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SOCIAL INDICATORS INFLUENCING SUSTAINABILITY OF JOINT LIABILITY GROUPS

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Abstract

Microfinance has become a major mean of sustainability of the poor and the rural citizens of the world. The rural development activities have looked into the possibility of the provision of loans to the lower part of the society in a group or joint liability schemes. Joint liability groups have an edge over Self help groups due to its ease of implementation. This paper aims to find the social indicators of sustainability of Joint Liability groups. The methodology involved multistage sampling procedure. The larger the correlation the stronger the relationship between the scales. In this case we can observe that all the correlation are positive and a very high correlation can be seen.

Keywords:

JLG, social indicators, sustainability, microfinance

Introduction

Microfinance has become a major mean of sustainability of the poor and the rural citizens of the world. The rural development activities have looked into the possibility of the provision of loans to the lower part of the society in a group or joint liability schemes. This scheme involved in the provision of the loans to the individual on the basis of the surety from the other group members as the collateral. Many of the NGOs and the government organizations in Odisha have heavily depended on the joint liability to serve the lower part of the society. Brickell et al (2020) have found that when microfinance was at its peak, with an estimation of 139 million microfinance customers globally, the COVID-19 pandemic has engulfed us. The microfinance sector in Cambodia is a fastest growing sector and, similar to others in the Global South, has changed from providing entrepreneurial resources to liquidity and relief from on a daily basis. At this point of view, however, it was argued that it should be a matter of concern and not comfort, to encourage microfinance as a market-oriented relief and recovery from this pandemic. Second, credit-taking is supposed to increase further in terms of the number of borrowers and amount of loan as a consequence of the health and economic impacts associated with COVID-19. The dependency on MFIs would leave households undernourished and therefore more vulnerable to their disciplinary and extractive impulses. It was further suggested that the intertwining between over-indebtedness, hunger pre-existing problems and the COVID-19 global health crisis is a chief challenge to gender equity and sustainable growth. For debt relief to be provided, cooperation between the Cambodian government, foreign investors, lenders of microfinance and developmental partners is crucial. In addition, progressive socio-economic policies and programs related to public welfare need to be prioritized to reverse the dependency of too many beneficiaries on the industry of microfinance for survival. 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 the mutual guarantee. The JLG members would offer a joint undertaking to the bank that enables them to avail loans. The JLG members are expected to engage any farm and nonfarm activities. The management of the JLG is to be kept simple with little or

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no financial administration within the group. By providing doorstep services that are unconceivable by the banks, the MFIs have emerged as the forefront institutions for financial inclusion and have fairly succeeded in accomplishing the social objectives of poverty alleviation and women empowerment (Sangwan, 2021). The study aims to find the social indicators of sustainability of Joint Liability groups.

Literature Review

The literature on microfinance emphasizes group lending dynamics. MFI group-lending arrangements have an explicit joint liability clause. The group members are held responsible together for the borrowings of their groups (Ghatak 1999). Stiglitz's (1990) moral hazard model illustrates that the joint liability payments force the members to monitor their partners' loan utilization or economic activities/projects. Peer monitoring helps minimize the moral hazard problem. In group lending, regular group meetings encourage disciplined loan repayments by the group members (Dalla Pellegrina et al. 2017) and regular collections, which in turn instil thrift behaviour among borrowers (Armendáriz and Morduch 2010). The social stigma of being labelled as defaulters in group meetings also stimulates clients to adapt to periodic repayments (Solli et al. 2015). MFIs predominantly lend to women, especially for the same reason. In case of social sanctions, the clients risk their social reputation, participation in community events, community assistance in urgencies and emergencies, and in extreme and rare cases, confiscation of defaulters' physical assets (Solli et al. 2015). Besides, group homogeneity can play a significant role in enhancing the members' joint liability and consequently, the repayment behaviour (Al-Azzam, Parmeter, and Sarangi 2020). Geographical proximity plays a substantial role in the development of such social connectedness. Client's social connectedness/ties creates social pressure and concern them for repayments (Sangwan, Nayak, and Samanta 2020). In social connectedness, households often mingle, communicate and participate in each other's activities (marriages, festivals, special occasions, contingencies, etc.).

Rather than a specific instrument, microfinance is an intervention field (Vaessen et al. 2009), designed to alleviate poverty, promote employment, improve economic growth and social inclusion, and contribute to economic development (de Koker and Jentzsch 2013). It has the capacity to increase self-employment and – in developed countries – create microenterprises. Initially, microfinance was associated only with microcredit, but it has evolved to include a broader portfolio of services, such as microsavings, microinsurance, microremittances, and microguarantees (Armendariz de Aghion and Morduch 2010). As social beings, humans always need each other in living this life, so that almost all activities in this life are carried out in groups, whether playing or working, a world without groups, of course there is no agriculture, no culture, no religion, no there are cities and so on. (Hogg, A., & Gaffney, 2018) The social sanction is yet another phenomenon that discourages clients to loan default in group lending (Halder and Stiglitz 2016). If a client experiences social sanction, s/he risks social reputation, participation in community events, assistance during emergencies, and there are possibilities of confiscation of one's physical assets (Solli et al. 2015). However, there are cases to prove that social sanction may fail to ensure high repayments (Sadoulet 1997). These situations may arise when other members do not intend to spoil the social relationship, clients consider more utility in strategic default, and clients are geographically distant and hence, the impact of social sanction is not considerable. All such situations make it difficult to effectively impose social sanctions (Dorfleitner, Just-Marx, and Priberny 2017). On average, every working hand has to support two young children in a nondelinquent household. This figure is significantly higher for a delinquent household (three young children). Thus, a higher proportion of income utilized in consumption and other household expenses reduces delinquents' repayment capacity (Sanwan, 2020.) As the members of JLGs work together, the cohesiveness amongst them increases leading to better group activities. This further enhances better communication skills and managerial skills in the group members (Suwang et al, 2021.) In a study on farmers it was found that the farmers group is self selected so that all the members know each other and have strong relationships by peer selection. Second, the key farmer or the group leader plays an important role of monitoring the member activities by peer monitoring. Third, the leader may apply social sanction to the defaulting member by peer pressure (Pratiwi et al, 2020).

The mass of joint liability group lending in the world occurs on an elective basis. This mechanism has been used in rural regions of developing countries, to allow poor populations to finance new projects. In many of these cases, a group of low-risk borrowers was formed using peer selection, peer monitoring, peer pressure, dynamic incentives

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and unofficial sanctions. Furthermore, participants are often selected because they exhibit high levels of structural and cognitive social capital, higher productivity and high repayment rates.⁶ When the group lending mechanism matures, new behaviours are likely to emerge. Addressing behavioural tendencies or behavioural innovations is part in the architecture of debt and of the debt-output nexus. As Basu and Stiglitz point out: 'A behavioural innovation is nothing, but the discovery of high returns associated with new combinations of behaviour.'⁷ Accordingly, it is our standpoint that peer's altered strategy might make group lending more or less efficient (Barel and Lipshit 2021). . At the social level, the microfinance industry has been a powerful intervention field, initially in developing countries reducing extreme poverty and more recently in developed countries reversing cycles of financial exclusion (Nouguiera, 2020).

Research Methodology

The sample size was 232 beneficiaries of JLGs . the sampling technique was multistage sampling. **Stage1-** Population – Western Odisha

Sampling technique- Deliberate Sampling

Sample- Three districts(Bargarh, Bolangir, Sonapur)

Stage-2

Population – Bargarh, Bolangir, Sonapur district

Sampling technique- Quota sampling

Sample- Bargarh and Barpali in Bargarh District, Bolangir and Loisinga in bolangir district and Sonapur and Binika in Sonapur District (as the concentration of jlg members is higher)

Stage-3

Population- All the JLG members in the six selected Blocks(Bargarh and Barpali;Bolangir and Loisinga;Sonapur and Binika)

Sampling Technique-Simple Random sampling

Sample- JLG members

Analysis and Findings

Reliability

Scale: Social Indicators

TABLE-1

Case Processing Summary

	N	%
Valid	232	100.0
Cases Excluded ^a	0	.0
Total	232	100.0

a. Listwise deletion based on all variables in the procedure.

From the case processing summary we can verify that in total 232 cases were analyzed.

SPSS Statistics produces many different tables. The first important table is the **Reliability Statistics** table that provides the actual value for **Cronbach's alpha**, as shown below:

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TABLE-2
Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.963	.970	10

we can see that Cronbach's alpha is **0.963**, which indicates a high level of internal consistency for our scale. Cronbach's alpha simply provides us with an overall reliability coefficient for a set of variables (e.g., questions). As per (Konting, et al, 2009), Cronbach's alpha value ranging from 0.9 to 1.0 is treated as excellent internal consistency of the scale. (Rule of thumb is that it should be more than 0.7 if total no items is more than 10).

TABLE-3
Item Statistics

	Mean	Std. Deviation	N
Socialbenefits	4.366	.8725	232
Socialstatus	4.401	.8771	232
GrActivities	3.909	.6550	232
CommSkills	3.866	.6132	232
Managerskills	3.862	.6087	232
Conflevel	4.224	.8383	232
CommDevAct	3.922	.6665	232
DomeRespon	3.884	.6306	232
DomeBenefits	3.862	.6087	232
ChildEdu	3.983	1.2517	232

Item statistics results with the mean and standard deviation of each item in the scale.

TABLE-4
Inter-Item Correlation Matrix

	socialbenefits	Socialstatus	GrActivities	CommSkills	Managerskills	conflevel
Socialbenefits	1.000	.905	.725	.755	.764	.882
Socialstatus	.905	1.000	.794	.744	.745	.866
GrActivities	.725	.794	1.000	.757	.718	.581
CommSkills	.755	.744	.757	1.000	.843	.656
Managerskills	.764	.745	.718	.843	1.000	.689
Conflevel	.882	.866	.581	.656	.689	1.000
CommDevAct	.741	.764	.797	.769	.731	.628
DomeRespon	.762	.766	.708	.844	.826	.688
DomeBenefits	.780	.777	.772	.774	.755	.638
ChildEdu	.921	.933	.737	.747	.735	.895

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TABLE-5
Inter-Item Correlation Matrix

	CommDevAct	DomeRespon	DomeBenefits	ChildEdu
Socialbenefits	.741	.762	.780	.921
Socialstatus	.764	.766	.777	.933
GrActivities	.797	.708	.772	.737
CommSkills	.769	.844	.774	.747
Managerialskills	.731	.826	.755	.735
Conflevel	.628	.688	.638	.895
CommDevAct	1.000	.761	.742	.715
DomeRespon	.761	1.000	.838	.710
DomeBenefits	.742	.838	1.000	.747
ChildEdu	.715	.710	.747	1.000

Inter-item correlation matrix shows the correlation of every item in the scale with other item. All the correlation should be positive and more the correlation is better since all the questions are framed in the same way. The larger the correlation the stronger the relationship between the scales. In this case we can observe that all the correlation are positive and a very high correlation can be seen.

Conclusion

The groups should be homogeneous with similar socioeconomic backgrounds to enhance the repayments. It helps the group members to knit in strong social ties and build their social capital. A higher group homogeneity helps in mitigating the moral hazard problem, which in turn leads to lower defaults. A partial explanation for this increasing interest is that microcredit programmes can contribute to better levels of social and economic development. The great success of these programmes in developing countries has prompted developed countries to replicate them; moreover, policymakers' interest in microfinance programmes has prompted academics to develop more studies.

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