CHAPTER – VI

IMPACT OF FINANCIAL INCLUSION
ON
JOINT LIABILITY GROUPS AND
INDIVIDUALS
Chapter – VI: Impact of Financial Inclusion on Joint Liability Groups and Individuals

Introduction:

Financial inclusion is a major concern. In our use of term financial inclusion there is a danger of forgetting that the excluded are in fact served by a huge informal financial sector. The challenges not to fill a supposed credit vacuum but to improve on the terms of the informal sector. This will have two benefits –the direct benefits to those included and the indirect benefits to those left behind in the informal sector (likely the great majority). The terms on which the latter receive financial services will improve because of the competition offered my MFIs. This has been observed in pockets in the rural areas where MFIs have achieved significant penetration.

In India poverty has been addressed through social and welfare schemes. The size and significance of the informal economy is unique in India compared with world. Rapid urbanization, imbalanced growth in the rural and urban, in migration and raising population in the urban centres is the issues contributes to raising urban poverty. If urban population is not tackled properly there may be a problem of urban poverty as the provision of basic services, civic amenities, meeting the demand for housing, education, health care becomes difficult. In this situation the poor will avail the services through informal sector by paying high price for low quality products.

Urban development in Karnataka State is assuming more importance due to the rapid urbanization. If urbanization is not tackled properly it gives rise to various issues like urban poverty, rising urban slums, difficulty in providing the basic services, more demand for urban education and healthcare. Karnataka India's 7th most urbanized state in India as per Census 2011 nearly 38.57% population reside in urban areas (refer table). The population has grown by 31.27% between 2001 and 2011 compared with 28.85% which indicates the rapid urbanization in Karnataka. In the State Bangalore district tops in terms of urbanization with 91 % (refer table). Population living in urban slums in Karnataka state has risen from 14.02 lakhs to 32.91 lakhs (Census, 2011). Bangalore district itself has 21.5% of the total slum population.
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Table - 6.1: Showing Urbanization in Karnataka

<table>
<thead>
<tr>
<th>Year</th>
<th>Karnataka's Total Population(Lakhs)</th>
<th>% of Urban Population in State</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>194</td>
<td>22.95</td>
</tr>
<tr>
<td>1961</td>
<td>236</td>
<td>22.33</td>
</tr>
<tr>
<td>1971</td>
<td>293</td>
<td>24.31</td>
</tr>
<tr>
<td>1981</td>
<td>371</td>
<td>28.29</td>
</tr>
<tr>
<td>1991</td>
<td>448</td>
<td>30.91</td>
</tr>
<tr>
<td>2001</td>
<td>527</td>
<td>33.98</td>
</tr>
<tr>
<td>2011</td>
<td>611</td>
<td>38.57</td>
</tr>
</tbody>
</table>

Source: Census, 2011

Table - 6.2: Showing the top five urbanized districts in Karnataka State

<table>
<thead>
<tr>
<th>District</th>
<th>Urbanization in terms of %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangalore</td>
<td>91</td>
</tr>
<tr>
<td>Dharwad</td>
<td>57</td>
</tr>
<tr>
<td>Dakshina Kannada</td>
<td>48</td>
</tr>
<tr>
<td>Mysore</td>
<td>41</td>
</tr>
<tr>
<td>Bellary</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: Census, 2011

The Problem of Inclusion of Urban Poor:

Since 1990s the urbanization increased rapidly at one point of time twice of the rural population growth rate. If explored urban microfinance has the prospects like huge loan demand, high density of population reduces the transaction cost, average loan size will be high etc. Despite of these prospects urban microfinance is unexplored in the urban areas. Studies show that microfinance model which suits rural areas in India. When compare to rural poor, urban poor has the greater importance to be included as they have wage employment, self-employment and in some cases they have both. Mobility of the urban poor is fear of MFIs in targeting the urban poor and financial products which are not suitable to their needs are reasons why still urban poverty exists in most of the metros and cities. As in the case of Bangalore district 21.5% of the population lives in slums. Low returns in the agriculture sector, non-availability of non-farm employment opportunities, and increased debt burden on the farmers, absence of daily wage employment and lack of basic amenities like education,
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health and transportation are the reasons for rural – urban migration. As these poor migrants belong to vulnerable class they are usually not eligible for social benefits.

Challenges in front of the Urban Microfinance Service Providers:

The mushrooming growth of the micro finance institutions has created competition in the industry only top MFIs are able to survive in the urban areas. Identifying and targeting the urban poor is very difficult task. MFIs have to invest a lot in the market research and it is time consuming process. Most of the urban poor are not aware of the micro finance concept, awareness level is low and trustworthiness are the issues in front of the MFIs. The products which are designed for rural micro finance are popular among the urban poor as they have requirement of different innovative financial products targeted to meet the financial needs of the urban poor. Mobility of the urban poor is another issue as most of the urban poor are migrated from rural to urban areas. Providing access to credit becomes a constraint when mobility of the urban poor exists. Needs of the urban poor is different from rural poor developing products which suits the urban poor is a challenge.

Microfinance sector caters to the need of poor people; they utilize this money by setting up some small business to earn their livelihood and for various other purposes. Microfinance industry has adopted the concept of Joint Liability Group. Though it doesn’t solve all the problems but it reduces them to some extent. In Joint Liability Group, The borrowers make a group among themselves and the microfinance institutions give loan to that group. One person in that group is appointed as leader of the group and each person is responsible for the loan taken by any member of the group. If any one person in the group defaults then other group members will have to pay for that. This Group concept is helpful because everyone is being monitored by other people in the group and the borrower utilizes his/her money properly. If anyone defaults, other group members will make all possible efforts to take money back and member will not find any place in any group next time. So, member will not be able to take loan in future. This motivates the borrowers to maintain discipline while asking for loan and utilizing it appropriately.
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Joint Liability Group:

A Joint Liability Group (JLG) is an informal group comprising preferably of 4 to 10 individuals coming together for the purposes of availing bank loan either singly or through the group mechanism against mutual guarantee. The JLG members are mostly engaged in similar type of economic activity in the Agriculture/Allied/Non-Farm sector. The JLG members offer a joint undertaking to the Bank that enables them to avail loans. The management of the JLG is simple with little or no financial administration. JLG members are expected to provide support to each other in carrying out occupational and social activities.

Primarily JLG is intended to be a credit group therefore, savings by the members is voluntary and the members should be encouraged to save. All the JLG members may be encouraged to open an individual "No Frills" account. In case JLG chooses to undertake savings along with credit operations then they should open a savings account in the name of JLG with at least two members authorized to operate the account on behalf of the group. The quantum of loan to be given to the group should be related to the credit needs and not to the quantum of savings.

Financing of Joint Liability Groups:

Besides, the SHG-BLP, NABARD has been supporting formation of informal groups like Joint Liability Groups (JLGs) with 4-10 members. These are basically livelihood groups who come together on the strength of the mutual guarantee to seek livelihood finance for pursuing an economic activity. This was basically targeted at mid-segments clients engaged in similar economic activities like crop production and who are willing to jointly undertake to repay the loans taken by the Groups. Unlike in the case of SHGs, JLGs are intended basically as credit groups for tenant farmers and small farmers who do not have proper title of their farmland or security to offer, but needed longer term credit or seasonal credit for pursuing their economic activities.

Thus, regular savings by JLG is purely voluntary in nature and there was no intermediation of credit by its members. Loans were given based on mutual guarantee to individuals in a group or as group loans. NABARD besides extending financial support for awareness creation / capacity building of all stakeholders also extends
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100% refinance support to Banks on their lending to JLGs. According to NABARD Annual Report (2014) about 1,96,500 JLGs were promoted and credit linked during 2012-13, as against 1,91,500 JLGs promoted during the previous year. There has been expansion in credit flow to JLGs to the extent of `1,837 crore as against `1,700 crore (8% increase over the previous year), taking the cumulative number of JLGs to 5,29,246 and the cumulative loan disbursed to JLGs to `4,683 crore. The growth of JLGs in the country is less skewed than the SHGs. Although the Southern States top the list with over 2 lakh JLGs credit linked so far, Eastern region closely follows with 1.81 lakh JLGs. In terms of actual loans disbursed, however, Southern States account for over 60% of the total loans disbursed.

JLG Models:

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

Model B – Financing the JLG as a Group:
- The group would be eligible for accessing one loan, which could be combined credit requirement of all its members
- The credit assessment of the group should be based on the available cultivable area of each member of the JLG/activity to be undertaken
- All members would jointly execute the document and own the debt liability jointly and severally
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- The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created. Any change in composition of the group, will lead to a new document being registered by the bank branch.
- JLGs that undertake savings apart from credit are required to maintain books of accounts.
- Members may also be graded by Branch on the basis of performance parameters.
- The credit requirements for the group may be worked out based on combined credit plan and needs of individual members and need not be linked to group's savings.

Differences between SHGs and JLGs:

<table>
<thead>
<tr>
<th>SHGs</th>
<th>JLGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Minimum 10 members and maximum 20 members</td>
<td>1. Minimum 3 members and maximum 5 members.</td>
</tr>
<tr>
<td>2. For SHG meeting is compulsory</td>
<td>2. No compulsory meetings</td>
</tr>
<tr>
<td>3. Bank loan is available</td>
<td>3. Loan from MFIs only.</td>
</tr>
<tr>
<td>4. Gets the benefit from the Government schemes</td>
<td>4. No benefit from the Government schemes</td>
</tr>
</tbody>
</table>

Field Level Survey: Joint Liability Groups

Group Characteristics:

<table>
<thead>
<tr>
<th>Number of JLGs studied</th>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range of Age of the JLGs studied</td>
<td>23-45 Years</td>
</tr>
<tr>
<td>Size of the JLG members</td>
<td>3-5</td>
</tr>
<tr>
<td>Range of the savings of the JLG</td>
<td>Rs. 500-Rs.800</td>
</tr>
<tr>
<td>JLGs Affiliation</td>
<td>Affiliated to SHG Federation</td>
</tr>
<tr>
<td>Type of JLGGroups</td>
<td>Female</td>
</tr>
<tr>
<td>Economic Status of the Group Members</td>
<td>Mixed</td>
</tr>
<tr>
<td>Monthly Income</td>
<td>2000-4000</td>
</tr>
<tr>
<td>Range of the loan size</td>
<td>Rs.50000 – Rs. 80000</td>
</tr>
</tbody>
</table>
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Analysis:

Members Income Level:

Chart - 6.1: Showing JLG member’s income level after joining group

![Income Level Chart]

Source: Primary Data

From the above chart 6.1 it is clearly evident that 61.67% member’s monthly income level is more than 6000 and above. 23.33% member’s monthly income level is in the level of 4000-6000 and 15% member’s monthly income is in the range of 2000-4000.

Majority of the JLG members are living in poor conditions with inadequate income. The cost of living in Bangalore is also very high. Members they felt difficult in managing their family as their monthly income is not adequate to meet all the family requirements. In Bangalore as studies shows that urban poverty is raising along with urban population. Government has also initiated many programs to meet the urban poor requirements. Majority of the JLG members are migrated from other places to Bangalore and they don’t have legal identity. To meet their financial requirements these urban poor were depend on the money lenders, family and friends by paying high interest rates.
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Income level is one of the important indicators which motivated urban poor in joining the JLG and taken up economic activities to generate additional income to meet their financial requirements.

Literacy Level:

A lack of focus on the education of migrant workers appears to be to blame for a 60 percent increase in the illiteracy rate in Bangalore over the past 10 years. The city’s many construction projects have attracted an influx of unregistered and uneducated migrants which has contributed to the raise of the urban population in the Bangalore district. State government authorities agree that uneducated laborers are negatively skewing the numbers, but say the problem with adult education is not poor implementation. The state’s literacy rate increased from 66.64% in 2001 to 75.60% in 2011. The male literacy levels have gone up from 76.10% in 2001 to 82.25% in 2011, and female literacy rates have gone up from 56.87% in 2001 to 68% in 2011. Average literacy rate of the Bangalore district is 87.67% comprises of male literacy rate with 91.01% and female literacy rate with 84.01% (Census, 2011). Bangalore district one of the three districts where female literacy rate is above 80%.

The chart 6.2 shows that 53.33% of the female members are literates and 46.67% members who are illiterates. Member’s literacy level is also not high and majority of the literate’s education level is 10+2 dropout and few members’ dropouts in the school education level.

Chart - 6.2: Showing JLG member’s Literacy level

Source: Primary Data
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Members Occupation:

Chart - 6.3: Showing JLG member’s occupation

From the above chart 6.3 it is evident that 80% of the JLG members are self-employed, 8.33% members are working as daily wage laborers, 11.67% members are home makers. Majority of the members are self-employed where they have business like flower shops, boutiques, ladies corners, handicrafts etc. These members joined JLG for credit requirements to improve their existing business. Few members are home makers and they joined JLG to generate additional income to support family. A portion of the members are working as daily wage laborers when there is no work or in the spare time they take up the economic activities and generate additional income.

Occupation is one of the important indicators for economic empowerment of the individuals. As majority of the members are self-employed and they are generating income out of their business. From the chart it is observed that wage labors and households percentage is very less who joined the JLGs. Micro finance institutions has to encourage these groups to take up income generating activities to improve their social status.

Source: Primary Data
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Sources of funds:

Various studies have shown that financial access promotes growth for enterprises through the provision of credit to both new and existing businesses. It benefits the economy in general by accelerating economic growth, intensifying competition, as well as boosting demand for labor. The incomes of those in the lower end of the income ladder will typically rise hence reducing income inequality and poverty. Poor individuals and small enterprises need to rely on their personal wealth or internal resources to invest in their education and businesses, which limits their full potential and leading to the cycle of persistent inequality and diminished growth.

Chart - 6.4: Showing sources of funds

Source: Primary Data

The above chart 6.4 clearly shows that 88% of the members sourced the credit funds from the banking sector. As these members have their own business, by showing the business activity they have sourced the credit from the banks. 12% of the members sourced credit funds from MFIs to invest in the income generating activities. MFIs has to encourage the members to take up income generating activities and should encourage the JLGs to convert their income generating activity into small enterprise.
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Loan from MFIs:

Customers choose to borrow from microfinance institutions rather than from banks considering that the former are relatively more expensive? Offering financial services to poor people in developing countries is expensive business. The cost is one of the biggest reasons why traditional banks don’t make small loans. Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The varied products like income generating loan, mid-term loan, emergency loan and individual loan products attracted the customers to take loan from MFIs. Even members are also attracted for the non-financial based services like community development programs, workshops, training and advisory services.

Chart - 6.5: Showing reasons for taking loan from MFIs

![Chart showing reasons for taking loan from MFIs]

Source: Primary Data

The factors like loan product, loan amount, simple documentation and services provided by the MFIs has attracted the JLGs to avail the loan from MFIs. From the chart 6.5 it is clearly evident that 81.81% of the members availed loan from MFIs as they are providing financial and non-financial based services. 9.09% members availed loan due to the simple documentation procedure, 4.54% availed loan from MFI
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because of the availability of the product which meets the member’s requirement and 4.54% availed loan from MFI because of the higher loan amount.

**Chart - 6.6: Showing type of the loan taken from the MFIs**

![Chart showing type of loan taken from MFIs](image)

*Source: Primary Data*

The above chart 6.6 clearly shows that 51.42% of members availed loan from MFI to invest in the existing business, 42.86% members has taken loan from MFIs to start new business, 2.86% members taken loan from MFIs for further investment in the business and 2.86% has taken loan from MFIs to meet the emergencies like consumption needs, health, education and marriage expenses. It is evident that majority of the members taken individual loan from the MFIs to improve their existing business. MFIs have to develop financial products which suit other financial needs also.

From the below chart 6.7 it is evident that 32.84% has availed loan for business purpose, 32.84% availed loan from MFI for meeting the individual financial requirements, 22.38% availed loan from MFI to buy the raw material for business, to invest on the infrastructure for setting up of business etc. , 10.44% members has availed loan from MFI under the category of domestic consumption utilized for house repairs, repayment of the loans, for buying household items, for meeting the education
requirements of the children etc. and 1.50% members has utilized the loan for festivals and marriage purpose.

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**Chart - 6.7: Showing purpose of availing loan from the MFIs**

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic consumption</td>
<td>10.44%</td>
</tr>
<tr>
<td>Health care</td>
<td>0%</td>
</tr>
<tr>
<td>Festivals/Marriage</td>
<td>1.50%</td>
</tr>
<tr>
<td>Investments</td>
<td>22.38%</td>
</tr>
<tr>
<td>Business</td>
<td>32.84%</td>
</tr>
<tr>
<td>Others</td>
<td>32.84%</td>
</tr>
</tbody>
</table>

**Source: Primary Data**

**Chart - 6.8: Showing members approached other financial institutions before joining MFI**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do they approached other financial institutions before joining MFI?</td>
<td>58.33%</td>
<td>41.67%</td>
</tr>
</tbody>
</table>

**Source: Primary Data**
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Multiple Loans availed by borrowers:

When there is a financial requirement members borrow from local moneylenders, Registered - Pawn brokers, local finance, Unregistered, SHGs, Several different MFIs, Different branches of the same MFI through group and individual lending (IL) methodologies to meet their diverse needs have created some concerns. Clients often use multiple loans for “non-productive” purposes, such as meeting emergency expenses or for another more viable or lucrative opportunity.

Chart - 6.9: Showing number of loans taken by members

![Pie Chart showing distribution of loans](chart.png)

Source: Primary Data

Chart 6.9 clearly shows that 65% of the members have taken loan for only one time and 35% of the members who have taken loan twice from the MFIs. Members opined the following reasons for availing loan for more than one and the reasons are like – Received inadequate loans for business expansion, repayment of existing (high interest) loans with money lenders, borrowing to meet other requirements such as marriage, funeral, construction of house, health, education etc., for starting another business, purchasing assets and repayment of existing loans with other MFIs/ SHGs.
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The multiple lending to the members is risky as it includes transaction cost, over indebtedness, risk of inability to pay and risk of defaulting. For MFIs, there is a high risk of default and drop out, and a risk that staff and operational resources may be shifted to areas where a proliferation of MFIs is eroding portfolio quality. The chances of getting over indebted are high due to the inadequate control mechanisms in MFIs to prevent multiple lending they have to study cash flow cycle instead of loan cycle.

Quality of Service:

The three dimensions of service performance i.e. tangibility, reliability and empathy have positive and significant impacts on satisfaction judgments of the end users of the MFIs. MFIs are projecting a positive image among the customers by providing better and door step services. Because of the tangibility of MFIs services, customers know about the products and services offered by the MFIs.

Chart - 6.10: Showing member’s expectation level of the quality of service from the MFI

Source: Primary Data

Chart 6.10 clearly shows that 61.67% of members are expecting high level of service quality from the MFIs and 38.33% are expecting medium quality of services from MFI.
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As majority of the customers are expecting quality of service MFIs need to provide all the products and services based on the fair treatment approach. If MFIs treat their customers fairly, customers will be happy and they spread the positive word of mouth about MFIs. This helps MFIs to acquire more and more customers. MFIs has to provide fair services to cater the basic requirements of the customers and to achieve maximum satisfactory level among the customers.

Empowerment of Women:

Micro financing institutions significantly contributed to gender equality and women’s empowerment as well as poor development and civil society strengthening. Contribution to women’s ability to earn an income led to their economic empowerment, increased wellbeing of women and their families and wider social and political empowerment. Microfinance programs targeting women became a major plank of poverty alleviation and gender strategies in the 1990s. Increasing evidence of the centrality of gender equality to poverty reduction and women’s higher credit repayment rates led to a general consensus on the desirability of targeting women. Poor people want secure, convenient deposit services that allow for small balances and easy access to funds. MFIs that offer good savings services usually attract far more savers than borrowers.

Women’s indicators of empowerment through microfinance:

1. Ability to save and access loans
2. Opportunity to undertake an economic activity
3. Mobility-Opportunity to visit nearby towns
4. Awareness- local issues, MFI procedures, banking transactions
5. Skills for income generation
6. Decision making within the household
7. Group mobilization in support of individual clients- action on.

The two different dimensions of empowerment like social and economic can takes place through improved access to resources which enables women to participate and to contribute in the growth process. By enabling the women to participate in the collective organization and in public life which will enhance the social status of
women. MFIs by providing access to credit, helps beneficiaries to establish profitable businesses that will, in turn, making them economically self-sufficient.

**Chart - 6.11: Showing member’s improvement in economic and social status**

From the above chart 6.11 it is clearly evident that 26.67% highly agreed that there is an improvement in the economic and social status after joining the JLG. 38.33% of respondents moderately agreed that there is an improvement in the economic and social status after joining the JLG. 30% agreed that there is an improvement in the economic and social status after joining the JLG. Majority of the respondent’s improvement is moderate. Before joining JLG majority of the members already they are self-employed. To generate more income and to invest in their existing business they joined JLG and availed loan. Availed credit is utilized to invest in the purchase of raw material, constructing infrastructure for business operations, repayment of the existing loans and few members started fresh business after joining the JLG.

**Source: Primary Data**
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Chart - 6.12: Showing member’s improvement level in the consumption of goods

Source: Primary Data

The chart 6.12 shows that 46.67% member’s consumption level steadily increased. 28.33% respondents highly agreed and 23.33% with low growth in the consumption level. Overall majority of the respondents opined that their consumption level increased after joining the JLG.

Improvement in education, health care and awareness level:

Another important goal of all MFIs is to spread the light of education throughout the society. Development through this program, along with the health program, indicates human development among the people. Their effort and mission is to build up a society free of poverty, illiteracy and disease. Their goals are to expand education opportunities for disadvantaged children and provide them with necessary technical and financial support.
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Chart - 6.13: Showing member’s improvement level in the education

From the above chart 6.13 it is clearly evident that 53.33% of the members opined that there is an improvement in the education level of the member and family members also. Majority of the members benefitted by the training and workshops conducted by the MFIs. Due to the rise in the income level members started spending more on quality education for their children. Only 10% of the members disagreed that there is no improvement in the level of the education of members as well their children. When enquired individually respondent told that they have already grown up and they are not interested in the education.

MFIs integrate non-financial services, such as training sessions on nutrition and health, particularly HIV/AIDS, reproductive health, and malaria preventive measures into their credit schemes. These services, in addition to access to credit, have had a positive impact on the health and nutrition practices of the poor. However, the affordability of health services continues to be a problem. A few microfinance organizations have begun to, in addition to health education, adopt innovative strategies based on the microfinance model to facilitate linkages to health service products and providers by financially empowering the poor to finance their healthcare needs.
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Chart - 6.14: Showing member’s improvement level in availing better health care facility

From the above chart 6.14 clearly shows that 60% of the members agreed there is an improvement in availing better health care facilities after joining the JLG. When enquired few respondents they opined that few MFIs they have emergency loan which is sanctioned with in 24hrs of request to meet the medical expenses. Under the emergency loan MFIs sanction Rs 2000-Rs5000 with repayment tenure of six months. Members through MFI came to know about good eating habits/cooking with easily available and affordable ingredients, Children are provided milk and biscuits at the centers arranging health camps and vaccination are few services availed by the members from MFIs. Introduction of health care products to the MFI clients improved the member’s access to better health care facilities.

Source: Primary Data
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Chart - 6.15: Showing member’s improvement in awareness level

Source: Primary Data

The chart 6.15 clearly shows that 48.33% of members moderately agreed, 30% of the members agreed and 15% of the members highly agreed. Overall majority of the members opined that their awareness level has increased after joining JLG. As JLG and members frequently attend the meetings, training and workshops conducted by MFIs. MFIs advisory and counselling also helped members in increasing their understanding level on various aspects like increasing the business performance, generating more revenue, importance of financial management, money management etc.

Chapter Summary:

The objective of the urban microfinance is to raise the income levels and in improving the economic status of the urban poor by providing credit in the form of small amounts. Urban micro finance plays a crucial role in providing the sources of livelihood in the urban areas and urban slums. Rapid urbanization and rural and urban regional imbalance growth, decreased agricultural and farm activities, increased employment opportunities in the urban areas and in migration contributed for the rising urban poor population in Bangalore. In this context the study has been carried out to study the impact and role played by the urban microfinance in eradicating the urban poverty. The study concludes that the financial and non-financial services provided by the urban micro finance institutions have an impact on improvement of
Chapter – VI: Impact of Financial Inclusion on Joint Liability Groups and Individuals

economic and social status of the urban poor. The impact factors like consumption level, standard of living, income generation activities, income and occupation strengthened the need for urban microfinance.

Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between four to eight members. The group self-selects its members before acquiring a loan. Loans are granted to selected member(s) of the group first and then to the rest of the members. Most MFIs require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other’s loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. The creditworthiness of the borrower is therefore determined by the members rather than by the MFI,

Microfinance has the positive impact on the standard of living of the poor people and on their life style. It has not only helped the poor people to come over the poverty line, but has also helped them to empower themselves. MFIs are contributing not only in alleviating the poverty and improving the living standards of the poor people, but also in offering extensive human development programs.

After joining JLG members were now able or better financially resourced to send their children to school, provide educational materials for their children, access healthcare facilities or provide clothing to their family. Again a majority indicated they now had better housing conditions and can now participate fully in communal activities due to their improved financial stand. MFIs provide education and training to their clients, as well as support their micro-enterprises. Clients must be given training in financial literacy and money management so that they can meet both their business and personal needs.