Thematics Journal of Geography

ISSN:2277-2995
Vol-8-Issue-8-August-2019

An Empirical Study on Joint Liability Lending Strategy of Grama Vidiyal Microfinance Limited in Tiruchy

Gowtham Chakravarthy.C
Assistant Professor, MBA, Department of Business Administration,
Bharath Institute of Science and Technology,

Selaiyur, Chennai, Tamil Nadu 600 073
Bharath Institute of Higher Education and Research

ABSTRACT

Microcredit refers to the provision of micro loans to the very poor and marginal people so as to ensure poverty reduction and upliftment of their standard of living. It plays a major role in the world today in enhancing and developing a better financial option, especially, for the unbanked population. There are many different methodologies or models of offering microcredit. So the banks and the Microfinance Institutions offering Microcredit have their own strategy of delivering it. One such successful methodology is the delivery of microcredit through Joint Liability Mechanism. Thus the present study is an attempt to identify the opinion of the Respondent members of Grama Vidiyal Microfinance Limited, one of the leading MFIs in India, towards this product delivery strategy. It has been found that out of the 1625 Respondents studied, most of them have a good opinion towards the Joint Liability Mechanism and the Joint Liability Groups.
KEY WORDS: Microcredit, Joint Liability Lending, Customer Satisfaction.

INRODUCTION

Microcredit refers to the provision of small micro loans to very poor people with the object of poverty reduction and economic development. Microcredit is a part of microfinance which includes a whole gamut of financial and non-financial services in its purview. The institutions offering microcredit usually target the unbanked population who cannot afford to provide collateral for getting a loan. These institutions follow different lending methodologies for disbursing their loans to their target population. One such successful strategy is the Joint Liability Lending Strategy which emphasises upon Peer Pressure and joint and several liabilities of the members.

GROUP BASED MICROFINANCE MODELS

Self Help Groups The self-help group model is India‘s own model of microfinance. It is based on cooperation and mutual help. A group of 10-20 members come together to form a group. They start with compulsory or voluntary saving to build their pool of reserve. Later on as per the requirements of the member and assessment of the group, a member is given loans from the contributed pool. Savings and interest thus collected are rotated among the group members. Self-help is an eighteenth century old concept and was originated in Europe. In India, external financial assistance –by MFIs or banks – augments the resources available to the group-operated revolving fund. Savings thus precede borrowing by the members. These SHGs can later be federated into clusters or federations to increase their accessibility on external financial resources.

ISSN:2277-2995
Vol-8-Issue-8-August-2019

Joint Liability Groups The joint liability groups undertake individual lending but on a strict condition of group responsibility of repaying the entire loans. The loans are given from external sources which promotes these groups.
Joint Liability Group—Centre Model or Grameen Model This model was initially promoted by the well-known Grameen Bank of Bangladesh. These undertake individual lending but all borrowers are members of 5-member joint liability groups which, in turn, get together with 7-10 other such groups from the same village or neighbourhood to form a centre. Within each group and centre peer pressure is the key factor in ensuring repayment. Each borrower‘s creditworthiness is determined by the overall creditworthiness of the group.
Hybrid Model There are many variations of joint liability group model. Organisations across the world have experimented with certain changes in the joint liability model as per their requirements and other exogenous factors. These models have adapted key features of both SHG and JLG models to provide microfinance services to the clients in groups.

Thus from the above discussion, we can perceive that the Group lending strategy is a pertinent strategy in micro financing. However, a lot of studies have been undertaken on SHG Models under different titles and there was a dearth on studies relating to the Joint Liability Lending Strategy. Hence in this study, the researcher has attempted to study the effectiveness of the strategy by undertaking a micro study in Grama Vidiyal Microfinance Limited (GVMFL), which is one of the leading Microfinance Institutions in India that has adopted this strategy of Joint liability lending.

LITERATURE REVIEW:

Ghatak (1999)[1] says that with a joint liability loan, the adverse selection problem is mitigated. Because under this scheme, each borrower obtains a loan, but all in the group face consequences if a member encounters repayment difficulties.

Aghion and Gollier(2000)[2] in his study also states that group lending can resolve the adverse selection problem by making risky borrowers cross-subsidize safe types.

Jerinabi U. & Kanniammal K. (2008)[3] conducted a study ib 202 beneficiaries of credit supplied through SHGs and accepted that micro credit provided through SHGs helps in promotion of income generation activities that offer opportunities to make the members economically independent too.

Thus it is evident that Group based Lending is a successful strategy followed by Banks and Microfinance Institutions ((MFIs) in the context of Micro-credit and Microfinance. But it is also learnt from the literature reviews that most of the studies focus upon the SHG based lending model and the Research Gap identified by the Researcher was that **very few studies have concentrated upon the JLG based lending model**. And hence the Researcher has proposed to undertake this micro level study upon the effectiveness of the Joint Liability Mechanism with reference to Grama Vidiyal Microfinance Limited in Trichy. **GVMFL's Strategy: Modified Grameen Model.**

Over the years, Grama Vidiyal has adapted the Grameen Model of micro-credit to suit the local conditions in India. GVMFL provides collateral-free credit to poor women organized in groups of five women at the village level. These groups are federated into Centres, each Centre

ISSN:2277-2995
Vol-8-Issue-8-August-2019

constituting of about 20 members. The Centres are further federated into Branches. The group leaders decide which member is to receive loan, and collection is made weekly by field staff, who

are employees of Grama Vidiyal, in the Centre meetings. The social pressure of other members who attend the weekly Centre's meeting acts as social collateral, thus ensuring almost 100% repayments.

STATEMENT OF THE PROBLEM

Micro-credit refers to the very small loan amounts provided to the poor by banks, MFIs and other financial institutions. While offering a service, it is always essential to study from time to time the perception and satisfaction of the clients with regard to the strategy adopted to deliver the service. This would enable the MFIs to improve upon the drawbacks. In this respect, a micro level study would be much more useful. Hence the present study has been undertaken to identify the perception and satisfaction of the Clients of Grama Vidiyal Microfinance Limited in Trichy with respect to its Joint Liability Lending Strategy and the Joint liability groups.

OBJECTIVES OF THE STUDY

Following are the main objectives of the study:

1. To study the Socio-Economic background of the Respondent members.
2. To study the perception of the Respondent members towards the Joint Liability Mechanism and the Joint Liability Groups of Grama Vidiyal Microfinance Limited in the study area.
3. To identify the relationship between the demographic variables and the opinion of the Respondent Members towards the Joint liability lending mechanism.

RESEARCH DESIGN

The Research Design for the present study would be Descriptive and Analytical in nature, executed as below:

***POPULATION:** The population for the present study covers all the members of the Joint Liability Groups formed under Grama Vidiyal Microfinance Limited (GVMFL) in Trichy. The size of the population comes up to around 27000 members of GVMFL classified under 7 Branches.

***SAMPLE UNIT:** In this study, a sample unit is referred to as the Woman member of a Joint Liability Group (JLG) organized under GVMFL.

***SAMPLE FRAME:** The sample frame for the study comprises 1,625 sample units (representing about 6 per cent of the population) selected using the Convenience Sampling technique.

***TOOLS FOR DATA COLLECTION:** The Primary data has been collected with the use of a Structured Interview Schedule drafted for the purpose comprising of the Personal demographic questions, group demographic questions, questions pertaining to perception towards the joint liability groups and methodology.

ISSN:2277-2995
Vol-8-Issue-8-August-2019

The Secondary data relating to the study has been acquired through published sources like journals, magazines, books, websites, etc.

***TOOLS FOR DATA ANALYSIS:** SPSS **16.0** has been applied for analyzing the data collected. **Tools used are** Simple percentages, Chi-Square Test, Correlation Analysis and ANOVA.

INFERENCES DRAWN FROM DATA ANALYSIS
RELIABILITY STATISTICS

Cronbach's Alpha	N of Items
.898	40

INFERENCE: As is seen from the table, the Cronbach's Alpha is 0.898 which indicates that the data collected is **Reliable and fit for further analysis**.

PERSONAL PROFILE OF THE RESPONDENTS

*60 per cent of the Respondents are aged above 35years.
*72 per cent of the Respondents belong to the BC Community.
*Only 21.4 per cent of the Respondents are Illiterates.
*Most of the Respondents were Casual Labourers before joining the Group and a wide majority in both the categories was not doing any Business.
*Although at present, Casual Labour is the Occupation for most of the Respondents, the number of persons doing Business has increased and the Casual Labourers have also started doing some Business additionally like Idly flour selling, Petty/Grocery Shop, etc .
*Casual Income and Business Income formed the Major Source of Income for 59 per cent of the Respondents.
*Majority of the Respondents state that their Average Monthly Income has increased after joining the Group.
*About 65 per cent of the Respondents opine that they are able to generate a monthly savings of an amount which is less than Rs. 500 only.

GROUP-BASED PROFILE OF THE RESPONDENTS

*55 per cent of the Respondents stated that there are more than 20 members in their respective Centres.
*About 61 per cent of the Respondents have been continuing their membership in their respective Groups for more than 5 years and have completed more than 4 loan cycles.
*Group Leaders and Neighbours have been stated as the major Promoters of the Groups.
*Raising the Standard of Living and Business Development have been the major Reasons for the Respondents to join the Groups.
*Peer Pressure and Lending Methodology seem to be the most Attractive Features in GVMFL that have attracted the Respondents to join the Group.
*Natural Calamities like death, functions, occasions, etc. and Irregular Income are stated by the Respondents as the Major Reasons for Default/Delay in Payment of Dues by the Group members.
*Change of Address has been claimed by the Respondents as the Major Reason for Member Turnover/Rejection.

ISSN:2277-2995
Vol-8-Issue-8-August-2019

*Most of the Respondents have disclosed Own Business Use and Consumption as the major Purposes for availing loans.

*A wide majority of the Respondents say that they repay their loans out of the Savings made from Salary or Business Income and do not borrow for the same.

OPINION TOWARDS JOINT LIABILITY ATTRIBUTES

OPINION TOWARDS JOINT LIABILITY ATTRIBUTES

JOINT LIABILITY RELATED ATTRIBUTES		STRONGLY DISAGREE	DISAGREE	NEUTRAL	AGREE	STRONGLY AGREE	TOTAL
Awareness of Joint Liability Mechanism of the Group	N	210	182	272	507	454	**1625**
	%	12.9	11.2	16.7	31.2	27.9	**100**
Effectiveness of Peer Pressure/Joint Liability	N	220	182	262	499	462	**1625**
	%	13.5	11.2	16.1	30.7	28.4	**100**
Willingness to Accept the Default of a Member by Other Members	N	203	255	502	665	-	**1625**
	%	**12.5**	**15.7**	**30.9**	**40.9**	**-**	**100**

Source: Primary Data

INFERENCE: In their opinion towards the Joint Liability related Attributes, more than half of the Respondents (59 per cent) stated that they are aware of the Joint Liability Mechanism of the group, agreed that the Joint Liability Mechanism is an effective one and 41 per cent of them opined that their respective group members are willing to accept the Default by other members.

OPINION TOWARDS GROUP RELATED ATTRIBUTES

To identify the satisfaction of the Respondents towards the JLG Model, other aspects relating to the Group were also interrogated and the following were the relevant findings:
*More than half of the Respondents have a satisfactory opinion towards the Group Formation formalities.
*Nearly 58 per cent of the Respondents have a satisfactory opinion towards the Group Monitoring methodology.
*Majority of the Respondents are aware of each other's role in the Group.
*Majority of the Respondents say that they are satisfied with the conduct of the Group Meetings except for the timings.
*More than 70 per cent of the Respondents state that they are loyal patrons of their respective groups.
*Three-fourth of the Respondents opines that there is unanimity and co-ordination among the members in their respective groups.

PERCEPTION TOWARDS EFFECIVENESS OF JOINT LIABILITY GROUPS

PERCEPTION TOWARDS EFFECIVENESS OF JOINT LIABILITY GROUPS

Opinion	Total
Highly Ineffective	217 (13.35%)

ISSN:2277-2995
Vol-8-Issue-8-August-2019

Ineffective	218 (13.42%)
Neutral	528 (32.49%)
Effective	338 (20.80%)
Highly Effective	324 (19.94%)
Total	**1625 (100%)**

Source: Primary Data

INFERENCE: From the above table, it is clear that although most of the Respondents in Trichy Division have a **neutral opinion** towards the Effectiveness of their respective Joint Liability Groups formed GVMFL, around 41 per cent of the Respondents do agree that their Groups are **Relatively Effective** in their operations.

STATISTICAL INFERENCES:

INTER-CORRELATION MATRIX AMONG THE JOINT LIABILITY ATTRIBUTES AND SELECT DEMOGRAPHIC AND SATISFCATION FACTORS

H_0: There is no significant relationship between the Joint Liability Attributes and Select Demographic and Satisfaction Factors

		1	2	3	4	5
1	Pearson Correlation	1	.008	-.100**	-.083**	-.029
	Sig. (2-tailed)		.760	**.000**	**.001**	.235
	N	1625	1625	1625	1625	1625
2	Pearson Correlation	-.100**	1	.982**	.691**	-.057*
	Sig. (2-tailed)	**.000**		**.000**	**.000**	**.022**
	N	1625	1625	1625	1625	1625
3	Pearson Correlation	-.100**	-.022	1	.692**	-.047
	Sig. (2-tailed)	**.000**	.372		**.000**	.060
	N	1625	1625	1625	1625	1625
4	Pearson Correlation	-.083**	-.016	.692**	1	-.004
	Sig. (2-tailed)	**.001**	.512	**.000**		.864
	N	1625	1625	1625	1625	1625
5	Pearson Correlation	-.029	-.019	-.047	-.004	1
	Sig. (2-tailed)	.235	.456	.060	.864	
	N	1625	1625	1625	1625	1625
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Note: 1 - Number of Members at the Centre, 2 - Promoters of the Group, 3 - Effectiveness of Peer Pressure/Joint Liability, 4 - Willingness to Accept the Default of a Member by Other Members, 5 - Satisfaction towards the Peer Members in the Group.

INFERENCE:

ISSN:2277-2995
Vol-8-Issue-8-August-2019

- There is a **significant negative relationship** between the **Number of Members at the Centre** and the opinion of the Respondents towards the **Effectiveness of Joint Liability (r**
-

= -0.100) and towards the Willingness of the group members to accept the Default by other member (r = -0.083).
- The **Promoter of the Group** has a **strong, significant and positive relationship with** the opinion of the Respondents towards the **Effectiveness of Joint Liability (r=0.982)** and **the Willingness of the group members to accept the Default by other member(r=0.691)** and **a significant negative relationship with Number of members at the Centre (r = -0.100) and with the Respondent's satisfaction towards the Peer members in the group (r = -0.057)**
- There is a **strong, significant and positive relationship** between the opinion of the Respondents towards the **Effectiveness of Joint Liability** and **their Willingness of the group members to accept the Default by other member(r=0.692).**

ANOVA TEST OF VARIANCE OF OPINION TOWARDS JOINT LIABILITY MECHANISM AMONG THE DIFFERENT EDUCATIONAL GROUPS OF RESPONDENTS

Dependent Variable – Opinion towards Joint Liability Mechanism
Independent Variable – Educational Qualification of the Respondents

H_0: **There was no statistically significant difference between the Educational groups of Respondents with regard to their Opinion towards the Joint Liability Mechanism**

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Between Groups	8.799	7	1.257	1.948	**.059**
Within Groups	1043.617	1617	.645		
Total	1052.416	1624			

INFERENCE:

There was *NO STATISTICALLY SIGNIFICANT DIFFERENCE* between the Educational groups of Respondents with regard to their Opinion towards the Joint Liability Mechanism as determined by one-way ANOVA results [(F (7, 1617)) = 1.948, p = 0.059].

Chi Square Test of Association between the Satisfaction of The Respondents Towards The Joint Liability Mechanism And Select Demographic Variables

H_0: There is no significant association between the Satisfaction of the Respondents towards the Joint Liability Mechanism and Select Demographic Variables

TEST DETAILS / PERSONAL DETAILS	**SATISFACTION TOWARDS JOINT LIABILITY MECHANISM**			
	PEARSON CHI-SQUARE	**DF**	**ASYMP. SIG. (2-SIDED)**	**INFERENCE**
Age of the Respondents	9.446[a]	8	.306	**Not Significant**
Community of the	12.911[a]	6	.044	**SIGNIFICA**

ISSN:2277-2995
Vol-8-Issue-8-August-2019

Respondents				**NT**
Years of Experience in the Group	2.020[a]	4	.732	**Not Significant**
No. of Loan Cycles Completed	4.376[a]	4	.357	**Not Significant**

a.At 5 per cent significance level

INFERENCE:

- **There is a SIGNIFICANT** association between **the Satisfaction** of the Respondents **towards the Joint Liability Mechanism** and the **Community** to which they belong**.**
- **There is NO SIGNIFICANT** association between **the Satisfaction** of the Respondents **towards the Joint Liability Mechanism** and their **Age, the Years of Association with the Group, the Number of Loan Cycles Completed.**

CONCLUSION

Client perception and satisfaction have always been areas of high concern in almost all the sectors. With regard to the Service Sector, Microcredit gains importance because it helps and enhances the lives of the needy. The Banks, Microfinance Institutions and other institutions in different places adopt different delivery models. Thus the present study has been an attempt to identify the effectiveness of one such delivery model, namely, the Joint Liability Lending Model, among 1625 Respondent Clients of GVMFL in Trichy Division selected on a Convenient Sampling basis. The study concludes that the Respondents do find the Joint Liability Mechanism an effective one but still expects some changes like change in the timings of group meetings, enhancement of loan amount, etc. The relationship between the Joint Liability groups and the group variables and demographic variables has also been described. The Respondents have been found to be satisfied with the Joint Liability Mechanism and the Joint Liability Groups. Hence it can be concluded that the strategy of Joint Liability Lending Methodology adopted by GVMFL is an effective and satisfactory one.

REFERENCES

1 Ghatak. M. “Group Lending, Local Information, and Peer Selection,” *Journal of Development Economics* 60, 1 (1999): 27-50

2 Armendariz de Aghion. B., and C. Gollier, “Peer Group formation in an Adverse Selection Model”, *Economic J.* 1 10. No. 465 (2000):632-643

3 Jerinabi U., Kanniammal K. “Micro credit: Anti-poverty Tool”, edited, pp.232-242

4 Khandker, Shahidur R., Hussain A. Samad, and Zahed H. Khan, 1998, Income and Employment Effects of Micro-Credit Programmes: Village-Level Evidence from Bangladesh, Journal of Development Studies 35, 96-124.

5 McKernan, Signe-Mary, 1996, The impact of microcredit programs on self-employment profits: Do noncredit program aspects matter? The Review of Economics and Statistics 84, 93-115.

6 Morduch, J. (1999), The Microfinance Promise, *Journal of Economic Literature*, Vol. 37, No. 4, pp.1569-1614.

7 Wright A.N., G.(2005). Strategic Marketing for MicroFinance Institutions. Retrieved from www.MicroSave.net

ISSN:2277-2995
Vol-8-Issue-8-August-2019

WEBSITE:

http://www.microsave.net/files/pdf/Strategic_Marketing_for_Micro_Finance_Institutions.pdfwww.ruralfinance.com
www.cgap.org
www.microfinancegateway.org
www.indianmicrofinance.com
www.journalofmicrofinance.com