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ORIGINAL ARTICLE

# JOINT LIABILITY GROUP PATTERN- MICROFINANCE PARADIGM

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## 1) INTRODUCTION: -

Microfinance is a term developed in the field of banking services in recent times. Also, microfinance is a means of extending financial services such as loans, savings services, insurance services, etc. to the rural poor in need. After the nationalization of commercial banks in post-independence India in 1969, it was decided to provide 40% of the total credit to banks in rural agriculture, rural development, small and cottage industries and the underprivileged sections of the society. Banking services seem to have reached less than 50% of the farmers (up to large farmers). The medium of microfinance was developed while looking for solutions to this problem.

## 2) WHAT IS MICROFINANCE?

Microfinance provides banking services to the needy poor families, involves them in the development process, helps them to decide the direction of their own development.

## 3) WHY IS MICROFINANCE NEEDED?

As 65% of the rural population does not have adequate means of income, they do not have the capacity to cope with the changing adverse natural conditions. Many people have to rely on local lending to cope with various financial problems. A survey has shown that microfinance has increased the income of the rural community by 30%. It has provided employment to the people and developed them socio-economically as well as empowered women.

## 4) MFIS: -

There are three types of microfinance institutions.

A) **Government Institutions**: - These include civic, rural co-operative banks, development banks and credit societies.

B) **Semi-Government Institutions**: - These include Employees Savings Fund, Grameen Banks, Self Help Groups.

C) **Informal organizations**: - This includes SHGs, NGOs, traders, shopkeepers, friends, relatives.

5) **Micro Finance Model**: - While financial services are being provided to the people by financial institutions, some problems have arisen. While looking for solutions, various microfinance models were discovered and used as needed, depending on the situation.

A**) Grameen Bank Paradigm**: -

This paradigm was started in Bangladesh in 1976 by Pvt. Dr. Munus formed a group of women. In this scenario, the group is given the responsibility of joint loan rather than individual loan.

B) **SHGs** : -

In this group of women, financial services are provided to them. In this model, there is a group of 10 to 20 members. All the members of this group make collective savings and give loans on individual level. This transaction is controlled by the whole group. This model is widely used in India.

A) **Personal loan pattern**: -

In this model, banks or financial institutions give loans to any person on the basis of collateral, as well as provide him with education, employment, information, etc.

D) **Joint Liability Model:** - The

Joint Liability Group is a group similar to the Self Help Group or Grameen Bank model which is designed to provide loan facility to landless families who cannot pledge permanent or temporary assets to the bank.

In India, in 2003-4, NABARD used this model to provide loans to small and marginal farmers. Also, Grameen Bank in Tamil Nadu had provided loans of Rs 1 crore to 500 beneficiaries through 105 joint liability groups. The loans were used for fisheries, agriculture and self-employment.

A) **Group Formation**: -

First of all those who are in need of credit are advised to form a group by a financial institution. Accordingly, based on the criteria of social and economic equality, need and skill, equality, 05 to 10 members come together and form a group. The members have good social relationships such as understanding, solving each other's problems, making decisions by consensus. If they have the ability and skills to use the loan for productive purposes, they can repay the loan on time.

B) **With the financial institution Documentation**:

After the formation of the group, the financial institution's ability to repay the loan is checked by the financial institution. After discussion, the needs of the group and the interest rate of the loan are decided as per the rules of the bank.

C) **Loan supply**: - As this group is not legally recognized, banks give loans to individual members of the group, but the responsibility of loan repayment remains collective. In rural areas, farmers and other self-employed are more productive and able to borrow and repay.

D) **Repayment of loan**: -

Debt repayment is a complex process in this paradigm. Debt repayment is not easy for the members of the group who use the loan for unproductive work. As a result, even when other members are repaying their debts on time, they have to share the debts of the members of the group who do not repay their debts with each other.

E) **Characteristics of Joint Liability Group**: -

1) Although the structure of this group is similar to that of SHG, it is temporary as it is for two purposes of borrowing and repaying the loan.

2) Savings of SHG is the basis, but in this group savings are not taken into consideration. Savings are fixed in Grameen Bank model.
3) Mutual trust and harmony are important in this group. Debt repayment is the responsibility of the group, not the individual.
4) Similar to SHG, this group is linked to the bank.
5) The means of subsistence are supplied to the economically backward sections through loan facilities.

**F) CONCLUSION / EVALUATION: -**

1) It has been proved by the survey that, in the pattern in which the responsibility of repaying the loan is personal, the repayment of the loan is fixed. But in this paradigm there is a collective liability which leads to debt arrears.
2) Where village leaders or activists have formed groups, the ability to repay the loan is low and the group is not sustainable.
3) Where group formation is done by members with mutual trust and strong social ties, the group is successful.
4) As there is no formal structure or registration of this group, banks need intermediaries for loan facility.
5) Since group formation is only for getting loan, unlike other paradigms, the objective of promoting savings, improving the living standard of the members etc. is not achieved.
6) This joint liability group model has become an excellent medium for providing banking facilities to small farmers, landless agricultural laborers and other poor people who cannot afford loans.
7) The group can save by opening a joint bank account in the name of at least two members of the group.

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