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"The State and Functioning Of Joint Liability Groups (JLGs) In Bangalore Urban District"

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ABSTRACT: *According to the latest research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living. Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling etc. Microfinance institutions serve as a supplement to banks and in some sense a better one too. The main two forms of group-based credit are - Self-Help Group (SHG) & Joint Liability Group (JLG).This paper discusses all about the Joint Liability Groups (JLGs), their current state and their functioning with respect to Bangalore urban district. This paper is also a logical extension to the already published paper – "JOINT LIABILITY GROUPS (JLGs) – The Saviors of Urban Poor".*

KEY WORDS: *JLG; Joint Liability Groups; Micro-Finance; MFI; Poverty Alleviation; Financial Services to the urban poor;*

I. INTRODUCTION:

When we observe the Economic Development process of any Developed Economy, we can easily deduce that the economic development process happens in two stages. First stage – Wealth Creation and the Second stage – the trickle-down effect of the social wealth creation, i.e. Wealth Distribution. Wealth Creation & Wealth Distribution should happen continuously & cyclically so as to maintain the balance of the society. Unfortunately, that is not happening all over the world. Poverty is one of the major problems in India. It is the root cause of many socio-economic problems including population explosion, unemployment, and child labor and rising graph of crimes. Poverty alleviation should be the main target of the nation so as to make it a prosperous and developed country. Thus, poverty elimination is a matter of fundamental importance. Poverty implies a condition in which a person finds him unable to maintain a living standard adequate for his physical and mental efficiency. He even fails to meet his basic requirements. Poverty is in fact a relative concept. It is very difficult to draw a demarcation line between affluence and poverty.

Poor people can save and want to save, and when they do not save it is because of lack of opportunity rather than lack of capacity. During their lives there are many occasions when they need sums of cash greater than they have to hand, and the only reliable way of getting hold of such sums is by finding some way to build them from their savings. They need these lump sums to meet lifecycle needs, to cope with emergencies, and to grasp opportunities to acquire assets or develop businesses. The job of financial services for the poor, then, is to provide them with mechanisms to turn savings into lump sums for a wide variety of uses (and not just to run microenterprises). Good financial services for the poor are those that do this job in the safest, most convenient, most flexible and most affordable way. Microfinance is one such financial service offered mainly with an aim to help such poor people who suffer from financial problems. The micro finance revolution, a recent product of development, ensures the availability of institutional credit and financial inclusion to the poor, who were so for excluded from the institutional credit system.

II. GROUP-BASED CREDIT:

Group- based credit or solidarity lending is a common practice in microfinance. Rather than lending to individuals, MFIs usually lend to small groups of people who come together to borrow money and ensure timely repayment of the loan. This group-based approach has many advantages – more people tend to come forward and take a loan when they are part of a group. Also, peer pressure ensures that every member in the group repays. From the lending institution's point of view, lending to groups usually proves more cost-effective, since the cost associated with each loan is reduced by lending to groups. Also, usually there is no need for collateral if the loan is made to groups. The main two forms of group-based credit are:

1. **Self-Help Group (SHG):**

Self-Help Group refers to a group of 10-20 people who come from similar socio-economic backgrounds for various development programmes or to solve common problems. Such groups are recognized by the governments and banks and can open bank accounts in the name of the SHG. These groups tend to be autonomous and tend to involve themselves in various activities, including social causes. So if a group of fifteen women in a village would like to apply for a loan start a small enterprise selling bags and cushions, they would be considered an SHG. These SHGs, by way of enterprise tend to create more employment opportunities and inspire others to get involved in small enterprises as well.

2. **Joint Liability Group (JLG):**

A Joint Liability Group is usually a group of five to ten who come together to borrow from an MFI. The members in a JLG are also from similar socio-economic backgrounds and usually the same village. A JLG is different from SHGs in that the members share liability, or stand guarantee for each other. If any of the members default, the other members need to pool in money to repay the MFI. This ensures a greater effort on part of the members to ensure that everyone repays, thus ensuring resulting in better accountability and security for the MFI involved.

JLG LOAN MODELS:

Banks / Financing Organizations can finance JLG by adopting any of the two models.

- **Model A – Financing Individuals in the Group:**
  Each member of the JLG should be provided an individual KCC. The financing branch could assess the credit requirement, based on the crop to be cultivated, available cultivable land / activity to be undertaken and the credit absorption capacity of the individual. All members would jointly execute a loan document, making each one jointly and severally liable for repayment of all loans taken by all individuals belonging to the group. The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created including liability created out of the individual KCC. Any member opting out of group or joining the group will necessitate a new loan agreement, to be kept on record in the branch.

- **Model B – Financing the Group:**
  The JLG functions, operationally, as one borrowing unit. The group would be eligible for accessing one loan, which could be combined credit requirements of all its members. The credit assessment of the group could be based on the micro enterprise / activity to be undertaken. All members would jointly execute the document and own the debt liability jointly and severally. The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created. Any change in the composition of the group, will lead to a new document being registered by the branch.

JLG OPERATING MODELS (Environment):

JLGs operate through many models in many countries. Though, this is completely country, financial system and the Government Control system dependent, over the years, a few viable financial models emerged as safest & most feasible models for the Credit operations & Fund circulation amongst the JLGs and their sponsoring systems. The following are the safest and feasible financial models in India. Arrows indicate the Funds flow from stage to stage.

- Government → Concerned Ministries → Linkage Schemes → Development Banks → JLG / Individuals with Joint Liability
- Government → Commercial Banks → JLG / Individuals with Joint Liability
- Government →NGOs in Microfinance → JLG / Individuals with Joint Liability
- NABARD → Commercial Banks → JLG / Individuals with Joint Liability
- NABARD →Development Banks → JLG / Individuals with Joint Liability

- NABARD → NGOs in Microfinance → JLG / Individuals with Joint Liability
- NABARD →Commercial Banks / Development Banks → MFIs → JLG / Individuals with Joint Liability
- Private Capital (Venture Capital) →MFIs → JLG / Individuals with Joint Liability

STATE OF JLGs IN BANGALORE URBAN:

In the domain of JLGs, especially in urban areas where, the borrowed credit by group members, is used basically for Non-Agricultural purposes, neither the state governments nor the Government of India are involved neither directly nor through their funding agencies. The only way through which these groups are being funded is through Private funds (or Private Venture Capitals) routed through a select few MFIs.

When comes to the Bangalore urban district scenario, in the domain of JLGs, there are only THREE Private Micro Finance Institutions which are promoting or supporting the JLG model of finance. These MFIs are outsourcing the funds privately through their operations and through the private venture capital funds. The following are the organizations that are present in the Bangalore Urban District with respect to the JLG funding.

- JANALAKSHMI FINANCIAL SERVICES PVT. LTD.
- UJJIVAN FINANCIAL SERVICES
- GRAMEEN KOOTA FINANCIAL SERVICES PVT. LTD.

These organizations through their own established mechanisms and using their own appointed staff (Fund Managers / Business Managers), identify the potential borrowers, encourage and assist them in forming groups, help them in the functioning of groups, assess them for loan eligibility and distribute Micro-Credit to the group as a whole or to the individuals with having emphasis on the Group Liability. These organizations are not insisting on the Borrowers (Group Members) to invest all the credit borrowed by all the group members in same economic activity. Borrowers (Group Members) are given liberty to choose their own economic activity individually and separately and henceforth, inculcating and promoting entrepreneurial habits amongst the Group members. Though, started initially as Micro-Credit organizations, these organizations are giving a variety of loans to their borrowers ranging from Personal Micro-Credit loan to educational loans to Live-stock loans.

PROFILE – JANALAKSHMI FINANCIAL SERVICES PVT. LTD.:

Founded and promoted by Ramesh Ramanathan, Janalakshmi commenced its microfinance operations in July 2006 by absorbing the Sanghamithra Urban Programme. Indian urban micro-credit experiences are limited to a few institutions, owing to an overall lack of focus on these markets along with the complexity of operating in an urban environment. Apart from the Sewa Bank in Ahmedabad, Sanghamithra Urban Programme has been one of the pioneers of urban micro-finance in India. The promoter of Janalakshmi had been instrumental in the formation and successful operations of Sanghamithra Urban Programme as well. As Janalakshmi evolved, it was envisioned that it shall absorb the Sanghamithra Urban Programme(SUP).

SUP had been operational in the Bangalore City Area since October 2000. The program was set up with the generosity and unconditional support of Ms. Rohini Nilekani, Philanthropist and Wife of Infosys Chairman, Nandan Nilekani. SUP provided financial assistance to Self Help Group's (SHGs) by partnering with NGOs who form SHGs through capacity building and training. NGOs then link SHGs to SUP for financial assistance. Ramesh Ramanathan, along with the board members of Sanghamithra, saw the need for reliable urban microfinance institutions, because the microfinance revolution thus far had focused almost solely on the rural sector. Janalakshmi Financial Services is a for-profit NBFC serving the urban underserved, with the promoter stake held in the not-for-profit entity Janalakshmi Social Services. This is the only NBFC in India structured in such a manner, with the deliberate intent of keeping the social spirit intact. Janalakshmi Financial Services' market-based approach to financial inclusion is defined by three distinct characteristics: first, an exclusive focus on servicing the needs of the urban poor; second, a strong customer-value driven approach in designing financial products and services; third, the centrality of technology and processes as the foundation of a scalable enterprise. Janalakshmi (literal translation, 'People's Wealth'), is a 'social business'. It embraces market principles while pursuing a social objective.

To accomplish this, Janalakshmi has been designed in a 2-tier structure: for-profit operating companies for investors; and a (Section 25) not-for-profit holding company called Janalakshmi Social Services - in which promoter stakes are held. Funds in Janalakshmi Social Services can only be used to address social issues.

Currently, it is operating through its 99 branches working in the states of – Punjab, Haryana, New Delhi, Rajasthan, Uttar Pradesh, Madhya Pradesh, Gujarat, Maharashtra, Tamilnadu and Karnataka.

The operations of this organization in the urban district of Bangalore are given below.

Table 1: Operational Profile of Janalakshmi Financial Services Pvt. Ltd. In the Bangalore Urban District				
SL NO.	***Area of Operation***	***No. of centers***	***No. of Groups***	***No. of members***
1	PEENYA	1,365	3,871	17,404
2	MARUTHINAGAR	377	990	4,269
3	K B SANDRA	1,407	4,622	19,868
4	K R PURAM	1,095	3,334	14,414
5	KADUGODI	266	1,007	4,521
6	H S R LAYOUT	514	2,513	10,514
7	BANNERGHATTA ROAD	1,242	3,586	15,663
8	ELECTRONIC CITY	252	770	3,534
9	MALATHAHALLI	1,320	3,943	17,563
10	SAMPANGIRAMNAGAR	1,330	3,968	17,165
	TOTAL:	**9,168**	**28,604**	**1,24,915**
*** Source: From NABARD Reports + MixData + CRISIL Reports + local MFI Business Center Figures shown here are the numbers standing by the end of March 2013. Current profile may vary.**				

By the time of writing this article, both in terms of Funds in circulation and in the number of members, Janalakshmi stood first in the Bangalore urban District.

PROFILE – UJJIVAN FINANCIAL SERVICES:

Ujjivan is a microfinance institution based in India, founded in 2005, by Mr. Samit Ghosh. The organization offers business loans to the urban poor, with a primary focus on women, who it believes are more likely to spend the money wisely to bring their family out of poverty.

Some Facts about Ujjivan are as follows-

- The Authorized Capital of the company is Rs.750 Million divided into 75,000,000 equity shares of Rs.10 each.
- Ujjivan is the only microfinance institution in India to start operations without any grants or donations. Our paid-up capital stands at INR 2750 Million as on September 2012.
- In the initial round of funding, the Company had an infusion of domestic funding with a share capital of INR 28.01 Million. The single largest domestic investor was Bellwether Microfinance Fund. The other subscribers were prominent individuals in the world of financial services and information technology.
- The second round of capital infusion under the Foreign Direct Investment (FDI) automatic route had Mauritius Unitus Corporation (www.unitus.com) and Michael & Susan Dell Foundation (www.msdf.org) investing as much as 37.5% in the Company. This was MSDF’s first microfinance equity investment worldwide.
- The third round of capital infusion in October 2007 was to the tune of INR 91 Million.
- The fourth round of capital infusion was in November 2008. Originally planned for INR 750 Million, the equity round was over-subscribed and increased to INR 878 Million. The new investors in this round included Sequoia Capital, Lok Capital, Unitus Equity Fund II and India Financial Inclusion Fund. Grameen Capital India was the exclusive Equity Advisor for this transaction.
- The latest and fifth equity round in January 2012 had two new investors – Wolfensohn India Advisors (www.wolfensohn.com) and FMO (Netherlands Development Finance Company: www.fmo.nl) – in addition to fresh investments by existing investors. The total capital raised was INR 1279 Million. This is Wolfensohn’s and FMO’s first entry to the Indian microfinance sector. This latest round of funding makes Ujjivan one of the best capitalised MFIs in the country.
- The second tranche in the fifth equity round had IFC invest Rs.450 million while FMO invested an addition Rs.22.8 million in September 2012
- In 2011-12, Ujjivan raised INR 840 Million through non-convertible debentures.
- The Company has also put in place an Employee Stock Option Plan for all employees and directors, to help attract and retain talent as well as reduce attrition

The operations of this organization in the urban district of Bangalore are given below.

Table 2: Operational Profile of Ujjivan Financial Services In the Bangalore Urban District			
Sl. NO	***Area of Operation***	***No. Of centers***	***No. Of members***
1.	KENGERI	162	4,300
2.	CHANDRA LAYOUT	160	4,100
3.	YELAHANKA	160	3,850
4.	CHAMRAJPET	170	4,050
5.	KAVAL BYRASANDRA	251	4,200
6.	DOMMASANDRA	140	3,800
7.	LINGARAJAPURAM	251	4,200
8.	DASARAHALLI	160	4,200
9.	BYATARAYANA PURA	180	4,600
10.	UTTARAHALLI	160	4,300
11.	JAKKASANDRA	170	4,400
12.	WHITEFIELD	165	4,080
13.	HAL LAYOUT	150	4,030
	TOTAL:	**2,279**	**54,110**
*** Source: From NABARD Reports + MixData + CRISIL Reports + local MFI Business Center Figures shown here are the numbers standing by the end of March 2013. Current profile may vary.**			

Ujjivan is currently operating through its 333 branches spread across the Four Regions of India covering 22 states and union Territories and is currently having a member base of 13,01,475, with a loan disbursement portfolio of 61,586 Million and with a loan outstanding of 14,421 Million. (As on 31st December 2013)

PROFILE – GRAMEEN KOOTA FINANCIAL SERVICES PVT. LTD.:

Grameen Koota, a division of Grameen Financial Services Pvt. Ltd., began in May 1999 as a project under the T. Muniswamappa Trust. Grameen Koota adapted Grameen Bank's group lending methodology, and offers collateral-free loans to women from poor and low-income households. These loans help the clients raise their standard of living and consequently help break themselves and their families out of poverty. Grameen Financial Services Pvt. Ltd. (GFSPL) was born out of the need for timely and affordable credit to India's poor and low-income households. Grameen Koota ("GK") was visualized by Mrs. Vinatha M. Reddy in December 1996 inspired by the book 'Give Us Credit' by Alex Counts, President and CEO, Grameen Foundation USA. The book detailed the remarkable stories of Bangladesh's poor who raised themselves out of poverty through the microfinance movement that was spearheaded by Nobel Laureate Professor Muhammad Yunus. Grameen Koota began as a project under the T. Muniswamappa Trust, an NGO, and soon adapted the Grameen Bank's group lending methodology of microfinance to the Indian setting and was launched at Avalahalli, a village in Bangalore (Karnataka).

Grameen Koota steadily groomed a class of mature and financially literate women entrepreneurs, who began to outgrow the group lending model. Anticipating the increased credit requirements of their growing livelihoods, an individual lending program - *MAARG* - was begun in May 2008 as a pilot project. The organization soon transformed from an NGO to a well-regulated and governed Non-Banking Financial Company (NBFC-MFI) under the name Grameen Financial Services Pvt. Ltd. and currently offers a wide variety of financial products and social development services.

The operations of this organization in the urban district of Bangalore are given below.

Table 3: Operational Profile of Grameen Koota Financial Services Pvt. Ltd. In the Bangalore Urban District				
SL NO.	***Area of Operation***	***No. of centers***	***No. of Groups***	***No. Of members***
1	BANASHANKARI	205	410	3,542
2	VIJAYANAGARA	178	351	3,210
3	HAMPINAGAR	175	342	2,825
4	EJIPURA	154	308	2,566
5	BASAVESHWARA NAGARA	179	359	3,021
	TOTAL	**891**	**1,770**	**15,164**
*** Source: From NABARD Reports + MixData + CRISIL Reports + local MFI Business Center Figures shown here are the numbers standing by the end of March 2013. Current profile may vary.**				

Grameen Koota, currently operating through its 161 branches spread in 3 states, covering 41 districts and has established 17,103 Centers (Called Kendras) which services 48,910 groups covering a total of 4,17,449 members. Its current loan disbursement profile stands at 50,221 lakhs distributed amongst 3, 62,422 active borrowers.

III. CUMULATIVE PROFILE – BANGALORE URBAN DISTRICT:

The Cumulative JLG profile of Bangalore urban district calculated from the individual profiles of the three MFIs (Janalakshmi, Ujjivan & Grameen Koota) operating in the domain of JLGs is as follows.

Table 4: Profile (Cumulative) of the Bangalore Urban District

SL NO.	***Details***	***Jana Lakshmi***	***Ujjivan***	***Grameen Koota***	***TOTAL***
1	No. Of Centers	9,168	2,279	891	**12,338**
2	No. Of Groups	28,604	$	1,770	**30,374**
3	No. Of Members	1,24,915	54,110	15,164	**1,94,189**

*** Source: From NABARD Reports + MixData + CRISIL Reports + local MFI Business Center**
$ No. of Groups Data for Ujjivan is not available Officially and hence was not mentioned.
Figures shown here are the numbers standing by the end of March 2013. Current profile may vary.

IV. CONCLUSION:

Loan amount to the tune of ***388.37 crores*** *(Approx. amount; Figures are unofficial figures collected from internal sources of organizations; Actual Profile may be at least 20 – 30% greater than the figure mentioned here)* was distributed amongst 194,189 members in the Bangalore Urban District thereby changing the Socio-Economic conditions of nearly TWO lakhs urban poor families which is phenomenal and highly remarkable. Assuming that each family would contain 5 members, this distributed amount amongst the JLG members must have shown a direct impact on at least 10 lakhs population of Bangalore Urban District.

Bangalore’s official population according to the 2011 senses is 95,88,910. According to the Government of India calculations & according to the Word Bank calculations, nearly 35% of the urban population are poor from which we can assume that about 35 lakhs of Bangalore Urban District population are poor. These three MFIs together have covered almost 10 lakhs (*28%*) of the 35 lakhs Bangalore’s urban poor population.

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