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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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 -