

*xvi. Form Joint Liability Groups [JLGs] to access formal credit*

The innovations like SHG-bank linkage programme developed by NABARD have brought in tremendous reprieve for the bankers especially while dealing with asset-less poor. Studies have shown that the phenomenon of overdues is generally neutral to the category of borrowers financed and the variations in recoveries between different classes of borrowers are only marginal. Recoveries from the middle categories of borrowers in the rural banking sector continue to cause concern for the banker. Here again, NABARD has come out with an innovative financial product called “Joint Liability Groups” [JLG]. It is being pilot tested in different parts of the country through identified banks. The JLGs are small Groups of people [5-10 members for each JLG] who are not in a position to offer collaterals to the banking system for undertaking economic activities. JLGs are to address that mid segment of rural population through effective credit products that would :

- Reduce risk cost and improve recovery performance at the bank level
- Reduce the operational cost for the lending banker
- Facilitate smoothening the flow of credit and serving a larger segment of this agrarian population
- Introduce a greater degree of flexibility for the credit user to determine his/her needs and priorities.

This mid-segment which predominantly performs agriculture related activities requires quantum of credit slightly larger than micro-credit. It also requires credit for longer duration. It is also at times linked to seasons and repayments are made at the end of harvest seasons only. In essence, it is about addressing to the credit needs of smalltime agriculturists- who are forced to remain in the fringes of banks' credit portfolio mainly because of the low financial position, as also their inability to avail collateralized loans partly on account of fragmented land holdings that he/she has. Perhaps it can be more appropriately termed as “**hassle-free credit for agriculture and other rural enterprises**”.

A few credit products have been designed by innovative credit providers to surmount this malady mainly by collateral enhancement through Joint Liability contracts. However, they are still not widely used by the Indian banks. Given the banking products in Assam and the outreach of rural clientele, adopting JLG mechanism would greatly increase the flow of credit without any concomitant problems of high default of loans and high transaction costs of financing such large number of poor farmers.

The objective of the pilot project could be to assist establishment and financing of JLGs to facilitate smoother flow of quality credit to mid-segment credit seekers. The pilot could also attempt using different models of JLGs as collateral enhancers and collateral substitutes and make a comparative assessment of its usefulness in the banking context of Assam.

A Joint Liability Group (JLG) proposed to be established could be an assembly of 5-10 member clients (new or existing) for a bank, informally registered as a Group. The undertaking offered by the Group (by all members) would enable them to jointly receive such amounts as deemed eligible by the bank for pursuing any individual or joint activities- as

found suitable by the Group. The main purpose of the JLG would be to facilitate mutual loan guaranteeing and execution of Joint Liability Agreement (JLA) making them individually/severally and jointly liable for payment of interest and repayment of loan obtained from the bank. The management of the JLG could be kept simple with little or no financial administration within the Group. The members of JLG would be drawn from the same neighborhood or in the same village and having similar socio- economic background and environment. They may be mostly engaged in the same production activities and are expected to know and trust each other well.

Keeping in view the rural banking environment in Assam, suitable models of JLGs could be adopted to meet the credit needs of existing clients. Tailor-made credit should be delivered to the poorer section of the rural community in Assam. To start with, it could be tried on a pilot basis through select RRBs and Commercial banks in a few districts.