Study on

Joint Liability Groups (JLGs): Innovations and Impact

Centre for Research on Financial Inclusion and Microfinance (CRFIM)

Bankers Institute of Rural Development (BIRD)

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Contents

Director's Message

NABARD designed the concept of Joint Liability Groups (JLGs) in India during 2005 by replicating the experience of the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand to cater to the credit needs of landless farmers through collateral free institutional credit. The scheme was initially piloted in 8 states with the help of 13 Regional Rural Banks (RRBs) and was mainstreamed in 2006 with the inclusion of Commercial banks. However, the scheme has been tweaked in various phases keeping the original model unchanged. Such as, introduction of assistance by NABARD to JLG promoting institutions for formation and nurturing of JLGs, credit assistance for non – farm activities, formation of JLGs within and outside SHGs, Cluster approach, promotion through BC/BF and most recently in 2018 with signing of MoUs with RRBs and Commercial Banks in 20 states. The modest beginning of 733 JLGs with an amount of Rs. 11 crore credit support has reached to 50.76 lakh JLGs with a loan off take of Rs. 71,750 crore as on March, 2019.

After a decade of implementation of the scheme, the present study, *"Joint Liability Groups: Innovations and Impact"* has been conducted to ascertain the coverage, indebtedness level of clients and loan adequacy, credit flow to targeted sector. The study also aimed to assess the various innovations in JLG financing and its impact on member and household level. The study has been conducted by Centre for Research on Financial Inclusion and Microfinance (CRFIM), Bankers Institute of Rural Development (BIRD) Lucknow under the guidance of Micro Credit Innovations Department (MCID), NABARD.

The study is based on a sample size of 112 JLGs, 336 JLG borrowers from 28 bank branches covering public sector banks, private sector banks, RRBs and cooperative banks spread across 7 states, viz., Assam, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

The findings and recommendations of the study will be useful for the policy makers, development practitioners and other stakeholders of the sector.

We look forward to suggestions and feedback on this report.

Smt. T. S. Raji Gain

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CRFIM In-charge

Executive Summary

NABARD introduced the concept of Joint Liability Groups (JLGs) in 2005 with the objective of augmenting collateral free institutional credit to landless farmers, share croppers, oral lessees, small & marginal farmers by piloting in 8 states with the help of 13 RRBs. It was mainstreamed in 2006- 07 with the inclusion of commercial banks. The scheme has been reinvented in various phases keeping the original model unchanged. In 2009, JLGs for non-farm activities have been introduced under the scheme with grant assistance from NABARD for formation and nurturing of JLGs. To provide further fillip, the scheme was reinforced in 2014-15 with introduction of few innovations into the basic model. These were (i) Enabling formation of Joint Liability Groups (JLGs) within and outside SHGs (ii) Introduction of Cluster approach for promoting JLGs to aggregate into Producers' Groups and (iii) Promoting and Financing of JLGs through BCs / BFs. Recently, in 2018 – 19, NABARD has signed MoUs in 20 states with 43 RRBs and also 7 MoUs with State Bank of India and 2 State Cooperative Banks in Jharkhand and Orissa for promotion and financing JLGs. Under this MoU, NABARD provides grant assistance to Banks for using corporate BCs/ NGOs as JLG Promoting Institutions (JLGPI) and for capacity building to create a pool of trainers out of bank staff for formation, nurturing and financing of new JLGs.

After a reasonable period of implementation of the scheme, the present study *"Joint Liability Groups: Innovations and Impact"* has been conducted covering 7 states, viz., Assam, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal with a sample size of 112 JLGs, 336 JLG borrowers from 28 bank branches covering public sector banks, private sector banks, RRBs and cooperative banks.

1. The study observed that out of the 336 JLG borrowers surveyed across 7 states, 60% belong to SC/ST/BC households and 36% were from BPL category. Therefore, a significant percentage (96%) of sample borrowers covered under the study were from socially and economically weaker sections. Coverage of women under the scheme was high, since 70% of the sample borrowers were female and 30% were male. Forty six percent of borrowers were having literacy level ranging from 6th to 10th standard, 30% up to 5th standard, 14% were illiterate and 10% were graduates. The average age of sample borrowers across all the states was 38 years which indicates that the sample borrowers were from middle age group of population.
2. Thirty three percent of borrowers were having one source of livelihood, 56% depend on two sources and 11% were having more than two sources of livelihoods.

A significant percentage (48%) of borrowers were having cultivation as a primary source of household income, 24% having small business, 19% depend on wage labour as primary source of household income, 5% engaged in livestock rearing, 3% with other sources of income and 2% were salaried households.

3. Fifty five percent of households were cultivating agricultural land of size up to one acre, 22% were within 1 to 2.5 acre, 13% were 2.6 to 5 acre and only 4% were having more than 5 acre of agricultural land. Therefore majority (90%) of households were having agricultural landholding size up to 5 acre. This indicates that the scheme has largely benefitted small and marginal farmers. In addition to being a member of JLGs, 24% of sample borrowers were also having membership with SHGs and 9% with FIGs. The average annual income and savings of JLG borrowers across all the sample states was found to be Rs.1,15,840 and Rs.10,359 respectively.
4. The study revealed that sample JLG borrowers have accessed credit from various sources. These sources have been classified into three categories viz., banks, MFIs and Non – Institutional sources. **Bank credit** includes JLG loan, SHG bank loan and loan from cooperative sector. The **Non – Institutional** sources includes loan accessed from money lenders, friends or relatives. It has been observed that, out of the 336 sample borrowers studied across 7 states, 55% were indebted to bank, 20% were indebted to bank along with MFIs, 22% were indebted to bank along with non – institutional sources and 3% are indebted to all sources. Therefore a significant percentage (45%) of borrowers were indebted to more than one source.
5. The average indebtedness of sample borrowers across all the states varied within the range of Rs. 20,836 to Rs. 48,227. Highest indebtedness was in Rajasthan and lowest in Assam. It has been observed that share of institutional and non – institutional sources in household's debt was 78% and 22% respectively. Among all institutional sources, JLG loan has the significant contribution (56%) in households' debt followed by loans from MFIs (11%). The share of other institutional sources in household's debt was loan from cooperative sector and SHG bank credit, with a percentage share of 10% and 1% respectively. This indicates that MFIs were the second most preferred institutional sources of borrowing among the sample JLG borrowers.

   Among the states, borrowers in Maharashtra and Tamil Nadu were indebted to institutional sources only. Study observed that the share of non – institutional sources in households' debt were higher in Uttar Pradesh (60%) followed by Rajasthan (44%) in comparison to other states. In Uttar Pradesh, share of non -

institutional sources (60%) is higher than institutional sources (40%) in households' debt.

6. The study observed that on an average 50% of sample borrowers were totally[1] indebted to JLG loan (i.e., they were meeting their entire credit requirement from JLG alone). When we study the state – wise position of total indebtedness to JLG, it was found to be ranging from 8% (Rajasthan) to 75% (West Bengal & Maharashtra). When we examine the level of total indebtedness to JLG from the point of view of primary source of household income, it was observed that only 35% of households involved in livestock rearing were totally indebted to JLG. The remaining 65% of households involved in livestock rearing had to depend on other sources of funding as the JLG loan provided by banks was not sufficient to meet the market price of animals. Similarly, dependence on JLG loan increased with the increase in period of membership. It was high at 70% for membership period of 2-3 years. While it was low at 33% in over 5 years of membership, possibly due to requirement of additional loans due to expansion or diversification of livelihood activities.
7. A large segment (75%) of sample JLG borrowers reported that bank loan offered under JLG scheme was inadequate. Among the financing agencies, 88% of JLG borrowers of RRBs, 79% of JLG borrowers of PSBs, 69% of JLG borrowers of private sector banks and 44% of JLG borrowers of cooperative banks reported about inadequacy of bank credit offered under JLG scheme. This could be due to stipulation of upper limit on loan by few banks. Incidentally, this upper limit is much below the limit of Rs.1.00 lakh prescribed for loans without collateral security under JLG scheme.
8. The JLG scheme has enhanced the ground level credit flow to marginal, small and tenant farmers amongst all the sample states. The average incremental change during association with JLG across all the sample states among marginal, small and tenant farmers stood at Rs.39,592, Rs.71,308 and Rs.91,593 respectively. It has been observed that the share of bank credit to small, marginal and tenant farmers has increased after association with JLG which has resulted in reduction in dependency on money lender and MFIs.

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[1] K. Raja Reddy and C S Reddy (2018): THE MICROFINANCE REVIEW, BIRD, Lucknow: Volume X No.1 Jan-June 2018 Issue: Impact of Self-Help Groups on Member Households: A Study with Reference to SHG-Bank Linkage Programme, (Page No:7)

9. The study observed that out of 336 borrowers studied, 160 were farmers. Out of which 63% were having land title and remaining 37% were tenant farmers. Lease agreement of the tenant farmers was oral only. Therefore, 100% tenant farmers were oral lessees (i.e, who have rented land based oral agreement). Of the oral lessees, 32% were share croppers (i.e. who have spent part of their produce as rent either by sharing risk or by sharing a fixed quantity without risk). However, majority (68%) of oral lessees have paid rent in terms of cash only. Among the states, Rajasthan (73%) has highest coverage of tenant farmers. Of the financing agencies, a significant percentage of tenant farmers have been catered by cooperative banks (79%) and RRBs (40%). This could be possibly due to rural centric operation of RRBs and cooperative banks. Of the JLG promoting institutions, FPOs and farmers clubs have played a key role in facilitating collateral free credit to tenant farmers. 83% of farmers mobilised into JLGs by FPOs were tenant farmers and 50% of farmers mobilised into JLGs by farmers clubs were tenant farmers.
10. Out of 160 farmers, 14% were members of FPOs and it was observed in two states only, viz. Rajasthan (55%) and West Bengal (21%). Among the financing agencies credit needs of FPO members have mostly been served by cooperative banks (65%) followed by public sector banks (14%).
11. The study observed five types of JLG promoting agencies involved in formation and facilitation of credit through banks under JLG scheme. These are banks (which includes bank's own staff & PACS), Business Correspondents (BCs), farmers clubs, FPOs and NGOs identified by NABARD as JLGPIs. Of these promoting agencies, FPOs and farmers clubs have played a key role in facilitating collateral free credit to oral lessees, share croppers and FPO members by forming JLGs. 83% and 50% of oral lessees and share croppers respectively have been mobilized into JLGs facilitated by FPOs and farmers clubs.
12. Majority (85%) of sample borrowers have used JLG loan for income generating activities. The JLG loan was used for income generating activities that include recurring expenses for agriculture (31% of borrowers), recurring expenses for small business (34%), expenses for purchase of animals for livestock rearing (27%), capital expenditure for small business (7%) and capital expenditure for agricultural activities (1%). This indicates that JLG loans have extensively been used for working capital requirement of livelihood activities by the households. In many cases JLG loan was used for diversification of livelihood activities of households. Like, 25% of households which were initially dependent on crop cultivation had utilized JLG loan

for purchase of livestock animals. This indicates that JLG loan contributes significantly as a source of institutional credit for alternative means of livelihoods of the sample households.

13. The innovative JLG finance models, viz., forming JLGs within SHG, cluster approach for promoting JLGs and promotion of JLGs through BCs/BFs have been observed under the study. Out of the 112 JLGs surveyed across the 7 states, 24% have been promoted within the members of SHGs. Such innovation has been observed mainly in Madhya Pradesh (56%), Assam (44%) and Tamil Nadu (38%). NGOs have played a key role in grounding such innovations. At bank level the adoption of such innovation had also been observed as 23% of such groups have been promoted by banks. Of the financing agencies, formation of JLG within SHGs is comparatively higher in RRBs (39%) as compared to other banks. This could be because of most of the NGOs have facilitated JLG linkage with RRBs, as a matter of preference.
14. In JLGs which have been formed within SHGs, average JLG loan accessed per member was significantly higher as compared to bank credit per member under SHG across all the states wherever such innovation was adopted. This could be possibly due to the SHGs not fulfilling the minimum age of 6 months of existence to access credit support from bank. It could also be due to practice of equal distribution of bank credit among the members of SHGs which actually reduced the individual's share due to larger group size of SHGs. This indicates that forming JLG within the members of SHGs could be an alternative option to meet immediate or additional credit needs of members. This approach has also been suggested by NABARD in the guidelines for *SHG-2*[2].
15. Out of the 7 sample states, the footprint of cluster approach for promoting JLGs was observed in 2 states, namely Rajasthan and West Bengal where JLGs have been promoted through FPOs and farmers clubs. These groups have been promoted within the same geographical areas with homogeneity of livelihood activities.
16. Out of the 29 sample bank branches covered under this study, 29% promoted JLG through BCs. Exclusive BFs has not been observed during the field study as BCs appointed by banks performed the role of business facilitators also. The study observed two types of business models of BCs, viz., i) individual bank mitra appointed by banks and ii) Corporate BC with customer service points. A different

[2] NABARD Circular No. 65(A)/MCID-04/ 2011-12 dated 27 March 2012

model was observed exclusively in Ratnakar Bank Ltd. (RBL) where Swadhar FinServe Ltd. acted as BC to serve JLG clients. Swadhar FinServe Ltd. was registered as NBFC but later became wholly owned subsidiary of RBL. In all the models, BCs played a key role starting from sourcing of clients to formation of JLGs, linkages and recovery follow up. However, in case of RBL, role and involvement of BCs was higher than in other models.

17. NGOs and farmers clubs have contributed significantly towards successful implementation of JLG programme by providing variety of services at various stages. Services include identification and mobilization of members for formation of groups, linkages with banks and post disbursement follow-up in case of default by groups or members.

18. A comparative analysis of promotion and financing methods of JLGs across the financing agencies viz., public sector banks, private sector banks, RRBs and cooperative banks have been performed under the study. Three broad based comparative parameters have been used:- (i) **Operational features**, includes promotional methods, geographical area of operation, monitoring processes. (ii) **Credit delivery mechanism**, i.e., nature of loan facilities extended to borrowers, mode of finance (Model A or B), gender composition of borrowers, cost of borrowing and risk mitigation strategies and (iii) **Social performance** that includes coverage of households belonging to BPL category, tenant farmers, share croppers and the credit plus approaches of agencies.

18.1. **Operational features**: The study revealed variations in promotion of JLGs across financing agencies viz., public sector banks, private sector banks, RRBs and cooperative banks. It has been observed that a separate vertical has been set up by private sector banks with dedicated manpower to cater to JLG clients. Majority of public sector banks and RRBs have utilised the services of BCs and NGOs (empanelled as JLGPIs with NABARD). However, in case of cooperative banks, branch staff and PACS have played a key role in promoting JLGs. The private and public sector banks have served JLG clients both from rural and semi urban areas while the operation of cooperative banks and RRBs are mainly rural centric.

18.2. **Credit delivery mechanism**: JLG borrowers of private sector banks were mostly women (91%). Different financing agencies have adopted different types of loan facilities for catering to JLG clients. Private sector banks have extended credit in term loan nature only while public sector banks, RRBs and cooperative banks have also offered JLG loan in cash credit nature similar to KCC to serve the recurring credit needs of oral lessees, tenant farmers and sharecroppers having no title to the land and documents. The interest rate charged on JLG loans by private sector banks ranged from 23% to 26% p.a. and the mean interest rate was 20% p.a. which was significantly higher than public sector banks, RRBs and cooperative banks. Mean interest rate charged on JLG loans by RRBs was lowest (11.25% p.a.) among the all types of financing agencies.

18.3. **Social performance**: The usage of loan in non-income generating activities was higher in private sector banks as 28% of sample borrowers of private sector banks have used JLG loan for non – income generating activities. This indicates that sample JLG clients of private sector banks have used JLG loan more for consumption needs which were riskier than income generating activities. As a risk management strategy the private sector banks have adopted close monitoring with dedicated manpower during the post disbursement period. Further as a risk mitigation measure the private sector banks were insuring assets created out of JLG loans for entire duration of loan period and loan amount. In addition to credit, banks were serving JLG clients with credit plus approach like, providing various social security schemes, viz., Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jivan Jyoti Bima Yojana (PMJJBY), Atal Pension Yojana (APY), and Personal Accident Insurance Scheme (PAIS). 89% of JLG borrowers of cooperative banks, 87% of JLG borrowers of public sector banks, 84% of JLG borrowers of private sector banks and 80% of JLG borrowers of RRBs were covered under social security schemes during JLG association in addition to micro credit.

19. The study observed that JLG scheme has brought positive changes in individual member level and household's level, by way of improvement in household income, creation of household assets, easy access to bank credit, coverage under insurance schemes and opening of savings bank account of the JLG members. Out of 336 sample borrowers, 81% reported improvement of household income level, 66% created household assets, 33% changed cropping pattern and 58% reported reduction in hurdles for accessing bank credit. Further, 98% of JLG borrowers were having savings bank account and 84% have been covered under at least one insurance scheme during association with JLG. It was observed that 95% of

members having associated with a JLG for more than 5 years had accounted for highest improvement in households' income level.

20. **Suggestions:**

- **Increase in per borrower loan:**
  The study observed that 50% of borrowers were indebted to JLG loans only and remaining 50% were indebted to other sources which include SHG bank credit, credit from cooperative sector, MFIs and non – institutional sources, like money lenders, friends or relatives, etc. This could be possibly due to the stipulation of ceiling on loan limit by banks which is much below the permissible limit of Rs. 1.00 lakh per member as per JLG guidelines. Therefore study suggests that banks may consider enhancing the ceiling, if any, on the loan limit up to Rs. 1.00 lakh per borrower.

- **Designing loan products as per the borrowers' requirement:**
  The study observed that a large segment of the borrowers had utilised JLG loans to meet their working capital requirements. However, only for agriculture sector the JLG loan was given in the form of cash credit which was similar to KCC. For remaining activities JLG loan was offered as term loan which is not flexible to meet the working capital requirements of small business units, artisans, etc. In case of bulk order to procure raw materials such units had to depend on other sources of funding including non – institutional sources. It is therefore suggested that banks may provide JLG loan for small business units, artisans, in cash credit nature with a provision of annual review for enhancement of limit, if necessary.

- **Engagement of Corporate BC:**
  To enhance the outreach of the JLG scheme, banks may consider adopting the model of corporate BC to form and nurture JLGs. The revenue sharing model of banks and BCs may be worked out mutually. The BC may be responsible for providing end to end solutions, market research, client sourcing, forming, appraisal, linking, monitoring and recovery follow up. Further, in well-performing BCs, the facility of sanction and disbursement of micro loans may be considered on a selective basis.

❖ **Increase in Grant assistance by NABARD to JLGPIs:**

The study observed that introduction of incentive scheme by NABARD in 2009 by way of promotional grants to JLGPIs for formation, nurturing and financing of new JLGs has facilitated in augmenting flow of collateral free credit to target clients.

NABARD provides grant assistance to JLGPIs for formation, nurturing and financing of new JLGs as per prior approval and agreement with JLGPIs. The present norms of the grant assistance provide for an amount of Rs.2,000 per JLG and it is released in three installments. The first installment of Rs.1,000 is released to the JLGPIs after sanction of loan by the bank. The 2nd and 3rd installments would be released, based on certification from the banks about prompt repayment by all members of the group.

Field level interactions with the stakeholders revealed that the time lag between first and remaining two instalments, especially third instalment, is very long and handholding of JLGs becomes difficult for the JLGPIs during this period as it involves expenses. Further, the amount of incentive is no more attractive as it is not sufficient to continue the operations of JLGPI during this period. It affects the flow of GLC to the poor people as mentioned in the guidelines and also recovery of loans thereby partly defeating the objective of JLG Scheme.

It is, therefore, suggested that the amount of incentive for JLGPIs may be sufficiently enhanced to keep them in the operations and also attract new partners to achieve the objectives of the JLG Scheme. Further, the incentive schedule may be drawn in a manner that last instalment may be on a higher side / sufficient enough to keep the JLGPIs going till the completion of the project.

❖ **Capacity building of JLG borrowers:**

The JLG borrowers may be provided need-based skill oriented training on improved and modern technologies and entrepreneurship development for better management of their activities. Moreover, capacity building of the borrowers regarding group dynamics especially, peer pressure and JLG functioning process may be provided extensively by promoting agencies. Like the private sector banks, for instance, conducting periodic group training and administering a group recognition test to assess the dynamics of JLG groups. The services of experienced NGOs and RSETIs may be utilized to provide entrepreneurship and skill development training.