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MICROFINANCE AS A TOOL FOR ALLEVIATING POVERTY: THE JLG APPROACH

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ABSTRACT

Micro finance is relatively a recent approach to financial services but it is the need of the time in many developing countries. Since greater than one fourth of the rural inhabitants of India are beneath the poverty line, they need financial support to run their livelihood and prosper at the same time. But no banks can stand a support as they are unable to provide any collateral facilities. So NABARD has started with the SHG and JLG to provide assistance to these poor and not to be surprised many farmers and micro business from across the globe especially in developing countries. These schemes have benefitted countries like India, Bangladesh to a great extent. This paper makes a humble attempt to review many papers in this context.

KEYWORDS: *Joint Liability Group, Micro Finance, SHG, Rural Development*

INTRODUCTION

Micro finance is relatively a recent approach to financial services but it is the need of the time in many developing countries. Bangladesh has seen a remarkable rise in the microcredit system and India is no exception. Majority of the rural population in India is beneath the poverty line. From the total population living in the rural parts of 35 states and Union Territories of India, 25.7 per cent of them are in the beneath poverty line category, according to RBI. Whereas in urban and semiurban areas, the situation is slightly improved with 13.7 per cent of the population living beneath the poverty line. In total, around 22 percent of the Indian population livelihood is under the poverty line. The idea is very simple yet effective. The major objective of microfinance is providing a very small loan to someone who is living below poverty line and it could help them in expanding their small business. The number of people who live in poverty is quite higher in comparison to the affluent people. They cannot avail financial assistance by giving expensive collaterals or cannot do complicated paperwork but their financial growth has a significant impact on the economy.

Government of India has taken various steps for reducing poverty. But it was later realized that efforts on individual level are not adequate. So it started creating groups through which the poor people could get benefit by collective decision making. Such groups are known as Self help group. However the most important limitation of SHG is that the loan amount is attached with the saving of its member which restricted the size of the loan. It is also found that there is another segment of people who are above poverty line but in direct need of credit due to ow income level. Hence based on same principles of SHG, NABARD has developed another credit model based on the mechanism of “Joint Liability Group”for all these segment of society.

The lower part of the society are being provided with loans in the form of group or joint liability schemes for developmental activities. This scheme provides loans individuals on basis of confirmation from the other collateral group members. Many of the NGOs and government organizations in Odisha are heavily dependent on the joint liability to serve the lower part of the society.

DISCUSSION

Brickell et al (2020) have found that when microfinance was at its peak, with an estimation of 139 million microfinance customers globally, the COVID-19 pandemic has engulfed us. The microfinance sector in Cambodia is a fastest growing sector and, similar to others in the Global South, has changed from providing entrepreneurial resources to liquidity and relief from on a daily basis. At this point of view, however, it was argued that it should be a matter of concern and not comfort, to encourage microfinance as a market-oriented relief and recovery from this pandemic. Second, credit-taking is supposed to increase further in terms of the number of borrowers and amount of loan as a consequence of the health and economic impacts associated with COVID-19. The dependency on MFIs would leave households undernourished and therefore more vulnerable to their disciplinary and extractive impulses. It was further suggested that the intertwining between over-indebtedness, hunger pre-existing problems and the COVID-19 global health crisis is a chief challenge to gender equity and sustainable growth. For debt relief to be provided, cooperation between the Cambodian government, foreign investors, lenders of microfinance and developmental partners is crucial. In addition, progressive socio-economic policies and programs related to public welfare need to be prioritized to reverse the dependency of too many beneficiaeries on the industry of microfinance for survival.

Iqbal et al (2019) have found that strong corporate governance for microfinance institutions (MFIs) has been considered a building slab of success as it is believed to assist them in achieving their financial and social objectives. The paper analyses the relationship between corporate governance and financial results for MFIs in Asia. For the period 2007-2011, a panel dataset was used which included 173 MFIs in 18 Asian countries. Based on seven metrics relating to composition and board size, CEO characteristics, and form of ownership, a corporate governance index was created. The both-way relationship between this index and each of the five different indices of financial performance was then calculated. A dual-stage least-squares estimation approach with instrumental variables to resolve the potential simultaneity between financial efficiency and corporate governance was performed. The endogenous essence of financial performance and corporate governance was confirmed by the findings. The study concluded that with good governance practices, the profitability and sustainability of MFIs are improved and that more sustainable and efficient MFIs have better governance systems.

Quidt et al, 2018 have said that several authors point to a decrease in microcredit for joint liability and an increase in individual lending for liability. Yet there is a lack of empirical proof, and there has been no systematic study of potential causes. By using the MIX market dataset it was shown that there was a decline. Then it was theoretically demonstrated that marketing pushes business intermediaries to reduce the use of joint liability loan contracts, with increasing competition and a transformation from non-profit to for-profit lending. Further the main predictions of the model were tested and the data supported it.

Sharma and Mani (2016) have shown that JLGs support is a successful business proposal. Simplified documentation, group dynamics, timely repayment culture and credit enhancement prospects for quality customers are required. Taking into account the needs and findings of the studies, NABARD has issued detailed JLG guidelines to banks targeting small and marginal farmers, oral leaseholders, tenant farmers involved in the agricultural sector and other non-farm clients. For the initial three years, NABARD will assist banks in nurturing and funding JLGs.

S. Priya, S. Debabrata (November 2015)made an attempt to study the impact of JLG intervention on sustainable livelihood support and promotion of social capital in the context of East Champaran district of Bihar, one of the poorest states in India. It is found that JLG has significant impact on improvement in land holding under cultivation, improving livestock and inputs for agricultural activities. Credit has also played role in empowering these poor people in decision making process. The study recommends possible solutions that can further aid in long term sustainability of livelihood and use the synergy from social capital in a more productive way.

Vasantrao et al(2014) explained the importance and contribution of microfinance for uplifting rural India. It has come up in India in late 80's to accomplish the need of poor families who are not able to avail Bank loans due to inadequate security/mortgage. Even today more than 60% of the population resides in Rural India and are dependent upon agriculture to satisfy their requirements. From these more than 75% of the farmers are in economically backward condition. So Micro Finance has been introduced by social activists & economics & agriculture experts in order to assist them in developing their condition. Joint Liability Groups (JLG) are formed to meet the financial need of the small farmers. The focus of the study was on the role and performance of Joint Liability Groups of Micro Finance in upliftment of rural India.

Pareek Prashant (2015) tried to point out the success rate of the initiative pilot project started by NABARD in the form of joint liability group in 2004-05 in 8 states of India . Since India is an agrobased economy , there are lakhs of marginally small and tenant farmers, share croppers and oral lessees, as also as entrepreneurs engaged in various farm and non-farm activities and the biggest problem they face is availing loan as they are not in a position to provide collateral for availing bank loan.

MalgosiaMadajewicz (2004) explained that the importance of joint versus individual liability scheme depends on the strength of society development. The society below poverty is not eligible for the loan scheme for individuals due to the deficiency of the credit rating and therefore would be able to access only throughout the group credit. The joint liability is undertaken in the group credit as the collateral for the loan provision. Whereas in the developed society, every individual can access the higher loan amounts only through individual liability scheme as group credit would not cater to the requirements like progressive increment in the amount of loan.

Hermes &Lensink (2007) described the basic model used to provide loans to the group members once or in parts. However, in case of default by one or more members of the group the critical criteria general laid was nonprovision of further loans to all the members of the group.

Besley&Coate (1991) explained that the local information in the joint liability scheme leads to advantage of lower costs acquired in monitoring of the groups by the lending organization. The members of groups are involved in selection and formation of the groups. These group members also monitor and take responsibility of the group due to availability of local information. During the same time, the members' activities would lead to the downsizing of the costs to the lending organization as informed by Ghatak (2000).

Ahlin& Townsend (2007) explained that shared responsibility works best when the members of the party are extremely familiar and willing to prosecute the member by default. Not every community, however will have the same phenomenon and thus the shared responsibility group credit would only work in societies that will be involved in punishing rather than looking at the individual choice. The joint liability scheme also fails when the group members learn that, irrespective of supervision the other members are defaulting. Then the majority of the members will also default because, because regardless of current results, the additional loan would be refused. At the same time, the presence of insurance for the loan portfolio will also allow consumers to invest in the higher portfolio in the high risk projects and become less bothered towards loan repayment as described by Karlan (2005).

Zeller (1998) stated that it is important to inculcate group forming and the monitoring skills between the microfinance and this requires an investment. As this training program forms the main part of investment at the possibility of moving members to alternative fund providers may put away the private lending organizations in accepting the first timers.

Ahlin & Townsend (2007) Informs that models similar to the Besley and Coate social sanctions model and the Ghatak peer monitoring model were found in an increase in repayments by individuals in the group credit scheme at that time.

Different numbers of models by different authors aim to describe the mutual liability phenomenon. By using these subjects which are titled as moral hazard, adverse selection and peer pressure, the main models can be summarized in the categories as described by Ghatak&Guinnane (1999).

Franklin Simtowe and Manfred Zeller (2006) studied that joint liable community lending is active in Malawi for almost four decades. The major reason of default was solely the inability to repay back loans. They analysed the magnitude of moral hazards taking place and examined the determinants of occurrence among Malawian joint liability loan schemes by using data from group-level of 99 farm and non-farm credit categories. Results revealed that peer selection, control, pressure, dynamic incentives and variables capturing the degree of matching issues explain most of the difference between credit classes in the occurrence of moral hazard. The result showed that lending institutions with shared responsibility would continue to rely upon social stability and dynamic rewards to enhance their performance. This further had a direct impact on the outreach, impact and sustainability of the groups.

CONCLUSION

Sustainable livelihood support to the poor is provided by different provisions of microfinance. It is observed that credit played a significant role in improving land holding under cultivation,live stock improvement and improvement in agricultural inputs. It also helped in enhancing the power of decision making. Mostly small, marginal and tenant farmers were benefitted by the micro credit system. Though different studies reveal that micro credit through Joint liability group has improved the condition of the poor, further studies may be taken up to find out whether it has a impact in the economic and social development of it's members.

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