Business Model Scheme on Financing JLGs - SFBs and Scheduled Private Sector Banks - Pilot Project

JLG serves as an important tool for augmenting flow of credit to landless farmers cultivating land as tenant farmers, oral lessees, share croppers and small/marginal farmers and other poor individuals for taking up farm, off farm and non-farm activities. Though extending bank loans through Joint Liability Groups (JLGs) has proved to be a successful initiative for purveying collateral free credit through the banking system in the rural areas, flow of credit to the landless poor, tenant farmers, small/marginal farmers is still inadequate. In order to scale up the JLG financing, “Business Model scheme on financing JLGs” for SFBs and Scheduled Private Sector Banks has been

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formulated whereby, NABARD will enter into a Bipartite or Tripartite MOU with Banks directly or with BC/NGOs, with assured support for financing JLGs on terms and conditions to be mutually decided upon. NABARD support will be available in the form of Financial Incentive @ Rs. 4,000/ per JLG for promotion and bank linkage of JLGs, training and mentoring, etc. As per the MOU, the onus of formation, promotion and extending credit support to JLGs would be on the bank concerned.

Details of the suggested strategy framework to enable the Banks to build a credible JLG portfolio under the model, is given in Annexure. We request you to take advantage of the scheme with NABARD’s assured support.
Annexure

Business Model for financing Joint Liability Groups (JLGs)

The JLG approach is a major product propagated by NABARD for purveying microfinance in rural India for meeting the credit needs of Small / Marginal farmers / Tenant / Oral lessees and share croppers and micro enterprises in Off-farm sector to enhance opportunities for livelihood in terms of income and employment by making available collateral free credit through the banking system. The JLG product plays a vital role in covering the excluded farmers/ micro-enterprises in the fold of banking system. It is however observed that the progress under the JLG scheme has been less than satisfactory. While some RRBs, Cooperative Banks and Public Sector Banks have been participating in JLG lending with/without our JLG Promoting Institution (JLGPI) support, the performance has been lacklustre and many banks have not participated whole-heartedly for lack of adequate focus.

After analyzing the ground situation and keeping in view the immense scope of utilizing the network of BC Agents, it is felt that as directed by RBI in the JLG guidelines of November 2014, Banks can easily co-opt BCs/ CSPs for taking on a Business facilitator role and rope them in for formation, monitoring and extending hand holding support to the JLGs as an add on function. Some of the PSU banks and a few RRBs are already utilizing the services of BCs as BF (JLGPI) for deepening their JLG portfolio with good results. This not only externalizes some of the bank’s functions - mainly of monitoring, ensuring high touch, hand holding and following up for timely repayments but also enables the BC Agents to get additional income from managing the JLGs.

It is suggested that in order to scale up the JLG approach in their areas, Banks may consider the route of entering into an MOU with Regional Offices of NABARD or Head Office of NABARD (in case of Pan India Project) with provision of assured support from NABARD, where the concerned bank shall take the onus of extending credit support to JLGs on terms and conditions to be mutually decided upon. Wherever banks enter into an arrangement with Corporate BCs for Business Facilitation as JLGPI, a tripartite agreement may be more suitable which will also specify the service charges to be shared by the BC agent with the Corporate BC. In cases where banks do not have good BC networks or find it convenient to engage identified NGOs to act as JLGPI, a tripartite agreement between Bank, NGO and NABARD may be entered into. The capacity of NGOs in terms of availability of team of animators and Project Managers would be critical for delivery.

Details of the suggested strategy framework to enable Banks to build a credible JLG portfolio under the model are given below.
1. Objectives

i. To build a good quality JLG portfolio with the objective of increasing flow of credit to farmers, especially small, marginal, tenant farmers, oral lessees, share croppers/individuals taking up farming activities.

ii. To rope in Small Finance Banks and Scheduled Private Banks into JLG finance on a much larger scale, at affordable cost, by leveraging on the existing BC network/local NGOs as channel partners.

iii. To ensure high touch and close monitoring of JLGs through BCs/NGOs/Bank Staff for ensuring quality credit portfolio with high repayment performance.

iv. To make available additional income opportunity to BC Agents/ CSP on a sustainable basis through management of JLG portfolio by building capacities.

v. To augment flow of credit to Micro Entrepreneurs/ artisans/ individuals in Non-Farm sector activities through JLG mechanism.

2. Support from NABARD

a. Incentive from NABARD for promotion of JLGs

NABARD shall provide grant assistance to the Banks for passing on to Corporate BC/NGO-JLGPIs, as the case may be, for formation, nurturing and financing of new JLGs @ ₹ 4,000/- per JLG. The incentive shall be linked with the financing of the JLGs and shall be released in three instalments as indicated below.

i. First instalment of ₹ 2,000/- would be released after disbursement of loan by the bank.

ii. Second instalment of ₹ 1,000/- would be released after one year from the date of loan disbursement subject to the certification by the financing bank that the loan repayment is regular / without default by all the individual members of the JLG.

iii. Third instalment of ₹ 1,000/- would be released on closure of the loan account by all members of JLG or after the end of second year from the date of loan disbursement subject to similar certification from financing bank, whichever is early.

Incentive will be available for the 1st cycle of loan only. It is expected that from the 2nd cycle onwards the portfolio size will grow and the service charges on the outstanding loans alone will be adequate to take care of the BC’s/ NGO’s remuneration.

The above incentive is also available to the Banks eventhough they undertake formation and nurturing of JLGs through their staff.
b. **Training of dedicated team of Master Trainers**

A pool of master trainers comprising of identified officials from the Bank’s Head Office, Bank’s Regional Office and the concerned Project Staff of Corporate BC/ NGO-JLGPI would be created by imparting them training on the nuances of JLG approach, management of JLG portfolio and MIS of JLGs. The training programme will be arranged and supported by NABARD for the Banks who have signed a MOU or a tripartite agreement for scaling up JLG financing.

c. **Mentoring**

NABARD through an expert and experienced agency will undertake, on location mentoring of concerned Bank Officials, Corporate BC and BC Agents. The proposed mentoring is expected to upgrade the skills of different stakeholders in performing their respective roles and responsibilities and enable managing a good JLG portfolio.

3. **Interest Rates**

The financial incentive to be paid by the Bank to the BC/ NGO-JLGPI, as above, may be factored into the ultimate lending rates applicable to JLGs. The rates will vary between banks depending upon their MCLR, however, it **may be ensured that in no case the interest rates exceed the average one year MCLR of Public Sector Banks +10%**.

4. **Support from participating Banks**

a. **Financial Incentive**

It is envisaged that in order to sustain the interest of BCs, NGO-JLGPIs on a durable basis, the banks would be paying service charges to BC Agents/ JLGPI. This would ensure continued engagement of BC Agents/ JLGPIs with the community and management of the portfolio on a long term basis. While Bank may negotiate and finalize the service charges in consultation with Corporate BC/ NGO-JLGPI, it is suggested that the range of service charges could be between 2% - 4% p.a. Wherever the Corporate BC / NGO-JLPI is prepared to guarantee the default risk, the service charges payable may be higher say upto 6 % p.a. The service charges would be payable on outstanding loans to JLGs so long as the JLG account remains regular and in Performing Status. The fee sharing mechanism between the BC Agent & Corporate BC would be specified in the agreement/ MOU.

b. **Training of Branch Officials/ BCAs**

In order to sensitize the identified branch staff in the JLG business, it is envisaged that the bank would conduct a two day training programme at their own facility. The training programme is intended to impart conceptual clarity about the model and the roles of each stakeholder. The training would be conducted by the Banks Master Trainers already trained with NABARD support.
c. Training of BC Agents

After the BCAs suitable for taking on the function of JLG promotion role are identified by the Bank/Corporate BC an intensive two day training programme may be held by the Corporate BC’s Master Trainers. It is expected that each BCA/animator would manage not more than 30 JLGs in his/her area of operation so that proper monitoring and follow-up can be exercised by him/her. For every 20-25 BCAs, one Project Staff of the Corporate BC/JLGPI would be required so that proper control over BCAs can be exercised.

5. Loan Facility

For enabling close monitoring and high touch with the JLG members it is envisaged under this model that the loan facility will be Term Loan with repayments at monthly rests. EMI may be worked out for each loan and advised to the JLG member in the beginning.

6. Quantum of loan

The quantum of loan depends upon the nature of activity. However, at times it is possible that under this model, the unit cost of activity is only part financed, while the rest is managed by the borrower. It is envisaged that the loan amount will be less in the first cycle and the quantum of loan will gradually go up with each subsequent cycle of loan depending upon the requirement of the activity. The bank may fix a suitable loan limit for first cycle of loan per member with increments in each subsequent cycle. To enable operation of joint liability mechanism, each member of JLG would ideally be provided equal amount of loan in each cycle so that each member of the group has equal liability. Say for example in the first cycle the loan amount could be as low as ₹ 25000/- per member and may be incrementally raised to ₹ 1 lakh per member depending on the credit history and the need of the JLG.

7. Repayment period

As against the project based lending where the repayment period is linked to projected cash flows, under the suggested model it is proposed not to follow the typical project lending model but to ensure that small amounts are repaid by JLG members on monthly basis. It is suggested that the repayment period may not exceed 18 months in the first credit cycle, however, in the subsequent cycles the repayment period may go up to 36 months. The repayments are expected not only from the activity for which loan was taken but also from family’s overall income stream. In case the dues are not paid in 90 days the account of JLG member would be classified as NPA.

8. NABARD Refinance

NABARD will provide refinance assistance under investment credit to the banks against their lending to JLGs as per refinance policy for the schematic lending for the year 2021-
22. Under the Pilot Project, preference will be given to the Banks agreeing for availing NABARD refinance.

9. Preference to districts with low PSL

In order to address the regional disparity in the flow of priority sector credit and to increase credit flow in the underserved and unserved areas, preference will be given to the Pilot Project submitted in the districts falling under LWE districts, aspirational districts and 184 districts identified by the RBI as districts with comparatively low PSL credit.

10. Sanctioning process

For quick and timely disposal of credit, the branches may be delegated with the sanctioning power so that all JLG loans are sanctioned by the Branch Manager. Alternatively, a dedicated team/ Central Processing Unit at Regional Office of the bank may also take on this role.

11. Loan Disbursement, Monitoring and Recovery

i. Financing of individuals in the JLG is proposed to be adopted under this framework. The loans may be disbursed preferably in cashless mode by credit to the savings bank account of the JLG member. The JLG members may also be encouraged to save a specified amount each month (say ₹ 100). All the JLG members of a JLG will be required to visit the bank branch on the day of disbursement. The terms and conditions of sanction would be communicated highlighting the importance of on time repayment, by the branch manager.

ii. The JLG member account may be Aadhaar seeded and preferably also mobile seeded and she/he may be provided with a RuPay card to operate the account through micro-ATMs. Each JLG member would also be given a loan passbook so that her/ his repayments are recorded every month. The passbook will have all necessary details viz. Loan amount sanctioned and disbursed, EMI fixed, No. of instalments, Interest rate on loan, penal interest on default etc. Receipts towards repayment of EMI would be issued by the BC/ JLGPI to the JLG member. It would be desirable if an SMS alert can be triggered by the Bank on credit of repayment instalment by the JLG member. SMS alert may also be enabled to go to the members/ BCA reminding about the amount of EMI due and the due date.

iii. The JLGs through peer pressure will ensure loan utilization and timely repayment. All members will be collectively liable for any default. In case of default by one member, joint liability concept will operate and all the other members will contribute to make good the shortfall. However, the Project Manager, BCA and Branch Managers would have to play a coordinated role to ensure good quality of loan portfolio.
iv. The BC Agent/ JLGPI will facilitate the monitoring & recovery of loans. The BCA/ JLGPI will form a center in each village comprising of 2-8 JLGs i.e. 10-30 members. The center shall meet on monthly basis in a fixed place at a fixed day and time. The Branch officials are to maintain harmonious relations and continuous close contact and relationship with the JLG, BC/ JLGPI and the Project Manager.

12. MIS and Review

A strong MIS for monitoring the performance of JLGs and BCAs/ JLGPIs is a prerequisite for the success of this approach. Proper JLG wise registers may be maintained by the BCA for recording the transactions by members. Similarly, the Project Managers are required to maintain oversight on the activities of BCAs under him for which he may develop a suitable mechanism.

Review of the JLG member account may be done periodically, at least once every month. Agency fee to the BC/ NGO may also be approved and paid at quarterly rest based on the recovery performance.

13. Due Diligence

Identification of BCAs/ NGOs: The identification of BCA with the right aptitude for the job would be done by the bank in consultation with the Project Manager/ Corporate BC. In case the bank intends to avail the services of NGO for JLGPI role then the identification of NGO will be done by the Bank in consultation with NABARD.

Identification of members: The members of JLGs should be non-defaulting persons engaged in similar activity in the service area of BC agent. The identification of JLG members would be done based on business mapping of the villages. The Branch Manager and the Project Manager will be closely involved in the potential mapping exercise. The JLG members should have/ or should open a basic SB / PMJDY account with the bank. It would be desirable to look into the credit history of prospective JLG members. In case the JLG member is already being serviced by some bank or MFI, it may be ensured that he will be able to service the loan being taken from the bank.

Appraisal of JLG: A suggestive appraisal tool for use by the financing banks was circulated vide our circular no. 184/MCID-09/2013-14 dated 27 August 2013. The banks may be advised to either use the suggested tool or their own assessment tool while appraising and financing JLGs. Appraisal involves borrower appraisal, credit/ cash flow risk, mutual guarantors risk and concentration risk.

Processing Fee: RBI guidelines to be followed. Maximum processing fee of 1% of the Gross Loan Amount can be levied by the bank at the time of sanction of individual loans in excess of ₹ 25000/-.
**Pre-sanction inspection:** To be undertaken by the branch official/RO dedicated team with the assistance of BC Agent to verify identity and residence of JLG members. No inspection charges will be levied by the bank.

**Post-disbursement follow up & Recovery:** All repayments will preferably be scheduled between first and tenth of every month. BCA will visit each loan account on the due date. The Project Manager will visit all overdue accounts for follow-up. End use utilization shall be undertaken by the BCA and Project Manager to ensure proper utilization. Branch Manager shall verify minimum 10 loan accounts in a month on sample basis.