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CREDIT MANAGEMENT GROUPS

GUIDELINES FOR LINKING BANKS WITH CMGs

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With the increasing number of Banks coming forward to link up directly with the CMGs, it was felt necessary to offer a few guidelines to NGOs and Bank Managers who visit the groups in order to enable them to have access to all the information necessary to make a decision. This paper provides these guidelines.

MYRADA's objective in approaching NABARD to support this experiment in the mid 1980s was geared to achieving a change in banking policy that would enable the Banks to relate directly with the credit **groups as "bankable institutions"**. If MYRADA has to withdraw from the project area after a period, as its strategy requires, the groups have to be linked to a credit institution to meet their on-going credit requirements. The linkage between the Banks and the groups therefore was an important plank in the strategy of withdrawal. Following the Reserve Bank's circular of July 24, 1991 and the NABARD guidelines dated February 26, 1992 several Banks have established links with the CMGs. Records reveal that by the end of 1993 there were about 220 groups linked up with the Banks, of which approximately 130 were in MYRADA projects. Some officials feel that progress is too slow, and that by now over 500 groups should have been linked with Banks. Yet others are of the opinion that it is necessary to build up a good base of successful experiences, and that "hastening slowly" is a better strategy. The Canara and Vysya Banks have reported that repayments from credit groups range between 95% to 98%. Other Banks have a similar experience. It is also clear at this time that if any of the Banks had experienced poor repayments during the first year, the scheme would have suffered a set back.

The group strategy of credit management has not been presented as the only one in the effort to **Bank with institutions developed by the poor over which they have control**; it is not a panacea for all the ills that the priority sector is experiencing in the anti-poverty programme. It is an alternative strategy for credit which is not part of the official credit delivery system but which is based on alternate institutions which have been free to operate according to their own rules and regulations. More than just a complementary strategy therefore, it is innovative; the official credit system for the first time has accepted that it can lend money to a group of poor people on the basis of the group's performance **as an institution** which requires that the official system accepts that the group can establish the purpose and size of the loans, the schedules of advances and repayments and the rate of interest.

Though the attitude at the higher levels of several Banks with regard to linkages with the groups is supportive, the feedback from workshops organised by MYRADA for Branch Managers focuses on certain guidelines, which if followed, in their opinion, will result in a substantial increase in the number of groups linking with Banks. These guidelines are listed below :-

1. **Groups that meet only for savings and not for lending to members do not have the necessary experience to receive loans from Banks**. A group should have atleast 6 months of experience in saving and lending before Banks have the confidence to advance a loan to the group.

2. The groups should **maintain atleast the minutes of the meetings** recording their decisions to advance loans from their common fund to members, and **a statement of accounts**. These records must be maintained before a Bank Manager has the confidence to advance a first loan no matter how supportive the official policy may be. Records of loans advanced to members and repayments should also be carefully maintained in order to assess utilisation and performance.

3. The **cost of credit does not emerge as the primary concern of the groups**; hence the official concern to fix a ceiling on interest rates is misplaced. What is important for the group is ready access to credit, without harassment, the freedom to decide on the purpose and size of the loan as well as on the schedules of advances and repayments and on the interest rates.

4. The loans given to individual members should not be viewed by them as a loan from the Bank, **but rather as a loan from their own group common fund**; it is therefore necessary that they have adequate savings and the experience of lending from their own funds before the Bank loan is received. The Bankers on their part should avoid giving the impression at group meetings that they are advancing loans to individual members. **They should assess the performance of the group rather than focus on the purpose of loans to individuals**.

5. Bank credit should be restricted to groups that can use it effectively; **it should not be looked on as a disbursement** to which all the groups or all the members in the group have a claim or are entitled to.

6. The Branch Managers **should visit the groups**, atleast twice before deciding to lend money. Periodic visits after the loan has been advanced are strongly recommended.

7. The Bankers must realise that they are responsible to establish a relationship with the groups which will foster open communication and build up trust; they need to

consider the members of the group as "**borrowers**" and not as "**beneficiaries**", and give them the respect that a genuine borrower commands; they should also **be available to meet people at times convenient to the people and not restrict interaction to "office hours"**.

8. The Branch Managers who visit the groups should realise that they are dealing **with institutions and not with individuals**. Many of them still adopt the IRDP approach and insist that the purposes for the loans be clearly identified by the group before the loan is given, and that these purposes should be listed in the Memorandum of Understanding between the group and the Bank. **The NGOs agree that while all the group members may be required to guarantee the loan and recoveries, there is no need to state the purpose of each loan to the member before the Bank advances a loan to the group**. The primary concern of the Managers should be that the loan is repaid and on time. There is no need for them to attempt to asses viability since this is not the basis on which the group decides; **it is manageability more that viability that is the governing norm for people in the credit groups**.

9. The Branch Managers should visit the groups and assess atleast the following:

Performance	**Verifiable Indicators**
Whether attendance is good (over 75%)	The Attendance Register.
Whether participation is effective.	Manager's experience of the meeting and study of previous minutes.
Whether decisions are taken at the meeting and whether loans are monopolised by a few or spread over the members.	Minutes of meetings and records of loans.
Whether savings are regular and amount to atleast 1/3rd of the common fund.	MYRADA computerised data.
Whether recoveries are prompt.	MYRADA computerised data.
Whether sanctions are applied to defaulters.	MYRADA computerised data.
Whether group representatives are changed regularly.	Minutes of meetings.

10. **The NGO on its part has the responsibility to ensure that the groups maintain minimum records** especially regarding decisions on loans and a statement of accounts; they also need to create a culture in the group that they should not look at the Banks as a “giver”, which is the image common to Government institutions.

<u>The incentives to Bankers are the following</u> :

1. Bankers must be reasonably sure that lending to groups will be **<u>profitable to the Banks</u>**, that the loans will be **<u>repaid</u>**, that this programme fits in with their overall objective and **<u>social obligation</u>** to advance loans in the priority sector and that linking with groups **<u>will improve their image and give weightage to their personal performance</u>**.

2. A major hurdle that NGOs face is the insistence of several Managers that the groups cannot be given loans if there are any **<u>previous defaulters</u>** in the group. This is a major “mind block” that is holding up growth in linking Banks with CMGs.

   To begin with NGOs do not see the rationale for this stand when the **<u>group has a good track record of savings, loans and repayments</u>**. The Banks have not been able to achieve a record of repayments anywhere near that of the groups. This hurdle therefore is a carry over from past practices and attitudes.

   Secondly, this objection is understandable if there are a large or significant number of defaulters in the group; but there are several instances of Banks rejecting applications from groups even where only 2 or 3 out of 15-20 members are previous defaulters.

   Thirdly, there have been several instances where after Banks have advanced loans to groups with a few defaulters, they have started repaying previous loans to the Banks. This is an added incentive.

The feedback from the 14 MYRADA Projects as well as from NGOs working in group credit management, identifies the following obstacles to the growth in the number of groups with linkages to Banks.

1. The Branch Managers **<u>are not fully convinced that this strategy is supported by their superior officers</u>** and that their progress in achieving linkages with groups will be given weightage in their performance reports.

2. **<u>Small loans are not appealing to Branch Managers</u>**; since the loans to the groups are small (ranging from Rs.2000/- to Rs.15,000/-) many Managers do not find them attractive, because transaction costs are proportionately high and targets are more difficult to achieve; besides many find it a burden to visit the groups which meet either in the morning or late in the evening.

3. Some Banks prefer to give loans to NGOs for onlending to groups; this approach could undermine the primary role that the NGOs play, namely to motivate and organise groups and to provide them with opportunities to acquire the skills to manage group affairs.

There are also several unexpected obstacles to the growth in the number of groups linked with the Bank. In Dharmapuri District for example, where the potential for linkages is high, the Branch Managers concerned have been unable to proceed, since the Bank has come out with its own scheme that places several obstacles on the voluntary functioning of the groups. The NABARD circular of February 26, 1992 is adequate and there is no need for Banks to come out with different schemes of their own. While it is accepted that the RBI and NABARD need to come out periodically with revised guidelines to respond to issues that arise as the experience expands, what has been issued so far is adequate for all the Banks to start.

There is, however, growing criticism that the Banks are not moving fast enough to link up with the groups, even though the experience of those Banks which have linked up has been good. MYRADA alone has approximately 1500 groups (out of 1733) which could be linked immediately with Banks, yet the number of groups so far linked up is only about 130. The approach to link up with the Banks will also have to cope with the future scenario where Banks are increasingly reluctant to expand the number of branches especially in rural areas and in fact may reduce several that exist.

There are also several parallel efforts being made to provide funds directly to groups. The Rashtriya Mahila Kosh is one such experiment which is providing loans to NGOs for on-lending to groups. The demand for alternative sources of funds similar to the Rashtriya Mahila Kosh model is growing. MYRADA is faced with two options: to accept funds for on-lending and therefore to become a conduit, or to set up new financial institutions in the Districts where the credit groups have emerged; these institutions will receive funds for on-lending to credit groups that have been started by all the NGOs in the area. MYRADA has opted for the second alternative and is presently working on establishing Non Banking Financial Institutions which will operate independently.