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PERFORMANCE ANALYSIS OF JOINT LIABILITY GROUPS IN INDIA – WITH SPECIAL REFERENCE TO KERALA

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ABSTRACT

Microfinance enabled people to take reasonable small business loans safely and in a manner that is consistent with ethical lending practices. The major form of microfinance in India is based on Self Help Groups (SHGs). These groups, after becoming vibrant, collect savings from their members and provide loans among themselves. Until then banking sector contributes the required contribution to the SHGs based on their mobilised capital. In other words the borrowing power of SHGs are determined based on its saving. On the other hand, Joint Liability Groups are established by NABARD to provide institutional credit to small farmers. It is formed by a group of 4 – 10 people of the same village or locality of homogenous nature and of the same socioeconomic background with mutual understanding to form a group for the purpose of availing loan from a bank without any collateral. The present paper focus on the contributions made by banks in SHGs and the role JLG in economic progress of the nation. Factor analysis was used to know the contribution of JLG in economic progress. The study concluded that in a country like India having huge diversity, inclusive growth entails not merely provision of a no frill account, or extending banking services but other non-governmental organisations too have to take the initiative to bring in the inclusive growth of the economy.

Key words: *Microfinance, SHGs, JLGs, Economic progress, NABARD and NGO.*

1. Introduction:

Majority of the rural population depends on agriculture and allied activities which suffer from a series of disabling lows: low capital, low knowledge, low skills and low technology. These barriers to entering must be low enough to allow anyone to engage in trade and services, with no competition. Such an economy has literally no place to go for larger market and thus "market inclusion" is little. Everyone thus gets smaller and smaller piece of the action, to the point where the gains to be made for each individual enable survival, but no growth. In this context, ironically microfinance can become a disabling factor. By encouraging more and more people to engage in the same low-barrier-to entry activities, micro credit helps to keep the economy in this infantile state.

As for savings, a growing component of microfinance, the motivation in poor and developing countries is the same as in the other places: putting something aside for a "rainy day", not as a potential business capital (Thomas W.Dichter, 2009). That is why, SHGs have for generations evolved their own forms of rotating savings and credit schemes, in which money is pooled and each member of the group in turn receives a lump sum, to do what he or she wishes without the need to repay, since the sum has, in sense, been "prepaid".

In spite of all these facts existing against microfinance, how far the Joint Liability Groups have been different in operational activities from the SHGs in Kerala has been a matter of study. Therefore, the research has been started by analyzing the performance of SHG Bank Linkage Programme in India since 1992, followed by making a comparative study about Joint Liability Groups (JLGs) – a scheme introduced by NABARD during 2004-05 in Kerala, along with other 7 states in India.

2. Statement of the problem:

From the broader view of India, Kerala's performance in SHG Bank Linkage has been scrutinized. Among the southern states, Kerala is the smallest state in terms of area. Before the introduction of SHG Bank Linkage programme in Kerala in 1992, micro credit has been playing a crucial role through different schemes promoted by the Catholic Church (Shreyas), Political parties (Kudumbashree, Janashree etc.) and NGOs/MFIs for the upliftment of the poor, and women in Kerala.

The performance of the SHGs in Kerala has shown a similar dark picture of SHGs' performance in overall India in terms of savings and loan outstanding from SHGs'. Alappuzha district of Kerala has been mothered with the micro credit programme and the financial institutions have been pumping more funds annually to the SHGs' movement, but the outcome has been unimpressive.
The literature reviews and key informant interviews have revealed that the major failure of SHG bank linkage programme in Kerala has been the "political will", as Kerala is notorious in politics. For increasing the vote bank, umpteen SHG schemes along with hidden "waivering offer" were implemented without any control and screening of members and this resulted in multiple borrowings through multiple memberships which ultimately led to the high loan outstanding against SHGs. Kerala itself is a "consumer state" and thus the majority of the loans given to SHGs are for consumption purpose instead of income generating activities. Thus, there has been no income to save and repay the loan promptly, which is turning in a vicious cycle of debt trap. Hence, the present study has been initiated.

3. Objectives of the study

1. To ascertain the contributions made by the Banking sector to the SHGs as a priority sector.
2. To determine the importance of Joint Liability Groups (JLGs) role in economic progress.

4. Research Methodology:

The period of the study has been initiated in the month of October, 2019 and continued for about 23 months i.e., till August, 2020.

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On the basis of the survey an Interview Schedule has been constructed for the purpose of collecting primary data from the select respondents. Multi stage sampling technique has been used for the selection of the sample. Secondary data has been collected from NABARD, Thiruvanathapuram, State Bank of Travancore (SBT) Head Office, Thiruvanathapuram, SBT Alappuzha Lead Bank office and different branches of SBT and NGOs in the study area. A direct one to one discussion with the managers of NABARD, SBT and the Secretary of the NGOs has been a high light in the collection of data.

Alappuzha is one of the most thickly populated and the smallest among the 14 districts in Kerala. There are 6 NGOs working in Allapuzha district. Out of these 6 NGOs, only Gandhi Smaraka Grama Seva Kendram (GSGSK) and Kuttanadu Vikasana Samithy (KVS) have been engaged in nurturing Joint Liability Groups (JLGs) since 2004. In both the NGOs, the State Bank of Travancore's Annapoorna scheme has been implemented for marginal farmers concentrated in Paddy cultivation.

Joint Liability Groups who are members of GSGSK or KVS and residing at Kuttanadu Taluk and who are the beneficiaries of Annappoorna scheme for atleast 3 years have been selected for the study. Hence, 150 JLG members from both the NGOs have been selected for a total sample size of 300.

Table showing the results from the factor analysis

Variables	**Factor – I**		**Variables**	**Factor – II**		**Variables**	**Factor – III**		**Variables**	**Factor – IV**		**Variables**	**Factor – V**	
	Accepted	**Rejected**		**Accepted**	**Rejected**		**Accepted**	**Rejected**		**Accepted**	**Rejected**		**Accepted**	**Rejected**
Gender		✓	Gender		✓	Gender		✓	Gender	✓		Gender		✓
Type of undertaking		✓	Type of accounts opened		✓	Type of accounts opened	✓		Type of accounts opened		✓	Type of accounts opened		✓
Type of accounts opened	✓		Sufficiency of capital	✓		Sufficiency of capital	✓		Sufficiency of capital		✓	Sufficiency of capital		✓
Sufficiency of capital	✓		Distance of the bank from the premises	✓		Distance of the bank from the premises		✓	Distance of the bank from the premises		✓	Distance of the bank from the premises	✓	
Distance of the bank from the premises	✓		Age	✓		Age		✓	Age		✓	Age		✓

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Insurance Coverage		✓	Marital Status		✓	Marital Status	✓		Marital Status	✓		Literacy Level	✓	
Age		✓	Literacy Level		✓	Literacy Level	✓		Literacy Level	✓		Main occupation		✓
Marital Status	✓		Main occupation		✓	Main occupation	✓		Main occupation	✓		Size of Family	✓	
Literacy Level	✓		Size of Family		✓	Size of Family	✓		Size of Family	✓		Children’s maximum education	✓	
Main occupation		✓	Children’s maximum education	✓		Children’s maximum education	✓		Children’s maximum education		✓	Children’s employment		✓
Size of Family		✓	Children’s employment	✓		Children’s employment	✓		Children’s employment		✓	Children’s involvement in family business		✓
Children’s maximum education	✓		Children’s involvement in family business		✓	Children’s involvement in family business	✓		Children’s involvement in family business	✓		Opinion about interest rate charged by SBT	✓	
Children’s employment	✓		Type of activity		✓	Type of activity		✓	Type of activity	✓		Type of activity		✓
Children’s involvement in family business		✓	Opinion about interest rate charged by SBT		✓	Treatment of SBT		✓	Treatment of SBT		✓	Treatment of SBT		✓
Type of activity		✓	Treatment of SBT		✓	Income status-after utilization of loan		✓	Income status-after utilization of loan		✓	Income status-after utilization of loan		✓
Opinion about interest rate charged by SBT	✓		Income status-after utilization of loan		✓									

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Treatment of SBT		✓			✓									
Income status-after utilization of loan		✓			✓									

5. Findings

- Among the 6 regions in India, SHG Bank Linkage Programme has been spread more in Southern region in terms of number of SHGs linked to formal financial institutions and MFIs/NGOs, the amount of loan disbursed to the SHGs, the amount of savings and the repayment rate of SHGs against the loan received, since its inception in 1990s. But the share of the southern region which constitutes Andrapradesh, Tamilnadu, Karnataka and Kerala states has started to decline when compared to other regions. The apex institutions have been started to give more importance to the least developed regions like North Eastern states for the upliftment of the poor. In other words, Southern region's SHG Bank Linkage Programme has attained an optimum growth and thus has been at a saturation level.
- While analyzing the performance of SHGs in India, the outcomes have supported the above statement. After the inclusion of SHGs in "priority sector", the financial institutions are actively participating for the promotion of SHGs. The loan amount disbursed annually for the SHGs has been having no justice with the low savings and the loan outstanding against the SHGs. Karmakar K G (2010) (MD,NABARD) has revealed that the repayment by SHG has been not 100 per cent for recent years and has shown a declining trend. He has asserted the importance of setting up of micro enterprises by the SHGs and the urgency of giving skill based training to the microfinance clients as well as the NGO/MFIs.
- The NGO-GSGSK has increased their lending spreads to 1.64 per cent during 2007-08 from 1.47 per cent (2006-07).
- The NGO has been able to cut short its administrative costs considerably which has been supported with the improved operating expense ratio.
- The Capital Adequacy Ratio has declined (from 1.85 per cent to 0.73 per cent) over the years due to sharp growth in loan portfolio.
- The GSGSK has been over leveraged as revealed from the Debt Equity ratio that has increased from 58 per cent during 2005-06 to 133.79 per cent during 2009-10. This has had a negative impact on the Operational Self Sufficiency Ratio (100%) which has been more or less stable since 2007 without any improvement.

After realizing the pros and cons of SHG movements in Kerala, NABARD had initiated a pilot project-Joint Liability Groups during 2004-05.

- The main feature of JLG, has been meant only for people who are willing to start micro enterprises. JLGs are carved out from matured SHGs and others based on the above criteria.

JLG is a homogenous group consisting of 5-10 members, who can run micro enterprises individually or jointly. But the loan availed from the NGO/MFIs and banks will be a group liability. Peer pressure is the basic concept for the repayment of loan and for the ultimate success of this scheme.

- ❖ For the first 6 months, the officials will give training on maintaining accounts, improving the financial literacy and giving ideas and skill based training to run micro enterprises. Savings through thrift collection is not compulsory unlike SHGs.
- ❖ Another major feature of the JLG scheme is that the multi agencies supporting the JLG scheme can modify the products which cater to the needs of a particular region. In short, projects offered to JLGs should be region specific.
- ❖ State Bank of Travancore (SBT), Kerala region has come forward with a handful of projects related with agricultural and allied activities with the approval of NABARD. SBT's scheme has been first implemented in Alappuzha district, which is a tourist place in world map and Kuttanadu region of the district has been considered as the "rice bowl of Kerala". The SBT's 'Annapoorna' scheme is meant for JLGs interested in rice farming and constitutes mainly marginal farmers, sharecroppers and oral lessees, irrespective of the gender.

6. Suggestions

- ❖ Instead of retroactive approach of "Flood Control", a proactive one of "Flood Management" should be implemented in Kuttanadu region, as it is frequently affected by the severe floods. NGOs can have risk management strategy through water shed programmes.
- ❖ The NGO/MFI need to decide whether they want to expand rapidly or be the best in terms of social commitments, customer and employee satisfaction and recognition of the investors.
- ❖ The MFIs Debt- Equity ratio should be minimum, else it becomes less efficient. This is because the cost of funds increases and thereby it reduces the potential output. So MFIs should borrow less and plough the profits inside.
- ❖ Micropensions should be made promptly procure the paddy cultivated by the farmers at the announced sales price and settle the dues in time to enable the JLG farmers to get ready for the next cultivation season.

7. Conclusion

About 70% of Indian villages lack access to appropriate affordable and safe financial products and services. Their economic activities are not recorded while arriving at the growth of the country. More than 49 per cent of the population does not have a basic bank account. The emergence of the Public sector bank, Regional Rural Banks and Cooperative banks have increased branch banking network in rural areas noticeably. 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 distribution of wealth. Therefore, in a country like India with huge diversity, inclusive growth entails not merely provision of a no frill account, or extending banking services but other non-governmental organisations too have to take the initiative to bring in the inclusive growth of the economy.

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