

The Relationship between Microfinance Institutions and Group Lending Model in Uttar Pradesh, India

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ABSTRACT

Microfinance is a mechanism for the development of the country with especially focusing on poor women in rural areas. Micro Finance has had several successful initiatives, including the range of outreach, as well as the development of innovative products and local institutions that reach out to marginalized communities. Micro-finance has been accepted at the national policy level for poverty reduction. The present paper purports to examine the role of JLGs in microfinance in India. The paper is based on mainly primary data. The research design is descriptive. The data for the present study is based on a major research study on microfinance in the state of Uttar Pradesh conducted in 2019 by the researcher. Chi-square test is used to know the level of significance. While many studies relate to microfinance, only a few studies have been conducted so far to assess the effect of JLGs. Against this backdrop, the present paper purports to examine the Relationship between microfinance institutions and group lending model in Uttar Pradesh, India.

KEYWORDS: Empowerment; JLG; Microfinance institution; Microfinance model; Microfinance and Poverty

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I. INTRODUCTION

In the last decade, everyone was unfamiliar with the concept of microfinance which is now used as the most essential tool to fight from the poverty issue. Microfinance is being known as one of the cost-effective and complementary instruments of the rural credit disbursement system economically and effectively and without too much legal framework to prompt institutional credit to the poor and facilitates timely availability, the manner of promotional work, SHGs and SHG-banks linkage.

Micro-finance outreach familiar worldwide by an effective means to relieve poverty and recovery from the social and economic situations of the rural poor.

Microfinance noticeable in its efforts to reduce poverty and make it possible for the provincial poor in India.

India since independence and co-operatives were strengthened to provide credit to the poor. To increase the credit flow in the banking sector and credit fair was organized. However, credit access to the poor from formal financial institutions is still limited and the poor depend on non-formal agencies for their credit needs. Micro Finance Institutions (MFIs) are foundations other than banks dynamic in providing the open to the money related offices.

The three kinds of the lending process-

1. Documentation and security-based traditional procedure, which is existed in all banks,
2. Group-lending process, that is available in different sizes and forms and has its benefits, and
3. The individual lending option where microfinance institutions need to take great care in measuring the repaying ability of the borrowers.

These techniques have been focused on microfinance through SHG, although there has been a tremendous increase in credit access to the poor through SHG, and recovery has been relatively high. The microfinance institutions started lending at a very small size and gradually they expend their business size very rapidly.

Now, most of the microfinance institution converts into small finance institutions. This is a good example of the outcome of capturing the microfinance area which was neglected by banks.

II. REVIEW OF LITERATURE

Microfinance generally refers to a program used to provide loans to very poor individuals, including loans and specialized assistance for voluntary work and other associated money and administration.

Robinson (1996) described micro finance as small-scale monetary assistance providing small-scale work that deals in agriculture, fishing, and herring, operating micro-enterprises that provide services, which include wages or commissions, and others work at the basic levels of individuals and emerging countries. Jindal (2001) Financial instruments generally provide credit and saving, but microfinance establishes to offer specific financial forms as issuing cheques, demand drafts, and guarantees, etc.

Deshmukh (2002) has shown that the data that is covered various elements of the program and the members. On the inventory side of the interference is caught by the vertical methodology of related information. The interesting sideshows in an effective assessment study on customers' lives. Impact assessment concentrates likewise relate the ideological ethos of microfinance with the intercession and its influence. In the paper on Micro Finance and Millennium Development Goals, Naila Kabir has analyzed the reason behind providing finance to poor family units and especially poor ladies. The researcher's view on microfinance contributes significantly to poverty reduction.

Ghatak and Gini (1998) emphasis on NABARD presented the model of JLG in 2006-2007 to assist customers such as sharecroppers, tenant farmers, and oral leases, etc. by formal MFIs as they seek advances because of the absence of adequate assurance. Joint obligation loaning plans positively affect the reimbursement execution of borrowers. The gathering bears the obligation for the members' loans and thereby resolves the issue of the absence of customary types of security. By assigning the task of screening, observing and implementation credits to gather individuals, the bank tries to conquer the issue of irregular payments and the issue of excessively exchange expenses. Abdul Karim (2009) reveals the joint liability mechanism is superior to personal funding in the relation of expanding social benefit amongst the beneficiaries, besides taking lower financing costs and creating higher payment rates.

Prabal Roy Chowdhury (2005) viewed on lack of consecutive funding or reviews, group-lending plans were faced with observing with borrowers placing capital in unfavorable projects.

De Soto (2000) pointed out that progressing nations cannot be used as security due to the absence of reliable documents.

Rai and Sjostrom (2004) criticized that the Joint obligation itself was not sufficient to proficiently motivate borrowers to support one another. The cross-detailing instrument was significant for banks to reduce the issue of lopsided data in the loan advertisement.

Shubhashish Gangopadhyay et al (2000) stated that using unstandardized data, joint obligation loans can enhance skills contrasted to average loan contracts within the sight of incomplete data on joint groups.

III. OBJECTIVE AND METHODS

The present paper purports to inspect the job of JLGs in microfinance in India. The paper is based on mainly primary data. The research design is descriptive. The data for the present study is based on a major research study on microfinance in the state of Uttar Pradesh conducted in 2019

by the researcher. The primary data has been collected through field survey in selected districts viz. Lucknow, Rai-Bareilly, Varanasi, Gorakhpur, Meerut, and Ghaziabad in Uttar Pradesh. The survey was based on a structured interview schedule while 105 leaders of JLGs were surveyed in the selected districts. The survey was conducted in rural areas with the support of MFIs (Arohan, Satin Credit Care Ltd, Margdarshak, Spandana, Bharat, Shikhar, SVCL, Superfine, and Ujjivan). The data was processed through the application of SPSS and critically analyzed.

IV. Hypothesis

The following hypothesis has been empirically tested:

- There is a positive relationship among microfinance institutions and group size of JLGs;
- There is no relationship among the MFIs and membership of JLGs;
- There is a positive relationship among MFIs and services extended to JLG;
- There is a positive relationship among the MFIs and the JLG conducts specific activities;
- There is a positive relationship between the MFIs and areas of micro-financing.

Different microfinance models in India

Several institutes in India exclusively provide microfinance. Each institute follows a selective model or a combination of several models to give loans to customers. There are many microfinance models in the nation. The fundamental seven types of micro-financing used in India as-

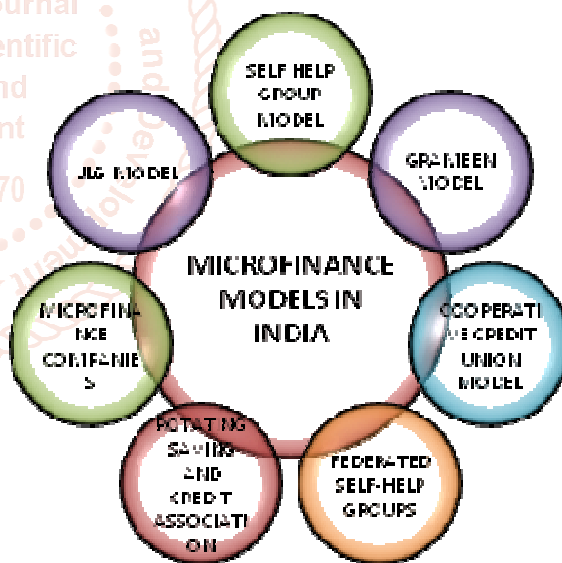


Fig.1 : Micro-Finance Models in India
Source: Researcher Analysis

1. Self Help Group Model

A self-help group (SHG) is termed as a group of a minimum of 5 people and a maximum of 20 people, who belong to the low-income group. The members of each group contribute money from their savings and then collect that savings together. These reserves are further used in the common aim of income generation.

2. Grameen Model

This model for distributing microfinance originated in Bangladesh. Grameen model exclusively for arranging a compulsory training program to group participants. Under this model, microfinance is being offered to a client without

asking for any collateral security. Under this concept, a loan is usually lying between ₹ 4,000 to ₹ 10,000.

3. Cooperative Credit Union Model

Cooperative organizations used the cooperative credit model to deal with micro-finance in provincial zones. The Cooperative Development Forum in Hyderabad has successfully implemented the cooperative credit union model, which the main emphasis on funds. The CDF motivates fellows to emphasize more on the savings collectives rather than group objectives.

4. Federated Self-Help Groups

Federated Self-help groups are known as a wide reach of SHG for an enormous number of individuals. It is an association of several self-help groups. A federation of self-help groups will have around 1000-2000 members while an SHG will have 20 members only. The upper body or executive body in an SHG has a significant responsibility to be the mediator between the whole assistance gathering and the non-governmental organization or whatever other organization that is dedicated to helping the gathering in its exercises. This pinnacle body will have about 10 to 15 individuals. Some of the nation's organizations that implement the self-improvement model incorporate the Dhan Foundation, Pradan, Chaitanya, SEWA, and many others. These united self-improvement gatherings empower individuals to apply for enormous advance sums. Also, these gatherings productively help individuals to set aside more cash.

5. Rotating Saving and Credit Association

Under this, funds are accessible to collections of individuals by unusual methods. Individuals of this association include who have definite common characteristics such as community, ethnicity, profession, occupation, etc. These individuals contribute money regularly and use them to achieve a mutual end. The entire process goes in an organized way where everyone gets money when the specific need arises. In India, Chit-fund companies operate the lending setup like ROSCA. They motivate the poor persons for saving and collect that saving amount for further demand arises.

6. Microfinance Companies

In India, Micro-finance institutions are listed as an NBFC in the Companies Act. An NBFC involves collecting reserves and consuming it to offer loans and different types of monetary services to them. An NBFC typically offers personal credits, two-wheeler advances, vehicle advances, and farming advances, etc. They provide regular and small funds to the underprivileged people. The NBFCs can be monitored by the

RBI or the Companies Act. Micro-finance institutions operate as distinct authorized entities which provide microfinance to the poor people. Microfinance institutions can be non-profit organizations, profit organizations, or shared advantage organizations. Non-profit organizations aim to empower the poor people solely on their monetary and social situations, while for-profit organizations registered revenue-generating association, a consortium of individuals, or an organization that will be an NBFC or a bank. Common Benefit Institutions only serve the objective of assisting their members.

7. JLG Model

A joint liability group is usually a gathering of five to ten people who make the group to borrow from an MFI. Members in a JLG also have similar social and economic backgrounds and usually from the same place or village. A JLG is distinct from an SHG in that members share responsibility, or make guarantees for each other. An essential prerequisite for joint-risk protection for bank advances is that the concerned ranchers prepare themselves in a group of individuals who known and faith one another. The bank collectively lends to individual farmers or groups. The amount acquired by every individual depends on his wants, depends on the maximum stipulated sum (□ 50,000) in the approach, which can be obtained as security. The JLG must necessarily involve farmers or entrepreneurs (producing similar crops or producing gathering of harvests or carrying out non-agricultural exercises) to guarantee harmonious work and procure inputs, processing, marketing, etc., living in a similar town/ conservative territory and not coming from various/inaccessible spots. Banks can back JLG by receiving either of the two models (1) Individuals lending in the group, and (2) Group lending. JLG member needs to be motivated for saving regularly.

V. ANALYSIS & INTERPRETATION

Analysis of Results and Discussion (TABLE-1)

Bank loan distributing and outstanding of joint liability groups is shown in Table 1. More than 5 million JLGs were promoted by MFIs in India by March 31st, 2019 in India Out of the cumulative number of JLGs promoted in India as on March 31st, 2019, southern states accounted share of 30.97 percent while eastern states constituted more than one-third share.

The share of northern states was recorded 13.24 percent while the least share went to north-eastern states. Out of the total loan disbursed as on March 31st, 2019, about two-fifth shares accounted for southern states while about 27 percent share was reported for eastern states.

Source: NABARD

Table-1: Bank Loan Disbursed and Outstanding of JLGs (Amt ₹ Lakh)

Region	No. of JLGs Promoted During 2018-19	Loan Disbursed During 2018-19	Cumulative No. of JLGs Promoted as on March 31, 2019	Cumulative Loan Disbursed as on March 31, 2019
Central Region	160272	₹ 3,26,307	672115	₹ 8,50,494
Eastern Region	617555	₹ 9,38,742	1689745	₹ 19,30,792
North Eastern Region	78013	₹ 90,667	218147	₹ 2,50,875
Northern Region	132272	₹ 2,18,726	374281	₹ 5,06,944
Southern Region	469254	₹ 12,17,348	1572376	₹ 28,66,689
Western Region	146290	₹ 3,02,898	549736	₹ 7,69,221
Grand Total	1603656	₹ 30,94,687	5076400	₹ 71,75,015

Analysis of Results and Discussion (Table-2)

The group size is displayed in Table 2. Around the majority of respondents stated that their group size is less than 10 members. It was found more pronouncing in Shikhar, Marg Darshak, and Ujjivan MFIs. However, a large proportion of respondents revealed that their group size comprises of more than 25 members. It was found more pronounced in the case of Bharat, Satin Credit Care Ltd., and Arohan. Thus, more than 1/4th respondents reported that their group size comprises of 10 to 20 members.

Table-2: Group Size of JLG

Name Of Affiliated MFI	Less Than 10	10 To 15	15 To 20	20 To 25	More Than 25	Total
Arohan	0	3	0	0	3	6
	0.0%	50.0%	0.0%	0.0%	50.0%	100.0%
Bharat	0	0	0	0	3	3
	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%
Margdarshak	30	6	0	0	0	36
	83.3%	16.7%	0.0%	0.0%	0.0%	100.0%
Satin	0	0	3	0	9	12
	0.0%	0.0%	25.0%	0.0%	75.0%	100.0%
Shikhar	3	0	0	0	0	3
	100.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Spandana	0	0	3	0	0	3
	0.0%	0.0%	100.0%	0.0%	0.0%	100.0%
Superfine	7	4	3	0	4	18
	38.9%	22.2%	16.7%	0.0%	22.2%	100.0%
SVCL	3	0	3	3	0	9
	33.3%	0.0%	33.3%	33.3%	0.0%	100.0%
Ujjivan	9	3	0	0	3	15
	60.0%	20.0%	0.0%	0.0%	20.0%	100.0%
Total	52	16	12	3	22	105
	49.5%	15.2%	11.4%	2.9%	21.0%	100.0%
Chi square value	137.87**					

Source: Field Survey.

** indicating significant at 1% level of significance

Analysis of Results and Discussion (Table-3)

Membership of JLG is displayed in Table 3. Around 69% of respondents stated that most of the members of JLG are women. Around 18% of respondents revealed that individuals of JLGs are from various segments of society. A large proportion of respondents from Satin Credit Care, Superfine, and Ujjivan Micro Finance Institutions reported that JLG members comprise of businessmen.

Table-3: Membership of JLG

Name Of Affiliated MFI	Women	Businessmen	Others	Total
Arohan	6	0	0	6
	100.0%	0.0%	0.0%	100.0%
Bharat	3	0	0	3
	100.0%	0.0%	0.0%	100.0%
Margdarshak	24	3	9	36
	66.7%	8.3%	25.0%	100.0%
Satin	9	3	0	12
	75.0%	25.0%	0.0%	100.0%
Shikhar	3	0	0	3
	100.0%	0.0%	0.0%	100.0%
Spandana	3	0	0	3
	100.0%	0.0%	0.0%	100.0%
Superfine	10	4	4	18
	55.6%	22.2%	22.2%	100.0%
SVCL	6	0	3	9
	66.7%	0.0%	33.3%	100.0%
Ujjivan	9	3	3	15
	60.0%	20.0%	20.0%	100.0%
Total	73	13	19	105
	69.5%	12.4%	18.1%	100.0%
Chi square value	17.10^{NS}			

Source: Field Survey.

NS- Not Significant

Analysis of Results and Discussion (Table-4)

The main services extended to group members are shown in Table 4. Micro finances institutions are extending many services to group members. These services include training and entrepreneurship development, facilitation to market access, exposure development, business development, technical know-how, etc.

Table-4: Main Services Extended To Group Members

Name Of Affiliated MFI	Facilitation To Access To Market	Training And Entrepreneurship Development	Exposure Development	Others	Total
Arohan	0	0	0	6	6
	0.0%	0.0%	0.0%	100.0%	100.0%
Bharat	0	0	0	3	3
	0.0%	0.0%	0.0%	100.0%	100.0%
Margdarshak	6	3	0	27	36
	16.7%	8.3%	0.0%	75.0%	100.0%
Satin	0	6	3	3	12
	0.0%	50.0%	25.0%	25.0%	100.0%
Shikhar	0	3	0	0	3
	0.0%	100.0%	0.0%	0.0%	100.0%
Spandana	0	3	0	0	3
	0.0%	100.0%	0.0%	0.0%	100.0%
Superfine	0	4	4	10	18
	0.0%	22.2%	22.2%	55.6%	100.0%
SVCL	0	0	0	9	9
	0.0%	0.0%	0.0%	100.0%	100.0%
Ujjivan	3	0	0	12	15
	20.0%	0.0%	0.0%	80.0%	100.0%
Total	9	19	7	70	105
	8.6%	18.1%	6.7%	66.7%	100.0%
Chi square value	75.51**				

Source: Field Survey.

** Indicate significant at 1% level of significance

Analysis of Results and Discussion (Table-5)

The respondents were queried whether JLG conducts specific activities. Most of the respondents reported that JLG conducts business activities for the promotion of microfinance and the economic empowerment of members. A few respondents also reported that agriculture and trade activities are also conducted by JLGs.

Table-5: Whether JLG Conducts Specific Activities

Name Of Affiliated MFI	Agriculture	Trade	Business	Total
Arohan	0	0	6	6
	0.0%	0.0%	100.0%	100.0%
Bharat	0	0	3	3
	0.0%	0.0%	100.0%	100.0%
Margdarshak	0	0	36	36
	0.0%	0.0%	100.0%	100.0%
Satin	3	0	9	12
	25.0%	0.0%	75.0%	100.0%
Shikhar	0	0	3	3
	0.0%	0.0%	100.0%	100.0%
Spandana	0	0	3	3
	0.0%	0.0%	100.0%	100.0%
Superfine	4	0	14	18
	22.2%	0.0%	77.8%	100.0%
SVCL	0	3	6	9
	0.0%	33.3%	66.7%	100.0%
Ujjivan	0	0	15	15
	0.0%	0.0%	100.0%	100.0%
Total	7	3	95	105
	6.7%	2.9%	90.5%	100.0%
Chi square value	51.44**			

Source: Field Survey.

** Indicate significant 1% level of significance

Analysis of Results and Discussion (Table-6)

The respondents were queried whether JLG encourages regular savings among members. Most of the respondents reported that JLG encourages regular savings among its members. However, all respondents from Bharat Micro Finance and half of the respondents from Arohan Micro Finance revealed that JLG does not encourage regular saving among their members.

Table-6 : Whether JLG Encourages Regular Saving Among Members

Name Of Affiliated MFI	Yes	No	Total
Arohan	3	3	6
	50.0%	50.0%	100.0%
Bharat	0	3	3
	0.0%	100.0%	100.0%
Margdarshak	33	3	36
	91.7%	8.3%	100.0%
Satin	9	3	12
	75.0%	25.0%	100.0%
Shikhar	3	0	3
	100.0%	0.0%	100.0%
Spandana	3	0	3
	100.0%	0.0%	100.0%
Superfine	14	4	18
	77.8%	22.2%	100.0%
SVCL	9	0	9
	100.0%	0.0%	100.0%
Ujjivan	15	0	15
	100.0%	0.0%	100.0%
Total	89	16	105
	84.8%	15.2%	100.0%

Source: Field Survey

Analysis of Results and Discussion (Table-7)

The respondents have queried whether the group provides internal loaning among members against savings. Slightly less than 3/4th respondents reported that the group provides internal loaning among its members against their savings. However, all the respondents from Spandana, Bharat, and half of the respondents from Arohan and Satin Credit Care Ltd., revealed that JLGs do not provide internal loaning among their members.

Table-7: Whether Group Provides Internal Loaning Among Members against Savings

Name Of Affiliated MFI	Yes	No	Total
Arohan	3	3	6
	50.0%	50.0%	100.0%
Bharat	0	3	3
	0.0%	100.0%	100.0%
Margdarshak	27	9	36
	75.0%	25.0%	100.0%
Satin	6	6	12
	50.0%	50.0%	100.0%
Shikhar	3	0	3
	100.0%	0.0%	100.0%
Spandana	0	3	3
	0.0%	100.0%	100.0%
Superfine	14	4	18
	77.8%	22.2%	100.0%
SVCL	9	0	9
	100.0%	0.0%	100.0%
Ujjivan	15	0	15
	100.0%	0.0%	100.0%
Total	77	28	105
	73.3%	26.7%	100.0%

Source: Field Survey

VI. CONCLUSION

Until social justice and gender equality are ensured, development cannot bring peace and prosperity alone. It has been well approved that several development programs have

been passed by the rural poor who constitute about 50 percent of the nation's population. Global shows, lawful establishment emphasized the vital of gender uniformity and rural up-liftment. The provincial deprived people gathering

for making self-improvement groups to ensure effective fiscal development with the mediation of voluntary organizations. This has led to the establishment of a huge number of self-improvement gatherings in the nation that create funds and further generate incomes for members. JLG has gained importance in terms of micro-financing by banks in India as well as MFIs. These groups are making a significant contribution in promoting income generation and development of enterprises among the poor and especially women. These groups are facilitating entrepreneurs in business development, technology transfer, market linkage, and empowerment of their members through networking with banks, MFIs and establishing backward and forward linkages.

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