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Research Article

IMPACT OF JOINT LIABILITY GROUP (JLG) FINANCE ON RURAL HOUSEHOLDS IN TAMIL NADU

M. ANJUGAM *
Professor, Department of Agricultural Economics, Tamil Nadu Agricultural University, Coimbatore, 641 003, Tamil Nadu, India
*Corresponding Author: Email - manjuecon70@gmail.com

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Abstract: The study has been attempted to assess the impact of JLG finance in terms of access to loan, purpose wise utilization of loan, employment generation, income, consumption, asset creation, savings and investment and to identify the benefits and constraints realized by the beneficiaries in availing JLG finance. Thuraiyur block, Thiruchirappalli district was purposively selected for the study. There exists a positive impact on generation of employment and income in post JLG period and not much impact on asset creation in the form of household assets, savings, investment in terms of LIC policies *etc*., other than livestock. Nearly 80 percent of them had less than Rs.1000 per month as savings after joining JLG. Nearly forty-two percent of them are having old debts from informal sources particularly money lenders and other MFIs. Access to credit with low interest is the major benefits realized by the members in availing loan from JLG and asset creation was ensured. Low amount of loan sanctioned per time, no flexibility in repayment may be the most important constraints. The study suggested that training on agro based enterprises to JLG members, educating JLG members to avail life Insurance policies for self and family members, in availing various benefits provided by the state and central government to weaker sections by NGOs and promotion of savings may be encouraged.

Keywords: *Joint Liability Groups, Microfinance, Financial inclusion, Impact*

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Introduction

Agricultural credit disbursement continues to be dominated by commercial banks, followed by co-operative banks and RRBs. The share of agriculture credit to agriculture GDP (at current prices) has shown an increasing trend over the last decade though it declined to 40.5 percent in 2016-17 from 42.1 percent in 2015-16. But despite making significant improvements in all areas relating to financial viability, profitability and competitiveness, there are serious concern that banks have been unable to include vast segments of the population into the fold of basic banking services - especially the underprivileged sections of society [1]. The major reasons for excluding the low-income groups from access to formal institutions are: i) reliance on informal source of finance due to easy access, ii) high cost in accessing formal financial services, iii) non-price barriers such as identity of person, collateral security, distance between bank and residence, poor infrastructure, and iv) behavioural aspects such as non-comfort with financial procedures, lack of understanding, *etc*. Statistics show that the numbers of rural banks have increased over a period of time, *i.e*. the share of rural bank was 22 percent during 1969 and had increased to 41 percent. However, deposits and credit accounts are lower in rural households than urban households. NSSO statistics reveal that 51.4 percent of farmer households are financially excluded from both formal and informal sources. Nearly 27 percent of the households had access to formal sources of credit and 1/3rd of these groups borrowed from non-formal sources also. Overall, 73 percent of farm households have no access to formal sources of credit. Marginal farm households constitute 66 percent of total farm households, of which only 45 percent were indebted to formal or non-formal sources of finance. About 20 percent of marginal farm households had access to formal sources of credit. Among non-cultivator households nearly 80 percent did not have access to credit from any source. Of the social groups, only 36 percent of scheduled tribe farm households were indebted (Scheduled caste and Other Backward Classes-51 percent), mostly to informal sources.

This has led to the emergence of Financial Inclusion as a strategy to bring these excluded people into the financial mainstream. According to Rangarajan Committee, financial inclusion means the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" [2].

Microfinance and Financial Inclusion

One of the programs in which access to formal banking services has been very successful since the early 1990s was Self-Help Group (SHGs) linkage programme with banks. SHGs are groups of (usually) women who get together and pool their savings and give loans to members. National Bank for Agriculture and Rural Development (NABARD) has played a significant role in supporting such group formation, linking them with banks, and promoting best practices. SHGs are given loan by banks at reasonable rates of interest (below 12 percent per annum), against guarantee of group members, and the recovery experience has been very positive. The SHG-Bank Linkage Program launched by NABARD in 1992 continues to be the predominant Micro-Finance (MF) model in India starting with a pilot of 500 SHGs, covered about 79 lakh self-help groups (SHGs) and nearly 10.10 crore poor households in India as on 31 March 2016. About 18 lakh SHGs availed credit support of Rs. 37,287 crores at an average of Rs 2.03 lakh per SHG. Anjugam (2011) [3] in her study found that SHG-Bank linkage program has increased the flow of institutional credit to landless and marginal farm households, increased the degree of financial inclusion among landless households and has discouraged non-institutional borrowings. Percentage of household reaching the medium degree of financial inclusion increased with the size of their land holding, except in case of marginal farmers. Medium degree of financial inclusion is relatively more among the SHG member households compared to non-member households in landless and small farm size groups.

Financing of Joint Liability Groups was implemented by NABARD in 2005-06 for tenant farmers and was extended to non-farm sector from 2009 onwards. JLG is an informal group comprising 4 to 10 individuals for availing bank loan on individual basis or through group mechanism against mutual guarantee. The JLG mode of financing serves as collateral substitute for loans to be provided to the target group *i.e*. tenant farmers, oral lessees, share croppers, *etc*. It builds mutual trust and confidence between the bank and the target group and minimizes the risks in the loan portfolio for the banks through group dynamics, cluster approach, peer education and credit discipline.

It is to provide food security to vulnerable section by livelihood promotion through enterprise loan. As on 2016–17, 22.57 lakh JLGs has been promoted and sanctioned Rs.153.37 crore was sanctioned to facilitate JLGs across the country (NABARD, 2016-17). Apart from 100 percent refinance support to banks under JLG financing, NABARD continued to extend financial support for awareness creation and capacity building of all stakeholders, provides incentive for formation and nurturing of JLGs to banks and other Business Development Correspondents. NABARD has sanctioned about 68737 JLGs in Tamil Nadu state for undertaking individual or group level microenterprises for an amount of Rs.1328.34 lakhs [4].

Studies conducted on JLGs by Zulkefly (2009) [5], Mishra and Chaubey (2011) [5], Padma *et al*. (2013) [7] and Rupnawar and Rahul (2014) [8] also emphasized that JLGs are powerful instrument for rural development in meeting out their financial needs for microenterprises and access to finance by vulnerable sections of the society. Mengstie and Singh (2020) [8] investigated the microfinance impact on women economic empowerment considering age and education as moderators. Data for this study have been collected from 346 respondents of microfinance beneficiary women. Results showed that credit amount, age, number of training, marital status, education level, have a significant impact whereas business experience has an insignificant impact on the development of women's economy. Moderated regression results revealed that age and education did not have a moderation role in the relationship between microfinance service and on the economic empowerment of women. Microfinance affects women's economic empowerment by improving women's independent income, increasing asset possession levels, and improved monthly saving amount. The study revealed that MFI has a vital role in women entrepreneurs' development and business exposure.

With this background the study has been formulated i) to assess the impact of JLG finance in terms of access to loan, purpose wise utilization of loan, employment generation, income, consumption, asset creation, savings and investment, *etc*., and ii) to identify the benefits and constraints realized by the beneficiaries in availing JLG finance.

Materials and Methods

Multi stage purposive and random sampling was followed for selection of the study district, block, villages and sample respondents in Tamil Nadu. NABARD has sanctioned 75041 JLGs, of which, 25303 JLGs were financed as of 2018. Namakkal (15.12%), Pudukottai (12.12%) and Thiruchirapalli districts (8.04%) ranked the first three positions and hence Thiruchirapalli district was randomly selected for the study.

Thuraiyur block was purposively selected for the study based on the consultation with the NABARD official. Two NGOs viz., Gramalaya Microfin Foundation and Shalom Foundation was contacted for the study. The total sample was 60 JLG members. Primary data on socio-economic profile of sample beneficiaries, sources of income, employment, loan availed, utilization of loan, consumption, indebtedness, asset creation, and other related information were collected from the sample households using a structured questionnaire specially designed for the study. The data on all the relevant variables for the sample households were collected for two periods *i.e.* pre and post JLG participation by the member households. The primary data were collected from the sample respondents pertain to the year 2018-19. Percentage analysis was carried out to assess the profile of the members and other related economic variables such as employment, income, indebtedness, asset creation *etc*., to analyze the changes.

Results and Discussion

Functions of JLGs

Age of the sample JLGs was about 4.5 years and the size of JLG group is four members. JLGs are only credit groups not the saving groups. Saving by members is only optional. JLGs were promoted by NGOs. NGOs act as an intermediary between JLG and Banks and does the role of Business Correspondent. They conduct wealth ranking through PRA tools and finalize the members to form the JLG. The criteria for JLG members should be married women, residing in same village, having own house, and also from low economic background particularly landless, agricultural labourers, small and marginal farmers, non-farm workers, *etc*., Moreover, they should not have any previous Loan in TNGB and should run some business activity either by the JLG member or the household members. It is observed that they are keen in selecting the members and to include them to have access to the banking service. They should also a part of SHG because they had previous experience in micro finance programme. NGO took the responsibility of i) forming JLGs by providing training, ii) link the JLGs with Banks and iii) prompt repayment of loans.

The disbursement of first loan is done based on the enrolment of members in JLG and meeting will be arranged by NGO to expose about them with purpose of JLG, its functions, availing loan, repayment, selection of enterprise, *etc*. They help them in opening of savings account and loan account. They fix equal loan amount for all the members irrespective of economic activity, also equal instalment for about 17 to 19 months as repayment period. Though the savings by JLG members are optional, NGO promote savings among the JLG members (Rs.200 / month) and to kept in bank account for adjusting their loan amount in the last repayment. After the exposure training and forming JLG, processing of 1st loan is done based on group member performance. The same process is followed for repeat loans also (2nd, 3rd loan, *etc*.) but loan processing is done within 15 days. In addition, NGO itself collects repayment amount and savings amount and paid in their account on the same day at the regular monthly interval.

In the present study, JLG- Bank linkage model followed is given below.

Tamil Nadu Grama Bank (RRB) →NGO (Intermeadiary)→JLG

Tamil Nadu Grama Bank-a Regional Rural Bank is involved in JLG financing and sanctioned loan to JLG members @15%. Banks receives 12% interest and NGO as a Business Correspondent performing the role of intermediary services as Business Correspondents (BCs), receives 3% as service commission on the volume of loan disbursed. Also, they receive, Rs.2000 per JLG for formation of group and repayment services.

Profile of JLG members

Average age of the JLG members was 40 years and are medium aged. All the sample JLG members are women. Family size was around five in both the categories. Average workers per family was 2.70 and 87 percent of them were educated and of which, eight percent of them were graduates / diploma holders. Nearly 77 percent of the landless households and 23 percent of the marginal farmers were participated in the JLG programme. The average farm size of 0.91 ha and 0.85 ha for member and non-member category [Table-1].

Table-1 *Profile of the Sample Respondents*

SN	Particulars	JLG members (60)	Non- Members (60)
1	Average Age (Yrs)	39.93	45.98
2	Family Size (Nos.)	4.60	4.73
3	No. of Workers	2.70	2.41
4	Education (Nos.)		
	Illiterates	8 (13.33)	10 (16.67)
	Primary	20 (33.33)	20 (33.33)
	High School	13 (21.66)	15 (25.00)
	Higher Secondary	14 (23.33)	10 (16.67)
	Graduates / Diploma	5 (8.33)	5 (8.33)
5	Landless Households (Nos.)	46 (76.67)	46 (76.67)
6	Average Fam Size (ha)	0.91	0.85

(Figures in parentheses indicate percent to total)

Occupation [Table-2] of the sample households revealed that of the total sample respondents, non-farm workers accounted for 45 percent, followed by agricultural labourers (32 percent) and small and marginal farmers accounted for only 23 percent. The average farm size was 0.53 and 1.41 ha for marginal and small farmers in case of JLG member households and the same pattern was observed in non–JLG member households. It shows that non-farm workers form the major share who participated in JLG (mainly going for coolie work on daily wages) and also the weaker section of the society.

Table-2 *Occupation of the Sample respondents*

SN	Activity	JLG members		Non- members	
		Nos.	Area (ha)	Nos.	Area (ha)
1	Marginal Farmer	8 (13.00)	0.53	9 (15.00)	0.49
2	Small farmer	6 (10.00)	1.41	5 (8.00)	1.49
3	Agricultural Labour	19 (32.00)	…	19 (32.00)	…
4	Non-Farm Workers	27 (45.00)	…	27 (45.00)	…

Asset Position

[Table-3] revealed that 70% of the beneficiaries had tiled house and 30% had thatched house but they had owned house only. Similarly, 47% of the non-beneficiaries had tiled house and 53 % live in thatched house. Possession of livestock was found 30% of the sample households and there is no much of implements or machineries since most of them are landless and non-farm workers. Household assets was found in more than 90% of the households (TV and steel cupboard). Two-wheeler was found in both the classes by 63 to 77 percent.

Table-3 *Asset Position among JLG members*

SN	Particulars	JLG members		Non- members	
		Nos.	% to total	Nos.	% to total
1	Own house-Tiled	42	70.00	28	46.67
	Own house- Thatched	18	30.00	32	53.33
2	Livestock- cattle	14	23.33	14	23.33
3	Livestock- goat	5	8.33	3	5.00
4	Tractor	2	3.33	1	1.67
	Household Assets				
5	TV	57	95.00	56	93.33
6	Steel Cupboard	58	96.66	58	96.66
7	Motor Cycle	46	76.66	38	63.33

Reasons for Joining JLG

The reasons for joining JLGs by sample members [Table-4] were they joined JLG mainly for availing loan for income generating activity followed by getting easy access to loan by members (100 percent each) and nearly one–third of them joined for improving their income through joining JLG.

Table-4 *Reasons for joining in JLGs*

SN	Reasons	Nos.	% tot total
1	Source for income generation activity	60	100.00
2	Access to Easy loan facility from banks	60	100.00
3	Improvement in Income	45	71.67

JLG loan

JLGs conducts meeting only once mainly for transaction relating to collection of repayment and availing loan from banks, filling up of forms, *etc.* The sample JLG members got individual loan only. All the sample members (100%) received on an average two loans after joining JLG @ Rs.20000 for the 1st loan, Rs.40000 for 2nd loan. However, only 20% of them received 3rd loan for an amount of Rs.50,000 per member [Table-5]. Hence, the average loan per member was Rs.90000. It is found that in all the JLGs, all the members are getting equal amount of loan and repeat loans were availed by the sample beneficiaries by prompt repayment of previous loan. It is also found that equal instalments and equal amount was fixed for all loans.

NGOs are the major source of motivating the people to form JLG among members (87 percent) and Banks (13.33 percent). NGOs given priority that members should be 100% married women, residing in same village, having own house, and also from low economic background particularly landless, small and marginal farmers, non-farm workers, *etc.*, They do the wealth ranking and finalize the members to form the JLG. Moreover, they should not have any previous Loan in TNGB.

Table-5 *Functioning of JLGs*

SN	Particulars	Nos.
1	Average Age of JLG (Yr)	4.5
2	Frequency of meeting conducted in month	Once
3	No. of loans received	
	Once	…
	Twice	60 (100.00)
	Thrice	12 (20.00)
4	Mode of financing - Individual loan	60 (100.00)
5	Average Size of loan (Rs. / member)	90000.00
6	Motivation for joining JLG by members	
	i. NGO	52 (86.67)
	ii.Tamil Nadu Grama Bank (RRB)	8 (13.33)

(Figures in parentheses indicate percent tot total)

Activities financed and Repayment

[Table-6] revealed that of the total sample respondents, nearly 47 percent of them availed cattle loan (milch cow) and 45 percent of them availed loan for petty business (non-farm activities) which includes kirana stores, mess, meat shop, ghee shop, tailoring, idli flour selling, flower vending, *etc.*, and flower vending (8.33 percent). Also, the business activity of JLG members in a single group is not the same and they availed loan for these traditional activities and not followed any new activities / started through training or so. It is also clearly indicated that the JLG members were availed loan to strengthen the existing activity for using as working capital and to invest on petty fixed investments to earn income through the activity.

Moreover, it was found that the loan was mainly to meet out the working capital requirements except for cattle loan. They had adequate skill and experience in the activity since the loan meant for the existing activity only.

Repayment of loan by the JLG beneficiaries was found to be 100 percent, hence, they were able to avail repeat loans and this was made possible because of the intervention by NGO alone. NGO took the responsibility of collection of dues and payment on behalf of the JLG office bearers or members. The repeat loans will be provided by banks after prompt repayment of previous loan only.

Table-6 *Purpose of Loan Utilization and Repayment among JLG members*

SN	Particulars	JLG members (Nos.)
A	Purpose of Loan	
1	Petty Business*	27 (45.00)
2	Cattle Loan	28 (46.67)
3	Flower Vending	5 (8.33)
B	Repayment	
	1st loan	17 months
	2nd loan	18 months
	3rd loan	19 months
C	Repayment	100 %

**Includes kirana stores, mess, meat shop, ghee shop, tailoring, idli flour selling*

(Figures in parentheses indicate percent tot total)

Impact of JLG loan

The major impact from the study are listed as follows. 100 percent the loan was used for the activity mentioned and asset created out of the loan. Repayment was found to be 100 percent by JLG members. JLG members were able to avail repeat loans and this was made possible because of the intervention by NGO alone. The major share of income was from non-farm enterprises followed by livestock activity. The additional employment generated was ranging from 36 days (petty business) to 80 days (livestock). There exists a positive impact on generation of employment and income in post JLG period and not much impact on asset creation in the form of household assets (3-5% change), liquid assets (savings in FD/ RD), investment in terms of LIC policies *etc.*, other than livestock. Nearly 80 percent of them had Rs.500-1000 per month as savings after joining JLG. Nearly forty-two percent of them are having old debts from informal sources particularly money lenders and other MFIs. Women empowerment was found to be high among 12 percent of members, medium empowerment was found in 37 percent of members and low empowerment was found in 52 percent of the women beneficiaries.

Benefits of JLG finance

It was expressed by the members that access to credit with low interest is the major benefit realized by them in availing loan from JLG and asset creation was ensured by the NGO and the JLGs. However, low amount of loan sanctioned per time may be the most important constraint faced by them followed by no flexibility in repayment. NGO strictly adhere to the time schedule given by the bank for repayment and they themselves collect the repayment and credit into the beneficiary account. It is clearly understood from the field survey that JLGs are functioning well by the intervention of NGO as a Business Correspondent, repayment was prompt and asset creation was good. However, the author felt that, other than credit and repayment, enhancement of knowledge other than credit, regularity in conduct of capacity building on business enterprises, joint identification and selection of economic activity suitable for the household specific to location either by bank and NGO is missing. Moreover, the JLG members meant for collateral security for business loan not taking much care about the repayment and group cohesiveness, in turn NGO took the burden on repayment collection on their own which affect the very purpose of group responsibility. No uniform activity is found in single JLG and also instalment is fixed arbitrarily; not based on income realized from the activity. Moreover, there is no sharing or interaction among the JLGs promoted by these NGOs. They act independently and having only unidirectional relationship with NGO alone.

Conclusion

Based on the survey results of the study, it is suggested that i) training on agro based enterprises may be given to the JLG members for undertaking enterprises for enhancing additional employment and income, ii) NGOs may educate the JLG members to avail life Insurance policies for self and family members for protecting themselves from risks, in availing various benefits provided by the state and central government to weaker sections, iii) though savings is not a mandate of JLG, it may be promoted among them with the motivation by bankers.

Application of research: JLG financing results in changes in income, employment of the beneficiaries through business loan and repayment is prompt by the beneficiaries.

Research Category: Microfinance

Abbreviations: JLG: Joint Liability Group, MFI: Micro Finance Institutions
NGO: Non-Governmental Organization, TNGB: Tamil Nadu Grama Bank

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