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Inclusive growth on joint liability group

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Abstract
According to the latest update done by the World Bank, India is home to almost one third of the world's poor. Though there are so many poverty alleviation programs are currently active by central government and state government in India, microfinance plays an important role to financial inclusion. In the past few decades it has helped out remarkably in reducing the poverty. Analysis show that people who have taken microfinance have been able to increase their income and hence to improve their standard of living. Microfinance is not only about giving micro credit to the poor rather it is an economic development tool whose objective is to help poor to work their way out of poverty. It covers a wide range of services like credit, insurance, savings remittance and also non-financial services like training, counselling educating etc. Microfinance institutions serve as a supplement to banks and in some sense a better one too. The main two forms of group-based credit are - Self-Help Group (SHG) & Joint Liability Group (JLG). This paper discusses all about the Joint Liability Groups which include JLG formation, socio economic impact and JLG problems.

Keywords: Joint liability groups, micro-finance, MFI, poverty alleviation, financial services to the poor

Introduction
India's economy growing day by day at a steady rate of 5.9 percent and most of the growth is happened from service and industry sector. Agriculture sector in India needs more attention as it provides livelihood. It is sure that the contribution from agriculture sector to the national income is not in line with the number of people engaged in that sector, which need for an immediate attention for increasing the production and hence for a prosperous agricultural economy for future development. Majority of Indian farmers with small land holdings were unable to afford these investments from their savings, as it has been rightly stated " the farmers in the underdeveloped countries cannot be expect their capital needs to come from savings, because their income from farm operations is barely sufficient to provide the minimum necessities of life" (Roy, 1994). This makes the farmers to go for search borrowed funds, to a large extent.

Until recently, poor persons applying for micro loans in order to improve their self-employment opportunities were mostly excluded from the formal credit market. As a consequence, they were either unable to be self-employed, or if they had started their own micro enterprises business due to inadequacy of capital which inhibited expansion of their business. The concept of financial inclusion can be traced back to the year 1904 when Co-operative movement took place in India. It gained momentum in 1969 when 14 major commercial banks of the country were nationalized and lead bank scheme was introduced shortly thereafter. Financial inclusion implies accessing of financial products and services like, savings facility, credit and debit cards, electronic fund transfer, all kinds of commercial loans, overdraft facility, cheque facility, payment and remittance services, low cost financial services, insurance (Medical Insurance), financial advice, old age pension and investment schemes, access to financial markets, micro credit during emergency and entrepreneurial credit.

In order to develop effective credit products for mid segment clients having access to productive assets, NABARD had introduced the JLG project during 2004-05 in eight states of the country through 13 RRBs by the mechanism of JOINT LIABILITY GROUP (JLG) SYSTEM. Joint Liability Group (JLG) A Joint Liability Group is usually a group of five to ten who come together to borrow from an MFI.

The members in a JLG are also from similar socio-economic backgrounds and usually the same village. 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 lending schemes have positive impact on the repayment performance of borrowers. The expected success was normally attributed to the non–traditional characteristics of the collateral, specifically social collateral used. In the sense that social collateral of borrowers takes the place of traditionally accepted forms of physical collateral, Joint liability lending relied upon social capital of the group. JLG mechanism could encourage microfinance amongst clients where formal banking system had rarely been able to provide credit.

Joint Liability Groups (JLGS)

Each year the group members who want to borrow for seasonal production costs sign a contract in which they accept liability not only for their own individual loans, but also for the loans borrowed by other members of their group and hence the term 'joint-liability'. A basic requirement for joint-liability security for Bank loans is that the farmers concerned, form themselves into groups of people who know and trust each other. These groups may vary in size from a minimum of 4 to a maximum of 10 farmers depending on the need and circumstances. The loans are made by the bank to individual farmers or to the group collectively. The amount borrowed by each person depend on his or her individual needs, subject to a maximum of certain prescribed amount in the policy (say Rs. 50,000) which can be borrowed with this form of security. The JLGs should necessarily comprise the farmers or entrepreneurs (undertaking production of the same crops or group of crops or undertaking non-farm activities to ensure cohesive functioning and facilitate procurement of inputs, processing, marketing, etc.) All the members of the JLG should be residing in the same village / compact area and not drawn from different / distant places

Review of Literature

A significant part of demand for credit by rural households happen in order to avoid the financial burden of crop failures, illness, death, and health care. In the case of micro enterprises, credit may have to achieve a affordable and viable scale of activities. The rising entrepreneurship making rural, semi-urban and urban areas, particularly in the unorganised and informal sectors may give rise to large potential demand for credit. The results on the demand for credit in India suggested that the major reasons for household borrowings were health and financial emergencies. health emergencies were particularly high for the lowest income people (IIMS, 2007). Financial inclusion was also effected by specific credit needs of various segments of the society. The demand for credit by the people were used for a number of activities such as housing, farming, micro enterprises, agricultural operations and consumption needs. Owing difficulties to accessing formal sources of credit, the poor peoples and small and micro enterprises usually rely on their personal savings or internal resources to invest in housing, health and education, and entrepreneurial activities to make use of growth opportunities for their livlihood (World Bank, 2008).

Pati (2010) [2] explains that in India an array of financial institutions were operating in rural financing area. The idea was to provide efficient service to the rural sectors so that the rural economy could provide the necessary input to make the the overall economy. Abdul Karim and Zulkefly (2009) [3] bsed onther study on Microfinance and mechanism design: The role of joint liability and cross-reporting. They identified that the Microfinance lender would avoid or minimize the adverse selection problem in the credit market through peer selection and peer screening. The joint liability system was better than individual lending in terms of increasing social welfare among the poor borrower and also charging lower interest rates and generating high repayment rates. There was in need of joint liability lending programmes for better access to financial services. Sharma (2010) conducted a study on the status of different micro-finance models in India. Eight JLGs (5 members at village level) were choosed from Sitapura district and Comprehensive literature survey was conducted. The data collected were analyzed using statistical and general inferential analysis. Results revealed that India christened as a developing country with skewed distributed income structure. Every event or process to assess the shortcoming or gaps for examining the issues related with the microfinance practice, it exhibits direction and trends, which helps in locating the loopholes and the way forward. Guush Berhane Tesfay (2009) [5] conducted a study on the econometric analysis of microfinance credit group formation, contractual risks and welfare impacts in Northern Ethiopia. Panel data were collected from rural households in Tigray. The sample were also represented relatively active economic activity in that region. 57 randomly selected groups were surveyed.

Rajalaxmi *et al*. (2010) [6] conducted the study for accessing institutional finance: a demand side story for rural India, progressing at differential rates across the country. The sample size was 14. The primary data required for the study were collected from the households of different states and secondary data were collected from the banks and co-operative credit societies. The data so obtained were analysed using regression, rank correlation coefficient, simple linear probability model and ordinary least square estimate. It was found that the increasing access to institutional finance was not correlated with debt outstanding. The key beneficiary groups towards financial inclusion policies need to be targeted.

Mamta Jain *et al*. (2012) [7] conducted a study on financial services to excluded sectors through financial inclusion. The Indian economy achieved a high growth momentum during 2003-04 to 2007- 08 but they failed to bring down unemployment and poverty level. The country continued to suffer from the problems of poverty and unemployment and poor progress of various socio-economic indicators inspite of higher economic growth.

Statement of Problem

Present study will be making an intensive survey of implementation of JLG scheme. Not many studies have been done on this aspect in the past and the banks are moving towards financial inclusion through JLGs. Hence, it is very much necessary to study the functioning and benefits of JLGs.

Need and Importance of the Study

Banks are not just money lenders but are also powerful tool of social change. Hence, banks should ensure financial inclusion through Joint Liability Groups by providing credit, insurance, and pensions, etc. To assess the success of achieving Millennium Development Goal of halving the poverty an impact study on financial inclusion is needed. Keeping the above points in view, the present study entitled “Financial Inclusion through Joint Liability Group

Objectives of the Investigation

1. To identify the reasons for formation of JLG
2. To assess the socio-economic impact of the JLGs
3. To elicit problems faced by stakeholders regarding the JLG Programme

1. Reasons for Formation of JLGs As Opined By Stakeholders and JLG Members

Banks may initially form JLGs by using their own staff wherever feasible. Banks may also engage business facilitators like NGOs and other individual rural volunteers to assist banks in promoting the concept and formation of groups. State Government Departments like Agriculture Department also could form JLGs of tenant farmers and small farmers not having clear land title. The JLGs of such eligible farmers can also serve as a conduit for technology transfer, facilitating common access to market information; for training and technology dissemination in activities like soil testing, training, health camps and assessing input requirements. It could be observed that the two main reasons for formation of JLGs were

1. To provide quantum of credit larger than micro credit and
2. Transfer of technology.

Other reasons were

- To improve recovery performance at bank level and provide credit for long duration
- increasing group participation activities and easy access
- Flow of information on financial services and to improve socio-economic status of people
- increase in savings and remittance facilities and to provide financial literacy

Joint liability reduced the operational cost for the lending banker; facilitate smoothening flow of credit and serving a large segment of the population. The financial access through formal institutional sources increased when compared with the informal sources after group formation. Joint liability programmes ensured a greater extent the access to financial services provided by the banks.

Majority of the JLGs were being initiated and promoted by bankers, NGOs or MFIs, farmers clubs or members themselves. The responsibility of initiating JLGs and linking them to financial inclusion lies with bank officials and NGO workers especially grass root level workers. It is a Herculean task requiring immense patience, determination and a strong will to work in difficult circumstances. It is difficult to come across such people amongst the native urban men and women. Hence, most of the JLGs were initiated by bank officials who were well equipped with the criteria that were to be followed. The process of formation involves a number of steps and dealing with rural men and women often accompanied with a number of barriers and difficulties which have to be solved one at a time before indulging into the next step. Small sections of the native population who were educated and aware of the benefits of organizing people have taken upon themselves the role of initiators of few JLGs. The bankers and the NGOs or any JLG promoting institutions or agencies setup their targets and methods to achieve them as well as clientele that they were going to serve. Even in the groups where the norms and rules were not in writing, the members were fully aware of the norms and strictly adhered to them

2. Socio-Economic Impact of JLGs

The members plight, before and after availing loan, relating to various social and economic parameters could be observed. They are

a) Improvement in income

The members in extremely poor category before availing of credit, jumped to poor and average category after availing credit. This was because the JLG mechanism as a credit delivery measure had succeeded in achieving its objective to a considerable extent by augmenting income of members and if weaknesses revealed during the study are addressed properly, it would bring about excellent results. The results were same as in the study conducted by Mandira Sharma (2007), Mishra and Manesh Chowbey (2011) who revealed that there was improvement in income in post JLG situation

b) Improvement in social status

There was improvement in the social status. The social status of clients had improved in general after getting credit since the respect on the members increased after becoming the member of JLG programme. This was a big leap forward and highly visible change. The results were same as in the study conducted by Mishra and Manesh Chowbey (2011) who revealed that there was improvement in social status in post-JLG situation

c) Improvement in children education

The change in children education went to prove that simply by making credit available under JLG programme could boost literacy parameter in rural areas. The literacy level improved in terms of quality of education. In Post JLG situation it was seen that many children were sent to English medium and joined private schools as against Kannada medium and government schools in Pre- JLG situation. The results were same as in the study conducted by Mishra and Manesh Chowbey (2011) which implied that there was improvement in children education in post-JLG situation.

d) Improvement in Health

The expenditure on the consumption of pulses, fruits and vegetables increased which added for more care on health aspects and therefore there was improvement in the health aspects. In respect of health also good betterment was observed with substantial percentage jumping to average category. The results were same as in the study conducted by Mishra and Manesh Chowbey (2011) who revealed that there was improvement in health in post-JLG situation.

e) Improvement in cleanliness

From the sanitation point of view also members were more hygienic and therefore there was improvement in cleanliness of the members also. The hygienic condition of the members was because of the purchase of quality clothes, usage of disinfectants, and painting of walls and installation of mosquito nets which added to the health benefits. The results were same as in the study conducted by Mishra and Manesh Chowbey (2011) which implied that there was improvement in cleanliness education in post-JLG situation

f) Improvement in Saving

The improvement in income had a positive impact on saving habits of the poor. Such change augurs well for the economic well being of the whole nation. Due to improvement in income there was positive change in saving habits of the poor. The results were same as in the study conducted by Mishra and Manesh Chowbey (2011) who revealed that there was improvement in saving in post-JLG situation.

g) Improvement in confidence level

With rising social and economic level the confidence level of clients also got a substantial boost. The results were same as in the study conducted by Mishra and Manesh Chowbey (2011) which implied that there was improvement in confidence level in post-JLG situation.

h) Improvement in mobility

The mobility of clients had improved in good measure after getting credit. JLG programme added the benefit of participation of JLG members in gram Panchayat and other meetings since peer groups were more dynamic. The results were same as in the study conducted by Mishra and Manesh Chowbey (2011) which implied that there was improvement in mobility in post-JLG situation.

3. Problems Faced By Stakeholders

There are number of problems are also faced by the stake holders of joint liability group. they are

a) Lack of regular meetings in JLGs

Most of the bankers, NABARD officials and government officials stated that there was no regular meeting organised by JLG. Most of JLG members were marginal farmers, share croppers and landless labourers they have been found to be busy in their routine work and hence don't find time to organize a common time and plans. Due to lack of regular meeting group dynamics was not developed amongst JLG members.

b) Lack of general awareness about JLG

Bankers were even not aware regarding the support available for JLG promotion, capacity building and publicity from NABARD. Massive awareness creation programme amongst bank staff needed for promotion of JLG.

c) Lack of financial literacy of JLGs members

Lack of financial literacy was found as one of the major constraints in promotion of JLG. As most of the rural poor were illiterate, it was hard to make them understand about various facets of group dynamics and managing microfinance for productive purposes. This problem could have been solved if the branch concerned had taken pains to explain the financial aspects to the groups.

d) Lack of publicity/ promotion of JLG concept

Many respondents stated that promotion of the concepts has not been done like self help group promotion scheme. Adequate efforts were not made to publicize the JLG concept.

e) Lack of credit culture amongst JLG members

Many respondents stated that due to loan waiver scheme by government of India, there was lack of credit culture amongst group members. They assume that their loan may be waived in near future. This affects both the borrowers and lenders in terms of defaults and final health of the organization. However, efforts are to be made for educating the borrowers about such loan waivers and the probable consequences of defaults.

f) Lack of cohesiveness

Respondents observed that there was lack of cohesiveness amongst JLGs members. They operated individually and group dynamics was not working at the ground level. They organised for availing loan and thereafter they disintegrated. Due to the absence of group dynamics, peer screening, peer selection, peer monitoring, and peer pressure, which were basics of JLG, could not be developed.

g) Lack of availability of guidelines

Many of the Respondents stated that there was hardly any planning about JLG in potential linked credit plan, district credit plan or branch plan. Guidelines were not available with banks branches. Officials stated the documents for the disbursement of loan was not available with branches. This was indicative of complacent attitude of banks.

h) Lack of monitoring by banks

More than half of the officials observed that there was lack of monitoring by Banks, BLBC / DLCC /SLBC/NABARD /RBI level. Even the data regarding the progress of JLG financing was not available at any level.

i) Lack of capacity building of bank staff

Lack of capacity building of bank staff was one of the major problems. There were hardly any programmes organized to sensitize about JLG formation and nurturing. About half of the banks officials, government officials, NABARD officials NGOs and MFI staff stated that there was lack of capacity building of bank staff, which needed immediate redress.

j) Lack of motivation among stakeholders

Lack of motivation among stakeholders was due to the reason that they were also less interested and understanding on this aspect when compared with other emerging profitable models under financial inclusion drive like business correspondent model which was more serving the purpose of reaching the unreached sections of the society in rural areas.

Conclusion

With the above findings it definitely becomes clear that how joint liability group scheme has come from pillar to post by facing test of times. These scheme has brought respite to the collateral less poor in want of fund for their livelihood support. Absence of collateral for the loan has been compensated by the joint onus of responsibility taken by the members. This also brings in conducive environment for making of social capital. joint liability group introduction made it clear how people can join their hands together and uplift their way of living. The study found that there is clear indication of enhancement of social capital through JLG intervention. There were also number of reason for the formation of joint liability groups and these groups are also impact to socio economic factors. It won't be unfair to call that existence of social capital has rewarded the people with sustainable livelihood support. It has been proved how t majority of the poor being at the base of the economy.

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