CHAPTER 2

BACKGROUND
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2.1 OVERVIEW

In the previous chapter a brief introduction to the research study was given by discussing the research motivation, objectives, research approach, methodology, relevance, and limitations of the study. This chapter discusses the important terms and concepts used throughout the thesis. The terms discussed here are financial exclusion, financial inclusion, below poverty line, microfinance, Non-Governmental Organizations, Self Help Group (SHG) and Joint Liability Group (JLG).

2.2 FINANCIAL EXCLUSION

The lack of access to suitable low-cost, fair and safe financial products and services to a certain section of society from mainstream providers is called financial exclusion (Chibba, 2011). Thus the financial inclusion ensures that a range of appropriate financial services is available to every individual and further enable the excluded individuals to understand and access those services.

Who are excluded: Marginal farmers, landless labor, oral lessees, self-employed, unorganized sector, urban slum dwellers, migrants, ethnic minorities, socially excluded groups, senior citizens, women, eastern & central regions are the most excluded ones (Alpana, 2007).

Reasons for Exclusion: Following are some of the reasons for financial exclusion.

- Sparsely populated areas with poor infrastructure and difficult physical access especially remote, hilly areas
- Illiteracy, lack of awareness, low income, social exclusion.
• The attitude of the bank staff, distance from bank branch, branch timings, cumbersome documentation/procedures, unsuitable products, language are common reasons

• Higher transaction cost is the other reason

• Availability of informal credit easily.

• KYC – documentary proof of identity address. (Amaeshi, 2006)

2.3 FINANCIAL INCLUSION:

It’s the cooperative movement which took place in India in the year 1904 which led to the start of financial inclusion concept. It gained momentum in 1969 when 14 major commercial banks of the country were nationalized, and the lead bank scheme was introduced shortly after that. Branches were opened in large numbers across the country and even in the areas which were till now being neglected. Even after all these measures, a sizable portion of the population of the country could not be brought under the fold of the banking system.

The United Nations defined the goals of financial inclusion as:

• Access for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance at a reasonable cost;

• Sound and safe institutions governed by clear regulation and industry performance standards;

• To ensure continuity and certainty of investment so that there is financial and institutional sustainability; and

• Competition to ensure choice and affordability for clients. (C. Rangarajan, 2008)
Recent RBI Initiatives for financial inclusions:

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

- **Opening of no-frills accounts**: Basic banking, no frills accounts with nil or deficient minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks has been advised to provide small overdrafts in such accounts.

- **Relaxation on know your customer (KYC) norms**: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who is subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address, and Adhar number.

- **Engaging Business Correspondents (BCs)**: In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash-in, cash-out transactions, thus addressing the last mile problem. The list of eligible individuals and entities that can be engaged as BC is being widened from time to time. With effect from Sept 2010, for profit companies have also been allowed to be engaged as BCs.

- **Use of Technology**: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner,
banks have been advised to make efficient use of information and communication technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

- **Simplified branch authorization:** To address the issue of the uneven spread of bank branches, in Dec 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50000 under general permission, subject to reporting. In the northeastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.

- **Opening of Branches in unbanked rural centres:** To further step up the opening of branches in rural areas to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches that will be opened during a year to unbanked rural centres.

- **Road Map for providing banking services in unbanked villages with a population of more than 2000.**

- **Pradhan Mantri Jan- Dhan Yojona:** Financial Inclusion program (Pradhan Mantri Jan- Dhan Yojona) was Prime Minister’s first financial inclusion drive aimed at improving lives of millions of India’s poor by bringing them into the main financial stream and freeing them from the clutches of usurious money lenders. (Reserve Bank of India, 2016)
2.4 BELOW POVERTY LINE

Although India has a sizable consumer economy and is one of the fastest growing countries in the world still it battles with poverty. India had a growth rate of 7.6% in 2015. Still, poverty in India is an important issue. According to United Nation's Millennium Development Goal (MDG) programme, 270 million or 21.9% people out of 1.2 billion of Indians lived below poverty line of $1.25 in 2011-2012 (United Nations, 2016).

As per the Deutsche bank research, nearly 300 million people in India belong to the Middle Class. (Saxena, 2010) If current trends continue, India's share of world Gross Domestic Product (GDP) will significantly increase from 7.3% in 2016 to 8.5% by 2020. (INTERNATIONAL MONETARY FUND, 2017) In 2011, less than 22 percent of Indians lived under the global poverty line, nearly a 10 percent reduction from 29.8 percent just two years prior to 2009. (THE WORLD BANK, n.d.)

The definition and the benchmark to measure poverty even by the world bank has kept on being revised since 1990. From the year 2005-2013, $2 per day income in purchasing power parity was the basis for the definition in use. (Ravallion, Chen, & Sangraula, 2008).

The different underlying small sample surveys and different definitions used to determine poverty in India have resulted in widely different estimates of poverty from the 1950s to 2010s. In 2011, the Indian government stated 22% of its population is below its official poverty limit. (RBI) The World Bank, in 2011 based on 2005’s PPPs International Comparison Program, estimated 23.6% of Indian population, or about 276 million people, and lives below $1.25 per day in purchasing power parity.

The government’s official definition of poverty is the ability to acquire between 2,100 (urban) to 2,400 (rural) calories a day (Haub & Sharma). The poverty rate excludes dwelling,
clothing, and medicine, considered essentials for life. Therefore, the Indian poverty data do not allow for a comparison with other nations.

**Few other prominent definitions of poverty:**

A state of deprivation and a social phenomenon where a section of the society could not even meet the minimum requirement of living is how Singhal and Gill defined poverty (Singhal & Gill, 1991). It is a situation that gives rise to a feeling of a discrepancy between what one has and what one ‘should have.’ What one should have is an internal construct; hence each person’s feeling and experience of poverty is individual and unique, but the feeling of ‘powerlessness’ and ‘resourcelessness’ is possessed by all poor people (Qureshi, 2004)

Rein identified three elements in poverty: subsistence, inequality, and externality (Rein, 1968), while, Madan emphasized on the minimum level of living rather than a reasonable standard of living (Madan, 1990).

Official estimates of poverty in India have hitherto made by the Planning Commission by the methodology that was recommended by the Lakdawala Committee (1993). The poverty lines and the corresponding poverty ratios that had emerged from this methodology for 1993-94 and 2004-05 These estimates had shown a decline in the percentage of the population below poverty line from about 36% in 1993-94 to 27.5% in 2004-05.

The literature on poverty in India is vast, and many of the contributions or references to the contributions are found in Srinivasan and Bardhan (1974, 1988), Fields (1980), Tendulkar (1998), Deaton and Dr’eze (2002), Bhatta (2002), and Deaton and Kozel (2005). Panagariya (2008) provides a comprehensive treatment of the subject until the mid-2000s including the debates on whether or not poverty had declined in the post-reform era and whether or not reforms had been behind the acceleration in growth rates and the decline in poverty.
Monthly Per Capita Consumption Expenditure (MPCE): Many academicians and practitioners have suggested the use of expense data for measuring poverty levels due to its reliability. Following, the expense approach, Tendulkar committee calculates the level of poverty “As per Tendulkar Methodology, the poverty line has been expressed regarding MPCE based on Mixed Reference Period” (Government of India, Planning Commission, 2013, p. 2) Monthly Per Capita Consumption Expenditure or MPCE is calculated by converting household level expense data to a per capita value. There are three main methods of calculating MPCE based on uniform reference period (URP), Mixed Reference Period (MRP) and Modified Mixed Reference Period (MMRP).

According to the National Sample Survey Office, Government of India, (National Sample Survey Office, Ministry of Statistics, Government of India, 2011) the Mixed Reference Period (MRP) “…is the measure of MPCE obtained…when household consumer expenditure on items of clothing and bedding, footwear, education, institutional medical care, and durable goods is recorded for a reference period of “last 365 days”, and expenditure on all other items is recorded with a reference period of “last30 days”. (National Sample Survey Office, Ministry of Statistics, Government of India, 2011, p. 3)

2.5 MICROFINANCE

Microfinance in simple terms means providing financial assistance, in the form of a loan, insurance, saving, fund transfer, training to the small entrepreneurs and small businesses lacking access to banking and related services (Barua & Sane, 2014). Such services are delivered to the clients mainly through two principal mechanisms:

(1) Relationship-Based banking for individual entrepreneurs and small businesses; and
(2) Group-based models, where several entrepreneurs come together to apply for loans and other services as a group. (Barua & Sane, 2014)

Many of those who promote microfinance believe that such access will help poor people to get out of poverty. For others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. However, many studies in the past have shown that the microfinance plays a major role in financial inclusion irrespective of the geographical locations.

**Microfinance methodologies are classified into five groups:**

- **Grameen and Solidarity Model:** A groups of three to eight persons is formed on the condition that each of them would be assuming, responsibility for the lending and other financial operations for the other members of the group. Grameen Banks in Bangladesh are based on it.

- **The Group Approach:** The entire financial process is delegated to the group rather than the financial institutions. Savings, loans, loan repayments are taken care of at the group level. Self-help Groups-Bank linkage programme in India, the PHBX project in Indonesia and the Chikola groups of K-REP in Kenya, are based on it.

- **Individual Credit:** The Credit given directly to the individuals also forms a part of the microfinance technology. BRI Unit Deasa in Indonesia, as well as priority sector lending by the regional rural banks and cooperative banks in India, are some of the examples.

- **Community Banking:** This model is an expansion of the group approach to some extent where the core financial necessities of the poor especially the women are met through the community banking system. The community or village banks are
organized with 30-50 members. A Prominent example of this type of microfinance institution is the Village Bank of FINCA in Latin America

- *Credit Unions and Cooperatives:* Credit unions and cooperatives are member-owned organizations providing credit and other financial services to their members. (e.g., SANASA of Sri Lanka). (Prasad, 2006) (Ray, 2004)

**Microfinance in India: Key Operational points**

In India, microfinance is understood but not defined. For instance, if an SHG gives a loan for an economic activity, it is seen as microfinance. However, if a commercial bank gives a similar loan, it is unlikely that it will be treated as microfinance. In the Indian context, there are some value attributes of microfinance. They are as follows:

1. Microfinance is an activity undertaken by the alternate sector (NGOs). Therefore, a loan given by a market intermediary to a small borrower is not considered as microfinance. However, when an NGO gives a similar loan it is treated as microfinance.

2. Second, microfinance is something done predominantly with the poor. Banks usually do not qualify to be MFOs (Microfinance Organizations) because they do not predominantly cater to the poor. However, there is ambivalence about the (RRBs).

3. Third, microfinance grows out of developmental roots. It can be termed as the "alternative commercial sector." MFOs classified under this head are promoted by the alternative sector and target the poor. However, these MFOs need not necessarily be developmental in incorporation. Some MFOs are offshoots of NGOs and run commercially.
4. Last, the Reserve Bank of India (RBI) has defined microfinance by specifying criteria for exempting MFOs from its registration guidelines. (Ministry of Rural Development, Government of India, 2016)

2.6 NON GOVERNMENTAL ORGANIZATIONS (NGO’S)

The term, "non-governmental organization" or NGO, which came into use in 1945 are the non-profit making agencies. They are constituted by a group of like-minded people with a vision, committed for the uplift of the poor, marginalized, unprivileged, underprivileged, impoverished, downtrodden, and the needy and they are closer and accessible to the target groups. Initially, NGOs were familiar with Voluntary Organizations (VOs). Gandhiji established his first VO at South Africa. The activity of that organization was to address the problems of Indians migrated to South Africa. Ramakrishna Mission was established during 1900. Though it is a religious organization, it has been working for rural reconstruction since its inception. After returning to India, Gandhiji established different Ashrams (informal organization) for development of self-sustaining of the villages. Sabarmati and sevagram Ashrams are famous.

However, things have been changing since 1970s. Poverty and Unemployment have been increasing at a rapid pace. This situation became more complex due to rapid price rise of daily consumables. Government machinery has failed to deliver the services in the rural area timely. Agriculture production has been declining. There is a skewed development among the states. The percentage of plan expenditure went to the grass root level is around 4-5. This situation enhances the activity of NGOs. Different NGOs have grown up in different parts of the country. The JP movement had accelerated this activity during the early Seventies.
During the period of Rajiv Gandhi, VOs converted into NGOs (Non-Governmental Organizations). NGOs become more professional than VOs. They took a lead role in the Development sector. Following table shows changing the pattern of activity of VOs periodically:

**TABLE 2.6.1: Changing Pattern of activity of VOs Periodically**

<table>
<thead>
<tr>
<th>Period</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Independence</td>
<td>Social welfare, Constructive work (inspired by Gandhian philosophy) very much in line with independence movement</td>
</tr>
<tr>
<td>1950-1970</td>
<td>Social welfare, Govt. funded and managed NGO like Khadi Industries. India’s five year’s development plans came into existence, Most of the development works were vested with NGO’s</td>
</tr>
<tr>
<td>1970-1990</td>
<td>Civil Society space started increasing from 70s; NGO’s started highlighting that why government programme are not yielding positive results for poor and marginalized presented new model for development with people’s participation. With this new paradigm NGO’s covered vast program areas like education, primary health care, drinking water, sanitation, small irrigation, forest regeneration, tribal development, women’s development, child labour, pollution safety, etc. later on many of these models were included in government programmes and policies.</td>
</tr>
<tr>
<td>1990-2005</td>
<td>GO-NGO partnership got a boost in this period; NGO focus is more on Self Help Groups, Micro Credit, and Livelihood. NGO participation is ensured in policy formation and programme implementation</td>
</tr>
</tbody>
</table>

Source: Discussion with Chinese Delegates at PRIA, 2007
2.7 SELF HELP GROUPS (SHG) IN INDIA:

Self Help Groups (SHGs) are defined by the Indian Government as “… Affinity-Based homogenous groups of 10-20 members (usually women). They follow five cardinal principles or Panchsutra (regular meetings, regular savings, internal lending, regular repayment, and bookkeeping). The SHGs are federated at the village (Village Organisation), sub-block and higher levels. They are supported to become independent and community-managed institutions over time.” (Ministry of Rural Development, Government of India, 2016)

“The SHG movement in India took shape in the 1980s as several NGOs experimented with social mobilization and organization of the rural poor into groups for self-help.” (Tankha, 2012, p. 1) NABARD started the Indian SHG-BLP programme in 1992 by piloting the first SHG group in Udaipur, Rajasthan. (Tankha, 2012) The term loans offered were collateral free and initially, open only to commercial banks having stable balance sheets and not the Regional Rural Banks (RRBs). The Indian Self Help Group (SHG) is the largest microfinance programme in the world. (NABARD, 2015) . 86% of the Self Help Groups are made up exclusively by women, and hence schemes run via the SHG eco-system have significant impact on women empowerment. (NABARD, 2015)

Self Help Groups are promoted, administered and monitored by various Governmental agencies. The umbrella governmental policies providing the mandate for SHGs have changed over time. At present, SHG fall under the ambit of the National Rural Livelihoods Mission-Aajeevika (NRLM) (for rural poor) and National Urban Livelihoods Mission (NULM) (for urban poor).

NRLM was launched by the Ministry of Rural Development (MoRD), Government of India, in June 2011, replacing the earlier Swarna Jayanti Gram Swarozgar Yojana (SGSY) scheme. “NRLM has the mandate of reaching out to 100 million rural poor in 6 lakh villages across
the country.” (Ministry of Rural Development, Government of India, 2016) As per the Indian government, NRLM improves upon the Swarna Jayanti Swarozgar Yojana (SGSY) by adopting a “demand-driven” strategy as compared to the previous “allocation based” strategy of SGSY.

On the other hand, NULM replaced the erstwhile Swarna Jayanti Shahari Rozgar Yojana (SJSRY) in 2013. (Press Information Bureau, Government of India, 2013) (Urban Development and Housing Department, Government of Jharkhand) NULM aims at providing the financial, educational and institutional support for the development of the urban poor. In the 12th Five Year Plan, NULM has been planned to be implemented in all district headquarters and other towns with a population of 1 Lakh or more as per the 2011 census. The funding of the scheme is shared between the central (75%) and state governments. (25%) (Urban Development and Housing Department, Government of Jharkhand).

Another key aspect of the umbrella programmes of the Indian Government is the identification of beneficiaries of the various programmes run under SHGs. The main aim of Financial Inclusion and Microfinance programmes are to assist in the eradication of poverty. However, due to the lack of a reliable, implementable and acceptable definition of the poverty line, SHG schemes are not limited to Below poverty line (BPL) households. Instead, in the rural setting, the beneficiaries are identified at the community level by the process of “Participatory Identification of Poor (PIP)” Community-based Organizations identify the poor in the village using participatory tools under the aegis of the Gram Sabha. (Village level governing council) (Ministry of Rural Development, Government of India, 2016) In urban areas, “Community Organizers (COs) and professionals from Urban Local Body (ULB) will identify the prospective beneficiaries from among the urban poor.” (Reserve Bank of India, 2015).
In the year 1992 SHG (Self Help Group) bank linkage programme was started as a pilot project by NABARD with 500 SHGs of rural poor. It has now transformed into the world’s largest microfinance initiative with over 7.4 million SHGs representing 97 million rural households becoming part of the movement. (RESERVE BANK OF INDIA).

As per the various reports of NABARD, SHG Bank linkage has been the predominant form of lending to women as 88 percent of SHGs members are female SHGs as on March 31, 2016. The scale of the programme is enormous given savings of women SHGs in banks stand at over 120 billion as on March 31, 2016, and bank loan outstanding against women SHGs is over `514 billion as on March 31, 2016. The emphasis of the SHGF program is now to shift towards livelihood opportunities to SHG members apart from the expanding outreach across the country (NABARD, 2015-2016) for the various banking, insurance, and nonbanking entities involved and delivery of the full range of affordable and quality financial services. The government’s DBT payments will flow into these accounts. Also, BC (Banking Correspondence) agents – in a village or urban MOHALLA – will also offer other financial products like insurance and remittances.

### TABLE 2.7.1: Self Help Group Bank Linkage Programme in India

<table>
<thead>
<tr>
<th>Year (end March)</th>
<th>No. of SHGs</th>
<th>Growth %</th>
<th>Cumulative no. of SHGs linked</th>
<th>Bank Loan</th>
<th>Growth %</th>
<th>Cumulative Bank Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>255</td>
<td></td>
<td>255</td>
<td>0.29</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td>365</td>
<td>43.1</td>
<td>620</td>
<td>0.36</td>
<td>24.1</td>
<td>0.65</td>
</tr>
<tr>
<td>1994-95</td>
<td>1502</td>
<td>311.5</td>
<td>2122</td>
<td>1.79</td>
<td>397.0</td>
<td>2.44</td>
</tr>
<tr>
<td>1995-96</td>
<td>2635</td>
<td>75.4</td>
<td>4757</td>
<td>3.62</td>
<td>102.0</td>
<td>6.06</td>
</tr>
<tr>
<td>1996-97</td>
<td>3841</td>
<td>45.8</td>
<td>8598</td>
<td>5.78</td>
<td>60.0</td>
<td>11.84</td>
</tr>
<tr>
<td>1997-98</td>
<td>5719</td>
<td>48.9</td>
<td>14317</td>
<td>11.92</td>
<td>106.0</td>
<td>23.76</td>
</tr>
<tr>
<td>1998-99</td>
<td>18678</td>
<td>226.6</td>
<td>32995</td>
<td>33.31</td>
<td>140.0</td>
<td>57.07</td>
</tr>
<tr>
<td>Year</td>
<td>No. SHGs in Lakhs</td>
<td>Amount in ₹'000 crores</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>149050</td>
<td>82.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>197653</td>
<td>33.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>255882</td>
<td>29.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>361731</td>
<td>41.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>539365</td>
<td>49.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>620109</td>
<td>15.0</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2006-07</td>
<td>684408</td>
<td>10.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>2084821</td>
<td>204.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>1111353</td>
<td>46.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>832103</td>
<td>25.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: NABARD

Figure 2.7.1: Progress of SHG-BLP during past three years

Source: NABARD, 2017
Three broad models of SHG bank linkage have emerged over the past few years in India and are as follows:

*Model-I: Bank – SHG-Member:* In this type of model, banks play an important role by forming and promoting SHGs. The bank opens the account of the members of the SHGs. After satisfying about the functions, bank provides credit to SHGs.

*Model-II: Bank (Facilitating Agency) – SHG – Members:* This is the most common form of SHG bank linkage, almost 70 percent of the SHGs are linked under this model wherein the NGOs, Government Agencies or Community based organizations act as facilitating agencies to form SHGs. Bank observes the operations of the SHGs and after satisfying their functions helps them to open savings accounts and provides credit directly to the SHGs. The State Government agencies like DRDA and DWDA play an active role in the linkage of this model. Cooperatives have a greater role to play and should take laudable efforts in linkage exercises.

*Model-III: Bank-NGO-MFI-SHG-Members:* This model is different from other two models. Under this model, SHGs are nurtured, promoted and even financed by NGOs. NGOs act as facilitator and microfinance intermediaries (MFIs). After some time, when the SHGs have fully developed, and stabilized banks are approached by the NGOs for loans for on lending to SHGs. A Significant development in this model is that NGOs have also been found to federate the SHGs and gradually equip the SHG federations to take on this role. (Misra 2006).

**EShakti or Digitization of SHGs**

For creating a digital India, an initiative in the field of microfinance known as EShakti or Digitization of SHGs has been undertaken. It is an initiative of micro credit and innovations
department of NABARD in sync with the Government of India’s mission. NABARD has launched a project for digitization of all Self Help Group (SHG) in the country. (NABARD, 2015-16)

Ramgarh (Jharkhand) and Dhule (Maharashtra) are the two districts in the country where the pilot project of digitization has started. These districts were covered in phase I on the digitization of SHGs in 2015. NABARD is moving to expand project Eshakti for digitization of SHGs under Phase II to another 22 districts across different geographies of the country. About 2.3 lakh SHGs touching the lives of around 35 lakh SHG members mostly impoverished rural women will be covered in this Phase. (NABARD, 2015-16)

Early impact of Phase I of pilot on digitization of SHGs

**Table 2.7.2: Digitization Details of Ramgarh District (Jharkhand)**

<table>
<thead>
<tr>
<th>No of SHGs credit linked before digitization</th>
<th>340</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of SHGs credit linked after digitization</td>
<td>1006</td>
</tr>
</tbody>
</table>

*Source: (NABARD, 2015-16)*

**Table 2.7.3: Digitization Details of Dhule District (Maharashtra)**

<table>
<thead>
<tr>
<th>No of SHGs credit linked before digitization</th>
<th>1424</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of SHGs credit linked after digitization</td>
<td>2254</td>
</tr>
</tbody>
</table>

*Source: (NABARD, 2015-16)*
The data above reflect there has been substantial increase in the credit linkage of SHG’s after digitization. The Output and MIS include Member wise details of SHGs on saving, lending, attendance, financial statement of SHGs, balance sheet and profit and loss account, grading chart of SHG, audit report, bank linkage details, savings and credit disbursement and other periodicals MIS on the performance of SHGs.

Some of the benefits of digitization of SHGs are:

Access to wider range of financial services by main-streaming of SHG members with financial inclusion, Ease in credit appraisal and linkage of SHGs after digitization of SHG accounts, automatic and accurate rating of SHGs which will be made available online for banks, mapping of persons not covered under Aadhaar platform and bringing them under Aadhaar fold, Ease of transfer of social benefits and Direct Benefit Transfer (DBT) through Aadhaar linked accounts and convergence with other Government benefits, identifying suitable interventions and support for proper nurturing and strengthening of SHGs etc. (NABARD).

2.8 JOINT LIABILITY GROUP (JLG) IN INDIA:

The JLG model was the innovation of Prof. Muhammad Yunus. This model stemmed from the Grameen Bank of Bangladesh (Hussain, 1998). In India, both Self Help Groups (SHGs), as well as Joint Liability Groups (JLGs), are based on the concept of peer-pressure and joint liability. However, JLGs are promoted and linked to banks or MFIs to take care of higher quantum of loans. In some cases matured SHG members are encouraged to form JLG groups with different contract rules than SHGs. (NABARD, 2017). The JLG groups are broadly developed, organized and nurtured by an intermediary. It is an informal group of 4-10 members. However, most of the JLGs in India have five members (Panda, 2009).
JLGs do not have compulsory savings before availing credits. The main motto of JLGs is to access credits along with other financial products like insurances etc. Like SHGs, the JLGs also work on moral collateral to avail financial products. Since the peer pressure develops collective responsibility and social capital among the members, it reduces the possibility of willful defaults (Panda, 2009).

Number of JLGs organized by the Indian state machinery as well as the loans disbursed in the last three years is presented below.

FIGURE 2.8.1: Number of JLG Organized in the last three years in India

Source: NABARD Annual Report 2016-17
FIGURE 2.8.2: Loans disbursed in the last three years in India: JLG

Source: NABARD Annual Report 2016-17