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Joint Liability Groups: A Regional Study of Microfinance Initiative

Abstract

Poverty is at the centre of major economic problems faced by India. Many put poverty as the root cause of other socio-economic problems which includes population explosion, unemployment, child labour, and crimes. When we talk about the microfinance mechanism, it runs on formation of groups or group based mechanism where people come together in groups for specific purpose. It is not just convenient rather more practical to lend to small groups instead of individual as it ensure timely repayment of loan and also to borrow loan from microfinance institutions. A Joint Liability Group is generally a group of 5 to 10 who come together to borrow from an microfinance institution. The members in a JLG are also from related socio-economic backgrounds and usually the same area. A JLG is different from SHGs in that the members share liability, or stand guarantee for each other. The data has shown that there has been difference in the performances of six regions considering two parameters i.e. number of JLGs promoted and loan amount disbursement.

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Introduction

Poverty is at the centre of major economic problems faced by India. Many put poverty as the root cause of other socio-economic problems which includes population explosion, unemployment, child labour, and crimes. Reduction of poverty has been priority as well as challenge for every government policies from the very start of independent India. Although the success in poverty alleviation could been but is not even near to be satisfactory as even after seven decades significant portion of population is living in poverty. Thus, bringing people out of poverty is a matter of fundamental importance. According to the World Bank 1.4 billion people had a consumption level below $1.25 per day and 2.7 billion people had a consumption level below $2 per day. Thus, poverty implies a condition in which a person finds him unable to maintain a living standard adequate for fulfilment of basic requirements. Poverty could be seen as absolute as well as relative concept.

According to Adam Smith, “Man is rich or poor according to the degree in which he can afford to enjoy the necessaries, the conveniences and the amusements of human life.” Poor people can save and want to save, and when they do not save it is because of lack of opportunity rather than lack of capacity. People with little or no saving with them is not always because there is lack of capacity but many a times because of lack of opportunity and options that have and thus, when they require a comparatively larger sum of funds in hand to meet lifecycle requirements, emergencies, or to purchase some asset, they miss out on all those corners of life. The need of formal financial sector arises here for the poor to provide him with option or a way to save for the future arising requirements. Thus, microfinance proves to be a mechanism which could be the solution to this and many other socio-economic issues. Microfinance is an innovative instrument designed to reduce poverty through financial inclusion, socio-economic empowerment, and self-reliance. Thus microfinance can be stated as the provision of financial services to the poor through deposit and credit.

The main element of the microfinance is the microcredit which has evolved as popular tool for poverty eradication. The National Bank for Agriculture and Rural Development (NABARD, 1999) defines microfinance as, “the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi urban and urban areas for enabling them to raise their income levels and improve their living standard.”

Brief History of Microfinance

The concept of microfinance started progressing and took a go forward in late 1970s. Although the microfinance structures has credited with long history as the first use of microfinance has been stated to the beginning of the 20th century.

The SEWA bank started in 1972 but was established in 1974 in current form, named as Mahila SEWA cooperative bank with the aspiration of making financial services accessible for the women. The term SEWA stands for "The Self Employed Women's Association." Later National Bank for Agriculture and Rural Development (NABARD) with the Mysore Resettlement and Development Authority (MYRADA) conducted pilot testing in group lending during 1986-87 with their Self-Help Groups bank linkage programme (SBLP). From there onwards it has spread out to whole of India in form of different models such as Individual Banking model, Non-government organisation-microfinance institution (NGO-MFI) model, Bank Participation model, and SBLP model. The formal practices in microfinance started in the year 1992 when the NABARD inaugurated the BANK-SHG Linkage programme. In 1998, as decentralisation process Kerala started its own state wide programme paraphrased as "Kudumbasree" followed by many caste specific programmes such as SNDP, NSS and SCC.

Group Based Credits

When we talk about the microfinance mechanism, it runs on formation of groups or group based mechanism where people come together in groups for specific purpose. It is not just convenient rather more practical to lend to small groups instead of individual as it ensure timely repayment of loan and also to borrow loan from microfinance institutions. This is also because of peer pressure that ensure that loan borrowed is repaid and from MFI's point of view, it becomes cost-effective as loan when lend to group reduces per head cost. Also, the need to have collateral if loan is made to group is less or isn't required.

There are two forms of Group Based Credit:

Self-Help Group (SHG)

The leading model of microfinance in India encircle around the "Self Help Group" (SHG). It is an informal setting where around 15 to 20 members come together to form a group or association which is homogeneous in some context. The basic purpose is to encourage savings among the members of the group. These groups are generally formed by women and they deposit their savings with banks and get loan against that. Loan is given to the member who is chosen by the group. The foremost objective of the SHG is to provide credit access to the poor household on the sustainable basis. The SHG perform three basic principal functions: (i) SHG acts as an intermediary in transaction with the formal financial sector; (ii) they provide an instrument for service delivery; (iii) SHG provides platform for greater participation by the local community interactions.

Joint Liability Group (JLG)

A Joint Liability Group is generally a group of 5 to 10 who come together to borrow from an microfinance institution. The members in a JLG are also from related socio-economic backgrounds and usually the same area. A JLG is different from SHGs in that the members share liability, or stand guarantee for each other. If any of the members default, the other members need to pool in money to repay the MFI. This ensures a greater effort on part of the members to ensure that everyone repays, thus ensuring resulting in better accountability and security for the MFI involved.

Joint Liability Groups (JLGs)

(Wikipedia)Joint Liability Groups is a concept established in India in 2014 by rural development agency NABARD to provide institutional credit to small farmers. JLP is a group of 4 – 10 people of same locality of homogenous nature and of same socio- economic background who mutually come together to form for the purpose of availing loan from a bank without any collateral. (Rupnawar & Kharat, 2014)The Banks & various financial institutions may provide finance to JLGs by either financing individuals in the group or financing as a group. According to the size of the group, nature of group activity, NABARD has suggested two models to avail the finance to JLG.

Model 'A' - Financing to the Individual in the group

1. Each member of the JLG should be provided an individual Grant Card (GC) from the bank.
2. The financing bank branch should assess the credit requirement of such individual on the basis of land available & land cultivated by him. In addition to this credit absorption capacity of the individual is also assessed.
3. All members of JLG would jointly sign an undertaking/inter se assuring to bank for jointly and severally all the members are responsible for loan provided to individual.
4. Any other member of the group or new entered member applied for the loan, new loan agreement and undertaking should be signed by all members of JLG.

Model 'B' – Financing JLG as a group:

1. The group will be eligible for accessing loan (i.e. combined credit requirement).
2. The credit assessment of the group should be decided on the basis of total land available with all group members and total land cultivated by all group members.
3. All members should jointly signed undertaking/inter se about joint liability.
4. Any change in the composition of group will lead new document being registered with bank branch.
5. The JLG who undertake saving apart from credit is require maintaining detailed books of accounts.
6. Each member will be graded by bank on the basis of performance parameter.
7. The need of the credit will be decided on the basis of combined credit plan and need of the each individual in the group. But saving of the

group should not be considered while availing loan.

Methodology

The regional study of the performance of Joint Liability Groups is done through using tables and graphs to show comparative study. The data is collected on the basis of secondary data available on government websites of RBI and NABARD and annual reports. Data is collected through various published research papers, newspapers, magazines etc.

A Regional Analysis

To do regional study and analysis status of microfinance under Joint Liability groups as group based credit system. The thirty states including UTs are classified into six regions, and comparison has been shown among these on two major basis of performance i.e. on the basis of number of JLGs promoted during the period of five years from march, 2012 to march, 2017 and secondly on the basis of loan disbursed during financial year from 2012-13 to 2016-17. The data has been presented below showing number of JLGs promoted as on March of each year from 2012 to 2017:

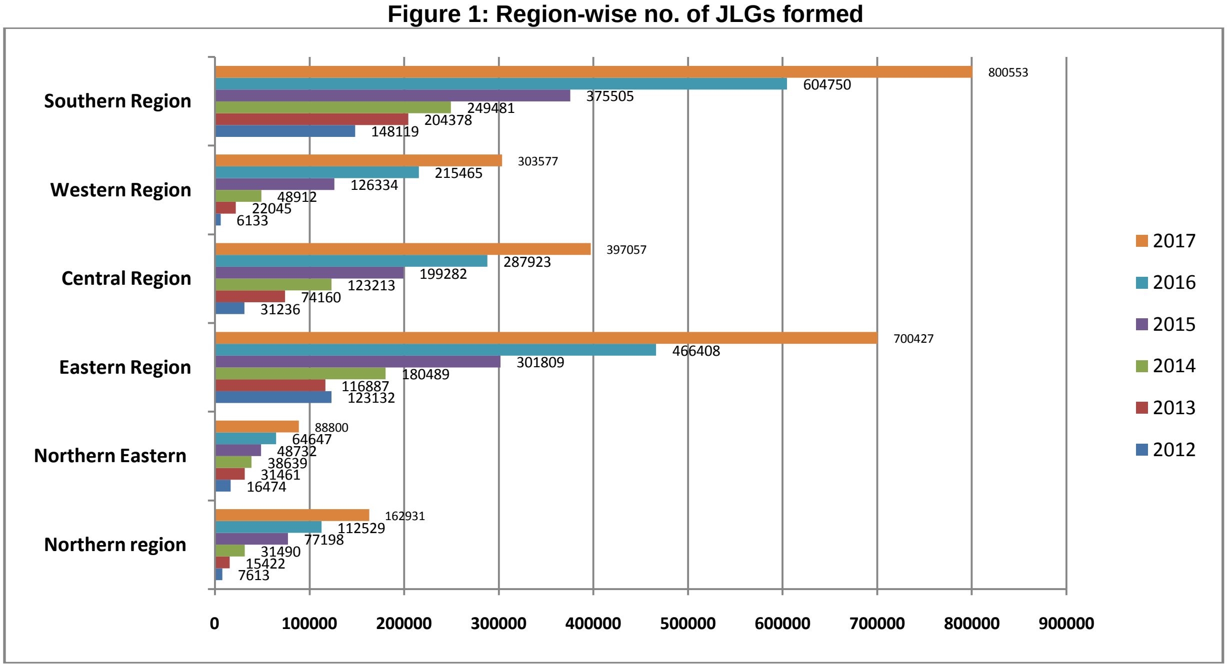
Table 1: Region-wise number of JLGs promoted

Year/Region	March, 2012	March, 2013	March, 2014	March, 2015	March, 2016	March, 2017
Northern region	7613	15422	31490	77198	112529	162931
North Eastern	16474	31461	38639	48732	64647	88800
Eastern Region	123132	116887	180489	301809	466408	700427
Central Region	31236	74160	123213	199282	287923	397057
Western region	6133	22045	48912	126334	215465	303577
Southern region	148119	204378	249481	375505	604750	800553

Source 1: Status of Microfinance in India, NABARD Reports, (Various)

In the data analysis we find that during the year ended 31 March, 2017, there are 2453345 JLGs formed. The regional disparity could be seen clearly and the gap hasn't minimized as it should have been during the 6 years.

Figure 1: Region-wise no. of JLGs formed



The regions which have done well in this group based credit system is southern region having 162931 JLGs promoted during the year 2017 and the region which has lagged behind is north-eastern region with only 88800 JLGs promoted during the same year. If we see growth in percentage evaluating which region has shown growth, we find that western region has shown tremendous growth of 48.50% in number of JLGs promoted followed by northern region with 20.40%, central region with 11.71, eastern region with 4.69, southern region with 4.4%, the region which has performed worst in this is north eastern region with only 4.39%.

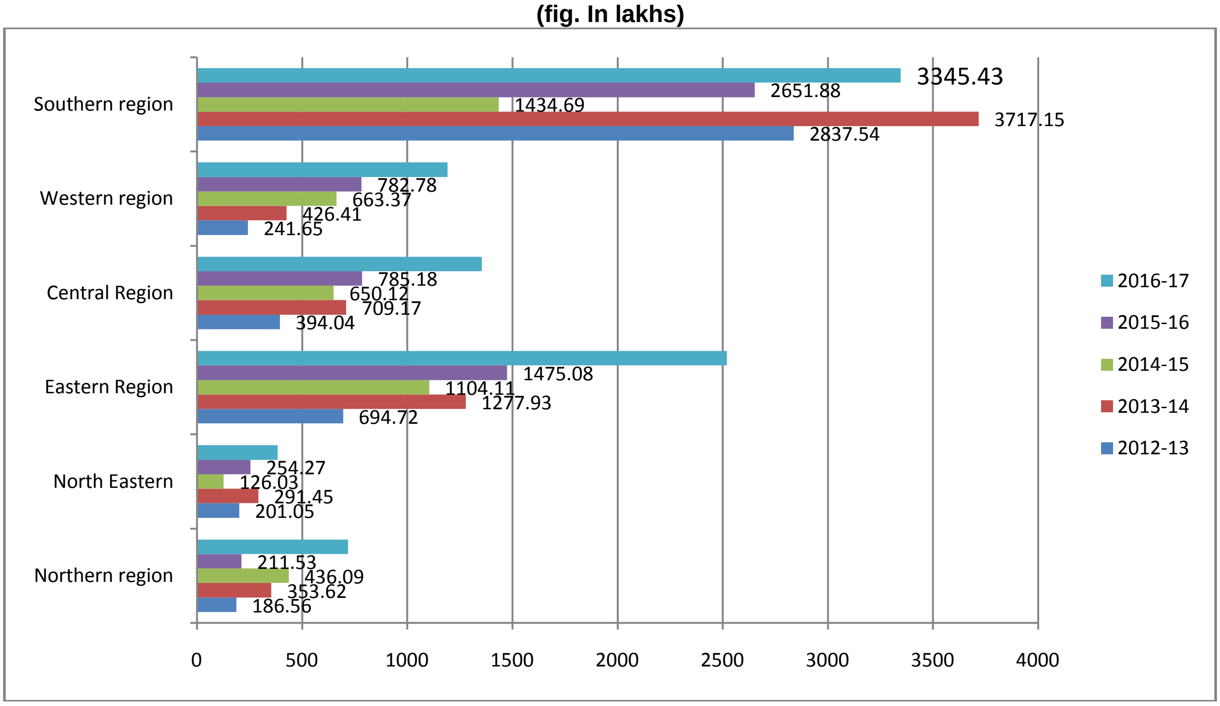
In this section of data analysis, we look at the amount of loan disbursed i.e. Rs. 9511.17 lakhs has been disbursed during the year 2016-17. The regional disparity could be seen clearly in this section also. We would be looking at the amount of loan distributed among the regions and which region is performing well.

Table 2: Region-wise loan disbursed to JLGs
(in lakhs)

Year/Region	2012-13	2013-14	2014-15	2015-16	2016-17
Northern Region	186.56	353.62	436.09	211.53	718.26
North Eastern	201.05	291.45	126.03	254.27	383.14
Eastern Region	694.72	1277.93	1104.11	1475.08	2519.24
Central Region	394.04	709.17	650.12	785.18	1353.81
Western Region	241.65	426.41	663.37	782.78	1191.29
Southern Region	2837.54	3717.15	1434.69	2651.88	3345.43

Source 2: Status of Microfinance in India, NABARD Reports, (Various)

Figure 2:Region-wise loan disbursed to JLGs
(fig. In lakhs)



Data analysis shows us that during the financial year 2016-17 the region which distributed the maximum loan is southern region of Rs. 3345.43 lakhs followed by eastern region with Rs. 2519.24 lakhs, central region with Rs. 1353.81 lakhs, western region with Rs. 1191.29 lakhs, northern region with Rs. 718.26 lakhs, and the region which has been not doing so well again comes to be north eastern region with disbursement of Rs. 383.14 lakhs. The growth indicator of the loan disbursement in percentage shows different trend as the region that performed best is western region which has shown growth of 3.93% followed by other regions and the region did not so well is southern region with just 0.18%.

Conclusion

Microfinance is good tool for financial inclusion of poor into mainstream banking activities whether it is saving or loan distribution or insurance related activities. Earlier, banks treated poor people badly and were ignorant of their needs of financial instruments due to their inability of producing enough collateral for loans. They also excluded them from mainstream baking because their transaction costs to serve the poor were higher in comparison big loans generally provided by banks. The microfinance has been planned in such a manner that they can overcome the issues like risk and cost that are generally faced by formal financing. JLGs operate in tow models lending money to individual in the group and lending whole group. The data has shown that there has been difference in the performances of six regions. While southern region has been constantly doing well in both promoting JLGs and in disbursement of loan to JLGs, north eastern region has failed to speed up and have lagged behind other regions. The western region has shown promising growth in both of the parameters. JLGs could be the next big thing if necessary innovation in process is done according to the region's requirement of their own specific needs.

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