



Progress of joint liability groups in West Bengal: A comparative study with other states

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Abstract

Over a decade the initiative of Joint Liability Group (JLG) brought relief to rural poor through collateral free credit to support and enhance sustainable livelihood practices. JLGs, an informal group, comprising 4-10 individuals, generally from weaker sections of the society, formed to avail loans through mutual guarantee. The group-lending programs have proven able to reach poor individuals, particularly women that have been difficult to reach through alternative approaches. NABARD's JLG projects have successfully played the lead roles in promoting financial inclusion in India. The present study attempts to assess the progress of JLGs in West Bengal in comparison to other major states of India.

Keywords: Compound annual growth rate, financial inclusion, joint liability group, microfinance, NABARD

Introduction

NABARD introduced the concept of Joint Liability Groups (JLGs) during 2005- 2006 to amplify the flow of credit to landless farmers cultivating land as tenant farmers, oral lessees, sharecroppers and small and marginal farmers as well as poor individuals for taking up farm and non-farm activities. The Joint Liability Group (JLG) as defined by NABARD is an informal group comprising of 4 to 10 individuals coming together to avail bank loans either individually or through the group mechanism against mutual guarantee. In the first case, the group avails individual loans and all members jointly execute one inter se document signed by all of them making each one liable for repayment. In the second case, members were jointly taking a single loan and owning the debt liability jointly.

Joint liability loans are progressively large and offered at low interest rates targeting small groups which step up for successive loans provided all borrower-guarantors repay the sum amount without leaving behind even one defaulter, the failure of which results in denial of subsequent loans (Attanasio *et al*, 2015) [1]. Peer pressure and monitoring are two strategies that accelerate payback in joint liability lending. The former pertains to monitoring the behaviour of peers, while the latter is about applying sanctions to other borrowers who violate established norms. (Nkwocha, 2019) [6].

Inspired by evidencing accomplishments of the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand in satisfying the financial necessities of landless farmers through extending collateral-less formal credit, in 2004- 05, NABARD strategically introduced Joint Liability Groups (JLGs) in the field of microfinance in order to uplift small and marginal farmers, tenant farmers, and oral lessees. This pilot programme was carried out in eight states in India with the help of thirteen RRBs. The JLGs offered a collateral-free loan to be used for both on- and off-farm investments. In 2006, evidencing its potential, NABARD mainstreamed the scheme by offering financing banks a 100% refinance and grant assistance for group initiation and nurturing. In 2007, RBI included loans through SHGs and JLGs under the Direct Finance category

of Priority Sector Lending evidencing their huge impact on weaker sections (Myvizhi,2021) [4].

The present study attempts to document the status of JLGs in major states of India in terms of the number of JLGs promoted and the volume of loans disbursed to JLGs. This study is focused mainly on the progress of JLGs in West Bengal. Efforts were also made to assess the role of different banks in promoting and financing JLGs.

Literature Review

Devi and Mondel (2014) conducted a study on the women Joint Liability Groups (JLGs) members in rural areas in Bishnupur district of Manipur with the objectives of assessing the extent of success of JLGs in income generation and empowerment of the members. It was found that most of the women have earned higher incomes with the help of microfinance given by ORI Microfinance Ltd. Some of them have even started new enterprises after joining the programme. The JLGPI played an important role in the livelihood enhancement of rural women and their empowerment.

Rajeshwari (2012) conducted a study entitled "Group Based Microfinance and its Impact on Rural Households in Rayalaseema Region of Andhra Pradesh". The study was conducted in two districts namely Kadapa and Kurnool. The data required for the study was collected using a pre-tested interview schedule. The sample for the study includes 120 SHG members as well as 120 JLG members and 60 Non participants. The findings of the study showed that participation in the SHG programme increased the annual income, productive assets and family expenditure slightly compared to that of JLG. The participation in JLG programme increased the annual income, productive assets and family expenditure by a higher percentage. The savings of the SHG members were 124 per cent more than the non-participants. There was no significant increase observed in savings by participation in the JLG programme. The values of the Gini coefficient, coefficient of variation, Atkinson coefficient, generalized entropy measures and decile dispersion ratio indicated that inequality in income distribution was highest among non-participants and lowest

among the members who participated in both the microfinance programmes.

The objective of the study by Cherian and Ramachandran (2012)^[3] was to determine the importance of Joint Liability Groups' (JLGs') role in economic progress. Three Hundred JLG members through multistage random sampling from Alappuzha district form the sample respondents. The reliability of the responses of the members has been analysed by employing Kendall's Coefficient of Concordance. The results showed that the marginal farmers constituting the JLGs have a high degree of bargaining power, both with respect to the easy availability of capital and a low rate of interest.

Yeboah and Abdulai (2012)^[11] observed that there was a high degree of mutual understanding and consensus among the group members in joint liability contracts. Members lend each other money so that loans are repaid timely. Not only this, inter group lending activities are also seen among neighboring groups.

Materials and Methods

The present study employed secondary data 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. Data relating to the contributions made by different banks in West Bengal are taken from the official website of the State Level Banker's Committee (SLBC), West Bengal, Punjab National Bank.

Simple statistical tools were used in this study, like average, percentage etc. To estimate the growth of JLG formation and loan disbursement, Compound Annual Growth Rate (CAGR) was used.

Features of JLG

Formal lending mechanism based on individual liability has to face various difficulties associated with insufficient information. Scholars have employed economic models of information and contracting to formalise the concept and demonstrate how shared liability contracts address various issues encountered when lending to borrowers who are unable to provide collateral. These problems are (i) adverse selection, (ii) ex-ante moral hazard, (iii) ex-post moral hazard or strategic default and (iv) limited enforcement (Rathore, 2017)^[9].

Even if joint liability is just one of the group lending's programme characteristics, economic theorists have given it

a lot of thought. The model's additional shared characteristics are:

1. Frequent repayment (mostly weekly) starting immediately after the disbursement of the loan;
2. Promise of a future loan in case of satisfactory repayment performance of the past loans;
3. Direct monitoring of clients by the lending institutions' officers; and
4. Sequential lending (Rathor, 2017)^[9].

JLG Models

Banks may use one of the two models to finance JLG.

1. Model A: Financing Individuals in the Group

Each member of the JLG should be provided with an individual KCC. The financing branch might evaluate the credit requirement based on the crop to be grown, the amount of cultivable land available, the activity to be done, and the individual's ability to absorb credit. All members should jointly execute a loan document, making each one jointly and severally liable for repayment of all loans taken by all individuals belonging to the group. All members must agree upon the level of individual debt liability, including liabilities arising from the individual KCC, in order for there to be a mutual agreement. Any member opting out of a group or joining the group will necessitate a new loan agreement, to be kept on record in the branch.

2. Model B—Financing the Group

The JLG functions, operationally, as one borrowing unit. The group would be eligible for access to one loan, which could be combined credit requirements of all its members. The micro enterprise to be carried out could serve as the basis for the group's credit evaluation. Each member would be responsible for the debt liability jointly and severally and would jointly execute the instrument. All members must agree upon the amount of individual debt liability that will be formed in the joint agreement. Any change in the composition of the group will lead to a new document being registered by the branch (Padma, Venkata and Suresh, 2013).

Growth of JLGs in India

1. Growth of JLG formation and Loan disbursement

An overview of the progress of JLGs in India is presented in Table-1.

Table 1: Progress of JLGs in India

Sl. No	Particulars	2021-22	2022-23	Change (%)
1	Joint Liability Group promoted during the year	5408789	7000476	29.43
2	Loan disbursed to Joint Liability Groups (JLGs) during the year (Rs. Lakh)	110277275.14	13337284.70	18.27
3	Cumulative Joint Liability Groups promoted as on 31 March	18791579	25792055	37.25
4	Cumulative loan disburse as on 31 March (Rs. Lakh)	32593762.82	45931047.52	40.92

Source: Status of Microfinance in India, NABARD

During 2022-23, a total of 7000476 JLGs were promoted as compared to 5408789 JLGs promoted during 2021-22 registering a growth rate of 29.43 percent over 2021-22. During 2022-23, Rs. 13337284.70 lakh was disbursed which was 18.27 per cent higher than the previous year's figure. In the case of the cumulative number the growth rate was 37.25 per cent over the previous year. Similarly, the growth rate of cumulative loan disbursement as of 31 March was 40.92 per cent compared to the previous year.

2. Promotion of JLGs in the major States of India

In terms of cumulative statistics on the number of JLGs promoted, Bihar stood first with a share of 11 per cent followed by Kerala, Karnataka, and Odisha. West Bengal stood sixth on the list with a share of 7.44 per cent. In terms of the distribution of the cumulative volume of JLG loans, Bihar again occupied the dominant position with a share of 21.16 per cent. Karnataka, Uttar Pradesh and Odisha occupied second, third and fourth positions respectively. In

the case of cumulative disbursement, West Bengal stood in sixth position also.

Table 2: Status of Joint Liability Groups in top six major States of India during 2022-23

Sl. No.	State	Cumulative number of JLG formed	Cumulative Amount of Loan Outstanding (Rs. lakh)
1	Bihar	2834955 (11.00)	9717133.65 (21.16)
2	Karnataka	2179727 (8.45)	3434571.44 (7.48)
3	Uttar Pradesh	1949529 (7.56)	3123358.30 (6.80)
4	Odisha	2008522 (7.79)	3001191.20 (6.53)
5	Kerala	2226466 (8.63)	2783992.83 (6.06)
6	West Bengal	1918157 (7.44)	2504412.38 (5.45)

Note: Figures in parenthesis represent the average of national figure

Source: Status of Microfinance in India, NABARD

Table 3: Contribution of different Banks under Joint Liability Groups (JLGs)

Agency	Credit Linked Joint Liability Groups								CAGR (%) (Up to 2021-22)	
	2019-20		2020-21		2021-22		2022-23 #		No.	Amt.
	No.	Amt. (Rs. crore)	No.	Amt. (Rs. crore)	No.	Amt. (Rs. crore)	No.	Amt. (Rs. crore)		
Com. Banks	424652 (97.71)	4455.43 (96.35)	50834 (98.01)	4539.09 (98.63)	56954 (97.08)	6173.12 (98.92)	157995 (98.95)	1183.06 (98.29)	15.81	17.70
RRBs	847 (0.19)	2.85 (0.06)	5056 (0.98)	18.3 (0.40)	9431 (1.61)	28.30 (0.45)	290 (0.18)	6.29 (0.52)	232.01	215.12
Coop. Banks	9118 (2.00)	166.14 (3.59)	5261 (1.01)	44.61 (0.97)	7671 (1.31)	39.34 (0.63)	1385 (0.86)	14.25 (1.19)	-8.23	-51.34
Total	434617 (100)	4624.42 (100)	518661 (100)	4602.00 (100)	586636 (100)	6240.77 (100)	159670 (100)	1203.61 (100)	16.18	16.17

#Data as on 30.09.2022

Source: SLBC West Bengal

From Table-2, it can be seen that, during 2019-20, a total of 434617 new JLGs were formed in West Bengal which have increased to 5,86,636 during 2021-22 registering a CAGR of 16.18 per cent. During 2019-20, Rs.4624.42 crore was sanctioned to JLGs in West Bengal which has increased to Rs.6240 crore in 2021-22. The CAGR for loan disbursement up to 2021-22 was estimated to be 16.17 per cent. In West Bengal Commercial Banks, RRBs and Cooperative Banks participate in the process of Financing of JLGs. However, more than 95 per cent of the loans were disbursed by the Commercial Banks during the entire period under consideration. Though the share of RRBs was quite low, it has been increasing quite significantly over time. On the other hand, the credit flow from Cooperative Banks has been reducing over time.

Conclusion

The joint liability scheme has brought respite to the collateral less poor in want of funds for their livelihood support. The absence of collateral for the loan has been compensated by the joint onus of responsibility taken by the members. The initiative of JLGs brought relief to rural poor through collateral free credit to support and enhance the sustainable livelihood practices of its beneficiaries. Thus JLG plays a vital role as a method of uplifting the poor in India. The advantage of Joint Liability mechanism is that it solves informational asymmetries by shifting the burden from the lender to the clients resulting in lower transaction costs for the institution, thus providing a way around the common problems of adverse selection and moral hazard. In India, Bihar occupied the dominant position in terms of both the number of JLGs promoted and the amount of credit disbursement followed by Karnataka as per the latest data.

Progress of JLGs in West Bengal

West Bengal is the third most populated state in India. During 2022-23, a total of 394920 new JLGs were promoted and Rs. 662844.11 lakh was disbursed among JLG members. In West Bengal, the Cumulative number of JLG formed as of 31 March 2023, was 1918157 while the cumulative loan disbursed was Rs. 2504412.38. West Bengal stood sixth both in terms of the cumulative number of JLG formed and the cumulative amount of loan disbursement as of 31 March 2023. NABARD extends loan assistance to JLGs through Commercial Banks, Regional Rural Banks (RRBs) and Cooperative Banks. Table-3 presents the contributions of different banks in West Bengal during the last four financial years.

West Bengal stood in sixth position in terms of progress of JLG. Both the quantity of credit extended to JLGs and the number of JLGs that have been founded have increased significantly in West Bengal. Commercial Banks play the dominant role in the promotion and financing of JLGs in the state. RRBs and Cooperative Banks possess very little share in the formation of JLGs as well as financing them. The overall growth of the progress of JLGs in West Bengal is quite satisfactory.

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