International Journal of Religion
2024
Volume: 5| Number 2 | pp. 502 – 509
ISSN: 2633-352X (Print) | ISSN: 2633-3538 (Online)
ijor.co.uk
DOI: https://doi.org/10.61707/z6090949

Impact of Microfinance on Rural Development through Joint Liability Groups

Krishna M.B[1] and P Balasubramanian[2]

Abstract

Microfinance stands out as a crucial financial inclusion mechanism, addressing the needs of individuals who find themselves excluded from the formal financial system. By breaking down barriers, microfinance ensures that even the most excluded individuals have the opportunity to benefit from a range of financial services, fostering economic empowerment and inclusion. The present study examines the role of microfinance on rural development through Joint Liability Groups (JLGs) with special reference to Kerala. The study also examined the trend of loans distributed to the southern region of India through JLGs for the last five years. The study used a descriptive research design and collected data from 385 beneficiaries through a purposive sampling method. The study revealed that microfinance has a positive influence on the rural development of Kerala. The researcher identified five predictors such as social development, economic development, financial development, employment generation and financial inclusion and dependent variable is rural development. The result shows that 99.6% attributed to microfinance on rural development in Kerala.

Keywords: *Economic Development, JLGs, Microfinance, Rural Development, Social Development*

INTRODUCTION

"Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, many other services such as saving, insurance, money transfer, counseling, etc." RBI. In rural areas, the residents often encounter challenges when trying to access credit from commercial banks and local lenders. Microfinance emerged as a viable solution to address this pervasive issue. The overarching goal of microfinance is to augment the income of impoverished individuals, enhance the living conditions of small-scale business entrepreneurs and their families, and ultimately empower rural communities. The lack of access to conventional financial resources in rural areas has perpetuated a cycle of poverty, limiting economic opportunities and stifling progress. Microfinance institutions bridge this gap by offering small loans, savings accounts, and other financial services tailored to the specific needs of the rural population. One significant aspect of microfinance is its emphasis on empowerment and development, particularly for rural in low-income groups.

NABARD (National Bank for Agriculture and Rural Development) introduced the concept of microfinance groups, including Self Help Groups (SHG), Joint Liability Groups (JLG), Rural Cooperatives, and Grameen Model banks, with the goal of offering institutional loans to rural communities. Self-help groups are the informal microfinance initiative model consisting of 10-25 members of people who come together to address their common problems in their area. Grameen model developed by Muhammad Yunus in 1976, the Grameen model revolves around small groups of five potential borrowers who regularly convene with Grameen Bank field managers. Normally, two out of the five applicants are approved for loans. Upon successful repayment by the initial two borrowers during a trial period, the remaining members of the group become eligible for loans. In this innovative approach, peer pressure serves as an alternative to conventional loan collateral. A Joint Liability Group (JLG) is an informal association consisting of 4 to 10 individuals who unite to secure a bank loan, either individually or collectively as a group. Members of the JLG collectively provide a joint commitment to the bank, facilitating their access to loans. A cooperative society was established following the provisions of the Co-operative Societies Act of 1912. The formation requires a minimum of 10 individuals, who possess the capacity to enter into a contract, they should share common objectives such as farming, weaving, consumption,

[1] Amrita Vishwa Vidyapeetham, Email: krishnambaimi@gmail.com

[2] Amrita Vishwa Vidyapeetham

etc. Co-operative societies provide microfinance to their members. Through the establishment of these groups, microfinance encourages collective financial activities and mutual support among community members.

The impact of microfinance extends beyond mere financial transactions; it fosters a sense of community, self-reliance, and resilience. By facilitating access to credit, microfinance empowers individuals to break free from the cycle of poverty and take control of their economic destinies. Small businesses often started with microloans, become catalysts for local economic development, creating employment opportunities and contributing to the overall growth of the community. The present study examines the role of microfinance in rural development through the Joint Liability Group (JLG).

REVIEW OF LITERATURE

K.V., (2013) examined the factors influencing the effectiveness of agricultural women's JLG in Kerala. The researcher found the factors such as social participation, economic motivation, group dynamics, functional linkage, and support from the promoting institution are influencing the effectiveness of farming in Kerala. The researcher used the effectiveness index for measuring the effectiveness of women's JLG in agriculture. The components of effectiveness index include resource mobilisation, extension orientation, marketing effectiveness, technology adoption, and capacity building. The result showed that the all the indicators are increased after the joining of JLG groups. (Ene & Inemesit, 2015; Tan, Zhang, Zhu and Li, 2023) studied the influence of microfinance on financial inclusion in Nigeria between 1990 and 2014. The study founded that the microfinance institutions positively influence the growth of SMEs sector in Nigeria. The microfinance minimum deposit amount has significant effect on savings of rural dwellers in Nigeria. The study recommended that the government ought to establish microfinance branches in close proximity to rural areas, making financial products and services readily available to a significant portion of Nigeria's potentially productive population. This initiative aims to address the unmet financial needs of individuals currently underserved by the formal financial sector. (Ahtesham & Mittal, 2019) investigated the socio-economic impact of microfinance schemes among Punjab farmers. The researcher used multistage purposive sampling for collecting the sample data. The sample size of the study was 1081 farmers. The researcher examined the effectiveness of microfinance scheme for increasing the income, savings and wealth creation. The researcher used one way ANOVA and the result shows a positive impact on the socio-economic wellbeing of the Punjab farmers. The study concluded that all the farmers, irrespective of income status, benefited the microfinance schemes.

(Barguellil & Bettayeb, 2020) examined the influence of microfinance on economic development of Tunisia. The results indicated that microfinance, when evaluated in terms of its social performance, exhibits a noteworthy negative and significant impact on both the poverty per capita ratio and the GINI index. Interestingly, a positive impact observed in the realm of financial performance, particularly in terms of the costs of exploitation and asset returns. This implies that while microfinance may have adverse effects on certain social indicators, it does contribute positively to economic development in terms of financial metrics. (Anjum et al., 2020) assessed the influence of microfinance on the socio economic status of Farmers and problems faced by the farmers in obtaining the loan. The researcher used the variables such as family income, children educational status, living standard, food/diet pattern, etc. The researcher collected data from 300 microfinance borrowers from Khushhali bank. The study revealed that 72.2% of farmers experienced an increase in their incomes attributable to the availability of microcredit facilities. Because of this income boost, farmers reported improved access to health facilities compared to their previous circumstances. 82.2% of farmers expressed that microfinance had a positive and noteworthy influence on their children's educational status. The study also addressed the challenges faced by borrowers in obtaining loans from Khushhali Bank Limited and other microfinance institutions. Borrowers identified various issues, including high-interest rates, lack of information about microfinance institutions, complex loan procedures, and lack of trust in microfinance, small loan amounts, and the non-availability of loans at the right time. (Hamood & Abdo, 2023) examined the influence of microfinance on economic development in Yemen. The study revealed that there is a positive and significant relationship between microfinance and economic development and play an important role in economic development of Yemen. (Jayashree et al., 2022) investigated the contributions of banking sector for priority sector through SHGs and identified the importance of JLGs role in the economic development of Kerala. The research findings suggest that achieving inclusive growth in a diverse country like India goes beyond merely providing basic bank accounts or expanding banking services. It emphasizes the need for active participation from non-governmental organizations as well. These organizations must proactively take the initiative to contribute to the inclusive growth of the economy.

In the above literature review, numerous studies have explored the effects of microfinance on economic development, social development, and the socio-economic impact of microfinance schemes etc. However, very few studies specifically focused on assessing the impact of microfinance on rural development through SHGs. Existing literature lacked studies measuring the influence of micro finance on rural development through Joint Liability Groups (JLGs) with special reference to Kerala.

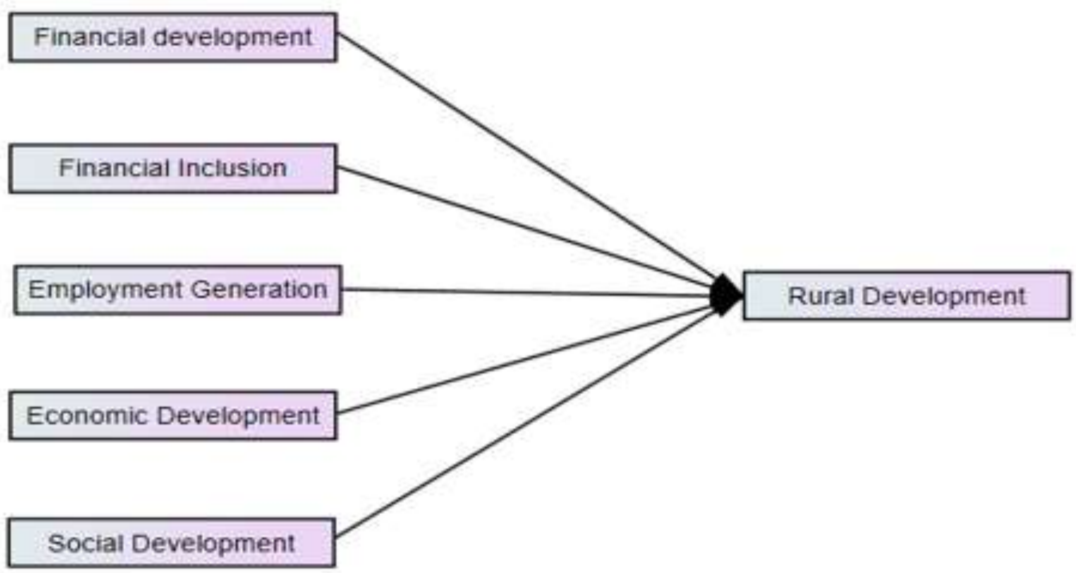

Fig.1. Proposed Research Model

Objectives of the Study

To examine the impact of microfinance on Rural development through Joint Liability groups.

To study loan distributed to Southern region and India through JLGs from 2015-16 to 2019-2020.

RESEARCH METHODOLOGY

The researcher used both primary and secondary data for analysing the research objectives. The primary data were collected from the members or beneficiaries of Joint liability groups through a structured questionnaire from Thrissur district. The secondary source consist of articles, reports from NABARD, government websites, newspapers, reports from regulatory authorities and research organisations etc. the researcher used descriptive research design for the study. The sample size of the study is 385 beneficiaries of Joint liability groups from different taluks of Thrissur district. The researcher used multistage purposive sampling method for selecting the beneficiaries. The collected data analysed by using statistical tools like mean, standard deviation, percentage analysis, ANOVA, Independent sample t-test and Compound annual growth rate etc.

ANALYSIS AND RESULT

Table Descriptive statistics of sample respondents

Variables	Frequency	Percent

Age	18-25	67	17.4
	26-40	140	36.4
	41-60	105	27.3
	61 and Above	73	19.0
	Total	***385***	***100.0***
Education	Illiterate	35	9.1
	SSLC and Below	70	18.2
	Plus Two	140	36.4
	Degree and Above	140	36.4
	Total	***385***	***100.0***
Occupation	Farmer	140	36.4
	Wage Labour	70	18.2
	Petty Shop Owner	105	27.3
	Private Employee	70	18.2
	Total	***385***	***100.0***
Family size	Less than 4	105	27.3
	4-6	210	54.5
	Above 6	70	18.2
	Total	***385***	***100.0***
Income	10,001-20,000	105	27.3
	20,001-30,000	105	27.3
	30,001-40,000	140	36.4
	Above 40,000	35	9.1
	Total	***385***	***100.0***

(Computed from Primary data)

The descriptive statistics of the sample showed the majority (36.4%) fall within the 26-40 age range, followed by 27.3% in the 41-60 age group categories. The result showed that a significant portion (36.4%) has a degree or higher education, and an equal percentage have completed Plus two. In terms of occupation, the largest group (36.4%) consists of farmers, while petty shop owners and those with private employment each constitute 27.3%. Wage labours make up 18.2% of the sample. The family size of the respondents distributed across three categories. The majority (54.5%) have a family size ranging from four to six members, followed by 27.3% with less than 4 members and 18.2% with more than six members. For monthly income, the highest percentage of respondents (36.4%) fall within the income range of 30,001-40,000. Income groups of 10,001-20,000 and 20,001-30,000 each constitute 27.3%, while those with an income above 40,000 make up 9.1% of the sample.

Reliability Statistics

The study has used Cronbach's alpha value to check the reliability of the variable. The reliability value of all the variables is higher than 0.70 (0.86 for social development, 0.92 for economic development, 0.81 for financial development, 0.78 for employment generation and 0.72 for financial inclusion).

H_0: There is no impact of microfinance on rural development.

Microfinance has emerged as a powerful catalyst for financial, economic and social development, and it helps to create employment generation and financial inclusion particularly in rural areas. The researcher used five predictors that influence the rural development of Kerala. The impact of microfinance measured by using these five predictors such as Social Development, Economic Development, Financial Development, Employment Generation, and Financial Inclusion. The dependent variable is rural development measured by five items.

Table Regression Analysis

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	.998[a]	.996	.996	1.966
a. Predictors: (Constant), Social Development, Economic Development, Financial Development, Employment Generation, Financial Inclusion.				
b. Dependent Variable: Rural Development.				

(Source: Computed from primary data)

Table ANOVA

Model		Sum of Squares	df	F	Sig.
1	Regression	310.507	5	17954.953	.000[b]
	Residual	1.311	379		
	Total	311.818	384		
a. Dependent Variable: Rural Development					
b. Predictors: (Constant), Social Development, Economic Development, Financial Development, Employment Generation, Financial Inclusion.					

(Source: Computed from primary data)

The regression result showed that a high positive and significant association between independent variables and dependent variable rural development. The result reveals that microfinance made 99.6% impact on rural development of Kerala. Among the selected predictors in regression model, financial development contribute 0.57, economic development, contribute 0.56, financial development contribute 0.17, employment generation contribute 0.38 and financial inclusion contribute 0.41. ANOVA table confirm the result because the P value is less than 0.05. This indicates a substantial and overwhelmingly positive contribution of microfinance initiatives to the overall development of rural areas in Kerala. The high percentage underscores the significance of microfinance as a catalyst for positive change, economic growth, and community development in the rural areas.

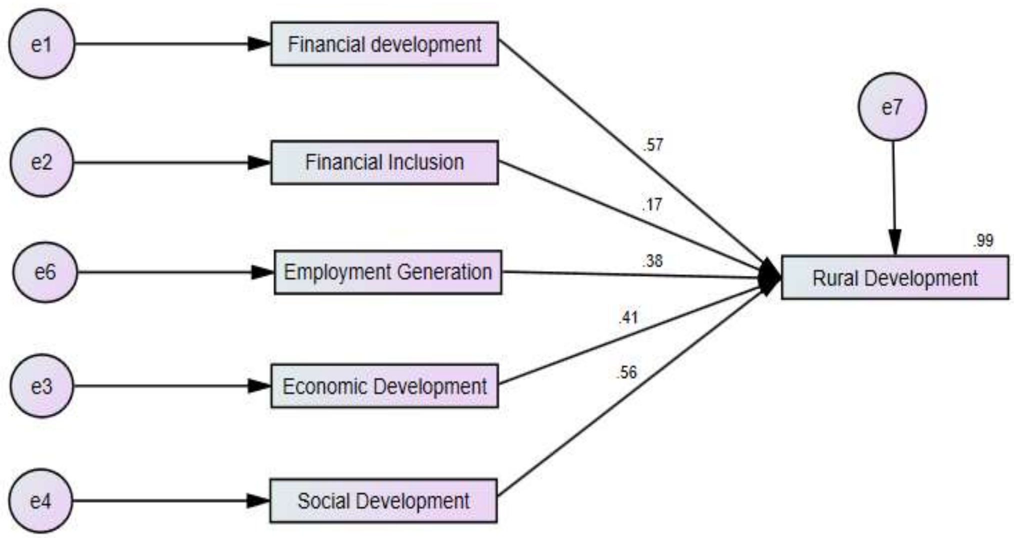

Fig.2 Impact of microfinance through rural development

Table Loan disbursed to southern region through JLG from 2015-16 to 2019-20 (₹ in Lakhs)

Year	Loan to Southern Region	Loan to all Over India
2015-16	265188	616072
2016-17	334543	951117
2017-18	537366	1395515
2018-19	1217348	3094687
2019-20	2624322	8310295
CAGR	**77%**	**92%**

(Source: NABARD Annual Publications)

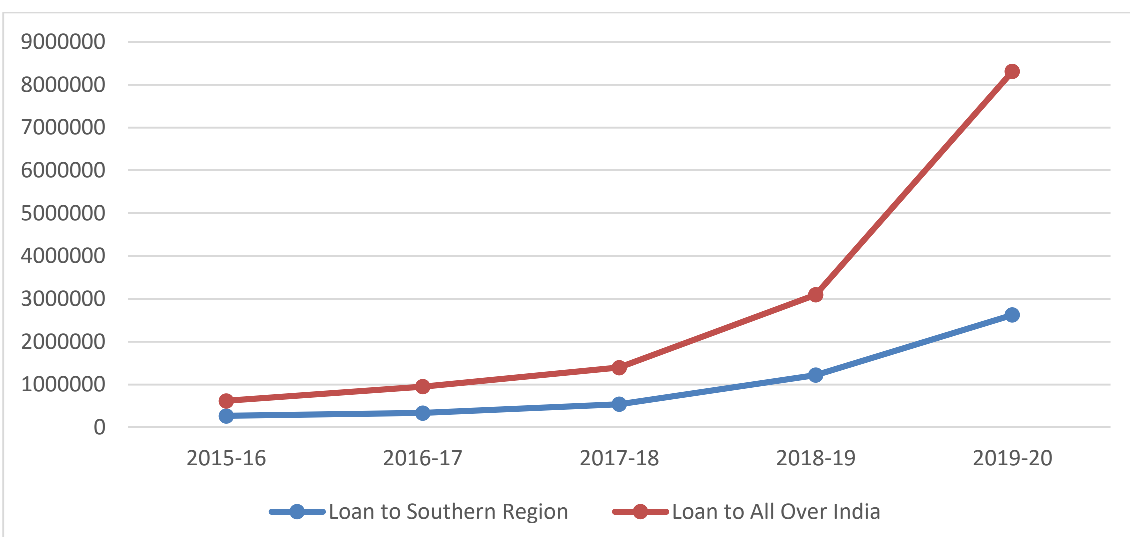

Fig.3 Loan disbursed to the southern region and India through JLGs

The table and figure provides information on the loan disbursed to the southern region of India through Joint Liability Groups (JLG) from the financial years 2015-16 to 2019-20. In 2015-16, the loan disbursed to the southern region through JLG was ₹265,188 lakhs, while in India it was ₹616,072 lakhs. In 2015-16, the southern region's share was approximately 43% of the total loan disbursed in India. This proportion increased to around 31% in 2019-20. The increasing loan disbursed figures, particularly in the southern region, suggest a growing reliance on JLG as a financial mechanism for rural development.

The table depicts the loan disbursed to the southern region has expanded dramatically with a CAGR of 77%. The national CAGR is slightly higher at 92%, suggesting an overall rapid expansion in loan disbursed across the country. The higher national CAGR indicates that the JLG approach to microfinance is experiencing accelerated growth at the national level.

CONCLUSION

The present study examined the impact of microfinance on rural development through Joint Liability Groups (JLGs) reveals a compelling narrative of positive change and progress. The study focused on the period from 2015-16 to 2019-20, with a specific emphasis on the loan distribution in the Southern region and across India. The findings underscore the instrumental role of microfinance, especially through JLGs, in driving rural development. The financial support provided to individuals in the form of loans has not only empowered entrepreneurs but has also contributed to the economic growth, social development and financial development of rural areas. The emphasis on Joint Liability Groups has proven effective in fostering a sense of collective responsibility and accountability, enhancing the overall impact of microfinance initiatives.

The loan distribution trends from 2015-16 to 2019-20 indicate a substantial increase in the amount disbursed, both in the Southern region and nationally. This growth signifies the expanding reach and effectiveness of microfinance programs. The Southern region's noteworthy contribution to the overall loan distribution in India highlights the success and significance of microfinance in this specific geographical area. The result revealed that consistent increase in loan disbursed over the years, coupled with a high Compound Annual Growth Rate (CAGR), suggests that microfinance through JLGs has not only gained momentum but has also become a crucial driver for rural development.

LIMITATIONS AND SCOPE FOR FURTHER STUDIES

The study's exclusive focus on Thrissur district implies potential limitations in generalizing its findings to the entire state of Kerala. The specific socio-economic and cultural context of Thrissur may not be representative of the diverse conditions present in other regions within the state. Consequently, it is crucial to recognize that the study's outcomes may not be universally applicable to the broader context of rural development through Joint Liability Groups in Kerala. To achieve a more comprehensive understanding of the implications of microfinance initiatives, further research across diverse regions within the state is imperative. Such studies can provide insights into the variations and nuances in the impact of microfinance on rural development, ensuring a more nuanced and contextually relevant understanding.

REFERENCES

Agbaeze, E. K., & Onwuka, I. O. (2014). Microfinance banks and rural development: The Nigeria experience. International Journal of Rural Management, 10(2), 147-171.

Ahtesham, N., & Mittal, S. (2019). A Study on The Socio-economic Impact of Availing Microfinance Among Farmers of Punjab. Review of Professional Management, 17(2), 52–62.

Anjum, M. N., Rehman, A., Khan, M. N., Saqib, R., Fayaz, M., & Javed, I. (2020). Impact of Microfinance on Socioeconomic Status of Farmers in District Dera Ismail Khan. Sarhad Journal of Agriculture, 36(3), 851–860.

Barguellil, A., & Bettayeb, L. (2020). The Impact of Microfinance on Economic Development : The Case of Tunisia. International Journal of Economics and Finance, 12(4), 43–53. https://doi.org/10.5539/ijef.v12n4p43.

Bayar, Y., Gavriletea, M. D., & Păun, D. (2021). Impact of mobile phones and internet use on financial inclusion: Empirical evidence from the EU post-communist countries. Technological and Economic Development of Economy, 27(3), 722-741.

Dacanay, J. C., Nito, B., & Buensuceso, P. (2011, July). Microfinance, financial inclusion and financial development: An empirical investigation with an international perspective. In Proceedings of the International Conference on Managing Services in the Knowledge Economy, Universidade Lusíada de Famalicão, Vila Nova de Famalicão, Portugal (pp. 153-173).

Das, S., & Chatterjee, A. (2023). Impacts of ICT and digital finance on poverty and income inequality: A sub-national study from India. Information Technology for Development, 29(2-3), 378-405.

Ene, E. E., & Inemesit, U. A. (2015). Impact of Microfinance in Promoting Financial Inclusion in Nigeria. Journal of Business Theory and Practice, 3(2), 139–158.

Egharevba, M. E., Eguavoen, A., Azuh, D., Iruonagbe, T. C., & Chiazor, I. A. (2016). Microfinance and poverty reduction strategy for promoting national development: the challenge of social/financial inclusion. The Social Sciences, 11(22), 5373-5386.

Li, H. X., Hassan, K., Malik, H. A., Anuar, M. M., & Khan, T. I. (2022). Impulsive and compulsive buying tendencies and consumer resistance to digital innovations: the moderating role of perceived threat of COVID-19. Frontiers in Psychology, 13, 912051.

Hamood, F., & Abdo, A. (2023). The Impact of Microfinance on Economic Growth in Yemen. Cognizance Journal of Multidisciplinary Studies, 3(6), 360–367. https://doi.org/10.47760/cognizance.2023.v03i06.022

Jayashree, S., Shanmugha, Pon, P., & Ramasethu, A. (2022). Performance Analysis of Joint Liability Groups in India – With Special Reference to Kerala. St. Joseph's Journal of Business Research, 1(01), 49–55.

K.V., S. (2013). Factors Discriminating the Effectiveness of Women' s Joint Liability Groups in Agriculture: Evidences from Kerala. Indian Research Journal of Extension Education, 13(3), 98–102.

Lopez, T., & Winkler, A. (2018). The challenge of rural financial inclusion–evidence from microfinance. Applied Economics, 50(14), 1555-1577.

Lal, T. (2019). Measuring impact of financial inclusion on rural development through cooperatives. International Journal of Social Economics, 46(3), 352-376.

Milana, C., & Ashta, A. (2020). Microfinance and financial inclusion: Challenges and opportunities. Strategic Change, 29(3), 257-266.

Nanda, K. (2019). Dynamics between bank-led financial inclusion and economic growth in emerging economies: The case of India. International Journal of Development and Conflict, 9(1), 95-121.

Qin, L., Raheem, S., Murshed, M., Miao, X., Khan, Z., & Kirikkaleli, D. (2021). Does financial inclusion limit carbon dioxide emissions? Analyzing the role of globalization and renewable electricity output. Sustainable Development, 29(6), 1138-1154.

Takyi, P. O., Sakyi, D., Yusif, H., Asante, G. N., Osei-Fosu, A. K., & Mensah, G. (2023). Financial inclusion and financial development: implications for monetary policy effectiveness and economic growth in sub-Saharan Africa. Journal of Economic and Administrative Sciences.

Tan, Z. ., Zhang, Q., Zhu, W. ., & Li, H. (2023). From Financial Institutions to Industrial Firms: The Contagion Mechanism and Prevention of Liquidity Risk: A Multi-case Study of SMEs Credit Guarantee Industry. Journal of Management World, 2023(1), 35–59. https://doi.org/10.53935/jomw.v2023i1.231