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Joint Liability Groups in India: An Effective method of Group Lending Mechanism

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Abstract: *The Joint Liability Group (JLG) has become a crucial instrument for guaranteeing a sustainable means of subsistence. In the past few decades, it has helped out remarkably in reducing poverty. NABARD established Joint Liability Groups to give small farmers access to institutional loans. It is formed by a group of 4 to 10 people of the same village or locality of a homogenous nature and of the same socioeconomic background with mutual understanding to form a group to avail loan from a bank without any collateral. The group-lending programs have proven able to reach poor individuals, particularly women that have been difficult to reach through alternative approaches. NABARD's JLGL projects and SHG-Bank Linkage Programme have successfully led us to adopt microcredit programs, and thus play the lead roles in promoting Financial Inclusion in India. NABARD takes pride in the fact that the Self Help Group - Bank Linkage Programme, is the largest microfinance programme in the world. The present paper focuses on the contributions made by banks in the promotion of JLGs and the role of government agencies, particularly NABARD in this process.*

Key Words: *Joint Liability Group, Self-Help Group, NABARD, Financial Inclusion, SHG-Bank Linkage Programme.*

1. INTRODUCTION:

Among a lot of poverty alleviation programs taken up by central government and state government in India, microfinance plays an important role. In the past few decades, it has helped out remarkably in reducing poverty. Lack of access to finance for vulnerable and financially weak sections of society has been recognized as a serious threat to overall economic progress, especially in developing countries. Prolonged and persistent deprivation of banking services to a large segment of the population leads to fuel social tensions causing social exclusion; and so, in this context, poverty management has become the most crucial issue. It is often commonly agreed that one of the most important instruments of poverty management would be the viable expansion of institutional credit facilities to a large majority of individuals who neither have adequate collateral nor a dependable credit history to secure a loan repayment. Access to finance, especially for the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion (Mukherjee, 2019).

Joint Liability Groups (JLG) and Self-Help Groups (SHG) are the two primary types of group-based credit. The Joint Liability Group (JLG) concept was introduced by NABARD (National Bank for Agriculture and Rural Development) in 2006–07. JLGs are informal groups of four to ten people who get together to apply for bank loans through the group mechanism, either individually or collectively, against mutual guarantee. Small and marginal farmers comprise the majority of JLGs. In other words, they are the cultivators without the ownership of land. The JLG members offer a joint undertaking to the Bank that makes them eligible for loans. With little or no financial administration, the JLG is run with a straightforward structure. It is required of JLG members to help one another out when engaging in social and professional activities. Members should be of similar socio economic status, background and environment carrying out farming and allied activities agreeing to form a JLG so that the group would be homogeneous and organised and to develop mutual trust and respect (Swain and Kanungo, 2021). Unlike in the case of Self Help Groups (SHGs), JLGs are intended as credit groups for tenants and small farmers who do not have the proper title of their farmland or security to offer but need long term or seasonal credit to pursue their economic activities. Thus, regular savings by JLG is purely voluntary and there was no intermediation of credit by its members. Loans were given based on mutual guarantees to individuals in a group or as group loans (Tarangani and Reddy, 2014).

2. OBJECTIVES OF THE STUDY:

The objectives of the study are as follows-

1. To understand the concept of Joint Liability Group (JLG),
2. To see the status of JLGs in India and
3. To study the progress of JLGs in India.

3. LITERATURE REVIEW:

Ghatak and Guinnane (1999) showed that joint liability mechanism can be used as an efficient method to achieve better screening to contend with adverse selection, encourage peer monitoring to reduce moral hazard, give group members the incentive to enforce the repayment of loans and reduce the lender's audit coat in cases where some group members claim not to be able to repay. While joint liability has been shown to improve repayment, these institutions also employ extra instruments.

Nair (2010) found that the concept of Joint Liability Group was extremely favourable to those who could not offer any collateral to take relatively higher loans as compared to SHG loans. Group lending through JLGs helped increase capital formation, promoting income generating activities among its members from rural areas. JLGs promoted by Non-Governmental Organisations (NGOs) were found to be well organised, better performed, well monitored, and have prompt repayment capacity when compared to JLGs directly formed and managed by the banks. As compared to women JLGs, repayment and other performance were observed poor in the case of men JLGs.

According to Sharma and Mani (2016), financing JLGs is a prudent business decision. It requires group dynamics, streamlined paperwork, and prompt repayment to quality clientele.

Amit and Suranjan (2010) identified the effectiveness of group lending based microfinance programmes operating through Primary Agricultural Credit Society. The results of the study revealed that not only the marginal and semi-marginal farmers but even the landless individuals participate in JLG programme. The repayment rate within these groups was very high and the rate was about 98 per cent. The reasons for high repayment were attributed to peer pressure and group dynamics within JLG.

4. MATERIALS AND METHOD:

The present study employed secondary data only. Data were obtained from the annual publication of NABARD "Status of Micro Finance in India" for the period 2021-22 and 2022-23 in terms of the number of JLGs promoted and volume of loan amount disbursed to JLGs. Simple statistical methods like percentage and average growth rate are used in this study.

5. PROGRESS OF JLGS IN INDIA

1. Progress in the number of JLGs and Credit Disbursement

The progress of JLGs during 2021-22 and 2022-23 is described in Table-1.

Table-1: Progress of Joint Liability Groups in India during 2021-22 and 2022-23

Item	2021-22	2022-23	Change	
			Absolute	Percentage
No. of groups promoted	5408798	7000476	1591678	29.43
Loans disbursed (Rs. lakhs)	11277275.14	13337284.70	2060009.56	18.27
Loans Per group(Rs)	208499	190520	(-) 17979	(-) 8.62

Source: NABARD, Status of Micro Finance in India

Banks that land JLGs receive 100 per cent refinancing help from NABARD. The number of JLGs promoted in 2022–2023 was 7000476, compared to 5408798 in 2021–2022. During the same period, the credit flow in the former was Rs 2060009.56 lakhs, whereas in the latter it was Rs 11277275.14 lakhs. Loans disbursed per group were, on average, Rs 190520 in 2022–2023 versus Rs 208499 in 2021–2022. The percentage increase in the quantity of JLGs and the amount of credit extended to them in 2022–2023 were, respectively, 29.43% and 18.27%. This suggests that the number of groups is growing more quickly than the credit granted to them. As a result, the per group loan has dropped from the prior year.

2. Region-Wise Distribution of JLGs

The distribution of JLGs in India by region for the years 2021–2022 and 2022–2023 is provided in Table-2. With a disbursement of Rs. 69522.97 crores, or 61.65%, spread among 373293 groups, or 25.39 percent, the eastern region came top among the regions in 2021–2022, as this table illustrates. With a loan disbursement of Rs. 966760.55 crores, or 44.17 percent, distributed to 551215 groups, or 7.87 percent, the northern region had the highest ranking in 2022–2023.

Table: 2 Region Wise Joint Liability Groups in India for the period 2021-22 and 2022-23 (Rs lakh)

Name of Region	2021-22			2022-23		
	No. of JLG's Promoted	Loans Disbursed	Loans Per Group	No. of JLG's Promoted	Loans Disbursed	Loans Per Group
Southern	1930922 (35.70)	1772954.91 (15.72)	0.92	2299728 (32.85)	561429.79 (25.36)	2.44
Eastern	1373293 (25.39)	6952296.81 (61.65)	5.06	1852918 (26.47)	3260918.36 (14.73)	1.76
Central	954913 (17.65)	1165196.51 (10.33)	1.22	1327945 (18.97)	2042893.56 (9.23)	1.54
North Eastern	30397 (0.56)	50258.43 (0.47)	1.65	63963 (0.91)	96871.24 (0.44)	1.51
Northern	446971 (8.26)	667966.90 (5.92)	1.49	551215 (7.87)	977660.55 (44.17)	1.77
Western	672302 (12.43)	668601.58 (5.93)	0.99	904707 (12.92)	1344011.20 (6.07)	1.49

Note: Figures in brackets indicate the percentage to total.
Source: NABARD, Status of Micro Finance in India.

In terms of credit per group eastern region stood first with a loan per group of Rs. 5.06 lakh followed by north eastern (Rs. 1.65 lakh), northern (Rs.1.49 lakh) and central region (Rs. 1.22 lakh) respectively. During 2022-23, in the case of credit per group, the southern region came first with an average loan of Rs. 2.44 lakh followed by the northern (Rs. 1.77 lakh), eastern (Rs. 1.76 lakh) and central region (Rs. 1.54 lakh) respectively.

6. CONCLUSION:

The initiative of JLGs brought relief to the rural poor through collateral free credit to support and enhance sustainable livelihood practices of its beneficiaries. In India, institutional support for the promotion of group based joint lending process has gained momentum for the last few decades. NABARD became the pioneer institution in developing, financing and nurturing the JLGs. It provides refinance support to banks so that they can deliver adequate and timely credit to the members of the JLGs. The present study reveals that loans disbursed by banks have risen slower than the promotion of groups. This is evident from the number of groups promoted, total loans disbursed and credit per group. Among the regions in the country, the southern region came first in all the three parameters in both the 2022-23. The data has shown that there has been difference in the performances of six regions. While southern and eastern regions have 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 central region has shown promising growth in both of the parameters. The banking sector has played a crucial role in the process of delivering credits to the members of JLGs. However, it remains a massive task to take the banking service to the lowest level, more particularly in a large country like India where there exists diversified demography and variance in the distribution of wealth. Therefore, the government should take further initiatives to spread the group based lending mechanism throughout the country to achieve the goal of equitable growth.

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