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Circular no. 233 /MCID - 18 / 2014

26 November 2014

The Chairman/Managing Director  
All RRBs/State Cooperative Banks/SCARDBs

Dear Sir

**Financing Joint Liability Groups (JLGs) of Small Farmers (SF) /  
Marginal Farmers (MF) / Tenant Farmers / Oral Lessees /  
Share Croppers / Micro Entrepreneurs / Artisans**

You may be aware that the Hon'ble Union Finance Minister while presenting the Union Budget for the year 2014-15 had announced to provide finance to 5 lakh joint farming groups of "Bhoomi Heen Kisan" through NABARD in the current financial year.

NABARD vide its circular no.151 / MCID 4 /2006 dated 07 September 2006 had first outlined the broad guidelines for augmenting flow of credit to landless tenant farmers cultivating land either as oral lessees or sharecroppers and small / marginal farmers who do not have proper title of their land holding through formation and financing of JLGs. To support the efforts of banks in this direction, a decision for extending grant assistance for promotion and financing of JLGs (Joint Liability Groups) was communicated vide our circular no. 169 dated 23 October 2009. Subsequently, the scheme for financing of JLGs was extended to micro entrepreneurs / artisans in non-farm sector vide our circular no. 203 dated 3 December 2009.

The broad scheme for financing of JLGs of small, marginal, tenant farmers, oral lessees, share croppers, individuals, etc. are reiterated in Annexure I. Keeping the basic concept of JLGs unchanged, a revised approach in financing the JLGs on a mission mode for both farm and non-farm activities is suggested below.

#### 1. Enabling Joint Liability Groups (JLGs) within and Outside SHGs

- a) A few members of SHGs may graduate faster to start or expand economic activities requiring much higher levels of loans than other SHG members. In such cases, other members may not like to stand mutual guarantee for large sized loans for these members.

- b) In such cases, a JLG may be created consisting of such members of one or more SHGs. The members of JLG will continue to remain members of the SHGs and continue to participate in the activities of SHGs as earlier.
- c) Banks may encourage creation of such enterprise / livelihood based JLGs within SHGs. Banks may finance these JLGs in addition to the loan / credit limit extended to the SHGs.
- d) There may be certain deserving Small Farmers (SF) / Marginal Farmers (MF) / Tenant Farmers / Oral Lessees / Share Croppers / Micro Entrepreneurs / Artisans who have not yet been covered by SHGs. They may also need bank loan for taking up Livelihood/ Farming activities. The JLG formed of such members may also be provided with adequate credit support by banks.

## **2. Cluster approach in JLG promotion**

Banks may undertake efforts to promote and finance JLGs on a cluster basis for agriculture as well as activities allied to agriculture and non-farm activities. This will not only help in training and improved monitoring of these groups, but would also enable these groups to aggregate into Producers' Groups at a later stage. Such an approach may help the JLGs to contribute positively to the agricultural value chain and enhance agricultural production and productivity by leveraging on economies of scale. This approach would be particularly effective in command areas of developed watersheds, tribal area schemes and product based clusters.

## **3. Assessing Joint Liability Groups (JLGs) for Bank Finance**

Many banks would have developed their own assessment techniques for financing JLGs. A suggestive appraisal tool for use by the financing banks (enclosed in Annexure II) was circulated vide our circular no. 184/MCID-09/2013-14 dated 27 August 2013. The banks may either use the suggested tool or their own assessment tool while appraising and financing JLGs.

## **4. Training requirements**

Capacity building training for financing the JLGs requires multiple levels of interventions i.e. at bank level, at promoting institutes' level and at JLG level. Training of bank officers both at field level and controlling office level are required for this endeavour. Banks may leverage on their training establishments for training their staff in JLG financing. NABARD would be keen to support and organise Bank specific programmes for branch level staff as also suitable awareness programmes for its middle level / senior officials. Banks may forward specific requests for the same to our Regional offices. NABARD shall continue to support the publicity measures and capacity building initiatives of institutes like NGOs, Farmers' Clubs, KVKs, Govt. Departments, etc. for promoting the JLGs.

## **5. Incentive for promotion of JLGs**

NABARD shall provide grant assistance to Banks and other JLPs for formation, nurturing and financing of new JLGs @ Rs.2,000 per JLG. Banks may consider the option of entering into a

Tripartite Agreement with NABARD and other JLG promoting Institutes (JLPI) where they shall take the onus of extending credit support to JLGs and NABARD shall provide grant assistance to the JLPIs for promotion and nurturing of JLGs. The incentive will be available to the bank even if they use their own staff or BC / BF as their JLPI. The incentive shall be linked with the financing of the JLGs. The incentive amount shall be released in three instalments as indicated below.

- i. First instalment of Rs.1,000/- would be released after disbursement of loan by the bank
- ii. Second instalment of Rs.500/- 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 (in case of Model 'A' type JLG) / JLG as a group (in case of Model 'B' type JLG).
- iii. Third instalment of Rs.500/- would be released after the end of second year from the date of loan disbursement subject to similar certification from financing bank as at (ii) above. In case of short term loans / KCC / GCC, it will be available if the facility has been renewed by the bank during the year and is regular.
- iv. It may be noted here that the incentive for promotion of JLGs shall be available only in cases where prior approval has been taken from NABARD for promotion of JLGs.

#### **6. Financing JLGs through BCs / BFs**

Incentive to banks as indicated in para 5 will now be available for using BCs / BFs also in promotion and financing of JLGs. By availing services of BCs / BFs in financing JLGs, the banks can not only increase the credit flow to the targeted population, but also improve their overall asset quality in JLG financing.

#### **7. NABARD Refinance**

NABARD will provide 100% refinance assistance under investment credit to all banks against their lending to JLGs.

#### **8. Monitoring and Review of financing through JLGs**

Considering the priorities being attached by Government of India in financing landless farmers' groups through JLG mode of financing, banks may closely monitor the progress regularly at various levels. Therefore, monitoring of JLG financing may be made a regular item on the agenda for discussion at the SLBC, DCC and BLBC meetings. It should be reviewed at the highest corporate level of banks on a quarterly basis. A progress report on JLG financing may be sent to NABARD (Micro Credit Innovations Department), Mumbai, on a monthly basis as per the format given in Annexure III.

  
(P. Satish)  
Chief General Manager  
Encl : as above

## Annexure I

### Financing through Joint Liability Groups (JLGs)

#### 1. Objectives:

- ✓ To augment flow of credit to landless farmers cultivating land as tenant farmers, oral lessees or share croppers and small / marginal farmers as well as other poor individuals taking up farm activities, off-farm activities and non-farm activities.
- ✓ To serve as collateral substitute for loans to be provided to the target group.
- ✓ To build mutual trust and confidence between bank and the target group.
- ✓ To minimize the risks in the loan portfolio for the banks through group approach, cluster approach, peer education and credit discipline.
- ✓ To provide food security to vulnerable section through enhanced agriculture production, productivity and livelihood promotion through joint farming and cluster approach.

#### 2. General features of JLG :

A Joint Liability Group (JLG) is an informal group comprising of 4-10 individuals coming together for the purpose of availing bank loan on individual basis or through group mechanism against mutual guarantee. Generally, the members of a JLG would engage in a similar type of economic activity. In certain groups, members may prefer to undertake different type of economic activities as well. The members would offer a joint undertaking to the bank to enable them to avail loans. JLG members are expected to provide support to each other in carrying out occupational and social activities.

#### 3. Criteria for membership:

- i) Members should belong to similar socio-economic status, background and environment carrying out farming, allied activities or non-farm activities and who agree to function as a joint liability group. This way the groups would be homogeneous and organized by likeminded farmers/Individuals and develop mutual trust and respect.
- ii) The members should be residing in the same village/ area/ neighbourhood and should know and trust each other well enough to take up joint liability for group/individual Loans.
- iii) Members who have defaulted to any other formal financial Institution, in the past, are debarred from the Group Membership.
- iv) More than one person from the same family should not be included in the same JLG.

#### 4. Group Approach:

i. All members of the JLG should be active enough to assume leadership of the group to ensure the activities of the JLG. The selection of an effective /able/active leader for the JLG is essential as this will ultimately benefit all the JLG members. The leader fosters a sense of unity, oversees and maintains discipline, shares information and facilitates repayments. For

the bank, he is the focal point for group activities, although all the members are liable jointly and severally.

ii. The JLG should hold regular meetings which must be attended by all the members regularly to discuss issues of mutual interests.

iii. The principles of self - help and group strength need to be emphasised. 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.

iv. The JLG can easily serve as a conduit for technology transfer, facilitating common access to market information, for training and technology dissemination in activities like soil testing, training and assessing input requirements.

v. The JLGs for specific activity, e.g. production of pulses / vegetables/ fruits may be federated at village/ block level for development of the product.

vi. The JLG in the clusters on their stabilization could come together in the form of cluster federation or producers' companies with a view to contributing the entire value chain and thereby achieving economics of scale in procurement, processing and marketing of the produce.

vii. The JLGs and evolving JLG structures are expected to build up empathy and understanding and create responsive lending mechanisms leading to greater interaction and interdependence between the members of JLGs.

#### **5. Savings :**

JLG members need to be encouraged to save regularly. Banks may open savings account by the JLG / individual members of the JLG to ensure regular savings and thrift habit amongst them. In case of group saving accounts, suitable accounts should be maintained at JLG level. However the quantum of loan to be given to the groups should be related to the credit needs of the enterprise and not to the quantum of saving.

#### **6. JLG Models :**

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

##### **Model A – Financing Individuals in the JLG.**

Each member of the JLG should be provided an individual KCC / GCC or term loan. The financing bank could assess the credit requirement, based on the crop to be cultivated, available cultivable land /activity to be undertaken and the credit absorption capacity of the individual. Similar, credit need would be done in case of off-farm activities like dairy, poultry, etc. and nonfarm activities. All members would jointly execute a loan document, making each one jointly and severally liable for repayment of all loans taken by all individuals belonging to the group.

The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created including liability created out of the individual KCC. Any member opting out of group or joining the group, will necessitate a new loan agreement, to be kept on record in the bank branch.

## **Model B – Financing the JLG as a Group.**

The JLG functions, operationally as one borrowing unit in this model. 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 of each member of the JLG/ activity to be undertaken for farm sector, off-farm sector or non-farm sector. All members would jointly execute the document and own the debt liability jointly and severally.

The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created. Any change in composition of the group, will lead to a new document being registered by the bank branch.

### **7. Credit Appraisal:**

Banks may conduct a thorough credit appraisal to avoid under or over-financing. Suitable assessment tools may be applied for the purpose of rating of JLGs. The finance to JLG is expected to be a flexible credit product addressing the credit requirements of its members including crop production, marketing and investment credit, besides other productive purposes in the agriculture, allied sectors as well as non-farm activities. All other norms of financing including rate of interest, margin on security, documentation, coverage under crop insurance scheme and personal accident insurance, etc., may be followed by the bank as per its regular norms.

### **8. Credit to JLGs of farmers to form normal business activity under Priority Sector:**

Lending to JLGs of farmers for agriculture and allied sector may be treated as direct agricultural advances under the priority sector. Lending to JLGs in non-farm sector will be treated as normal business activity under priority sector. Banks may include lending to JLGs in their corporate plan and also in the training schedule of officers/ staff.

### **9. Monitoring and Review:**

i) The JLGs through peer pressure ensure loan utilization and timely repayment. The bank may hold all members liable in case of default.

ii) The bank's loan officers are expected to maintain harmonious relations and continuous close contact and relationship with the JLG leader and other members so as to convert them into good reliable customers of the bank. Maintenance of good credit history by the JLGs will gradually lead to lowering of the banks's own transaction costs in terms of intensity of appraisal and monitoring.

### **10 . Capacity Building:**

Banks may undertake capacity building measures like conduct of training programmes for stakeholders, awareness and sensitization of JLG concept both for bank's own staff as well as the target group. The bank's operating staff should be familiar with the concept, benefits for the banks and clients under the programme. NABARD would consider supporting capacity building programmes for Bank's staff and other publicity measures, such as publication of pamphlets/ leaflets, use of media (print as well as others), etc. for greater awareness and orientation.



**Annexure II**

**Suggested rating norms for financing Joint Liability Groups (JLGs) to be done by the financing banks**

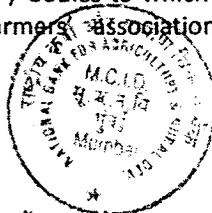
Sl No.	Parameter	Means of Measurement	Maximum Mark per Parameter	Performance	Value (Marks)	Marks obtained
1	Group Size and composition of group	Interview with the group	3	Size - 4 to 10 members	1	
				Homogeneous (Similar economic condition / livelihoods)	1	
				Located with close proximity to each other	1	
2	Availability of support from specific agency / association <sup>@</sup>	Discussion with the group	1	Support available and screening of individual members done before formation of JLGs	1	
3	Knowledge of JLG functioning or has received training on JLGs	Interaction with group members / profile of members / promoter JLGPI*	1	Received training on JLG functioning / has knowledge about JLG	1	
4	Potential for proposed activity and skills of the group members	Interaction with the group	2	Activities have potential and members have adequate skills	2	
				Activities have potential but members do not have adequate skill	1	
5	Viability of investment to be made by JLG / members	Interaction with the group	2	Proposed investment financially viable	2	
6	Monitoring by volunteers in JLGs or through BF / BC or JLGPI * after credit linkage with bank	Discussion with banker	1	Available	1	
	<b>TOTAL</b>		<b>10</b>			

**Note:**

**JLGs scoring 6 out of 10 marks will be eligible for Credit linkage.**

@ Initial client level Screening is done by association / bodies to which JLG members are likely to be associated viz. petty traders' association, fish farmers' association, farmers' club, producers' organization, other interest groups, etc.

\* JLGPI : Joint Liability Group Promoting Institutions



Annexure III

Format for reporting State wise progress under Financing of JLGs to NABARD

Name of the financing Bank :

Progress as on end of month

(Rs. lakh)

Sl. No.	State	No. of JLGs financed during the month		Loan disbursed to JLGs during the year		Loan Outstanding	
		Farm based	Total	Farm based	Total	No. of JLGs	Amount

