

Monitoring Individual Repayment in Group Guarantee Mechanism

Introduction

While Grameen Bank has moved away from the concept of strictly implementing group guarantee mechanism many microfinance institutions in India and South East Asia still implement the concept of joint group liability wherein if one group member defaults the other members make payment on her behalf. An empirical research paper from Center for Microfinance indicates that although MFIs maintain 100 percent repayment rates at MFI level about nearly quarter of clients default at individual level (Mani Arul Nandi, IFMR 2010¹). These defaults at individual level may possibly camouflage serious issues for both defaulting members as well as other members and could have financial and non financial implications.

While stakeholders and MFIs in India recognize the importance of tracking exercise of group guarantee, at this stage there is very limited knowledge amongst microfinance institutions on how best to track late payment and individual defaults within a group. The Smart Campaign therefore has taken the initiative to share some of the experiences from its partner institutions from Indonesia and India. This tool brings together the experiences of two microfinance institutions in tracking defaults at individual level and monitoring group guarantee implementation, MBK² in Indonesia and Utakarsh in India³.

From the standpoint of the client protection, tracking exercise of group guarantees (i.e., how many times group guarantee is invoked) and defaults at individual level assumes importance since they also affect the way institutions behave (especially in saturated markets) and monitoring of group guarantee can help in protecting clients in multiple ways:

- Client repayment history (individual defaults and individual contributions to others in the case of defaults in a group) can be incorporated in the loan decision process and can help to strengthen the repayment capacity analysis. (*Principle 2: Prevention of Over-indebtedness*)
- An early warning system (exercise of group guarantee) can help management detect and mitigate delinquency risks at an early stage as MFI can work on customized follow-up with delinquent client based on her situation. (*Principle 5: Fair and respectful treatment of clients*)
- Ensuring that group members are trained to handle collection from defaulting peer group member. (*Principle 5 : Fair and respectful treatment of clients*).
- Could also help to investigate and track reasons for client drop out, as members may be forced by groups to drop out because of frequent defaults. (*Principle 1: Appropriate Product Design and Delivery, Principle 2: Prevention of Over-indebtedness, and Principle 5: Fair and respectful treatment of clients*).

¹Incidence of Loan Default in Group Lending by Mani Arul Nandhi at <http://www.centre-for-microfinance.org>.

²"Mitra Bisnis Keluarga" (MBK), or "Family Business Partners", is a microfinance institution that works in Indonesia. Using the Grameen methodology, MBK provides working capital to low-income women in Java, Indonesia and has a client base of over 275,000 as of [31 December 2012]. Website : <http://mbk-ventura.com/en/>.

³Utkarsh microfinance private ltd is a microfinance company operating in Central and Northern India with headquarters in Varanasi and client base of over 197,874 as of [31 March 2013]. Website : <http://utkarshmfi.com>.

Objective of the Tool:

“Monitoring Individual Repayments in Group Guarantee”⁴ is a tool⁵ that hopes to generate interest in sharing of more experiences and discussions on how best to track exercise of group guarantees at individual level in the sector. We hope that the tool will be used to develop a robust system for tracking group guarantee implementation at individual level.

Tool Design and Applicability:

The tool demonstrates two simple approaches of monitoring implementation of group guarantees. The MBK approach is more structured while the approach for Utkarsh is informal. Both these approaches have some features that can be adapted or improved based on specific requirements of stakeholders or MFIs. The Smart Campaign hopes that the information provided in the tool will help in building a pathway to developing robust systems for tracking group guarantee call/exercise.

- 1) MBK's experience in monitoring individual repayment at the group level.
- 2) Utkarsh's new initiatives in tracking group guarantee call/exercise .

For simplicity and understanding, the whole process of monitoring group guarantees at the individual level is divided into three processes:

- (1) Tracking of individual late payments at the group level;
- (2) Consolidation of information and analysis at MFI back end.
- (3) MFI Action at the field level.

Throughout the tool we will be using these three sub process to map-up the actions of the MFI in monitoring the exercise of group guarantee mechanism when individual members fail to repay.

MBK's experience in Monitoring Individual Repayment at Group Guarantee Mechanism (Indonesia)

Phase I: Tracking individual non-repayments and recording.

MBK tracks delinquencies at individual level in the following ways:

The process of tracking clients who are not making their weekly repayment begins at the center meetings wherein each group member is allocated a pre-assigned fixed seat for all meetings. In case a member is absent her place is left vacant during that meeting. Seeing the vacant seat, the credit officer is able to detect the absent member.

During the center meeting, the credit officer calls out the amount repaid by each group, cross-checks it with the Collection and Disbursement Sheet (CDS) and, in case of any shortfall, calls out to the group to meet shortfall of a delinquent member.

Every client is issued a Repayment Schedule Card (RSC or Loan Passbook) at the time of disbursement. Repayment Schedule Card gives client information about her complete repayment schedule broken down by weekly installment basis (sample Repayment Schedule Card below).

⁴Special thanks to: Mr. Amit Gupta, Dr Hema Bansal, Mr. Aditya Mohan (Smart Campaign Team, India) and Mr. Shafiq Dhanani (President Director & Founder MBK, Indonesia), Mr. Gonind Singh and Indra Deo Pandey from Utkarsh Microfinance .We also thank IFC for funding the development of this tool.

⁵The Smart Campaign offers a wide range of tools for improving client protection practices among MFIs, networks, and investors. Among these are: “Smart Lending: Client Protection in the Individual Loan Process;” and “Smart Savings: Client Protection in the Savings Process.” Visit www.smartcampaign.org to download these tools, at no cost.

Snapshot of - MBK Weekly Repayment Schedule (Interest Rate 20% flat per year)										
Wk	Date		Weekly Payment			Balance			Fine	Initials
No.		Code	Principal	Interest	Total	Principal	Interest	Total		Account Officer
						2000	400	2400		
1			40	8.0	48.0	1960	392	2352		
2			40	8.0	48.0	1920	384	2304		
3			40	8.0	48.0	1880	376	2256		
49			40	8.0	48.0	40	8	48		
50			40	8.0	48.0	0	0	0		
Code: 1. Attended, Paid. 2. Absent, Paid., 3 Attended, did not pay. 4: Absent, did not pay										

In compliance with Indonesia regulatory norms, MBK's actual loan card indicates the working capital and profit sharing (principal amount and interest respectively). This has been adapted to indicate the breakup of principal and interest for ease of understanding, as the tool is aimed at a broader Indian audience.

In addition, the Repayment Schedule Card is designed to track clients that are present or absent and clients who have not paid their weekly installment at centre meetings, as each client has her Repayment Schedule Card updated by the credit officer at every group

meeting. Absent, present, installment self-paid, installment paid by group members or installment not paid is monitored through a coding system based on the following four situations, explained below. Credit Officer mentions the code in green column above in the RSC.

Code	Details	Explanation
1	Attended, Paid	Present in center meeting and paid installment
2	Absent, Paid	Absent in the center meeting but paid installment (i.e., the installment is send through other group member or group leader)
3	Attended, Not Paid	Present in the center meeting but did not pay her installment, the installment is paid by other group members.
4	Absent, Not Paid	Absent in the center meeting and did not pay her installment, the installment is paid by other group members.

At the back-end of center meeting, in the Collection and Disbursement Sheet the loan officer captures more details on client's absence from the centre meeting and her weekly

installment status. In case where a client is absent, the reason for her absence from the center meeting is recorded in the CDS using the following coding system (codes 1 to 6):

Example of CDS Sheet

Branch Name		Branch ID		Product ID		Scheme ID		Centre Number		Date: / /		Collection Date				
Account ID				Absent / number of days						Missed Payment				Client Dropout		
Group ID:	Name	Installment Number	Loan Cycle/ Loan amount	with /Reason	Without Reason	Assisted	Status	Loan Balance	Principal Paid	Interest Paid	Weeks	Amount	Total Payment	Fines	Client Responsibility Fund	Dropout Code
																K, L, S (as defined below)

Absence/ Non-Payment in Center Meeting: Coding System used in CDS

Code	Reason for absence	Code
1	Working	K
2	Childbirth	L
3	Illness	S
4	Permission from the Chair	I
5	Moved to other location	G
6	Without a reason	T
7	M1	Present, other center clients paid for delinquent client
8	M2	Absent, other center clients paid for delinquent client
9	M3	Absent, other center clients did not pay for delinquent client

In addition, the CDS also records information on who has paid the weekly installments for the absent clients: other group members as part of their group liability responsibility or if the installment has not been paid at all (codes M1 to M3). The credit officer, at the center meeting, is able to identify and document the number of

times a client is absent and or is not able to repay on time from the client's repayment schedule card and the center CDS. The credit officer is thus able to record and determine the precise cause or causes for delinquency, and whether and how many times other centre clients have been paid for delinquent clients.



Phase II: Consolidation of Information and Analysis at MFI back end

All the data on client absence in centre meetings and non-repayment contained in the weekly CDS is subsequently entered in the Management Information System (MIS). Thus, at the next centre meeting, the updated CDS provides a summary of reasons for client absence and non-repayment, grouped in two categories: absence with valid reason and absence without a valid reason. The CDS also provides a summary of the number of times the client was assisted by other center clients.

In order to provide further information and a written record of actions taken by the credit officer and her branch manager, MBK has designed a special Early Warning Tracking Form (shown below). All clients that have failed to pay installment over 3 weeks are recorded in this monthly form. The form summarizes important information of each of these clients, including the cumulative number of times each client was assisted by other clients, her principal amount and current outstanding amount, her loan cycle and period of weeks in the present cycle, and actions taken by the branch to try to resolve the problem. Since this is a consolidated report for clients who have not paid three times, the codes are generic in nature and represent reason for non payment over a period of time.

MBK : Early Warning Tracking Form CLIENTS WITH REPAYMENT PROBLEMS / RISK OF DELIQUENCY (3 WEEKS OR MORE)													
Branch: _____ (/)			Area : _____ _____				Month /Year: _____ / _____						
Centre Meeting Day	Client Name	Client ID Number	Centre		Cumulative no. of weeks other clients assisted & Source of funds			Loan cycle no. Week no.	Total Loan / Outstanding	Reason (Code + Information)	Action taken (2-3 lines)	Name of Account Officer	No. of weeks AO in charge of this centre
			Name (Number)	Total Client	Pocket Money	Emergency Fund	Total						
Type of Problem (1). Moved Houses (2) Disappeared (3) Family Members Sick (4) Client Seriously Ill (5) Business not performing well (6) Migrant Labour abroad (7) Business Failure (8) Divorced (9) Other explain.....													
Branch Manager _____							Supervisor/Trainer _____						

Finally, the total number of clients at risk identified in the above form is summarized at the area level (an area consists of 5 to 6 branches). The Area Supervisor uses the form for her own

follow-up action, as well as to provide a summary of the situation in her area to head office.

Phase III: Action at Field Level

Information and reports generated above are used by the credit officer to follow up and resolve issues related to non-repayment and absence from centre meetings with individual clients. In MBK's experience, clients tend to stay away from centre meetings because they cannot pay their installments and out of embarrassment or because they have been forced to pay for delinquent clients too often and now feel victimized. Therefore the problem of non-repayment and centre meeting attendance are often intimately related.

In order to ensure that clients, group leaders or center leader do not use coercive practices for making a client pay, MBK has developed a clear escalation policy defining the action to be followed while dealing with delinquencies at group level, salient points of delinquency management process are discussed below.:

- In case the client is absent but has sent her weekly installment to the centre meeting through another client or her group leader, the credit officer visits her house to cross-check the reason for their absence. In case of illness, this represents a courtesy visit to show concern and provide moral support and encouragement. However, credit officer reiterates the importance of regularly attending the center meetings.

- In case a client is absent but payment is made by the group to cover for her, the credit officer, along with the group leader or center leader, visits the client to understand her problem. During this visit the credit officer attempts to validate the reason for the non-repayment of the installment including personal reasons, business reasons or if she has multiple borrowings (as mentioned in CDS before). The credit officer also discusses how the client is going to resolve her problems for the next installments, as well as reimbursing her other centre clients who have paid on her behalf. The client is given a warning in case the center clients are often required to meet her deficiencies. Client family members are also involved in the discussions. Further, even if clients default at the center level,

their repayment history is tracked and during subsequent loan cycles these members are not provided loans or are provided smaller loan size.

- For clients who are absent and their installment have not been paid by the centre, the credit officer, accompanied by the center chair, repeats the same process as above. In this case however, credit officer will request the client's husband or other family members to assist her in meeting her weekly installment. If the problem cannot be solved at the client level after the centre meeting, the credit officer reports the incident to the Branch manager. The Branch Manager, accompanied by the credit officer and the center chair, will visit the client and her family members to resolve the problem.

- The monthly information summary on client delinquency contained in the Early Warning Tracking Form is forwarded or available to the organization at several levels. This form as well as the Repayment Schedule Card and the summary information contained in the CDS allow problem-solving actions as follows:

- * The Area Supervisor, when visiting each branch under her supervision once every ten days, prioritizes centre visits and clients at risk identified in the above monthly form.

- * Internal Auditors, during their six-monthly branch audits, also focus on the clients at risk, and try to understand why and how the problem has developed.

- * The form is sent to head office on a monthly basis, where clients at risk receive special attention in engaging with delinquent clients. Head office officials, through regular phone calls and when undertaking field visits, will also enquire about the status of clients at risk, and prioritize their visits of centers with clients at risk or in arrears.

Utkarsh's experience in Monitoring Individual Repayment at Group Guarantee Mechanism (India)

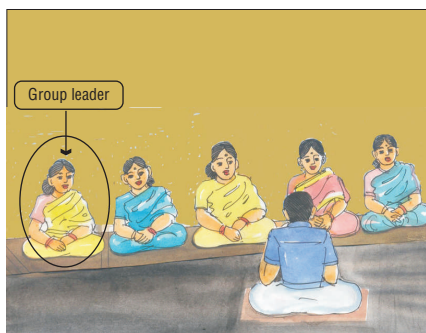
Phase I: Tracking individual non-repayments and recording.

At Utkarsh, the centers where repayments of a particular client are obtained by imposing group liability are categorized as “immediate attention centers” and defaulting clients are flagged as “clients in immediate attention center”.

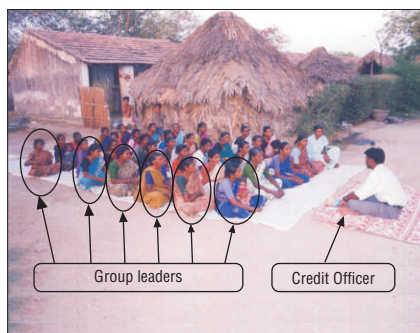
The process of monitoring repayments and late or not payment at Utkarsh is given below:

During the Centre Meetings, clients are required to be seated by group, with each group being seated in a single row with the first Column representing the leaders row and the centre leader being seated adjacent to the credit officer.

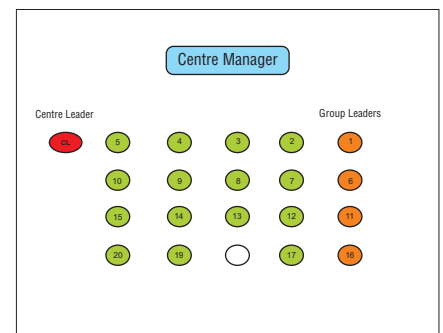
Group sitting pattern



Centre sitting pattern



Centre sitting pattern with group/centre leaders



As shown in the above arrangement, each member passes on her loan passbook along with the repayment amount to the member seated adjacent to her. The process continues till the group leader receives the full amount corresponding to the loan cards from the members. The group leaders submit the loans cards and amount collected to the centre leader. The centre leader consolidates the repayments at a centre level and submits the cash and passbooks to the Credit Officer for making an entry.

At this stage in case of any short-falls being detected by the group or centre leader, this is reported to the Credit Officer (through the process discussed in previous step).

The Credit Officer then advises the centre to take a collective decision to contribute towards the delinquency and records the meeting's proceedings. Other center clients pay for the non-paying clients and Credit Officer classify the centre and client in “immediate attention” category. This note is put by the credit officer in the collection sheet and also communicated to Branch Manager and Area Manager.

Phase II: Consolidation of Information and Analysis at MFI track end

The information on **Immediate Attention Center (IAC)** where group guarantee is exercised is reported to the Branch Manager by the Credit Officer.

The Branch Manager visits the center and classifies these centers on 2 categories on the

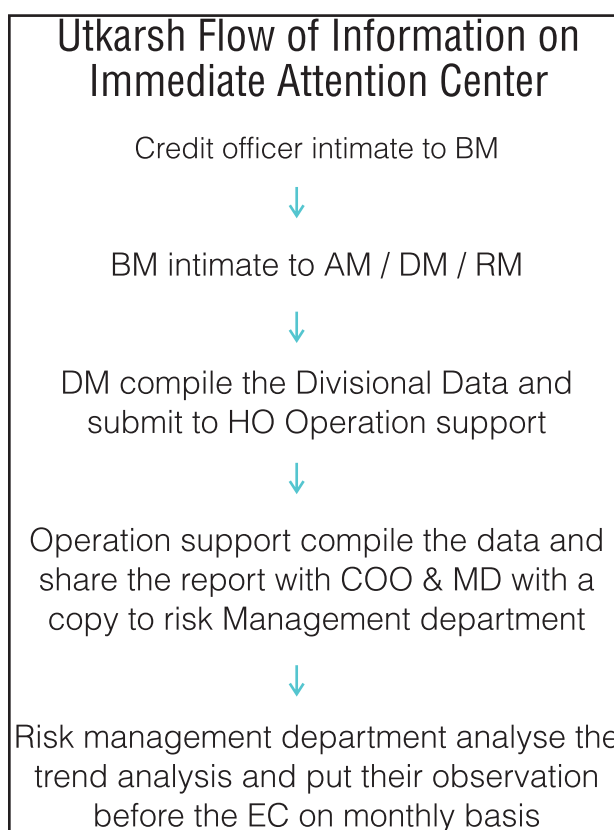
1. Centers where group guarantees are exercised occasionally.
2. Centers where group guarantees are exercised regularly.

The Branch Manager (BM) is required to report these cases to senior officials and other departments as per the below matrix.

Incidence	Reported by	Reported to	Period	Phase III - Action Plan
Centers where group guarantees are exercised occasionally.	Branch Manager (BM)	Area Manager Divisional Manager (AM) / (DM) / (RM)	Same day	<ol style="list-style-type: none"> 1. AM monitors the trend. 2. BM visits the center meeting and motivates clients for maintaining center discipline.
Centers where group guarantees are exercised regularly.	BM	AM/ DM / RM	Same day	<ol style="list-style-type: none"> 1. DM personally visits the center same day. 2. DM guides AM (Area Manager) to visit center meeting to motivate the clients 3. On the basis of gravity of the instances, matter is also reported to the RM (Regional Manager) and RM also visits the center.

Based on the follow-up visits and information about centers where group guarantee are being exercised, the Divisional Manager prepares an Immediate Attention Center Report (IAC) and forwards it to the Operations Support Manager at the Head Office. The Operations Support Manager is required to consolidate all the IAC Reports from various regions prepare a consolidated IAC Report for the institution (report format attached below in Anex 1). This report is submitted to the COO & Risk Management Department.

The Risk Management Department uses the report to determine the risk levels of an area / division / branch, based on the IAC and report. This data is compared with historical performance to track developing repayment trends and patterns (risk report attached in Anex 2). COO monitor risk and repayment performance.



Phase III: Action at Field Level

The members of the supervisory team are expected to monitor if the processes are adhered to by the staff and staff is trained to handle difficult situations.

The Risk Management team also analyzes the data by branch, division, area and region in terms of the concentration of immediate attention centers and clients. Based on monthly trends, the management keeps a tight vigil on areas / branches with worrying trends and recommends revision of loans to the branch manager and credit officer (like suggest branch not be increase portfolio, maintain or reduce caps on amount of loan disbursed).

Conclusion

In conclusion, both MBK in Indonesia and Utkarsh in India have observed that close tracking of individual late payment in group guarantee mechanism have helped them in number of ways:

- An early warning system (calling of group guarantee) can help management detect and mitigate delinquency risks at an early stage as MFI can work on customized follow-up with delinquent client based on her situation.
- Ensuring that group members are trained to handle collection from delinquent peer group member and ensure that no excessive pressure is put on the delinquent or defaulting member.
- Could help to investigate and track reasons for client drop out, as members may be forced by groups to drop out because of frequent defaults.

Annexure 1:

Step by step process – MBK Weekly Center Meeting:

- * Each member have a pre-assigned seating place in the center meeting and if a client is absent, the place is left vacant.
- * Each member coming to center meeting signs the register and group attendance is taken.
- * Group Leader collects all the member's pass book and their installments from the group member. Group leader counts all money and arranges the money in denotations from smallest to largest.
- * Group leader then passes the money and member Repayment Schedule Card to Group Chairman.
- * Credit Officer calls out working capital deposit (total group installment amount due) to be paid by each group. Group Chairman will check and re-count the amount of cash deposits (installments) as requested by CO.
- * CO will receive a cash payment from the Chairman of all the groups (one by one), check and count on individual group basis and if all is ok – the money is mixed.
- * Collection and Disbursement Sheet (CDS) - CO shall affix signature on the Repayment Schedule Card (per member) and mark (✓) in total deposits (collections) per group in the CDS. CDS sheet is then signed by the group Chairman. This shows that they agree to deposit money from the collection on that day according to the amount of the deposit (total due) written on CDS sheets.

Annexure 2:

Sample Report of Utkarsh

Immediate attention Center & Individual Client Tracking Report

Division	Branch Name	Center Name	Client Name	Loan Amount (in Rs.)	Outstanding Of Client as on 30 th / 31 st of previous month	Outstanding Of Entire centre as on 30 th / 31 st of previous month	Meeting Day	Meeting Time	No. of Fortnights since client is not paying her installment	Installment paid by	Fortnight Remaining	Remark
ABC	xyz	Basahi	Sangita	10,000	5,200	69,498	Monday	9am	5 (Repayment Frequency – bimonthly)	Centers's members	9	She and her husband out of village

Risk Report: Analysis on immediate action centres and clients

	April	May	Differences (I – II)	% of change
No. of immediate attention Centre	58	53	5	8.6
No. of Client of immediate attention Centre	124	88	36	29.0
Outstanding of client in immediate attention center	635317	512852	122465	19.3
Outstanding of center in immediate attention	4541395	3848886	692509	15.2