's policy of "financial inclusion". In order to develop effective credit products for mid segment clients having access to productive assets, NABARD had piloted the project during 2004-05 in 8 states of the country through 13 RRBs through the mechanism of joint liability approach. These select banks during 2004-05 have promoted 285 JLGs and extended bank finance of Rs 4.48 crores. In the second year of the project i.e. 2005-06, banks have disbursed Rs 6.79 crores to 488 JLGs.

Besides the above pilot project, another pilot programme was launched in Andhra Pradesh during 2004-05 through group based lending programme aimed exclusively at small and marginal farmers. The Government of Andhra Pradesh through its Agriculture Department primarily designed this initiative by promoting Rythu Mithra Groups (RMGs) on the SHG model. During 2005-06, banks have extended finance of Rs.131.78 crore to 12,468 RMGs. RMGs are also expected to serve as a conduit for technology transfer, facilitate access to market information and market, assist in carrying out activities like soil testing, training, health camps, assess input requirements, etc., to its members.

NABARD has played a primary role in preparing the guidelines for credit linking these groups, drafting and sharing the documents to be used by financing institutions. Further, it has undertaken sample studies to identify gaps in the functioning of the RMGs and also designed, funded and also conducted training and capacity building initiatives for different stakeholders in pilot project districts.

The results of the above programmes have demonstrated that the JLG approach can be successfully adopted by banks to reach clients like tenant farmers, share croppers, oral lessees, farmers with small land holdings without proper land

records etc. The formal banking system has rarely been able to provide credit to tenant farmers on account of their inability to offer collaterals. However, the mechanism of JLG would enable banks to extend credit on the basis of mutual guarantee provided by the members of JLG. It would also reduce transaction costs of both banks and borrowers and help in loan recovery.

Based on the experience gained in implementation of the pilot project, a Scheme for financing JLGs of tenant farmers and oral lessees is evolved for implementation by all the commercial banks including RRBs. The salient features of the Scheme are as under:

2.Objectives:

The scheme aims at the following objectives.

- i) To augment flow of credit to tenant farmers¹ 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.
- ii) To extend collateral free loans to target clients through JLG mechanism
- iii) To build mutual trust and confidence between banks and tenant farmers

3.General features of JLG

A Joint Liability Group (JLG) is an informal group comprising preferably of 4 to 10 individuals coming together for the purposes of availing bank loan either singly or through the group mechanism against mutual guarantee. The JLG members would offer a joint undertaking to the bank that enables them to avail loans. The JLG members are expected to engage in similar type of economic

¹ Definition

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 a 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 - The term refers to tenancy without legal sanction and permission or without any written agreement.

Sharecroppers - Tenants who pay rent to landlords by way of sharing crops grown (in lieu of rent by cash) may be called sharecroppers

activities like crop production. The management of the JLG is to be kept simple with little or no financial administration within the group.

4.Criteria for selection of JLG members

JLGs can be formed primarily consisting of tenant farmers and small farmers cultivating land without possessing proper title of their land.

- Members should be of similar socio economic status and background carrying out farming activities and who agree to function as a joint liability group.
- The groups must be organised by the likeminded farmers and not imposed by the bank or others.
- The members should be residing in the same village/ area and should know and trust each other well enough to take up joint liability for group/ individual loans.
- The members should be engaged in agricultural activity for a continuous period of not less than 1 year within the area of operations of the bank branch.
- The group members should not be a defaulter to any other formal financial institution.
- JLG should not be formed with members of the same family and more than one person from the same family should not be included in the JLG.
- There is a need for a very active member of the group to ensure leadership role and ensure the activities of the JLG. The selection of a good /able/active leader for the JLG is an essential need which will ultimately benefit all the JLG members. However, care should be taken to ensure that benami loans are not cornered by the group leader.

5.Size of the JLG

The group should be formed preferably with 4 to 10 members to enable the group members to offer mutual guarantee. While informal group of upto 20 members could also be considered, such large groups are found to be not effective in fulfilling mutual guarantee obligations in the case of farmers. Therefore, smaller groups of farmers (4-10 members) are recommended for effective functioning of JLG.

6. Formation of 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.

On formation of JLGs, the bank officials need to discuss with the JLG members the bank's regulations, lending procedures, services etc. The principles of self-help and group strength need to be emphasized. Group cohesion has to be ensured. Adequate emphasis should be placed on the roles, expectations and functions of the group/members & the benefits of group dynamics.

State Government Departments like Agriculture Department also could form JLGs of tenant farmers and small farmers not having clear land title. The JLGs of such eligible farmers can also serve as a conduit for technology transfer, facilitating common access to market information; for training and technology dissemination in activities like soil testing, training, health camps and assessing input requirements.

7.Savings by JLG

The JLG is intended primarily to be a credit group. Therefore, savings by the JLG members is voluntary. 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 savings account in the name of JLG with atleast two members being authorised to operate the account on behalf of the group.

8. JLG Models

Banks can finance JLG by adopting any of the two models.

Model A – Financing Individuals in the Group: The JLG would normally consist of 4 to 10 individuals. 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 crops to be cultivated, available cultivable land 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.

Model B – 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. The credit assessment of the group could be based on 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. JLG is mainly a credit product. But if the members want to save through the group, banks can open saving account in the name of the JLG to be operated by two members of the group as decided through a resolution by the JLG.

9.Critical factors in JLG approach

The success of JLG concept depends on several factors. However, following factors are critical;

- The concept depends heavily on mutual trust within the groups and on peer pressure for the repayment of loans.
- The quality of group leadership is critically important for the sustainability of the group.
- The JLG exists only for the single purpose of expediting certain categories of loans. Generally they are not multifunctional groups.

10.Credit Assessment

Model A;

The JLG would prepare a credit plan for its individual members and an aggregate of that is submitted to the banks. Banks may evolve simple loan application for this purpose. The individual members of JLG would be eligible for bank loan after the bank verifies the individual members' credentials.

Model B;

JLGs that undertake savings apart from credit are required to maintain books of accounts. They may also be graded by banks on the basis of performance parameters. However, the quantum of credit need not be linked to groups' savings as in the case of SHGs. The credit requirements for the group may be worked out based on combined credit plan needs of individual members.

11. Purposes of credit

The finance to JLG is expected to be a flexible credit product addressing the credit requirements of its members including crop production, consumption, marketing and other productive purposes.

12. Type of loan

Banks may consider cash credit, short-term loan or term loan depending upon the purpose of loan.

13. Loan limit

Considering that the loan to be granted is against the mutual guarantee offered by the group, maximum amount of loan may be restricted to Rs. 50,000 per individual both under Models A & B.

14. Rate of interest

Banks may decide the rate of interest to be charged to JLGs. However, banks may consider providing incentives for prompt repayment to JLGs, as applicable.

15. Margin and Security Norms

No collaterals may be insisted upon by the banks against their loans to JLGs. It may however, be ensured that the mutual guarantees offered by the JLG members are kept on record. Margin as per the usual norms may be applied.

16.Documents

Model A:

The documents to be obtained include Introduction form, application cum appraisal form, mutual guarantee & DPN. Set of specimen forms of each of these is enclosed. Banks may make use of the forms with suitable modifications if necessary.

Model B:

Documents as applicable to SHGs may be adopted.

17.Separate window for financing JLGs

In pursuance of Union Budget 2006-07 announcements, banks may open a separate window for JLGs of tenant farmers and ensure that a certain proportion of the total credit is extended to them.

18.Credit to JLGs to form normal business activity under Priority Sector

As the programme is intended to benefit farmers cultivating lands who may not have adequate collateral to offer to avail of bank loan in their individual capacity, lending to JLGs may be treated as direct agricultural advances under priority sector advances segment.

Banks may include lending to JLGs in their corporate plan and also in the training schedule of officers/staff.

19.Personal accident insurance

Banks may consider covering individual members of JLG under personal accident insurance.

20. Crop insurance scheme

National Agricultural Insurance Scheme (NAIS) i.e. Rashtriya Krishi Bima Yojana- of Agriculture Insurance Company of India extends crop insurance cover to all farmers including tenant farmers, sharecroppers growing notified crops in the country.

Hence banks may work out the premium payable by the JLG members availing of crop loan and pay the same to the insurance company as per the normal terms & conditions

21. Monitoring and Review

Banks may closely monitor the programme regularly at various levels and at regular intervals. A progress report may be sent to RBI and NABARD in the prescribed format on a half yearly basis as on 30 September and 31 March each year so as to reach within 20 days of the half year to which the report relates (format given in Appendix I).-----

Specimen of documents for JLGs

Introduction Form

For office use only

To : Manager
_____ BANK BRANCH,

I, Sri/Smt.

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Date of Birth :

| | | |

S/o/W/o/D/o _____ aged _____ resident of _____ village and a member of _____ JLG would like to register as a potential customer of _____ Bank. I understand that this in no way binds me to borrow from BANK BRANCH, nor does BANK BRANCH agree to provide loans for all or any purpose.

1. My Main Occupation is _____

2. I belong to : SC ST OBC Minority Comm. Others

3. Full Address : _____ Pin. _____

4. My Bank A/c No. _____ Name of the Bank _____ Branch _____

5. Particulars of Movable Property owned by the Family

Type of Asset	Description	Approx. Mkt. Value
Livestock		
Agr.Implements		
Vehicles		
Any Other		

6. Introduction by _____ of _____ (Place)

7. My Family Details

Sr. No.	Name	Relationship	Sex	Age	Occupation	Educational Status
1						
2						
3						

8. Consumption Expenditure

No. of Family Member		Regular Monthly Household Expenditure (Rs.)		Annual Spending on Festival Seasons (Rs.)

Nomination :

In case of my death/permanent disability, my nominee, _____, who is my _____ (relationship with customer), aged _____ years, resident of _____, shall be entitled to receive from and settle any claims to Bank on my behalf.

Declaration :

I hereby declare that the particulars given above are true and correct to the best of my knowledge and belief.

Nominee's Signature

Applicant's Signature

Place :

Date :

Comments of Branch Manager (with focus on reputation, credibility and credit record of applicant)

Credibility Check done with _____

Name & Signature of Branch Manager:

Place :

Date:

APPLICATION CUM APPRAISAL FORM

To : Manager
BANK BRANCH, _____

For office use only
Repeat Borrower Yes/No
Loan A/c no.
Village

I, Shri/Smt.

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

S/o/W/o/D/o _____ aged _____ resident of
_____ village and a member of _____ JLG would like to apply for a loan of
Rs. _____ (Rupees _____) for the purpose of : crop loan/
consumption loan/others (specify)

I furnish the following particulars:

1. Present Sources of Earnings of Applicant or Other Members of Family

	Annual income from Activity	Annual Expd. in Activity	Annual Surplus from Activity
a) Primary Occupation			
b) Other Activity - 1			
c) Other Activity -2			
d) Activity of other Family Members			
Total:-			

2. Loan availed

Source	Purpose	Amount Borrowed	Amount Due

3. Financial Assistance sought for

	Activity / Item	Vol. of Activity	Loan Reqd.
a			
b			

Applicant's Signature

Place :

Date :

4. Comments of Branch Manager/ Field Officer (with focus on activity, family income etc) _____

Name of Branch Manager/ Field Officer

Signature of Branch Manager/ Field Officer/

A loan of Rs. _____ is sanctioned / recommended for sanction.

Proposed Repayment Schedule

Field Officer

Branch Manager

Head Office

Place

Date

JOINT LIABILITY AGREEMENT

Mutual Agreement made this _____ day of _____ 20 ____ by Smt/Shri

- 1) _____ D/o/W/o/S/o _____ aged _____ Years
- 2) _____ D/o/W/o/S/o _____ aged _____ Years
- 3) _____ D/o/W/o/S/o _____ aged _____ Years
- 4) _____ D/o/W/o/S/o _____ aged _____ Years
- 5) _____ D/o/W/o/S/o _____ aged _____ Years

All members of _____JLG, hereinafter called the " Mutual Guarantors" of the first part, which expression shall be deemed to include their heirs, executors, administrators, assigns and all persons deriving title from them, in favour of _____BANK, with its Head Office at _____and a branch Office, among others, at _____ represented by the Branch Manager, Shri/ Smt. _____ hereinafter called BANK, which expression shall be deemed to include their administrators, assigns, successors and attorneys on the other part.

Whereas the Mutual Guarantors are in need of loan for the purpose of _____ and at their request and individual on Demand Promissory Note executed by each one of them, BANK has agreed to grant to the borrowers credit facility as per terms and conditions mentioned in the Letter of Undertaking executed by each one of them.

The Mutual Guarantors stand Guarantee to the loan extended to each one of them. In case of default on the part, of any of Mutual Borrowers in repayment of installment, principal amount, interest, service charges and any other charges that may be due to BANK or in regularising or clearing the amounts as per the Letter or Undertaking ## executed individually, the Mutual Guarantors, who offer Guarantee collectively to their individual loans shall remain responsible jointly and severally for making necessary payments to BANK.

The Promissory Note and Letter of Undertaking executed by the Mutual Guarantors individually are part and parcel of this agreement.

The Mutual Guarantors authorise BANK to exercise lien on the cash security held on their behalf and adjust this cash security against the unpaid balance of loan outstanding on or after due date of any other Mutual Guarantor of their group.

In witness whereof the Mutual Guarantors and BANK have hereunto respectively set their hands at _____ on the date mentioned above.

- 1. _____ 2. _____
- 3. _____ 4. _____
- 5. _____ 6. _____

Place:
Date :

For BANK

Suitable format to be devised by bank concerned

PRONOTE

Rs. _____

Place : _____

Date : _____

On demand I _____
promise to pay _____ BANK, a sum of Rs. _____ (Rupees :
_____) with interest at
_____ percent per annum for value received.

Signature

Individual borrower

Appendix I

JLG Monitoring Format for the half year ending 30 Sept / 31 March

Name of the bank

State & district

Amount in lakh

No. of branches participating	No. of JLGs promoted			JLGs promoted by ----- (Pl.specify the agency)	No. of members per group	Type of credit facility extended	Rate of interest charged on bank loan	Loan disbursed during the half year (April-Sept / Oct- Mar	Loan disbursed during the year (April-March)	Recovery performance (%)	Remarks
	Model A	Model B	Total								
1	2	3	4	5	6	7	8	9	10	11	12