



Performance of Self-Help Groups and Joint Liability Groups in Microcredit Funding

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ABSTRACT

The present study was undertaken in Kadapa and Kurnool districts of Andhra Pradesh with a view to know the performance of SHGs and MFIs in providing financial services to the poor. The study was carried out through collection of data by adopting interview method and simple tabular analysis. The results of the study revealed that self-help groups and joint liability groups achieved their goal of reaching the weaker sections of the population and providing the financial services needed by the poor.

Key words : Joint liability groups, Microfinance, Self-help groups.

Addressing poverty is the most significant challenge in this millennium, clearly reflected in the millennium development goals that seek to halve global poverty by 2015. In the recent years, microfinance became an important intervention as a tool for poverty alleviation and rural development. Innovations of group based microfinance especially Self-help groups (SHGs), Joint Liability Groups (JLGs) etc; which replaced the physical collateral with moral and social collateral for micro-loans had probably led to speed up the microfinance programme in India. The giant step of NABARD (National Bank for Agriculture and Rural Development) on SHG-Bank linkage programme is really praiseworthy which latter considered as one of the biggest microfinance interventions in the world. The JLG model was stemmed from the Grameen Bank of Bangladesh [Hussain (1998); Yunus (2007)]. JLGs do not have compulsory savings before availing credit. The main motto of JLGs is to access credit along with other financial products like insurance etc. Like SHGs, the JLGs also work on peer pressure and moral collateral to avail financial products. Most of the microfinance institutions (MFIs) fall under this JLG model. Studies on group lending have revealed that peer monitoring and group pressure had higher significance on performance of the groups, whereas social ties had little significance (Wydick, 1999). Economically weaker sections, i.e. scheduled castes and scheduled tribes accounted

for a sizeable proportion of SHG membership (Borbora and Mohanty, 2001). With this background the present study was undertaken to know the performance of self-help groups and joint liability groups.

The specific objectives of the present study were (i) to understand the socio-economic characteristics of the sample respondents at the household level and (ii) to study the SHG and MFI programme in microcredit funding.

MATERIAL AND METHODS

The multi-stage purposive random sampling was followed in the selection of districts, mandals, villages and sample respondents. Two districts in Andhra Pradesh, viz. Kadapa and Kurnool where SHG and MFI programmes successfully operated, were selected. Three mandals from each district with maximum number of SHGs and MFI borrowers were selected. From each mandal two villages were selected randomly. In each village, 10 members who participated in both, SHG and MFI programmes represented as category I, 10 members that participated in SHG programme represented as category II and 5 non-participants in both the microfinance programmes represented as category III were selected. In all, 120 SHG and JLG borrowers, 120 SHG borrowers and 60 non-participants were selected. The information related to the study was collected using a well-defined and pre-tested schedule by the

Table 1. Social status of sample rural women

| S.No | Particulars | Category-I | | Category-II | | Category-III | | Pooled | |
|---|---------------------------|------------|---------|-------------|---------|--------------|---------|---------|---------|
| | | No | Percent | No | Percent | No | Percent | Average | Percent |
| I Age group of Sample respondents (in years) | | | | | | | | | |
| 1 | Young age (18-35) | 64 | 53.33 | 58 | 48.33 | 32 | 53.33 | 55.2 | 51.66 |
| 2 | Middle age (36-50) | 54 | 45.00 | 53 | 44.17 | 18 | 30.00 | 46.4 | 39.72 |
| 3 | Old age (>50) | 2 | 1.67 | 9 | 7.50 | 10 | 16.67 | 6.4 | 8.61 |
| | Total | 120 | 100.00 | 120 | 100.00 | 60 | 100.00 | | |
| | Average age of the Member | 35.48 | | 36.61 | | 37.63 | | | |
| II Education level of members | | | | | | | | | |
| 1 | Illiterate | 78 | 65.00 | 80 | 66.67 | 50 | 83.33 | 73.2 | 71.67 |
| 2 | Primary | 18 | 15.00 | 20 | 16.67 | 7 | 11.67 | 16.6 | 14.44 |
| 3 | High school | 21 | 17.50 | 18 | 15.00 | 3 | 5.00 | 16.2 | 12.50 |
| 4 | Intermediary | 1 | 0.83 | 1 | 0.83 | 0 | 0 | 0.8 | 0.55 |
| 5 | Graduation | 2 | 1.67 | 1 | 0.83 | 0 | 0 | 1.2 | 0.83 |
| | Total | 120 | 100.00 | 120 | 100.00 | 60 | 100.00 | | |
| III. Caste | | | | | | | | | |
| 1 | OC | 19 | 15.83 | 23 | 19.17 | 20 | 33.33 | 20.80 | 22.78 |
| 2 | OBC | 29 | 24.17 | 58 | 48.33 | 24 | 40.00 | 39.60 | 37.50 |
| 3 | SC | 56 | 46.67 | 24 | 20.00 | 12 | 20.00 | 34.40 | 28.89 |
| 4 | ST | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0 |
| 5 | Muslims | 16 | 13.33 | 15 | 12.50 | 4 | 6.67 | 13.20 | 10.83 |
| | Total | 120 | 100.00 | 120 | 100.00 | 60 | 100.00 | | |

personal interview method. Detailed information was collected and it pertained to the agricultural year 2010-2011.

RESULTS AND DISCUSSION

Socio-economic characteristics of the sample respondents

The age distribution pattern of sample rural women is presented in Table 1. It is evident from the table that 53.33 per cent of sample respondents from category I belonged to the young age group and 45 per cent of the respondents were under middle age group, while very less people in the old age group i.e. 1.67 per cent. In the case of sample respondents from category II about 48.33 per cent of the beneficiaries was in young age group and 44.17 per cent and 7.50 per cent were found to fall in the middle age group and old age group

respectively. In respect of respondents from category III 53.33 per cent belonged to the young age group, 30 per cent and 16.67 per cent of respondents had fallen in the middle age and old age groups respectively. The average age of sample rural women was 35.48, 36.61 and 37.63 in category I, II and III respectively. The age distribution pattern of sample rural women indicated that majority of the respondents fell in the age group of 18-50 years. The probable reason for this might be that the young and middle aged were more efficient and actively involved in income generating activities. Most of the microfinance institutions followed this as a rule, while identifying their clients that their age should be not only below 50 years but this also should be enterprising.

It is observed that 65 per cent of the sample respondents from category I was illiterates, 15.0

Table 2. Land holding pattern of sample rural households.

| S.No. | Land holding (in ha) | Category-I | | | Category-II | | | Category-III | | | Pooled | | |
|-------|-------------------------|------------|---------|----------------------|-------------|---------|----------------------|--------------|---------|----------------------|--------|---------|----------------------|
| | | No | Percent | Average area (ha) | No | Percent | Average area (ha) | No | Percent | Average area (ha) | No | Percent | Average area (ha) |
| 1 | Land less | 72 | 60.00 | 0 | 51 | 42.50 | 0 | 32 | 53.33 | 0 | 155 | 51.94 | 0 |
| 2 | Marginal (<1) | 36 | 30.00 | 0.50 | 42 | 35.00 | 0.46 | 21 | 35.00 | 0.53 | 99 | 33.33 | 0.49 |
| 3 | Small (1-2) | 12 | 10.00 | 1.44 | 20 | 16.67 | 1.41 | 5 | 8.33 | 1.48 | 37 | 11.67 | 1.43 |
| 4 | Medium (2-5) | 0 | 0 | 0 | 3 | 2.50 | 2.43 | 2 | 3.34 | 3 | 5 | 1.95 | 2.65 |
| 5 | Large (5-10) | 0 | 0 | 0 | 4 | 3.33 | 5.25 | 0 | 0 | 0 | 4 | 1.11 | 5.25 |
| | Total | 120 | 100.00 | 0.30 | 120 | 100.00 | 0.63 | 60 | 100.00 | 0.41 | 300 | 100.00 | 0.45 |

per cent studied up to primary education, 17.50 per cent completed their high school education and 0.83 per cent and 1.67 per cent of them studied up to intermediate and degree levels respectively. The results showed that the percentage of illiteracy was highest in control group and lowest among the members who participated in both the microfinance programmes. The majority of the MFIs and SHGs preferred educated women as they understood the rules and responsibilities of the group.

The distribution of sample households according to the caste indicated that 15.83, 19.17 and 33.33 per cent of the sample respondents from category I, II and III belonged to general category. About 24.17 per cent, 48.33 per cent and 40.00 per cent of the sample respondents from category I, II and III belonged to backward caste, whereas 46.67, 20.00 and 20.00 per cent of sample households from the said categories belonged to scheduled caste. None of the members in any of the three categories came from scheduled tribe.

Land holding pattern

The information on land holding position of the sample respondents is presented in Table 2. It revealed that in category I most of the members were landless (60.0 per cent), 30.0 per cent had marginal land holding and only 10.0 per cent had small land holding. In the case of sample respondents from category II, 42.5 per cent of the members were landless, 35.0 per cent had marginal land holding, 16.67 per cent had small land holding, and 2.5 per cent and 3.33 per cent of the respondents were from medium and large holding categories respectively. In respect of respondents from category III, 53.33 per cent of the members were landless, 35 per cent had marginal land holding, 8.33 per cent belonged to small land holding category and 3.34 per cent of them represented medium land holding category. The average size of the land holding for the sample respondents from category I, II and III was 0.30 ha, 0.63 ha and 0.41 ha respectively.

Self-help group programme in microcredit funding

The average size of the self-help group was 10.52 and the size of the SHGs for which the sample respondents belonged to ranged from 10 to 15. The

Table 3. Savings performance.

| S.No | Savings / Month (Rs) | Category-I | | Category-II | | Overall | |
|--------------------------------|----------------------|------------|------------|-------------|------------|-----------|------------|
| | | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| 1 | 30 | 0 | 0 | 2 | 1.67 | 2 | 0.83 |
| 2 | 40 | 3 | 2.50 | 0 | 0 | 3 | 1.25 |
| 3 | 50 | 95 | 79.17 | 92 | 76.66 | 187 | 77.92 |
| 4 | 60 | 1 | 0.83 | 2 | 1.67 | 3 | 1.25 |
| 5 | 100 | 20 | 16.67 | 24 | 20.00 | 44 | 18.33 |
| 6 | 200 | 1 | 0.83 | 0 | 0 | 1 | 0.42 |
| Total | 120 | 100.00 | 120 | 100.00 | 240 | 100.00 | |
| Average savings per month (Rs) | | 59.41 | | 59.83 | | 59.62 | |

Table 4. Internal lending by the SHG members.

| S.No | Particulars | Category-I | | Category-II | | Overall | |
|------|--|------------|------------|-------------|------------|-----------|------------|
| | | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| | Internal lending amount (Rs) | 75 | 62.50 | 76 | 63.33 | 151 | 62.92 |
| 1 | 0 | 39 | 32.50 | 37 | 30.84 | 76 | 31.67 |
| 2 | 1-10,000 | 3 | 2.50 | 3 | 2.50 | 6 | 2.50 |
| 3 | 10,001-20,000 | 3 | 2.50 | 4 | 3.33 | 7 | 2.92 |
| 4 | 20,001-30,000 | 45 | 37.50 | 44 | 36.67 | 89 | 37.08 |
| | Number of members following internal lending | 42 | 93.33 | 40 | 90.91 | 232 | 96.63 |
| 1 | Interest rate | 3 | 6.67 | 4 | 0.09 | 8 | 3.37 |
| 2 | 12 per cent | | | | | | |
| | 24 per cent | | | | | | |

average size of the SHG related to category I was 10.47 and that of category II was 10.57. The reason for low membership was that lower the members, greater the leverage from Government schemes, grants etc. and higher the per capita benefits received.

Saving performance

All the sample respondents who participated in SHG programme were found to save regularly, which implies that they perceived the benefits of savings in the long run. The savings generated in the group helped them to meet their day-to-day consumption needs thereby reducing their dependence on money lenders. The monthly savings amount of sample respondents varied from

30 to 200. From Table 3 it is clearly known that overall 77.92 per cent of the sample respondents saved monthly Rs.50, 18.33 per cent saved Rs.100 per month. And 0.83, 1.25, 1.25 and 0.42 per cent saved Rs.30, Rs.40, Rs.60 and Rs.200 respectively. About 79.17 per cent of members from category I and 76.66 per cent from category II saved Rs.50 per month and 16.67 per cent from category I and 20 per cent from category II saved Rs.100 per month. A very negligible per cent of members saved Rs.30, Rs.40, Rs.60 and Rs.200 per month. There was no significant difference in saving pattern between the two categories which was indicated by the t-test. From the above results it is inferred that participating in MFI programme would not affect the savings amount per month through SHG.

Table 5. SHG bank linkage.

| S.No | Loan amount (Rs) | Category-I | | Category-II | | Overall | |
|--------------------------|---------------------|------------|------------|-------------|------------|-----------|------------|
| | | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
| 1 | 0 | 5 | 4.16 | 10 | 8.33 | 15 | 6.25 |
| 2 | 1-10000 | 33 | 27.50 | 33 | 27.50 | 66 | 27.50 |
| 3 | 10001-20000 | 56 | 46.67 | 29 | 24.17 | 85 | 35.42 |
| 4 | 20001-30000 | 8 | 6.67 | 18 | 15 | 26 | 10.83 |
| 5 | 30001-40000 | 14 | 11.67 | 27 | 22.5 | 41 | 17.08 |
| 6 | 40001-50000 | 4 | 3.33 | 3 | 2.5 | 7 | 2.92 |
| | Total | 120 | 100.00 | 120 | 100.00 | 240 | 100.00 |
| Average loan amount (Rs) | | 17800 | | 19961 | | 19388 | |
| Credit to savings ratio | | 5.78 | | 5.82 | | 5.95 | |

Table 6. Purpose and disbursement of SHG-bank linkage loan (member-wise) and repayment performance.

| S No | Particulars | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage |
|------|--------------------------------------|-----------|------------|-----------|------------|-----------|------------|
| 1. | Purchase of buffalo/cow | 39 | 32.50 | 30 | 25.00 | 69 | 28.75 |
| 2. | Health expenditure | 3 | 2.50 | 1 | 0.83 | 4 | 1.67 |
| 3. | Marriage | 12 | 10.00 | 4 | 3.33 | 16 | 6.67 |
| 4. | Unexpected family functions | 2 | 1.66 | 0 | 0 | 2 | 0.83 |
| 5. | Consumption | 5 | 4.17 | 16 | 13.33 | 21 | 8.75 |
| 6. | Home construction, improvement | 11 | 9.17 | 6 | 5.00 | 17 | 7.08 |
| 7. | Investment in existing business | 26 | 21.67 | 31 | 25.84 | 57 | 23.75 |
| 8. | Repaying old debts | 9 | 7.50 | 13 | 10.84 | 22 | 9.17 |
| 9. | Purchasing land | 1 | 0.83 | 0 | 0 | 1 | 0.41 |
| 10. | Children's education | 4 | 3.33 | 6 | 5.00 | 10 | 4.17 |
| 11. | Multi purpose | 8 | 6.67 | 13 | 10.83 | 21 | 8.75 |
| | Total | 120 | 100.00 | 120 | 100.00 | 240 | 100.00 |
| | Loan utilized for productive purpose | 65 | 54.16 | 61 | 50.84 | 126 | 52.50 |
| | Repayment performance | | 100.00 | | 100.00 | | 100.00 |

Table 7. Reasons for non-participants not joining in SHG.

| S No | Particulars | Number of members | Percentage |
|------|--|-------------------|------------|
| 1. | Difficulties in attending group meetings regularly | 22 | 36.67 |
| 2. | Unaware of the procedures of joining SHG | 6 | 10.00 |
| 3. | Family restrictions | 8 | 13.33 |
| 4. | Fear of group liability | 13 | 21.67 |
| 5. | Group conflict | 11 | 18.33 |
| | Total | 60 | 100.00 |

Table 8. Size of the JLG and Loan performance of JLG members.

| S No | Loan amount (Rs) | Number of members | Percentage |
|------|-----------------------------------|-------------------|------------|
| | Size of the Joint liability group | 4.7 | |
| | Loan performance | | |
| 1. | <=10,000 | 3 | 2.50 |
| 2. | 10,001-15,000 | 69 | 57.50 |
| 3. | 15,001-20,000 | 46 | 38.33 |
| 4. | 20,001-25,000 | 2 | 1.67 |
| | Total | 120 | 100.00 |
| | Average amount borrowed | Rs. 16,494 | |
| | Average outstanding amount | Rs. 7,356 | |

All the sample respondents paid their monthly savings amount within a stipulated date to enable the group leaders to deposit in the bank.

Internal lending

Eventhough, the members saved regularly, only 37.08 per cent of the sample respondents who participated in self-help group programme availed internal loans. This was mainly because the members had easy access to bank loans. The internal lending amount varied from Rs.500 to 30,000 based on their group savings. The interest rate followed ranged from 12 per cent to 24 per cent per annum. The repayment was done through monthly installments. In the case of category I, 37.50 per cent of the members had taken loan from savings and it was 36.67 per cent for category II (Table 4). The reason for this was in both the categories, they were getting the bank loan and MFI loan easily and the internal lending amount was small and mainly this was used only for emergency purpose. Hence, idle funds were common among the sample respondents.

SHG bank linkage

From Table 5, it is observed that, overall 93.75 per cent of sample respondents who participated in SHG programme had bank linkage. The highest percentage i.e. 35.42 per cent of the members had taken loan in the range of Rs.10,001-20,000, 27.50 per cent of the members had borrowed in the range of 1-10,001, 17.08 percentage of the sample had borrowed in between Rs.30,001 and 40,000, 10.83 per cent in the range of Rs.20,001-30,000, and only 2.92 per cent had fallen in the borrowing range of Rs.40,001-50,000 and 6.25 per cent of the members had no linkage. About 51.67 per cent of the members from category-II had borrowed below Rs.20,001, whereas it was 73.67 per cent in the case of category I and 40 per cent of the sample respondents from category II had borrowed in the range of Rs.20,001-50,000, and it was 21.67 per cent in the case of category I. The reason for this was the members from category I obtained loan easily through MFI hence they did not pressurise the bank authorities for higher amounts of loan. The average loan amount taken by the SHG member through bank linkage was Rs.19,388, while it was Rs.17,800 and Rs.19,961 for the members from category I and II respectively.

Table 9. Purpose and disbursement of MFI loan (member-wise).

| S No | Particulars | Number of members | Percentage |
|------|---------------------------------|-------------------|------------|
| 1. | Purchase of buffalo/cow | 29 | 24.17 |
| 2. | Health expenditure | 2 | 1.67 |
| 3. | Marriage | 9 | 7.50 |
| 4. | Unexpected family functions | 0 | 0 |
| 5. | Consumption | 12 | 10.00 |
| 6. | Home construction, improvement | 14 | 11.67 |
| 7. | Investment in existing business | 28 | 23.33 |
| 8. | Repaying old debts | 14 | 11.67 |
| 9. | Children education | 4 | 3.33 |
| 10. | Multi purpose | 8 | 6.67 |
| | Total | 120 | 100.00 |

Table 10. Reasons for not borrowing from MFI.

| S No | Particulars | Number of members | Percentage |
|------|---------------------------------------|-------------------|------------|
| 1. | High interest rate | 68 | 37.78 |
| 2. | Inflexibility in monthly installments | 26 | 14.44 |
| 3. | Easy loan availability through SHG | 36 | 20.00 |
| 4. | Fear of joint liability | 23 | 12.78 |
| 5. | No need | 14 | 7.78 |
| 6. | Difficult to repay on exact date | 13 | 7.22 |
| | Total | 180 | 100.00 |

On an average the SHG members received an external loan (bank linkage) to the tune of 5.95 times of their savings. In the case of category I the credit to savings ratio was 5.78 and for category II it was 5.82. NABARD recommended a credit to savings ratio of 4:1. The high credit to savings ratio observed was due to the “total financial inclusion programme” implemented by the Andhra Pradesh with the support of SERP (Society for Elimination of Rural Poverty).

Purpose and disbursement of SHG-bank linkage loan

It is evident from Table 6 that 52.50 per cent of the sample respondents who participated in SHG programme used the loan amount for productive purpose which generated income for repaying the loan and 47.50 per cent for unproductive purposes which lead to difficulties in repaying the debt.

The comparison of the percentage of members who utilized loan for productive purpose it was 54.17 per cent in category I (32.5 per cent utilized for purchasing buffalo and 21.67 per cent utilized for investment in existing business) and 50.84 per cent in category II (25 and 25.84 per cent for purchasing buffalo and investment in existing business). The top three reasons for not joining in SHG programme by the respondents were difficulties to attend group meetings regularly, group liability and group conflict (Table 7). The repayment performance observed in the study area by the SHGs was 100 percent.

Size of the JLG and Loan performance of JLG members

The average size of the joint liability group of MFI was 4.7 (Table 7) and the size of the JLG ranged from 4 to 6. As per the RBI guidelines no MFI was allowed to take savings from JLG

members therefore there was no savings among JLG members. It is observed from the table that 2.5 per cent of the sample respondents who were participating in MFI programme had borrowed a loan amount of Rs.10,000, 57.5 per cent of the sample had borrowed in between Rs10,001-15,000, 38.33 per cent of the respondents had taken in the range of Rs.15,001-20,000 and only 1.67 per cent of the sample respondents had borrowed in the range of Rs.20,001-25,000.

A comparison of SHG bank linkage and loan from MFI, it was found that 98.33 per cent of the sample respondents who participated in MFI programme had borrowed below Rs.20,000, whereas it was 62.92 per cent in the case of SHG. As observed from the sample respondents the maximum amount borrowed through SHG was Rs.50,000, while it was only Rs.25,000 in respect of JLG.

Purpose and disbursement of MFI loan

In MFI loan transactions, the purpose for which the loan was utilized must be entered in the application form. Even though the activity was specified in the loan application form the actual utilization of the loan was different. The actual purpose for which the loan amount was used was analyzed and presented in Table 8. From the table it is found that 24.17 per cent of the sample respondents used for purchasing buffalo / cow. About 23.33 per cent of the members used for investment in the existing business i.e. kirana, tailoring and hotel. It is clear that 47.50 per cent of the sample respondents utilized the loan amount for productive purpose which generated income for repaying the monthly installment, whereas 52.50 per cent utilized for unproductive purpose making it difficult for them to repay the loan. The major reason that can be attributed was the lack of end use monitoring on the part of employees of MFI. About 25.6 per cent of the JLG members utilized the loan amount for income generation activities, 25.4 per cent for repayment of old debts, 22.1 per cent for home improvement, 10.9 per cent for health expenditure, 4.4 per cent for their children's education and 11.6 per cent for other purposes (Johnson and Sushmita 2010). Only 4.17 per cent of JLG members were regular in their repayment.

The micro finance crisis that erupted in early October 2010 hit the micro finance sector and led to low loan recoveries. The prime reasons for loan overdues were that, all the JLG members in the village were irregular in loan repayment, the rate of interest appeared low, but the effective rate of interest was very high, coupled with very high processing charges. From the analysis it was found that the underlying factors for not borrowing from MFI were, high rate of interest, easy availability of SHG loan at low interest rate and inflexibility in monthly installments (Table 10).

CONCLUSION

SHG and MFI programme had by and large achieved the goal of helping the weaker sections of the population to access microfinance. About 47.50 per cent and 52.50 per cent of the borrowers under SHG and MFI utilized the loan for unproductive purpose making it difficult to recover the loan. End use monitoring of SHG and MFI employees ensures the productive use of the loans.

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