

**GUIDELINES FOR FINANCIAL MANAGEMENT
IN MYRADA CREDIT MANAGEMENT GROUPS**

The criteria for defining CMGs as good or otherwise have been outlined in detail elsewhere (*Celebrating Awareness, MYRADA RMS Paper 15*). Stages in the progression of CMGs towards becoming fully functional have also been separately delineated by various MYRADA projects.

MYRADA's role in this process of building up functional CMGs is one that has to actively promote certain features and equally actively discourage certain others in order to create meaningful systems, procedures and behaviour patterns.

LOAN RELATED	
PROMOTE	DISCOURAGE
1. All loan applications must be addressed to the Sangha and not to the office bearers of the Sangha.	1. Few members must not be allowed to repeatedly corner all loans.
2. All loan applications must be scrutinised and approved, modified or rejected in Sangha meetings only, and minuted accordingly.	2. Large loans per member must not be permitted until the CMG is financially strong and has systems of administration that are adequate to motivate and guide behaviour.
3. Repayment schedules must be finalised and minuted when loans are disbursed.	3. The practice of deciding on loans, seeing how much money there is in the CMG and asking MYRADA to meet the deficit is not credit management; it should be discouraged at all costs.
4. Service charges on loans must be clearly differentiated from recoveries, regularly recovered and entered as such in the books.	4. Loans must not be disbursed to persons (substitutes) other than the Sangha member who has actually applied for it.
5. Promissory notes obtained by many CMGs for large loans should be between the CMG and the member.	

LOAN RELATED	
PROMOTE	DISCOURAGE
6. Loans (cash or cheques) must be disbursed only at Sangha meetings.	
7. The practice of giving a second loan before the first is repaid should be carefully assessed, particularly if there are overdue instalments.	

FUND MANAGEMENT RELATED	
PROMOTE	DISCOURAGE
1. Frequent rotation of common fund for diverse purposes signifies an active CMG.	1. Large sums of money lying unutilised for long periods represents "process blocks" that have to be analysed and cleared.
2. Fund management becomes responsible when it consists of the members own hard earned money. Therefore, project contributions should take care that the balance between members money and project money facilitates rather than destroys responsible behaviour. (There are examples where: (1) Project contributions have made members take careless decisions which they would not take with their own money. (2) Members have rotated only the project money, keeping their own savings intact.)	2. Large amounts of money for infrastructure, community programmes, or even credit management should not be routed through the CMG since this can distort the working of the CMG to fund monitor rather than fund management.
3. All accounts should be in the name of the CMG itself, and not in the name of one or more members	3. No money transactions should be conducted outside the meetings, whether it relates to loan disbursements, collection of savings & repayments, or decisions with regard to using funds for community programmes.
4. Signatories to the CMG bank account must be rotated periodically.	4. MYRADA staff should not handle CMG money. Their role is only to support, advise, guide and train. They should not function as CMG office bearers; neither should they accept (even informally) to perform those functions that are expected to be performed by the CMG members themselves (e.g. depositing money in the bank, making withdrawals, making purchases etc.)

FUND MANAGEMENT RELATED	
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5. Fund management tends to improve if CMGs display charts showing lists of members, loans, recoveries, overdues, balances and other activities.	5. No CMG member or office bearer should hold cash balances at any time.
6. All decisions regarding fund management and fund utilisation should be verifiable through the minutes of the CMG.	6. The possibility of members obtaining CMG funds at lower service charges & lending it to others at higher rates should be borne in mind while deciding on service charges.
7. A CMG should preferably have only one account for the common fund. The practice of keeping savings in one account and recoveries in another need not be discontinued but carefully assessed as to whether it fosters better management.	
8. CMG purchases should be handled by an appropriately appointed Purchase Committee.	

SAVINGS RELATED	
PROMOTE	DISCOURAGE
1. The savings habit must be encouraged as a value in itself, and not just as a means of increasing the CMG fund position.	1. The practice of equal savings by all members each month regardless of the fact that some members may at times be in a position to save more has to be reviewed. (The fear in many CMGs is that members saving more will gradually dominate decision making, particularly with regard to fund utilisation.
2. Regular monthly savings must be insisted upon in the case of all CMG members.	2. Several CMGs make a distinction between members savings and contributions to the common fund. While contributions are non-refundable, the practice of withholding savings of members leaving CMGs (either voluntarily or forcibly) should be discouraged at all cost. (There are instances where such a decision has resulted in a drop in savings among other members who fear the same consequences).

SAVINGS RELATED	
PROMOTE	DISCOURAGE
3. There may be seasonal variations in the amount saved per member. Many CMGs take such seasonal variations into account in fixing the minimum monthly savings expected from members. The practice of fixing a minimum amount to be saved each month is good.	3. Even if MYRADA is approached to make contributions to the CMGs for various purposes money to pay interest on members savings or incentives/ dividends to members, should never come from MYRADA but be generated by the CMG itself, through efficient fund management.
4. All CMGs must have a policy on how to manage the savings of members who : (a) leave the group voluntarily (b) are asked to leave for some reason.	
5. All CMGs must maintain individual savings registers in the CMG and individual pass books given to members.	
6. Payment of interest to members on savings is not a widespread practice but one that is worth considering and promoting.	
7. Many CMGs permit their members to save in the CMG for a particular purpose - e.g., weekly savings to build up the necessary amount to pay a bank loan instalment when it falls due. When the amount is taken by the member, it is not as a loan but as a withdrawal of savings. Such practices may be encouraged as they add a further dimension to the role of CMGs in meeting members need.	

BOOK-KEEPING RELATED	
PROMOTE	DISCOURAGE
1. All CMGs must be trained to keep certain basic books and documents as detailed in the next section of these guidelines.	1. The practice of keeping CMG books with MYRADA staff or in the MYRADA office should be discouraged.
2. All books must be kept upto date, with transactions being recorded as soon as they occur.	2. Money for purchase of books & stationery may come from MYRADA at the initial instance but this cannot be a permanent

BOOK-KEEPING RELATED	
PROMOTE	DISCOURAGE arrangement.
3. All CMGs must close the books by the end of each calendar year.	3. MYRADA staff may definitely have to assist the CMGs in maintaining their books and documents but to take on the role of writing up the books on a permanent basis is not the job of MYRADA.
4. CMGs must be helped to evolve their own (appropriate) mechanisms for bookkeeping. This may either take the form of training some among themselves or seeking the assistance of some other literate members of the community on a voluntary or paid basis.	4. If a CMG retains a person on an honorarium/wage basis to keep accounts, the wage will have to be generated by the CMG and not expected from MYRADA.

AUDIT RELATED	
PROMOTE	DISCOURAGE
1. CMG Accounts must be audited atleast twice a year.	1. Disposal of CMG-owned assets cannot be undertaken without the approval of members and appropriate documents.
2. CMG Auditors must ensure that concerned staff and CMG representatives are present at the time of audit.	2. Members who have purchased assets with CMG assistance cannot dispose off the same while loan instalments are still due, without adequate reasons that have the approval of other members.
3. Audit report must be presented to the CMG in the language in which it can be understood by members.	3. A single CMG accountant cannot be responsible for more than 30-35 CMGs if the project expects a good performance from the concerned staff.
4. Audit reports should be taken note of for immediate and appropriate follow up action. A regular, <u>recorded</u> system should be established by the Project Officer to follow up audit remarks.	
5. CMG Auditors should not only scrutinise and tally books but also take up the task of asset verification.	
6. Insurance of assets and settlement of claims, etc. have to be verified by CMG	

auditors.	
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TRAINING RELATED	
PROMOTE	DISCOURAGE
1. Training needs of CMGs should be periodically assessed by the Project staff and appropriate training given.	1. The practice of paying compensatory wages for CMG members attending training programmes should be firmly discouraged. Instead, if necessary, a contribution can be made to the CMG common fund.
2. Project staff in general and CMG accountants in particular must pay attention to training CMGs in maintaining their own books and documents	
3. The project must pay attention to staff training needs in so far as the staff are expected to perform the various functions listed above and foster the development of healthy CMGs.	
4. Many CMGs have the practice of collecting fines from members who miss attending training programmes. This is a healthy practice.	

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