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Microfinance for Agriculture: The Way Forward Through JLGs

- P. Satish*

Abstract

The rural finance paradigm of the 1960s and 1970s was based on public authorities' desire to facilitate access to rural finance. Failure of this approach in 1990s left a vacuum as far as agricultural credit is concerned. Despite the great hopes associated with the strong growth of the microfinance sector, it soon became clear that the supply of microfinance for agricultural activities was marginal at best and poorly adapted. Despite the relatively heterogeneous nature of data available, there is a consensus that agriculture is inadequately funded and that the supply does not meet the needs of farmers. In India, though microfinance expanded at a fast pace, it was unable to cater to the needs of agriculture. To overcome this, NABARD has brought forward the concept of Joint Liability Groups (JLGs). This paper studies the working of JLGs in Andhra Pradesh and Kerala. The analysis in this paper clearly brings out that for expanding microfinance services for agriculture, the way forward would have to be the JLG route. The experiences indicate that JLGs have served as collateral substitutes for small and marginal farmers, oral lessees, tenant farmers and share croppers thereby facilitating the increased outreach for agricultural microfinance. The concept has now reached a stage where it has to be upscaled and mainstreamed in an effective manner.

Joint Liability Groups (JLGs) have served as collateral substitutes for small and marginal farmers, oral lessees, tenant farmers and share croppers thereby facilitating the increased outreach for agricultural microfinance.

1. Prologue

Financing agriculture in the post war period was mainly through institutions specifically set up for that purpose. The rural finance paradigm of the 1960s and 1970s was based on public authorities' desire to facilitate access to rural finance. The objective was to promote agricultural development by modernisation and technological upgradation. The most

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common approach involved direct government intervention via state owned development banks and direct donor intervention in credit markets with favourable terms and conditions like soft interest rates or lenient guarantees. However, this system was costly and unsuitable, due to poor repayment, and ultimately did not have the desired effect on the growth in agricultural production (Meyer, 2007).

State agricultural development banks were characterised by inefficiencies, high operating costs, losses and decapitalisation. These banks were highly inefficient, supply driven and had weak non-market driven management. Experience indicates that these institutions required repeated recapitalisation and ultimately a large number of institutions failed, especially in Africa and Latin America. Still where these banks have failed, private sector institutions have not stepped in to fill the vacuum created. A foremost example in this regard is that of Banco Agrario del Peru (BAP). BAP was established and operated in line with the traditional agricultural credit paradigm, compatible with subsidies and government directed operations. With the onset of financial sector liberalisation in Peru BAP collapsed. However its collapse left a void in servicing small farmers and rural households (Coffey, 1998).

Despite the great hopes associated with the strong growth of the microfinance sector, it soon became clear that the supply of microfinance for agricultural activities was marginal at best and poorly adapted. Microfinance had largely been an urban phenomenon in most parts of Africa and Latin America. Even where it had entered the rural areas, as in parts of Asia, it confined itself essentially to rural microenterprises. Institutions that were successful in micro-enterprises and the urban sector proved to be not so successful in agriculture. Urban and rural clientele of microfinance are usually located in areas that have a high population density and low-income groups often engaged in non-farm activities. Generally, it is observed that microfinance borrowers tend to be engaged in commercial activities such as street vending. Non-farm business activities generate more regular income and permit repayment in frequent and small installments. As farm sector activities have relatively longer and less stable production cycles, few microfinance institutions lend exclusively for agricultural activities. As such, mainstream agricultural finance remained outside the pale of microfinance.

With private sector not entering the rural finance area and microfinance confining itself basically to microenterprise financing, the focus has again shifted to state owned agricultural development banks and the need to restructure and retool them to meet the demand for rural finance. These banks have certain inherent strengths. Often, state owned development banks possess large branch network for rural financial intermediation and have staff that is especially familiar with agricultural enterprises (Zeller, 2003).

The approach in India towards agricultural finance was two-fold: to revive and revitalize the various agencies of the financial sector catering to agricultural finance and to innovate microfinance technologies so that they could cater to the needs of agriculture. This is due to the fact that unlike many developing countries, India has an extensive and well-organized rural banking system. The strengths of this system have to be leveraged to increase the flow of agricultural credit. However, to continue to serve the vast masses below the poverty line in the rural areas of the country with lower transaction costs and risks and at the same time take care of the viability concerns, the banking sector was in search of an alternative. The SHG-Bank linkage programme initiated by NABARD was the outcome of this search.

2. Microfinance in India

2.1 The success story of SHG-bank linkage programme

The SHG-bank linkage programme in India, which was initiated by NABARD in 1992, has grown manifold to emerge as the largest microfinance programme in the world. By the end of March 2009, 6.12 million SHGs have been linked to nearly 45,000 branches of 50 public and private sector commercial banks, 86 Regional Rural Banks and 352 cooperative banks with total savings of Rs.55.45 billion. With this, 86 million households are associated with banking agencies under SHG-bank linkage programme. During the year 2008-09, 1.6 million SHGs were extended credit of Rs.122.53 billion, registering a growth of 31.1% over the previous year. The outstanding credit to 4.22 million groups was Rs.226.79 billion as at the end of March 2009 indicating a growth of 33.4%. NABARD also refinances SHG lending of the banks. The refinance disbursed during the year was Rs.26.2 billion. NABARD has harnessed the synergy of various partner agencies in SHG-linkage programme. More than 4,500 NGOs are involved in effort of formation, nurturing and guiding SHGs. Also involved are a large number of government development agencies and grassroots level volunteers (NABARD, 2009).

India is attempting to expand microfinance and it is logical that the country would look to its large bank network as the primary way to supply microfinance services. The Indian approach represents a hybrid model with characteristics borrowed from models that link indigenous groups to banks, from models that create self-governed village banks, and from models that create joint liability groups. The concept of providing financial services through groups offers some advantages, one of the most important being the potential to reduce transaction costs. The SHG-linkage strategy is complex and represents huge principal-agent challenges. This complexity offers many opportunities for failures, inefficiencies, and unproductive rent-seeking behaviour. To succeed, the staff of NABARD, the banks, the NGOs, and members of SHGs themselves must perform their respective tasks effectively if SHG members are to receive efficient financial services (Meyer, 2003).

2.2 Microfinance outside SHG-bank linkage

The SHG-bank linkage programme has expanded at a fast pace in India to evolve into the largest microfinance programme in the world. By far it is the major microfinance programme in India. However, there are also microfinance institutions (MFIs) operating in the country following a variety of saving and credit technologies. As per Sa-Dhan, an association of MFIs in India, number of MFIs reporting information to it is 233. As inventoried by a GTZ study there were 788 Microfinance Ogranisations that are functional. However there were only 27 MFIs with an outstanding loan portfolio of more than Rs.500 million. An overwhelming majority of the MFIs/MFOs are operating on a smaller scale. The geographical distribution of MFIs is very much lopsided with concentration in Southern India. MFIs reported a client base of 22.6 million as the end of March 2009. Their outstanding loan portfolio increased from Rs.59.5 billion to Rs.117.34 billion in 2008-09 (Srinivasan, 2009)

3. Microfinance for Agriculture

3.1 Credit flow to agriculture under microfinance programmes

There had been a criticism, and validly so, that the focus of microfinance efforts in India and elsewhere was on microenterprise financing and consumption financing, with financing agriculture taking a back seat. It is difficult to evaluate the volume of credit microfinance institutions disburse for agriculture. Cumulatively MFIs around the world lend roughly 30 billion dollars, but there are huge territorial differences (between countries and within the same country) in how these funds are allocated. Indeed, despite annual growth of 36% in the number of poor clients reached by MFIs between 1997 and 2005, most institutions still concentrate on urban and peri-urban areas that are easy to serve. A study in rural finance in West Africa found that only 14% of overall credit supply goes to agricultural sector. Remarkably, 92% of this supply came from the commercial sector, largely surpassing that of development banks (5%) and MFIs (3%), whose credit supply is essentially characterised by short-term loans (Lesaffre, 2000). A regional analysis of Latin America reveals that with a few exceptions like Nicaragua and Paraguay, the proportion of loans disbursed to agriculture was far less than the overall contribution of agriculture to the countries' GDP (Trivelli and Venero, 2006). Despite the relatively heterogeneous nature of data available, often referring only to certain geographical areas there is a consensus that agriculture is inadequately funded and that the supply does not meet the needs of farmers.

Of the total credit flow through the microfinance route in India, only 8% is estimated to be for direct agriculture including crop loans and 14% for animal husbandry purposes like milch cattle, sheep and goat, poultry, etc. The balance of 78% is for consumption purposes, microenterprises, and trade credit. This analysis of the credit flow in the SHG-bank linkage programme and the flow of credit under other models of microfinance in India, reveal that a larger part of the credit is towards consumption finance followed closely by credit for microenterprises and trade credit. Flow of credit to mainstream agricultural purposes took only a small share and the credit availment for allied activities like purchase of milch cattle, sheep and goats, back-yard poultry was far greater than for crop production purposes. There was almost no credit flow through microfinance for mainstream agricultural investment activities like Farm Mechanisation, Minor Irrigation or Land Development. It may, therefore, be noted that microfinance *per se*, has not been able to take care of agricultural finance needs in India.

3.2 Interest rates and loan tenures in agricultural finance

Another issue that is frequently raised with regard to microfinance relates to interest rates and repayment period. Interest rates in microfinance are generally higher compared to the market interest rates for other credit products offered by the banking sector. This higher cost is necessary to take care of the cost of operations and cost of resources for microfinance institutions and microfinance service providers. The higher interest rates are not an issue in consumption finance as they usually substitute for credit at usurious interest rates from the moneylenders. They are not an issue for microenterprises also, as credit requirement is low and the velocity of operations in microenterprises is higher during a shorter time frame and by the sheer volumes generated by this velocity, these enterprises are able to service higher interest rates. But, agriculture is a seasonal operation with inflow of funds only at certain points of time. Except for allied activities like dairy, poultry, sheep and goat rearing, etc., the inflow of funds is only when the produce is harvested and marketed. With such occasional funds inflows, agriculture cannot service high rates of interest in a manner that is possible for microenterprises.

Further, long-term capital investments in agriculture have a long gestation and, in many instances, do not have any direct income generation, and such investment is only reflected in the improved returns from the existing farms. For refinancing all types of credit that is in the nature of long-term investment finance, NABARD has been adopting a project approach. In this approach, the interest rates on credit factored in have to be at such a level as to continue ensuring that the project retains its viability levels and does not become unviable. Higher interest rates being charged would at many times result in projects becoming unviable and not taken up for financing. Higher interest rates in microfinance are sometimes justified on the need to meet the loan administration costs of the institution. In this context, it may be mentioned that the borrower should not be expected to subsidise the inefficiency of the credit dispensing institutions by paying an above the market interest rate.

As far as the gestation period and repayment periods are concerned, it has been observed that most of the microfinance loans are for a very short period which may not be suitable for agricultural credit. Production credit in agriculture requires a minimum gestation of 6 months, which is a higher period than most microfinance loans. For investment credit, the repayment period could normally range between 3 to 9 years and even beyond. It is doubtful if the existing microfinance methodologies can sustain such long repayment periods. These issues of interest rate and gestation period make microfinance an unsuitable technology -if applied in a manner similar to microenterprise financing- for dispensing credit to mainstream agriculture.

3.3 Credit plus requirements of agriculture

The phenomenon of microfinance not being able to take care of the agricultural finance needs is also due to fact that agriculture requires not just credit and other financial services but also knowledge and skills about improved technologies to use these services. Technological change has proved the Malthusian prophecy wrong. Agricultural innovations-such as high yielding seeds, herbicides, fertilisers, agricultural machinery, and resource management techniques-allowed food production growth to outpace population growth. One of the fastest ways to increase agricultural productivity rapidly is the adoption of new agricultural technologies. Rapid productivity growth boosts farmer incomes and helps farmers manage risk.

During Green Revolution, small farmers dramatically increased their productivity by adopting high yielding varieties of rice and wheat and using complementary inputs of irrigation and fertiliser. More generally, new technologies have more than doubled global crop yields over the last four decades. Between 1965 and 2000, productivity gains in output per hectare of cereal crops averaged 71% globally (Pardey and Beintema, 2001).

But, one of the primary barriers to adoption of new agricultural technology is lack of knowledge. Extension services are an institution aimed at filling this gap. These services inform farmers of new products and techniques, and gather and transfer information from farmers to other players. In the 1950s and 1960s large-scale extension system emerged when governments throughout the world invested heavily in services for delivering new agricultural technologies. The benefits of extension services are enormous. Studies show that these services substantially improve technology adoption rates, awareness and productivity and are estimated to generate rates of return averaging more than 60% (Evenson, 1997).

Despite these successes, public extension services have come in for criticism for being inefficient, ineffective and poorly targeted. Due to the dwindling financial health of state governments as well as state agricultural universities, extension services have not been receiving the support at the levels that they had during the Green Revolution period. This is reflected in the lackadaisical nature of extension services available at the grassroots level in most of the states. As extension services are delivered by a governmental agency and credit services by a banking institution, there is a visible dichotomy.

3.4 Agricultural credit requirements of small holders

More than three fourths of the farm holdings in the country are small/marginal due to progressive fragmentation over decades. A number of these farmers do not have clear title to land which they cultivate rendering them ineligible for bank credit. Even those of the small and marginal farmers who have title to their holdings are deprived of bank credit as their holdings considered uneconomical. Banks have generally preferred to finance big farmers neglecting the credit needs of small and marginal farmers. A World Bank study estimates that 87% of marginal farmers and 70% of small farmers have no access to credit from formal financial institutions. This was also true of tenant farmers and oral lessees who did not have land in their name to serve as collateral. These groups depended on informal sources of credit at high interest rates which they could not service due to generally low returns in agriculture. The instances of farmers' suicides in several parts of the country are a fallout of this phenomenon. Thus, vast areas of farm land cultivated by small and marginal farmers, tenant farmers and oral lessees suffered from low productivity as these areas could not afford proper inputs and appropriate technologies due to lack of timely and adequate credit. There was a need for an alternative methodology to take care of credit needs of these groups. Further, it was also realised that the features of the Self-Help Group model were not conducive to the needs of farmers. The features like loans in proportion to savings, weekly and monthly repayments, shorter loan terms, higher than market interest rates and insistence on regular group meetings make the SHG model unattractive to farmers' needs.

4. Alternative Approaches for Agricultural Microfinance

4.1 Joint Liability Groups (JLGs)

To take care of classes of farmers who found it difficult to access credit and to overcome some of the inhibiting features of the SHG model, NABARD has formulated a pilot project for financing Joint Liability Groups. This concept also tries to address the issue of credit plus requirements of agriculture as the promoting institutions of JLGs are expected to address the technology transfer and extension services needs of farmers through their interventions. The concept is broadly based on the experience of the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand in implementing the Joint Liability Groups of farmers. The pilot project for streamlining credit flow using the Joint Liability Groups aimed at identifying collateral substitutes like peer pressure/ social collateral even for lendings of a higher quantum was initiated by NABARD in 2005-06. This concept also takes care of financing tenant farmers and share croppers. The Joint Liability Groups (JLG) as defined by NABARD is an informal group comprising of 4 to 10 individuals coming together for the purpose of availing bank loan either individually or through the group mechanism against mutual guarantee. In the first case, the group avails separate individual loans and all members jointly execute one inter-se documents signed by all group members making each one liable for repayment. In the second case, members are jointly eligible for the loan and own the debt liability jointly. JLG members offer an undertaking to the bank that enables them to avail loans. Unlike SHGs which are more process oriented, the management of the JLG is simple with little or no financial administration within the group. Further, its salient features or main target clients are small and marginal farmers, tenant farmers, oral lessee and share croppers. For members living in the same neighbourhood or having same socio-economic background and environment and trust and know each other well, no collateral is necessary. The mechanism of joint liability serves as a collateral substitute. Banks may engage own staff or other intermediary institution to attend to the clients effectively. Savings by JLG members is voluntary. After completing the pilot stage, NABARD has initiated financing JLGs as a regular credit activity for banks.

The following are the broad features of JLGs:

- A Joint Liability Group (JLG) is an informal group comprising preferably of 4 to 10 individuals coming together for the purpose of availing bank loan either singly or through the group mechanism against mutual guarantee.
- JLGs can be formed by small/ marginal farmers, tenant farmers, oral lessees and share croppers. The members should normally be residing in the same village /area and should know and trust each other.
- JLG is primarily intended to be a credit group, but group savings may be an optional activity.
- The quantum of credit need not be linked to savings and no collaterals need be insisted upon by banks against their loans to JLGs
- Formation of JLGs can be taken up by NGOs, Farmers' Clubs, Farmers' Associations, PRIs, KVKs, ATMAs, PACS, Bank branches, MFIs, agri-input dealers as also individual volunteers.

The major objective of this concept is to augment flow of credit to tenant farmers and share croppers cultivating land and to small/marginal farmers to extend collateral free loans and to build mutual trust and confidence between banks and such farmers' groups. To ascertain the utility of JLGs for extending microfinance services to agriculture this paper studies the programme in the states of Andhra Pradesh and Kerala. In Andhra Pradesh the JLGs were functioning under the umbrella of the Rythu Mitra (Farmers' Friend) programme of the state government.

4.2 Rythu Mitra (farmers' friends) groups in Andhra Pradesh

Rythu Mithra Groups (RMGs) consist about 15 members who are like-minded and belong to small and marginal farmer and tenant farmer categories and act as an interface between the agriculture extension system and farmers. Since 2003, the Government of Andhra Pradesh has been promoting RMGs in the state to bring about a holistic development of farmers through collective action. RMGs are expected to serve as a conduit for its members for technology transfer, facilitate access to market information and assist in carrying out activities like soil testing, training, health camps, assess input requirements, etc. The Agriculture Department of the state government is the nodal agency for formation and nurturing the RMGs.

The RMG facilitates transfer of technology, access to market information and other farm related information. Their salient features are monthly or fortnightly meetings, savings of Rs.50 per member, bank accounts in the name of RMGs, internal lending of savings and book keeping for their group accounts. After six months of active existence, RMG submits a micro credit plan to the bank and are credit linked in the savings to loan ratio of 1:20. The credit may be for investment, production or consumption purpose. Generally, RMG is based on the SHG model. The RMG pilot project was started in six districts during Kharif (first crop) season 2004 and extended to six more districts in Rabi (second crop) season, 2004. The pilot was mainstreamed and extended to all the districts in 2005-06 based on the positive feedback received during the pilot phase. One of the most positive features of the scheme is the inclusion of tenant farmers, share croppers and oral lessees who were left out of the formal banking system before RMG came into existence.

A pilot project for financing RMGs by banks was launched by NABARD in 2004-05 in association with banks and Agriculture Department in 13 districts. Encouraged by the success, the project was extended to all the districts in the state. The efficacy of the project in credit delivery, functioning of RMGs and the views of bankers and RMGs were revealed in the study. Though the functioning of the financed RMGs was satisfactory, a lot needs to be done by all the agencies concerned about the capacity building of the groups. The meetings of the RMGs were held regularly on specific dates and place. The members used to contribute their monthly thrift @ Rs.50/- on monthly basis in the meetings and decisions were taken democratically to on-lend the money among the members. The rate of interest on internal lending varied between 12 and 36%. It was observed that capacity building of RMGs need to be taken up on a large scale, as many of them were not clear of the concept, though they are knowledgeable about the advantages to some extent. This ignorance was also reflected in book keeping even though there were literate members capable of maintaining the accounts. The RMGs maintained the books provided by Agriculture Department and wherever the books were not provided they maintained the same in ordinary registers purchased from market. Most of RMGs received the initial grant assistance of Rs.2,500 from the state government, but did not get the Revolving Fund Assistance (RFA) assured by the earlier Government. It was revealed by the members that in most cases the amount financed was inadequate vis-à-vis their requirements. This could be due to the cautious approach followed by the bankers in the pilot project stage. Hence, the amount was equally distributed among the members in many cases in order to maintain the group cohesiveness. In total, 305 tenant farmers were credit linked out of 958 farmers forming 32% of total farmers of 67 sample RMGs. In majority of the cases, the loans availed from the banks were on-lent at the same rate of interest at which the RMGs borrowed from the banks.

As the RMG financing was initially for raising the crops, the study found that different banks followed different repayment schedules varying between six months to one year. There were also some instances where the RMGs repaid their earlier loans and renewed their credit limits with higher amount. The small and marginal farmers and tenant farmers were deprived of formal credit due to want of record of rights and hence they were forced to borrow from the moneylenders at exorbitant rates. Hence, they feel that due to RMG, they could get the bank credit at much cheaper rate. The RMG members appreciated the concept and indicated that due to RMG financing only they could get the bank credit for the first time. They also did not experience any difficulty in getting the bank credit. The bankers were appreciative of the programme, because they could finance greater numbers of small and marginal farmers and tenant farmers in a group mode. It also helped them in expanding outreach without adding many accounts. They were of the opinion that if properly implemented this programme will enable them to ensure timely and adequate credit to farmers and also reduce their transaction cost.

The Agriculture Department of the state government is the nodal agency for formation and nurturing of RMGs. The members appreciated the role being played by the department because earlier they hardly had any interaction with them. The department had, at several places, arranged for training of RMG members on soil testing, pesticides management, vermi-compost, etc. The officials of department also facilitated the RMGs in preparation of Monthly Credit Plans and credit linkage. The staff of the department, however, could not give the required attention to monitoring of RMGs' functioning due to inadequate staff and workload.

Capacity building of RMG members on aspects relating to functioning of groups is crucial for the programme along with technology dissemination, credit and other support. The concept of animators can be encouraged for proper nurturing and monitoring of RMGs. Criteria for rating of RMGs, books of account, MIS and modules for training of all stakeholders have to be formulated. The department needs to play a very key role along with banks in capacity building and monitoring the functioning of RMGs. There is a need for multi-disciplinary approach involving other departments for extending all services required by farmers as investment credit is also envisaged through RMGs.

There is a large scope for formation of new RMGs with more stress on tenant farmers, small and marginal farmers to ensure homogeneity in RMGs. The Farmers' Clubs can play a crucial role in nurturing RMGs. Efforts may be made to bring delivery system. RMGs offer a big opportunity to evolve a comprehensive model for extending technology, other support services and credit, which is expected to usher in new era in rural financing. Training of all stake-holders to have proper perspective and role clarity is essential. Review mechanism needs to be strengthened at the district level for proper implementation of the programme. The experiment of RMG could serve as the beacon for expansion of the role of microfinance in agricultural finance in the years to come.

4.3 Joint liability groups in Kerala

4.3.1 Experience of banks in JLG financing

Some of the banks in Kerala have explored financing JLG with first time clients and some with existing clients organised as JLGs. Selected experiences of clients with respect to the project design and project positioning are discussed on the following lines. The Irinjalakuda Cooperative Agriculture Development Bank in Trichur district had broad based its clients base to include tenant farmers, oral lessee and landless farmers which enables them to increase their reach to a new client segment and hike their business volume. This is especially significant as in the CARDB system had hitherto lent only to farmers with own land holding with mortgaged land as security. The JLG approach, however, allows the bank to explore lending relationship with new client segment. Most of the banks studied have offered group loans through a cash credit facility. This allows clients to adopt the cash flow based on their specific requirement. The facility was usually set for 3 years and requires only one set of documentation from the client, saving both expenses and efforts for clients as well as banks. The Vetakal Service Cooperative Bank in Alappuzha district requires that its clients place a security deposit of 10% of the loan amount in the name of the JLG. This is perhaps done to ensure the JLGs commitment to the enterprise. In exceptional cases, this deposit could be withdrawn after 3 months. State Bank of Travancore insists that for loans above Rs.2,50,000, the client obtains an insurance cover. The clients pay a premium of Rs.375/- for a 3-year loan and an insurance cover of Rs.1,00,000. This mitigates risk for both the client and the bank. As customer protection of the client by raising his awareness is ensured, this is a good practice.

State Bank of Travancore in Alappuzha district has designed a range of successful products to cater to the special needs of their activity based JLGs which are, sheep rearing, paddy cultivation, vegetable cultivation, coir product making, fisheries and tailoring. The product customisation enables the bank to offer different repayment options including grace period to match with the cash flow of the enterprise chosen by the clients. State Bank of Travancore also posts loan officers with agriculture background at its selected nodal branches covering 4-5 of the neighbouring branches that identify the potential opportunities in their operational areas, prepare area-based schemes. These officers are in charge for pre-sanction, assist the branch in documentation, post- sanction, inspection, promotion of SHGs, JLG financing and technical counseling.

4.3.2 Role of facilitating institutions in JLG financing

The JLG facilitating institutions are in a position to support the bank at various stages of the loan cycle mainly during the group formation stage and prior to loan sanctioning as well as in the monitoring and enforcement phase. Depending on the state and presence of the institutions in the concerned area, those that have been identified as efficient and can provide value added services could be utilised. As a general rule, the existing institutions in the villages should be screened and adapted into this programme in order to harness the synergy. It was observed from the field experience that a variety of institutions have either directly or indirectly contributed to successful implementation of JLG. The farmers clubs' contribution to successful JLG financing process is numerous. Because of their proximity to the villages and the target group, they are not only essential in the group formation process, but accompany the clients throughout the entire loan process. While their original tasks are based on technology transfer and general support for small and marginal farmers, bank linkage can easily and effectively be combined.

The identification of clients and group formation is mostly done by the NGOs, farmers clubs, gram panchayats (village councils) and in some cases by the branch managers directly. Mostly the facilitating agencies support the banks from the stage of client identification to follow up and monitoring of the loans. The NGO, GSGSK, S.L. Puram for example is engaged in monitoring key performance indicators viz. conduct of meetings, repayment, business volume, economic activities and challenges encountered. GSGSK also convenes the Coordination Committees headed by the District Collector and comprising representatives from the Government and banks who monitor clusters on sectoral level. The coordination on a larger scale sector-wise is pursued as a co-initiative taken by the NGO. As of March 2007, 7 activity clusters (770 JLGs) of GSGSK have been credit linked and 7747 members received bank loans. JLG Federations are in a position to reach economies of scale and manage the activities professionally. The GSGSK has promoted 8 Federations of JLGs. These Federations help the bank in monitoring and create access to marketing for JLG products, besides offering training and other technical services and also facilitating insurance coverage. These NGOs also facilitates technology transfer through its activity based JLGs by enabling each cluster of JLG to focus on technology development and transfer in their sector.

GSGSK has placed Cluster Development Facilitator (CDF) in the field and each CDF covers 50 JLGs. In addition to providing training services to the JLGs, CDF also monitors the key performance indicators, such as conduct of meetings, savings, loan repayment, business volume of the JLG carried out and the problems in the business enterprise. Banks appreciate the monitoring process being performed by the NGO. Banks have used a variety of mechanism for marketing the project. They have used existing SHG clients and farmers clubs to whom they could communicate across to a large cross section of potential clients effectively. In Kerala, Gram Panchayats are also prominent in this activity. Acting as local Government, they are closer to the villagers and in constant dialogue with the target group. Even for banks, the panchayats are the preferred linkage institutions.

If JLG promoting institutions especially NGOs or Federations assume a co-coordinating role of clusters, the groups will benefit from economies of scale in terms of profitability, marketing and market access. Farmers clubs and Federations offer support for bulk purchase of raw materials and also in marketing of finished products to JLGs involved in a particular economic activity. For example, due to availability of assured buyback facility, the Rose Rabbit JLG members have come forward to take up innovative activities like rabbit rearing as their farmer's club provided them marketing support. The farmers club have entered into a buyback arrangement with such JLGs and assured a reasonable support price. The GSGSK had formed 92 JLGs which were in the activity of coir product production. Earlier when working individually they purchased raw material at Rs.300 per bag from the traders, now after joining the JLG, the raw material is procured in bulk by the Federation and Coir Development Centre and has decreased to Rs.220 per bag. JLGs reap the benefits of scales of operations through the Federation and receive not only raw material at a reasonable cost, but also advice on designs for a range of products.

4.3.3 Training and counseling of JLGs

It was observed that training offered by JLG promoting institutions has had a positive effect on the functioning of the group. In Vetakal Service Cooperative Bank the one day short training provided by the NGO to the group enabled it to perform better. The technical counseling approach of State Bank of Travancore helps to ensure sustainability of the enterprise and also the clients' relationship with the branch. The Keli Farmers Club at Ollankad in Alappuzha district conducts credit-counseling sessions to all JLGs availing a loan. During the session, they are briefed about the bank's norms, like margin, rate of interest, repayment period, grace period and service charges payable to Keli Farmers Club. This makes every member of the JLG aware of the bank's norms and results in better compliance. The process of sanction is decentralised and is the Branch Manager's responsibility. Banks tend to identify new clientele for JLG instead of promoting the project of existing clients, this demonstrates a further step towards financial inclusion.

Keli Farmers Club provides training in marketing and technical support and facilitates insurance cover. As credit counselors, it regularly informs its members about the rules and regulations of the bank and facilitates communication between the bank and the borrower. The members of Farmers Club pay 1% of the loan amount for its services. NGOs have also been involved in training activities of JLGs. Some NGOs develop newsletter or technical bulletins and even network with other development institutions.

4.3.4 Perceived benefits of JLG approach

The JLG financing was appreciated by tenant farmers and share croppers. Prior to JLG financing, most tenant farmers and share croppers interviewed were unable to avail a loan from a formal financial institution. This was mainly due to the difficulties in providing the necessary documents required by banks, lacking collateral and support in the process. Some of the banks have successfully brought to their portfolio new clients especially tenant farmers, share croppers and micro entrepreneurs. While this has diversified the client base of the banks, it definitely contributed as a first step towards a more inclusive financial system.

JLGs offer like minded entrepreneurs and farmers the opportunity to jointly take up an economic activity with substantial capital outlay and motivate the members. Clients view JLGs as a potential tool for ensuring livelihood support. The members are very satisfied with the provision of the required backward and forward linkages provided through their Federation of JLGs or through their promoting institutions like NGOs or the farmers club. Micro enterprises promoted by JLG members have resulted in scaling up of activities either to be pursued individually and also in additional employment creation. This was closely seen in the case of Archana JLG financed by Irinjalakkuda PCARDB in Kerala which provided additional employment. Repeat loans availed by well performing JLGs enabled them to invest in productive equipments resulting in increased volumes and profits. In case of Viyathra JLG, formed and financed by Vetakal Service Cooperative Bank in Kerala by series of four loans and in just four years, the JLG was able to scale up substantially the activity of fish rearing through lease of additional ponds, stocking fingerlings and modern equipments. This contributed directly to additional employment and also to increased profits to the members. After taking loans from the banks through JLGs, many farmers stopped distress sale of their produce, got a higher price due to negotiation with a trader as a group and in some villages the JLGs have inculcated a strong repayment culture amongst the bank borrowers. JLGs facilitate the members to access technical training and this resulted in skill upgradation which increases the confidence levels of the disadvantaged people. The coconut climbing JLG promoted by GSGSK got five-day training from Coconut Development Board and a free machine worth Rs.1,500 to climb the coconut trees. Now all its six members earn daily Rs.300 per day, per person charging a nominal fee of Rs.10 per tree.

The bankers were of the view that JLGs are an effective channel to reach the unbanked small and marginal farmers, tenant farmers, share croppers and micro entrepreneurs. Thus, financing through JLGs has a potential to further financial inclusion. Wherever they had the support of JLG promoting institutions like NGOs, farmers club, village councils their performance was better than those without such support. When they have been carved out of their SHGs, they are cohesive and stable and the bankers seem to prefer lending to women JLGs. The view of the bankers was that NABARD should provide continuous capacity building support for the JLGs stake holders and conceptual clarity on the JLG concept has to be ensured for the banks forming the JLGs. Prior to sanctioning of the loan, bankers have to take care of the issues relating to homogeneity of the groups.

4.4 Lessons learnt

Following were the general learnings of the studies:

- The JLG mechanism is an individual loan with a group approach (joint liability) and therefore offers a collateral substitute. It should also be promoted as an individual loan. The loan size/ limit should be treated flexibly to avoid under financing as well as over financing. For collateral based traditional loans under JLGs, the collateral free limit should be raised from the present level of Rs.2,00,000. There is also a suggestion that risk based pricing models should be adopted for JLG financing as first time borrowers and repeat loan borrowers pose different types of risk. The product features have to be fine-tuned based on the present experience of the JLG financing.

- JLG financing is one step towards financial inclusion because it targets landless farmers and microentrepreneurs who cannot avail adequate loan products. The implementation of JLG financing targets new clients and is a viable and effective contribution to the overall loan portfolio of the bank.

- However, first steps like group formation are decisive for the loan performance. Homogeneity of the JLG is the most important factor for stability within the JLG. Carving out the interested members from the SHGs to form the activity based JLG is a proven method as the members are already inculcated into the credit discipline. For a finer product monitoring and high quality loan portfolio, a complete management information system is of utmost importance. JLG performance is to be included into the existing MIS and marked as such in the banks and the respective branch.

- As at the time of group formation and pre-sanction, JLGs require much time and resources in the field, bank benefits from engaging JLG promoting institutions such as NGOs, farmers club, Krishi Vignan Kendras (KVKs) (Farmers' Technology Centres) and bank facilitators. The designated staff members can also co-ordinate with government departments and marketing agencies. Where schemes for JLGs are already available from state or central Governments, these can be dovetailed with the banks' financial support to make them more sustainable.

- JLG financing should be replicated and fully integrated into the mainstream financing activities of the bank. Not only is it particularly crucial to the yet unbanked and landless farmers, but it also encourages and improves entrepreneurship and on a further level, ensures sustainability through economies of scale. Success can be achieved provided that the financial services are offered in a correct bankable and sustainable manner.

- Acknowledging the JLG mechanism also means distinguishing it from the SHG product and corrects the existing wrong perception. It is important to highlight the fact that JLG as a credit delivery innovation needs to be recognised in its form and nature. The JLG mechanism acts as an effective collateral substitute, consequently this mechanism will achieve acceptance among bankers as a low cost delivery model.

- In Kerala, the reason for the successful implementation of this concept is the realization of synergies among all stake holders, particularly co-ordination between state promoted activities and the banking sector without interfering into each other's responsibilities. Further, exemplary outcome in Kerala is the boost received by the farmers club through their expanded field of activity on one side and the significant upturn of activities experienced by the JLGs on the other.

- In case of RMGs in Andhra Pradesh, there is a need for their reorganisation into homogeneous groups to ensure stability and sustainability in their activities. Capacity building of RMGs in the area of group dynamics and group management is also needed. Existing training institutions such as technology training and development centres could be used. There is also a need for sensitisation programmes for the institutions involved in the process.

5. Conclusion

The above analysis clearly brings out the fact that for expanding microfinance services for agriculture the way forward would have to be the JLG route. The experiences of Andhra Pradesh and Kerala indicate that JLGs have served as collateral substitutes for small and marginal farmers, oral lessees, tenant farmers and share croppers thereby facilitating the increased outreach for agricultural microfinance. The concept has now reached a stage where it has to be upscaled and mainstreamed in an effective manner. The task now is to carry the JLG concept to reach the farmers who are outside the banking fold. The JLG financing should be implemented in a mission mode nation wide with NABARD's guidance. Efforts are to be focused on continuous capacity development and awareness raising directed at all stakeholders. JLG concept is a mechanism to further promoting financial inclusion and helps diversify the banks' client base in a sustainable manner.

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Notes

The case studies of JLGs from Kerala are based on the joint NABARD-GTZ Study "Good Practices in JLG Financing by Banks" (N.Jeyaseelan, Lalitha Mahadevan and Theresa Zak)

Innovations in Agricultural Microfinance - Study of JLG Financing by Banks in India

- Ramakrishna Regulagedda*

The recent innovations in rural finance which are borrower friendly and have been scaled up with substantial outreach are Self-Help Group (SHG) and Kisan Credit Card (KCC) loans.

Abstract

The hypothesis of the present study[1], namely "The approach of JLG financing contributes to financial inclusion in India's rural areas" was affirmed. Nevertheless, challenges at all levels of the loan cycle have been encountered: in the group formation process, loan appraisal, product design, monitoring and enforcement. General challenges are ambiguity about the concept as well as an insufficient management information system. The best practices witnessed in the course of the present assessment are:

- Differential pricing of JLG loans;
- Promotion of a strong repayment culture through a rebate, based on earlier repayment;
- Form JLG groups out of SHGs;
- Engagement of a farmers' club as bank facilitator and technical support provider to the group;
- The assignment of specialised loan officers with an agricultural background, one for a group of branches, responsible for the JLG portfolio in the bank.

In order to mainstream the financing of JLGs through the banking system, the following recommendations may be pursued

- Provide individual loans with a group approach;
- Involve JLG facilitating institutions, such as PRIs, NGOs and farmers' clubs pre- and post-sanction of the loan;
- Introduce a risk based pricing approach for JLGs;
- Link product the JLG technology/methodology with other existing loans products such as KCC;
- Develop capacity for banks, JLG facilitating institutions and JLGs, continuously.

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1 Introduction

1.1 The active pursuit of agricultural finance has been a prominent rural development strategy adopted by the Government of India for over several decades. Even during the pre-independent period state policy came to be premised on the view that the government should ensure adequate supply of cheap institutional credit to rural areas through cooperatives. Later, during the Green Revolution period, the Government also extended this policy to include other types of banking institutions by nationalising the banking system in two phases. Inspite of the proactive policy of the government, lack of access to credit in rural areas remains a major cause for concern.

1.2 The lack of access to formal financial services for a majority of the rural population affects overall economic and social development and pursuit of economic activities by households. In India, the rural areas provide livelihoods to about 70% of the population or 147.90 million rural households[2]. Among the rural poor are mostly tenant farmers, oral lessees and share croppers[3] who are still denied access to adequate financial services, adapted to their demand and needs, such as crop loans (KCC). To cover their financing gaps due to seasonality and failed harvest, the poor farmers avail loans from informal sources. This fact is also underlined in the survey which reveals that while 36% of the total amount of loans outstanding to farmers derives from banks, 26% are taken from moneylenders.[4]

1.3 Indian agriculture has increasingly become small farmer agriculture. Small and marginal farmers together constitute nearly 80% of the total cultivators cultivating fragmented land holdings averaging around 1.41 hectares. But, these categories of farmers are the most excluded groups. As per the Rural Finance Access Survey (RFAS) 2003, 87 percent of marginal farmers and 69.2% of small farmers have no loan account with formal financial institutions. For these groups of farmers agriculture is not merely an economic activity but a livelihood issue. For the growth initiatives which are on the anvil empowering these categories of farmers and finding solutions and innovations which would enable them to be mainstreamed in the overall credit delivery system need to be a focus area to ensure an inclusive growth. The formal and cheap rural credit is mainly designed for agricultural and project finance requirements and in a way assuming that all rural people are entrepreneurs. Obviously, there is a strong mismatch between products offered by the formal institutional suppliers and the most important needs of the majority of customers.

1.4 The recent innovations in rural finance which are borrower friendly and have been scaled up with substantial outreach are Self-Help Group (SHG) and Kisan Credit Card (KCC) loans. While there are various advantages to both the banks and the clients under these two methodologies / products, there are also concerns about their ability to meet the credit needs of the farmers. Tenant farmers, oral lessees and share croppers were not able to access credit through existing products like KCC because they had no land title which could be used as collateral. SHG product in its existing design could not meet the financial needs of all rural households. As a response to the farmers' challenges in access to financial services, NABARD is pursuing the JLG approach designed on the BAAC's experience in Thailand with farmers. The JLG approach is designed to target the mid segment clients having access to productive assets. It also serves as a collateral substitute.

1.5 Against this background, NABARD had piloted a JLG approach during 2004-2005 in seven states of the country through ten RRBs and one PCARDB. Based on NABARD's 2004 guidelines the participating institutions promoted 870 JLGs and extended finance aggregating Rs.12.40 crore to 850 JLGs as at the end of March 2006.

1.6 The present paper attempts to present the findings of the field study by NABARD and GTZ in the year 2008 to study the implementation of JLG by the banks. The study was conducted by Dr N Jeyaseelan, consultant GTZ, Ms Lalitha Mahadevan, GM, NABARD and Ms Therese Zak, GTZ Expert.

1.7 Section 2 briefly discusses the objectives and the methodology of the study. Section 3 provides a background to the evolution of the JLG concept and its adaptation to the Indian context. The key findings of the study are presented in Section 4 while the recommendations and the way forward are discussed in Section 5. Section 6 suggests conclusions for policy.

2 NABARD-GTZ Study on JLG Financing by Banks

2.1 Objectives of the study

The study aimed at:

- Reviewing and documenting the progress in the mainstreaming of the JLG approach into the banks portfolio;
- Documenting the challenges and limitations in the implementation of the JLG Approach;
- Documenting best practises.

2.2 Methodology and banks studied

The study used qualitative tools like focus group discussions (FGDs) and key informant interviews to collect primary data from various stakeholders. Furthermore, case studies document examples for a successful implementation of the JLG approach. Secondary data on JLGs were collected from branches, NABARD and NGOs. The study team visited three states and covered select branches of eight institutions including two cooperative institutions.

Hypothesis

The approach of JLG financing contributes to financial inclusion in India's rural areas.

3 Joint Liability Group - The Product

A Joint Liability Group (JLG) is an informal group comprising 5 to 10 individuals coming together for the purposes of availing bank loan either singly or through the group mechanism against a mutual guarantee.

3.1 Salient features

- A Joint Liability Group (JLG) is a group of 5-10 member clients (new or existing) of a bank, informally recognized by the bank as a group.
- JLGs may be formed by small and marginal farmers, tenant farmers, oral lessees and share croppers.[5]
- The members of JLG normally live in the same neighbourhood or in the same village and are from the same socio- economic background and environment. They may be mostly engaged in the same production activities and are expected to know and trust each other well.
- The JLG members offer an undertaking to the bank that enables them to jointly receive such amounts as deemed eligible by the bank for pursuing any individual or joint activities- as found suitable by the group.
- The main purpose of JLG is to facilitate mutual loan guaranteeing and execution of joint liability agreement making them severally and jointly liable for payment of interest and repayment of loan obtained from the bank.
- The management of the JLG is to be kept simple with little or no financial administration within the group.
- Banks may form JLGs initially by using their own staff or engage business facilitators like NGOs and other individual rural volunteers to assist them in promoting JLGs.
- No collaterals may be insisted upon by banks against their loans to JLGs subject to limits specified in RBI guidelines
- Joint liability group lending is expected to substantially reduce the costs of handling a large number of borrowers at different stages and taps the local information system effectively to transfer part of screening, monitoring

and enforcing costs normally incurred by banks onto borrowers/JLG leaders.

- The borrower members possess an advantage over banks in doing those jobs at a low cost owing to better information, social cohesion and peer pressure. JLG members have an incentive to conduct peer monitoring and self-enforcing since they are held collectively liable for their group debt.

3.2 NABARD adaptation of JLG concept

A joint liability group (JLG), as defined by NABARD, is an informal group comprising of four to ten individuals coming together for the purposes of availing bank loan either individually (Model A) or through the group mechanism (Model B) against mutual guarantee. In the first case the group avails separate individual loans and all members jointly execute one inter-se document, signed by all JLG group members, making each one liable for repayment. In the second case members are jointly eligible for the loan and own the debt liability jointly. The JLG members offer an undertaking to the bank that enables them to avail loans. Unlike SHGs, which are more process oriented, the management of the JLG is simple with little or no financial administration within the group. Further, its salient features are:

- Main target clients are small and marginal farmers, tenant farmers, oral lessees and share croppers;
- Members live in the same neighbourhood, are from the same socio-economic background and environment, and trust and know each other well;
- No collateral is necessary;
- The mechanism of joint liability serves as a collateral substitute;
- Banks may engage own staff or other intermediary institutions to attend to the clients effectively;
- Savings by JLG members is voluntary.

4 Study Findings

4.1 An overview of JLG financing

The study findings show that smaller groups are preferred in order to build up trust and develop successful projects. In five out of eight cases facilitating institutions have been used. Mostly, these institutions have been involved in social, agricultural or other programmes in the area already and knew the target group well. The dominance of facilitating institutions varied across states and districts. The tendency of banks is to work with those already present and in a position to act as a facilitator. Among the JLGs visited, groups in the farm sector were mostly male while in the non-farm sector, women groups predominated.

4.2 Potential for achieving financial inclusion

The above table shows that JLGs have paved the way for tenant farmers' access to financial services. While the repayment rate was below par in two cases, five out of eight banks demonstrated encouraging repayment rates.

Table 1: JLGs as a tool for achieving inclusion and quality loan portfolio for banks

	Bank name	Coverage of tenant farmers	Coverage of new or existing clients	Repayment rate
1	Maharashtra Godavari Gramin Bank	—	New	Below 50%
2	State Bank of Travancore	80%	Existing	75% to 95%
3	State Bank of India	—	Existing	100%
4	Service Co-operative Bank Ltd., Vettakkal	10%	New & Existing	100%
5	Service Cooperative Bank S.L.Puram	—	New	100%
6	Irinjalakuda Co-operative Agricultural & Rural Development Bank	50%	New & Existing	78.80%
7	Allahabad Bank	100%	New	95%
8	Paschim Banga Gramin Bank	50%	New	100%

4.3 Group formation and group administration

Table 2 briefly shows that involvement of JLG promoting institutions like the farmers' clubs, NGOs, and sometimes the panchayats has resulted in successful banking relationships of the groups. It also indicates that there is a preference for the group to be small and manageable. The number of members vary from 3-10. Some experiences observed in the field are given below:

- Based on their positive experiences in lending to women SHGs, bankers generally prefer exclusive women JLGs as they are comfortable in dealing with women;

Table 2: Promotion and administration in JLGs

	Name of Bank	No of JLGs	Group Size	Promoting Institution	Savings
1	Maharashtra Godavari Gramin Bank	103	5	Branch	No
2	State Bank of Travancore	609	4 – 10	NGOs & Farmers club	Yes
3	State Bank of India	15	10	Panchayat	Yes
4	Service Co-operative Bank Ltd Vettakkal	50	7 – 10	Branch	Yes
5	Service Cooperative Bank S.L.Puram	80	10	NGOs & Panchayat	Yes
6	Irinjalakuda Cooperative Agricultural & Rural Development Bank	81	5 – 6	Branch	No
7	Allahabad Bank	105	5	NGO	Yes
8	Paschim Banga Gramin Bank	28	3 – 5	Farmers club	Yes

- Forming JLGs out of SHGs has been followed by many in Kerala viz. gram panchayats, Gandhi Smaraka Grama Seva Kendram (GSGSK) NGO, Society for Economic and Environmental Development (SEED) NGO, KELY's farmers' club and branches of State Bank of Travancore in Alappuzha district.
- SHG members having larger credit needs come together and form themselves as JLGs.
- Enrolling spouses of SHG women into JLGs as done by "Pather Panchali" NGO in North 24 Parganas district of West Bengal.
- In Alappuzha and Thrissur districts of Kerala, the members pursuing the same economic activities have been organised into JLGs, so as to enable them to concentrate on their business enterprise in a more focused way.

Table 2 also shows that 6 of the 8 institutions promote savings as a means to add to the solidarity of the group and create confidence between the bank and its clients. It goes without saying that savings contribute to the comfort factor of the banker when dealing with his clients. Since Savings are to be recorded, the JLGs have to maintain passbooks which not only record the savings in the group, but is in a way a physical evidence of lending activities which drives the client's motivation and enhances accountability.

Extracting JLGs from SHGs or other existing informal groups: Clients, who have been part of a group before and are either familiar with the group lending mechanism or have proven reliable and contributing group members, are ideal candidates for JLGs.

JLGs who meet regularly perform better. Meetings, whether formal or informal, contribute to group cohesion and enable members to consult each other on various issues including the economic activities being pursued.

4.4 Training of JLG members - building JLGs' capacity

JLG's performance is directly proportional to the capacity building inputs received

Table 3: Trainings organised by the KELY farmers club for JLGs and credit linkage

S.No.	Business Skill	No of JLGs	No of Members	Members with bank credit	Coordination with
1	Fruit processing	5	50	50	Agricultural University
2	Rabbit rearing	8	75	50	Animal Husbandry Dept
3	Aqua culture	2	25	15	Fisheries Dept
4	Floriculture	1	15	10	Horticulture Dept
5	Dairying	25	150	125	Animal Husbandry Dept
6	Vermicompost	2	10	10	Agriculture Dept
	Total	43	325	260	

from various institutions. Technical trainings, as provided by Kely farmers club increase the credit absorption at JLG level.

Trainings were normally offered by JLG promoting institutions in the area of concept design and entrepreneurship. Training in JLG functioning and technical trainings also lead to better repayment experiences as was observed in 5 of the 8 institutions which had a close to 100% repayment rate.

4.5 Product design, positioning and pricing

Table 4 lists the experience of the banks studied with reference to the product, positioning and pricing. Some of the banks have positioned it as financial inclusion product and explored financing JLGs with first time clients and some others with existing clients organised as JLGs. State Bank of Travancore in Alappuzha district has designed a range of exclusive products to cater to the special needs of its activity based JLGs viz. dairying, rabbit rearing, paddy cultivation, vegetable cultivation, coir product making, tailoring and fisheries. This product customisation has enabled the bank to offer different repayment options including grace period, to match with the cash flow of the enterprises chosen by the clients.

Selected experiences of the banks with respect to the product design and product positioning are discussed below:

- Irinjalakuda Cooperative Agricultural Rural Development Bank in Thrissur district of Kerala has broad based its clients-base to include tenant farmers, oral lessees and landless people, which enable them to increase their reach

Table 4: JLG product, positioning and pricing

Bank name	Loan disbursed to JLG		Type of loan	Max loan amount (in '000 Rs)	Rate of interest (in %)	Individual or Group Loan
	No. of JLGs	Amount Rs.lakh				
Maharashtra Godavari Gramin Bank	103	61.16	KCC / Term Loan (TL)	300	9 - 15 (as per size of loan)	Group
State Bank of Travancore	609	1396.93	KCC/ Term Loan	250	KCC 7/ TL 10.5 - 11.5	Group and Individual
State Bank of India	15	19.23	Term Loan	500	10.5	Group
Service Co-operative Bank Ltd., Vettakkal	50	165.40	Term Loan	300	10.5	Group
Service Cooperative Bank S.L.Puram	80	36.00	Term Loan	250	9	Group
Irinjalakuda Cooperative Agricultural & Rural Development Bank	81	141.35	KCC/ Term Loan	250	11-12 (TL) 7 KCC	Individual
Allahabad Bank	105	14.90	KCC	50	8.5	Individual
Paschim Banga Gramin Bank	28	17.11	KCC/ Term Loan	50	Agri-7% Others-11%	Group

to a new client segment and hike their business volume. This is especially significant as primary cooperative agricultural rural development banks have been hitherto permitted to lend only to the farmers with own landholdings with mortgage security. The JLG approach, however, allows the bank to explore lending relationships with a new client segment;

- Five of the eight institutions studied have offered crop loans through a cash credit facility. This allows clients to adapt the cash flow based on their specific requirements. The facility was usually set for three years and requires only one set of documentation from the client, saving both expenses and efforts for clients as well as bankers;
- The Service Cooperative Bank Vettakkal in Alappuzha district, Kerala requires that its clients place a security deposit of 10% of the loan amount under the JLGs name. This is perhaps done to ensure the JLGs commitment to the enterprise.
- State Bank of Travancore insists on insurance of the client for loans above Rs.2,50,000. The clients pay a premium of Rs.375 for a three-year loan and an insurance cover of Rs.1,00,000. This mitigates risk for both the client and the bank. If customer protection, through information of the client and awareness raising are ensured this is a good practice;
- Banks have normally been pricing the JLG loan on a cost-covering basis and on a differential basis. However, in the case of SBT, when the bank disburses a KCC loan to the JLG members, they charge a 7% interest rate. But this is not always so as Maharashtra Godavari Gramin Bank, charges 13% of interest for a KCC loan to its JLG clients which normally individual farmers can avail for 7%;
- Irinjalakuda Cooperative Agricultural & Rural Development Bank gives a rebate of 0.5% p.a. if the repayment of the instalment is on time. In the ideal and most efficient case it is passed on after successful closure of the loan. This Institution also prices its loans to the JLG clients based on the amount of the loan. It charges 11% for loans up to Rs.50,000 and 12% for higher amounts.

4.6 Lending process

Table 5 presents the broad lending terms of the institutions studied. The process of sanction and disbursement is decentralised and the branch manager's responsibility in 5 of the 8 institutions studied. The cooperatives here are decentralised by nature and is a regular process for the board to approve all loans. The lending process in the institutions studied has fully leveraged upon the group technology and the facilitation available in the form of promoting institutions. The identification of clients and group formation in the institutions studied is mostly done by the NGOs, farmers' clubs, gram panchayats and in very few cases by the branch manager directly. Mostly,

Table 5: Overview of JLG lending terms

Bank name	Loan disbursed to JLGs		Collateral required (Yes/No)	Sanctioning Authority
	No. of JLGs	Amount Rs.lakh		
Maharashtra Godavari Gramin Bank	103	61.16	No up to Rs.3 lakh	Branch Manager/ Area Manager
State Bank of Travancore	609	1396.93	No	Branch Manager
State Bank of India	15	19.23	No up to Rs.5 lakh	Branch Manager
Service Co-operative Bank Ltd Vettakkal	50	165.40	No up to Rs.3 lakh	Board of Directors
Service Cooperative Bank S.L.Puram	80	36.00	No	Board of Directors
Irinjalakuda Cooperative Agricultural & Rural Development Bank	81	141.35	Yes	Board of Directors
Allahabad Bank	105	14.90	No	Branch Manager
Paschim Banga Gramin Bank	28	17.11	No	Branch Manager

the facilitating agency supports the bank from client identification to follow-up and monitoring of the loans. KELY farmers' club at Pattanakad of Alappuzha district in Kerala conducts credit-counselling sessions to all JLG members availing a loan. During the session, they are briefed about the bank norms like personal contribution (margin), rate of interest, repayment period, grace period and service charges payable to KELY farmers' club. This makes every member of JLG aware of the bank norms and results in better compliance.

State Bank of Travancore also posts loan officers, with an agricultural background, at its selected branches, covering four to five SBT branches. They identify the potential opportunities in their operational area, prepare area based credit schemes, are in charge for pre-sanction, assist the branch in documentation, post-sanction inspection, promotion of SHG and JLG financing and technical counselling. This approach of SBT helps to ensure sustainability of the enterprises and also the clients' relationship with the bank, although sometimes costly.

The hallmark of a good product is that the process is simple. This includes documentation that banks are sometimes prone to collect excessively. Some of the practices, which simplify the process, are discussed below:

- In case of tenant farmers, State Bank of Travancore obtains a declaration from the farmer instead of a possession certificate from the revenue authorities, which is difficult to obtain as it is both time consuming as also expensive.
- Irinjalakuda Cooperative Agricultural & Rural Development Bank, Mala branch has arranged for a service provider who charges Rs.5 from the client to assist him and complete the documentation formalities with the institution.
- As a part of its monitoring process, the SBT has set-up a monitoring committee, consisting of representatives of milk societies, the bank's assistant general

manager, the responsible loan officer, the lead district manager and, finally, the joint director of animal husbandry. Close monitoring of the Rs.45.5 million loan to 159 JLGs enabled a smooth process, from which 1,500 families benefited up to March 2008.

- GSGSK, S.L.Puram, Alappuzha district, Kerala has placed cluster development facilitators (CDF) in the field and each CDF covers 50 JLGs. In addition to providing training services to the JLGs, the CDF also monitors the key performance indicators, such as conduct of meetings, savings, loan repayment, business volume of the economic activity carried out and problems in the business enterprises. Banks appreciate the monitoring process being performed by the NGO.

4.7 Marketing the product -JLG

All the institutions studied have used a variety of mechanisms for marketing the product. They have used existing SHG clients and farmers' clubs through whom they could communicate across to a large section of potential clients cost effectively, service cooperative bank, Vettakkal has used the public address system prevalent in rural areas to announce the JLG product details to a cross section of the villages. This generated a lot of curiosity among the potential clients and led to many new clients coming forward to enrol in JLGs promoted by the service cooperative bank directly. SBT used a very direct means of communication through distribution of leaflets in the local language. ICARDB uses print media to promote JLGs. This attracted the interest of the public and enabled a substantial enrolment of JLGs.

4.8 Human resources

Loan officers with an agricultural background, as appointed by State Bank of Travancore, are instrumental for increasing the outreach of the bank. Their expertise allows them to identify potential opportunities, market the bank's products, prepare area based credit schemes, undertake pre-sanction appraisal, assist the branch in documentation and in post sanction monitoring. Additionally, they facilitate the promotion of JLGs and provision of technical inputs to the JLGs. In fact, the entire SBT team at Alappuzha from lead district manager to loan officer have a positive outlook on the JLG concept and act in a proactive way to promote activity based clusters in Alappuzha district through the JLG approach.

Commitment of the top management contributes to the successful implementation of any product. The top management of the service cooperative banks, Vettakkal, S.L.Puram and Irinjalakuda Cooperative Agricultural Rural Development Bank, Irinjalakuda all based in Kerala are committed to the concept of JLG. They are involved in field visits to the JLGs, interviewing JLG members and granting the loan. The top management's commitment has motivated the staff in developing the JLG concept further.

4.9 JLG facilitating institutions

Table 2 presents the institutions studied vis-a-vis the facilitating institutions such as Farmers Clubs, NGOs and Panchayats. These institutions are in the position to support the bank at any stage of the loan cycle, mainly during the group formation stage and prior to loan sanctioning as well as in the monitoring and loan enforcement phase. Depending on the state and presence of institutions in the concerned area, the following have been identified as efficient and value-adding, even indispensable. It was observed from the field experiences that a variety of institutions have either directly or indirectly contributed to the successful implementation of JLG. The most prominent ones are listed below:

In two of the eight institutions studied Farmers' Clubs' contributions to a successful JLG financing process were manifold. Because of their proximity to the villages and the target group, they not only supported in the group formation process, but also accompanied the clients throughout the entire loan process. While, their original tasks are based on technology transfer and general support for the small and marginal farmers, bank linkage was effectively combined. For example Kely farmers' club in Kerala, Alappuzha district, provides training, marketing, and technical support and facilitates insurance cover. As credit counsellors, for instance, the Kely farmers' club regularly informs its members about rules and regulations of the bank and facilitates communication between the bank and borrower. The members of Kely farmers' club pay 1% of the loan amount for its services.

In 3 of the 8 institutions studied, NGOs have facilitated the promotion of JLGs and their linkage to the banks. Some NGOs help in furthering the communication process and even network with other development institutions. GSGSK, S.L. Puram, for example, is engaged in monitoring key performance indicators, namely, conduct of meetings, repayment, business volume, economic activities and challenges encountered.

In two of the eight institutions studied Gram Panchayats have played a key role in the formation and linkage of JLGs. Acting as local governments, they are closer to the villagers and in constant dialogue with the target group. Even for banks a popular linking institution, PRIs operate as training provider to JLGs and monitoring entity.

JLG Federations are in a position to reach economies of scale and manage the activities professionally. GSGSK, the NGO in Alappuzha district of Kerala, has promoted eight federations of JLGs. These federations help the bank in monitoring, in creating access to markets for JLG products, besides offering training and other technical services like facilitating insurance coverage. This NGO also facilitates technology transfer through its activity based JLGs, by enabling each cluster[6] of JLGs to focus on technology development in their sector.

4.10 Potential for market linkages for JLGs

If JLG promoting institutions, especially federations or NGOs assume a coordinating role of clusters, the groups will benefit from economies of scale in terms of profitability, marketing and market access.

Farmers' clubs and federations offer support for bulk purchase of raw material and also in marketing of finished products to JLGs involved in a particular economic activity. For example due to the availability of the assured buy back facility, the "Rose Rabbit JLG" members have come forward to take up innovative activities like rabbit rearing at Thuravoor as their farmers' club provided marketing support. KELY farmers' club has entered into buy back arrangement with JLGs involved in rabbit rearing and purchase at a worthy price.

GSGSK, S.L.Puram, Alappuzha district, Kerala, has formed 92 JLGs developing coir products. Earlier, when working individually, they purchased raw material (30 kg bags) for Rs.300 from traders. Now, after joining the JLG, the raw material is procured in bulk by their federation "Coir Development Centre" and decreased to Rs.220 per bag. JLGs reap the benefit of scale through its federation and receive not only raw materials but also advice on design for a range of products.

4.11 Transaction costs in JLG financing

Sustainable bank linkage of joint liability groups must be built upon profitability and cost recovery in order to be viable to the branch and contribute to a sound financial system. Therefore, as part of this study a brief analysis of transaction costs incurred for both, the bank as well as the clients was attempted.

Transaction costs for lending institutions can be classified into two rough categories; costs for mobilising resources (savings) and costs for allocating resources (lending). These again can be broken down into information costs for promoting, sanctioning, monitoring and enforcing the loan, and secondly into risk costs, arising for non-performing assets and inevitable loan losses[7]. On the client side the focus of examination was on cost and time spent on the access of the loan from the bank.

Three branches were studied on a sample basis. Since the JLG share of the total portfolio was marginal, an in-depth quantitative analysis would not be meaningful. Therefore, this paragraph summarises impressionistic observations on transaction costs for banks.

Generally, the gross spread for the banks is about 5%. After deducting the direct cost, the profit margin becomes very small and costs have to be kept under tight control. But if one were to increase the interest rate on JLG loans to an average of 13%, thereby increasing the gross spread to 6%, the situation is comfortable and leaving a reasonable profit margin close to 2% after accounting for the operational costs and also the risk costs.

Clients' costs

The major costs for the clients are the interest cost and the loan documentation costs (e.g. for stamped paper and land holding certificates from local authorities). In addition, wherever the clients deal with the bank directly, there is a cost in form of many trips for the sanction of the loan and the consequent cost on wages denied or opportunity costs in time. Where the client deals with the bank through a facilitating institution such as an NGO/farmers' club/federation, these costs are lower for the client.

5 The Way Forward

Based on the study, the following recommendations can be derived. These are directed at the banking sector and its implementation of JLG financing.

5.1 The loan process and product design:

- The JLG mechanism is an individual loan with a group approach (joint liability) and, therefore, offers a collateral substitute. It should also be promoted as an individual loan.
- NABARD guidelines suggest a simplified documentation process for JLGs. Simple documentation procedures make the loan product more effective for the bank and hassle-free and less costly for the customer.
- The loan size limit should be treated flexibly, to avoid under- as well as over-financing. For traditional collateral based loans, RBI could consider raising the limit from Rs.50,000 to Rs.2 lakh.
- Finally, the study suggests a risk based pricing model as first time borrowers and repeat loan borrowers pose different levels of risk to the bank. Therefore, the interest rate is adjusted accordingly. Moreover, bonuses are passed on

Table 6: Risk based pricing model

Category	Classification* of borrowers	Annualised Interest Rate	Annual bonus**	Interest Rate after bonus
B	First time borrower or borrower who did not repay on due time, but fulfilled repayment obligation	17 %	2 %	15 %
A	Second time borrower (previous loan was repaid on due time)	16 %	2 %	14 %
AA	Third time borrower (previous two loans were repaid on due time)	15 %	2 %	13 %
AAA	Forth time borrower (all three loans were repaid on due time)	14 %	2 %	12 %

* - If any of ‘A’ borrower does not repay on time, he / she will fall back to ‘B’ category.
** - Incentive for timely repayment to the creditor, annually to the account of the client.

(based on actual repayment versus amount due for repayment during the past 12 months) to the borrowers, who are repaying their loans on time. These bonuses, also referred to as rebate earlier in the study, have proven to be a successful model, encouraging timely repayment among the clients. A model is shown in table 7 below.

5.2 Capacity development and training

- The product features may be fine tuned based on the experiences of JLG financing.
- JLG financing should be launched nation-wide to be more effective.
- Generally, it was found that lack of JLG promotion was due to ambiguity towards the JLG concept for bankers and clients. The stakeholders would welcome and need sensitisation programmes and training especially for senior and mid level management in banks, for NGOs and farmers' clubs.
- Training in management, leadership and the general lending process is needed to strengthen the JLGs

5.3 Incentives for JLG promoting institutions

It is suggested that the institutions like NGOs, Farmers clubs and panchayats may be provided token promotional incentives in order that social mobilisation does not come in the way of mainstreaming JLG financing.

6 Conclusion

The study reinforces the need to fully integrate JLG financing into the banks activities. Not only does it offer opportunities to the yet unbanked and landless farmers, but it also encourages and improves likeminded entrepreneurs, and on a further level, sustainability through economies of scale.

Success can be reached, provided that this financial service is set up in a correct, viable and sustainable manner. The best practices observed in financing JLGs are as follows: close cooperation with JLG facilitating institutions and in-depth focus in the group formation stage, as well as clarity in the concept and its operational guidelines adapted by each bank, the realisation of synergies among all stakeholders, particularly the coordination between state promoted activities and the banking sector, without interfering into each others responsibilities. As a general rule, continuity in training and other capacity developing measures proved to be essential and improvable. It is important to highlight the fact that JLG, as a credit delivery innovation, needs to be recognised in its very nature as the joint liability mechanism which acts as an effective collateral substitute. Consequently, this mechanism will achieve acceptance among bankers as a low cost delivery model.

Finally, a modified version of the JLG financing scheme with a clear concept should be implemented in a mission mode nationwide with NABARD's guidance. When efforts are focused on continuous capacity development and awareness raising directed at all stakeholders, the JLG concept is a mechanism to further promote financial inclusion and diversify the banks' client base in a sustainable manner.

Notes

1 In order to assess the experiences on JLG finance up to now, the NABARD-GTZ study team was commissioned to document best practices and formulate further recommendations on the successful replication of the concept by the Indian banking sector.

2 NSSO: All India Debt and Investment Survey - NSS 59th Round (January - December 2003), Delhi 2005, http://www.epwrf.res.in/upload/Current_Statistics/c10715Table01.htm

3 Tenant: any person holding land under another person's name and pays rent to such other person on account of the use of land; oral lessees: tenancy without any legal sanction and permission or written agreement; sharecroppers: a tenant paying by way of sharing crops.

4 NSSO: All India Debt and Investment Survey - NSS 59th Round (January - December 2003), Delhi 2005

5 Tenant - Any person who holds land under another person's name and pays rent to such other person on account of the use of land is called a tenant i.e. Tenant is a person who has taken the lease and is liable to pay rent for the piece of land.

Oral lessees - The term refers to tenancy without legal sanction and permission or without any written agreement.

Share croppers - Tenants who pay rent to landlords by way of sharing crops grown (in lieu of rent by cash) may be called share croppers

6 A cluster is a sectoral or geographical group of JLGs carrying out similar activities.

7 Ramakrishna, R V and Jan Meissner: Viability of SHG Lending - Findings from Studies, NABARD-GTZ March 2008.

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Microfinance and Agriculture: Issues and Directions

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Abstract

In the 1980s, the failure of the government led credit supply gave way to a new paradigm and a renewed approach to rural and agricultural finance in developing countries. State owned development banks closed, financial sectors were liberalised and microfinance evolved in developing countries. However, credit for agriculture through microfinance was low despite the sector's growth. In this paper, country-specific experiences regarding the role of microfinance for promoting agricultural sector has been analysed. Case studies are drawn from India, China, Phillipines, Kenya and Benin. The paper views that microfinance has key role in streamlining agriculture sector through the provision for post harvest losses, extension services, input supply, value chain, retailing, etc.'

In developed countries, agricultural banks played an important role in modernisation of agriculture and linkage with them early on. The success of Indian Green Revolution is an example where access to credit played a vital role.

Introduction

At a time when interest in agriculture is waning[1], can microfinance rekindle and sustain livelihoods around agricultural activities? Can microfinance undertake this task by continuing with the present mechanism or does it call for a radical change in approach? Can we learn from global trends[2] and tailor a model suitable for India? What are the trends, and which model is right for us? Despite the many microfinance initiatives aimed at reducing exclusion from financial services in developing countries, the problem of financing agriculture remains central.[3] In these countries, three-fourths of the people live in rural areas who for livelihood, directly or indirectly, largely on agricultural and allied activities. Between 60-75% of rural households earn a living from farming and for most

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it is rarely the only source of income. Most of these individuals also earn wages either in the agricultural sector or other sectors, are self-employed (petty shopkeepers), or receive money from family members who migrate to cities. Family farming is characterised by low productivity due in particular to low levels of investment in inputs (fertilizer, phytosanitary products, herbicides, etc.) or in equipment. But, such investments require access to financial sources in the form of short, medium or long-term loans. But, farm families with low nominal incomes find it difficult to qualify for loans. These are significant obstacles for the development of financial services that are accessible and adapted to a population which is poor, whose survival is dependent on a number of exogenous factors, like climate, crop disease, or price movements, and the like. Access to finance is therefore decisive. Yet, the majority of farmers in developing countries are still excluded from the banking system. Bank penetration rates in agricultural regions of Africa and South Asia are barely over 5-6%.[4] In developed countries, agricultural banks played an important role in modernisation of agriculture and linkage with them early on. The success of Indian Green Revolution is an example where access to credit played a vital role. Here, microfinance has the potential to play this role, given its advantage in terms of proximity to the client and its frequent association with cooperative approaches.[5]

It is important to understand under what conditions microfinance can help farmers in developing countries access credit to improve their competitiveness? We know that the rural finance paradigm of the 1960s and 1970s was based on state's desire to facilitate access to rural finance in most developing countries. It is well documented in India where concerted effort provisioning of agriculture credit is made under priority sector lending. The objective was to promote agricultural development by modernising agriculture. The most common approach involved direct government intervention via state-owned development banks and direct donor intervention in credit markets with favorable terms and conditions like soft interest rates or lenient guarantees. However, this system was costly and unsustainable, due to poor repayment, and ultimately did not have the desired effect on the development of agriculture production.[6] In the 1980's, the failure of government-led credit supply gave way to a new paradigm and a renewed approach to rural and agricultural finance in developing countries. State-owned development banks closed, financial sectors were liberalised and microfinance evolved in small developing countries. The exception of course is India where such efforts are still very much on with the difference that microfinance is trying to fill the credit gap and occupy the vacant institutional space. Based on an approach that encourages financial intermediation, the new rural finance paradigm redefined the roles of the various actors involved in providing financial services, especially governments. Public subsidies were redirected towards creating new microfinance institutions (MFIs) that were supposed to achieve financial sustainability thanks to cost- covering interest rates.[7] Despite the great hopes associated with the strong growth of the microfinance sector, it soon became clear that the supply of microfinance for agricultural activities was marginal, at best and poorly adapted. At the same time, with the liberalisation of the financial sector, commercial banks did not pick up the slack of former government-led interventions in rural areas; many banks actually closed their rural branches.[8] Finance for agricultural activities has become even rare.

2. Microfinance's Limited Contribution: An International View

Agriculture constitutes a significant part of developing countries' GDP and a large part of rural households' monetary income9. Yet despite the important contribution of agriculture to the GDP of the poorest developing countries, the supply of financial services to farmers is still limited. World Development Report 2008 argues that the more rural populations contribute to GDP and the greater the percentage of agricultural workers, the lower the rate of financial inclusion. With few exceptions (Nicaragua and Paraguay), the portion of agricultural loans disbursed was inferior to the overall contribution of agriculture to the country's GDP.

It is not easy to assess the volume of credit microfinance institution's expend for agriculture. It is estimated that MFIs around the world lend roughly 30 billion dollars, though there are inter- and intra- country differences in funds allocations. Indeed, despite annual growth of 36% in the number of poor clients reached by MFIs between 1997 and 2005 most institutions still concentrate on easily servable urban and peri-urban areas.[10] Among rural institutions, the portion of credit portfolio that goes to agricultural activities varies considerably. In the West African Economic and Monetary Union countries, only 14% of overall credit supply goes to the agricultural sector with 92% of this supply coming from the commercial sector, largely surpassing the participation of development banks (5%) and microfinance institutions (3%), whose credit supply is essentially characterised by short-term loans.[11] In India, between 2000 and 2007, only 8% of credits disbursed by the microfinance sector, dominated by the Self-Help Group model, went to agriculture. The rest went to livestock activities (14%) consumer loans, micro enterprises and trading activities (78%).[12] Despite this data paucity, there is a consensus that agriculture is insufficiently funded and that the supply does not meet the needs of farmers because generally financing agriculture is more costly, risky and less profitable than other forms of financing. Beyond the commonly cited difficulties that come with provisioning of financial services in rural areas, agricultural activities are characterised by a number of specificities that financing mechanisms must take into account.

Opinions differ on the understanding and description of microfinance. Thus, internationally accepted view holds that microfinance should contain two tiers of meanings: first, to provide small credit without collaterals for low-income population, including poverty stricken people; second, at the same time the development of microfinance institutions shall be sustained. To meet these two interlinked but, somewhat conflicting objectives, which consist of the integral part of microfinance, two patterns are adopted in microfinance business: welfarism and systemism. The former stresses offering lower interest rate or interest rate subsidy to farmers, while the latter emphasizes business sustainability. Microfinance institutions have witnessed institutionalism's gradual replacement of welfarism because impoverished people are easily depressed of the beneficiary policies by a certain class. In the international practice, the operational modes include Bangladesh's Grameen Bank, Bolivia's Bancosol, Indonesia's BRI, Uganda's village banks etc. Although they adopt different operational modes, they all, through innovation in institutions, operational mechanism and management have realised sustainable development and helped relatively poor people to get out of difficulties.

3. Peculiarities of Agricultural Finance

The agricultural sector is different from other economic sectors in a number of ways. Activities are generally located in isolated areas with low population density and poor infrastructure.[13] They are dependent on weather and production cycles; income is seasonal and monetary income is limited. Agricultural prices are notoriously volatile and few farmers can offer guarantees that are legally or financial acceptable. These peculiarities demand financing mechanisms adapted to the diverse needs and services of rural households[14]: (i) Short-term: input financing at the beginning of the crop year (seeds, fertilizers, pesticides), additional labor, feed, storage facilitates, processing, etc. (ii) Medium and long-term: equipment for intensification, commercialisation (transportation), storage (buildings), perennial crops (investment, renewal, maintenance), (re)constitution of herds, land purchase. (iii) Family needs: personal, durable goods, housing. (iv) Non-financial services: monitoring demand, technical assistance and extension. (v) Savings.

Thus, added challenges that further hinder the expansion of financial services for agriculture lead us to the need for understanding how best these financial needs are met and to find ways to mitigate the risks associated with them. Moreover, as microfinance is increasingly integrating into conventional financial markets, the sector has no choice but to apply cost-covering interest rates. Such rates often contradict the expansion of rural coverage and agricultural finance due to the low profitability of the activities financed. All these factors explain the relative lack of interest in agriculture on the part of urban and peri-urban areas. Therefore, liberalised markets coupled with contractual innovations-elements promoted under the new paradigm- have not fulfilled their promises vis-à-vis rural and agricultural finance.

4. Country Experiences

In this section, we look at some of the country experiences in microfinance's role in agriculture.

4.1 Indian experience

India has a long history for provisioning of agriculture credit, both short-term crop loans and long-term investment loans through its cooperative set up, regional rural banks and commercial banks.[15] Since the era of social banking, priority sector lending has brought about green revolution in the country. Crop loan in India largely has been micro in scale. Indian experience shows that institutions are important and agriculture sector lending is spearheaded by NABARD. Over the years, variety of innovations has taken place through NABARD's initiative. In case of microfinance revolution in India, NABARD has been the pioneer. SHG-bank linkage programme has spread. However, it has not directly met the needs of agriculture sector.

An important recent initiative of group lending is joint liability group (JLG) programme supported by NABARD. A Joint Liability Group (JLG) is an informal group comprising preferably of 4 to10 individuals coming together for the purposes of availing bank loan either singly or through the group mechanism against mutual guarantee. The JLG members offer a joint undertaking to the bank that enables them to avail loans. The JLG members are expected to engage in similar type of economic activities like crop production. The management of the JLG has to be simple with little or no financial administration within the group. JLGs can be formed primarily consisting of tenant farmers and small farmers cultivating land without possessing proper title of their land. Members should be of similar socio-economic status and background carrying out farming activities and who agree to function as a joint liability group. The groups must be organised by the likeminded farmers and not imposed by the bank or others. The members should be residing in the same village/ area and should know and trust each other well enough to take up joint liability for group/ individual loans. Banks may initially form JLGs by using their own staff wherever feasible. Banks may also engage business facilitators like NGOs and other individual rural volunteers to assist banks in promoting the concept and formation of groups. State Government Departments like Agriculture Department also could form JLGs of tenant farmers and small farmers not having clear land title. The JLGs of such eligible farmers can also serve as a conduit for technology transfer, facilitating common access to market information; for training and technology dissemination in activities like soil testing, training, health camps and assessing input requirements. Banks can finance JLG by adopting any of the two models.

Model A - Financing Individuals in the Group
Model B - Financing the Group

The JLG would prepare a credit plan for its individual members and an aggregate of that is submitted to the banks. Banks may evolve simple loan application for this purpose. The individual members of JLG would be eligible for bank loan after the bank verifies the individual members' credentials. The finance to JLG is expected to be a flexible credit product addressing the credit requirements of its members including crop production, consumption, marketing and other productive purposes. Banks may consider cash credit, short-term loan or term-loan depending upon the purpose of loan.

Thanjavur District Experience

Farmers Joint Liability Groups (JLG) attached to Primary Agriculture Co-operative Credit Societies (PACS) in Thanjavur district are functioning effectively in enabling the reach of loan and other facilities to small and marginal farmers. The concept was introduced in the State budget in 2008-2009. Accordingly PACS were asked to form JLGs. In Thanjavur district, 500 such JLGs were formed during 2008-2009 and another 500 groups in 2009-2010. In the year 2010-2011, another 500 groups are being formed. The groups were given Rs.10,000 each as revolving fund by the government. They can obtain crop loans. If they repay it promptly, they can get loans for other activities like purchase of milch animals, agricultural equipments or for doing other business. Only eligibility for getting loan is that they should have convened weekly meetings with adequate attendance for a period of time regularly. Repayment should be done within eight months after borrowing. JLG members attached to Rajagiri Primary Agriculture Co-operative Credit Society in Thiruvaiyaru taluk have borrowed two times from the society and repaid the loan promptly. Group borrowed Rs.80,800 as crop loan first time, which was repaid. They borrowed another Rs.1,30,000 in the second round. It was also repaid. Nine such groups have been formed by the Maraneri-Kadambankudi PACS. The members evinced interest in starting a milk society by getting loans to purchase milch animals. They intend to restart a defunct milk society. They would be availing loans for purchasing milch animals. During 2008-09 PACS disbursed crop loans worth Rs.4.20 crore to 519 JLGs with a membership of 4,110. During the year 2009-2010, crop loans of Rs.7.18 crore had been disbursed to 654 groups.[16]

4.2 China's practice in microfinance

As one of the civilisations with a long history, China is also a big agricultural country. In recent years, with the government promulgating a series of policies to support agricultural development, farmers' income has risen and their living conditions improved. However, compared with urban area, per capita income in rural area is still low, per capita credit still small, and there is still a big financial gap. Low-income people in rural areas, as well as many self-employed entrepreneurs and small companies, crave microfinance to expand their business and get rich, enjoy the equal opportunity in the process of economic growth. Provision of microfinance service can help them to get the opportunity of earning higher income and get rid of poverty. However, due to the fact that rural households are sparsely populated, of low income and big differences, and agricultural production is closely related with seasons, farmers' demand for microfinance is featured as scattered and diversified, small amount, high frequency and arbitrariness, urgency, and multiple risk points. Because of these features, microfinance business in Chinese rural area is characterised by high cost, big risk, and relatively low profit.

In practice, China also encounters many difficulties and problems. The first is the difficulty in controlling risks, because agricultural production is closely related with seasons, and easily affected by natural disasters. The second is high cost because of big number of loans and high workload. The third is the difficulty in management since rural households are sparsely populated in a vast area. The fourth is the ecological environment for rural finance need to be further improved. Due to these difficulties and problems, rural financial institutions face the dilemma of business coverage and sustainability, that is to say, it is very difficult for financial institutions to satisfy all the loan demand and at the same time sustain its own development.

In China, there are different kinds of institutions exploring microfinance business, including government organisations and non-government organisations, big commercial banks and regional financial institutions, microfinance companies, village banks, and credit cooperatives, etc. Agricultural Bank of China is the pillar and backbone of Chinese rural financial system. Given the fact that Chinese government attaches great importance with agriculture, rural area, and farmers, a series of policies have come out to support the development of microfinance business. Agricultural Bank of China faces a big opportunity and also challenge that is how to make full use of its specialised expertise and network advantage to be engaged in microfinance business and meet more than 100 million farmers' financing demand of about 1 to 2 trillion yuan. Firstly, in order to change the traditional inefficient mode, China developed a debit card named Farmers Benefit Card in April 2008. Through this card, rural households can get revolving credit lines, receive fiscal subsidies, make payments and transfer, and buy wealth management products. This card can be accessed with electronic channels, such as transfer telephone, self-service bank, online banking, telephone and mobile phone banking.

Through these modern financial channels, services are extended and operational cost is reduced. Secondly, to solve the problem of insufficient network and personnel in rural areas, several operational modes have been innovated. The first is Bank+ Company+ Households mode, with the guarantee of leading agricultural enterprise; the bank provides credit for the enterprise's upstream and downstream farming households. The second is Bank+ Cooperatives (Association) +Households mode, with the rural cooperative's confirmation of households' production, the bank provides credit to a certain selected good performance households. The third is Bank+ Administrative service+ Households mode, Administrative service recommend good performance households to the bank, promote the bank's credit policy, and coordinate the investigation, issue and collection of loans. The fourth is Bank+ Credit Village+ Households mode, the bank makes loans to the credit village as a collective unit, and the director of the village assists the bank with the investigation, management, and collection of the loans. In addition, as for the area inaccessible to the bank's outlets but with big potentials, the bank's client managers conduct microfinance through home visit.

Through the above modes, the bank is able to select specialised villages and households, and big farming households as the key areas and clients to provide wholesale credit, raising client managers' span of control. Thirdly, to resolve information asymmetry and ability of inferior risk proof in household microfinance business, China made strict institution access, personnel access, client access, and credit quantity limit, to control risks from the origin. The bank uses "acquaintance economy" mode to obtain "soft information" so as to resolve information asymmetry between the lender and the borrower. Besides, in order to transfer risks, the bank adopts public servant guarantee, leading agricultural enterprise guarantee, cooperative guarantee, guarantee company guarantee, households' collective guarantee, and etc. The bank also established cooperative relationship with several insurance companies, asked the rural borrowers to purchase casualty insurance, as a way to spread microfinance risks. The local government was convinced to establish all kinds of risk compensation funds sponsored by finance bureaus, leading agricultural enterprises, specialised organisations, and industry associations, to compensate the Bank when there's a default. With regard to post-lending management, multiple ways are adopted: regular and unexpected inspections are exercised to supervise borrowers; credit management system is used to monitor the use of loans; and call centre provides assistance by SMS alert and telephone collection on due loans.

Lastly, institutional and mechanism innovations on microfinance business to rural households are made by the bank. These innovations are reflected in two aspects: first, setting up of a strategic business unit, and six mid- and back- office centers (independent accounting and assessment, credit management, risk management, product research and development, human resource management, capital and fund management); second, China structured an incentive and restraining mechanism catering for the development of rural microfinance, which featured the client managers responsible for the issue, management, and collection of loans, and their performance salary is linked with the loan size, quality and profit.

In all, through a year and a half's practice, China has issued 30 million Farmers Benefit Cards, and met about 30% of the effective financial demand, or cover over 100 million farming households if each family averages 3-4 people. Microfinance business supported 2.95 million rural households, with incremental loan reaching 586 million RMB. Some experiences from this period of practice include: First, microfinance business should be conducted in accordance with commercial principles, with the business philosophy of "quality service, controllable risk, and sustainable development". China is aiming for a reasonable definition of the lender and borrower's liabilities, encouraging the two sides to be actively involved, and raising capital efficiency through market pricing policy and management. The adoption of commercial operation is to transfer the operational goal from welfarism to financially sustainable systemism, setting up of commercial-oriented incentive and restraining mechanism, and perform liberalised product policy. Secondly, clients should be served with affection. Since it is hard to obtain rural households' information and there is a shortage of their property, operation and credit record, it is necessary to have a deep understanding of the borrowers' financial demand, operational environment, and production and living conditions. Faced with hard working conditions and environment in rural areas, client managers must be passionately involved and spare no efforts in paying visits to villages to make investigations. Thirdly, risk prevention and control must be placed as high priority in the full process of microfinance business. The characteristics of rural household business determine high concentration of risks into banks and few ways to spread and transfer risks, therefore, the mechanism of risk identification, measurement, alert, and handling must be established in every phase of micro- finance. Lastly, a multi-tier rural financial system must be set up, to meet the demand of rural clients from each aspect. For example, differentiated fiscal, taxation, monetary, and regulation policy should be exercised; establish risk compensation funds and Guarantee Companies, expand rural insurance coverage; rural financial ecological environment needs to be enhanced to create a sound external environment.[17]

4.3 Philippines experience[18]

These case studies described below details agricultural loan products offered by select MFIs in Philippines.

4.3.1 Agriculture and rural development for catanduanes

Established in 1998, ARDCI is an NGO that provides microfinance, research, training, consulting, and other support services to communities. ARDCl's micro-business (MB) loan programme targets households with multiple sources of income that are engaged in micro enterprises or agricultural activities. Currently, only a small portion of its MB loans is used for agricultural activities, and ARDCI does not monitor the performance of agricultural loans separately from loans provided for other business activities. Among farming households receiving MB loans, 60-80% are tenants engaged in abaca farming. The MB loan is a Grameen- style group-liability lending programme, in which five members form a group and are held liable for each other's loans. Loan amount is calculated using the cash flow method, based on analysis of regular income. The average loan amount is 5,000 PhP, and the term varies from 13 to 50 weeks. Loans are disbursed in a lump-sum, cash value at the beginning of the term, and payments are collected on weekly basis. The interest rate is 1.8% or 2.7% per month, depending on the branch location. The design of the loan product is not different for clients who need capital for their micro enterprises and those who need farm capital.

ARDCI does not offer crop, weather, or health insurance, but does offer compulsory life insurance provided by Country Bankers Life Insurance Corporation, with a payout of 1,00,000 PhP or 2,00,000 PhP per member in the event of a natural or accident-related death. Aside from insurance, members are required to save 30 PhP for capital build-up. The CBU may be withdrawn upon exit from the programme. Members may also avail of the voluntary savings programme.

ARDCI has 10,813 clients and 275 credit development officers involved in the MB loan programme, with a client to officer ratio of 40:1. The MB portfolio has a current PAR of 1.9%. The bank attributes its successful programme performance to the strict implementation of the group liability structure. The major challenges to the MB programme's success that were cited by ARDCI include illness in members' families, crop failure due to natural disasters, poor cash flow analysis based on inaccurate income reporting in applications, a lack of business knowledge among members, and the cost and safety risks associated with credit officers traveling to monitor and collect payments in remote areas. In order to expand the MB loan programme for farmers, it would be useful for ARDCI to monitor the loans provided for farming activities separately from other micro enterprises loans so that it can identify challenges and financial needs that are specific to farming households.

4.3.2 Alalay sa kaunlaran

Alalay Sa Kaunlaran, Inc. (ASKI) is an NGO that was established in March 1987 to serve and empower the poor through micro-enterprise development. ASKI offers a micro-agricultural loan product called Credit Assistance for Sustainable Agriculture (CAFSA) which aims to increase the income levels and improve quality of life for farmers while also promoting sustainable, natural methods of farming by reducing dependence on chemical fertilizers and pesticides. In this programme, ASKI targets farmers who are owners or tenants of farmland and are engaged in rice or corn farming. CAFSA uses a group-liability lending scheme. Initially, the programme was open to any small landholder or tenant, but most branches are now offering the product only as a bonus loan for well-performing clients of other ASKI programme in order to allow for close supervision. To be eligible for the bonus loan, the applicant must be one of the following: (a) Agrarian Reform beneficiaries (ARB), (b) Household member of ARB and (c) Non-ARB: small farmers with the land size of 5 hectares or less and tenant farmers without land ownership.

Loan size is based on cash flow and projected farm income, and clients often rely on sources of income outside of farming activities. The average loan size is 15,000 PhP per hectare, covering 75-100% of the average rice farmer's production cost. Farmers usually use non-farm income to cover the remaining cost. The method of loan disbursement depends on a farm proposal submitted by the client, but in general loans are disbursed in lump- sum at the beginning of the 4.5 or 5 months term. Interest is 2% per month for a 4.5 months loan term, or 3% per month for 5-month term- most clients choose a shorter loan- term. Interest payment is due on monthly basis, while repayment of the principal is due after the harvest. ASKI does not offer crop insurance, but provides compulsory life insurance with a benefit of 1,20,000 PhP. Credit officers who are farmers themselves offer technical assistance and undertake monitoring. They provide informal advice during the monthly farm visits and facilitate discussions on farm problems during the centre meetings. Principal payment is collected at the centre meeting after the harvest and sale of palay. If there is a client who cannot make the payment, members are first asked to contribute for the payment of the delinquent client. If other members do not have capacity or are unwilling to contribute, the centre holds a discussion on how to manage the unpaid loan. This is a centre-wide concern because the releases for next cropping season will be delayed when there is a delinquent client in the centre. If the delinquency is due to the delayed harvest or sale of palay, the centre members generally ask the delinquent client to submit a promissory note to the bank, stating that s/he will make the full payment upon sale of his/her palay and requesting the next loans for other members to be released. Otherwise, the delinquent client's serialised collateral (usually household appliances) will be sold to cover all, or a portion, of the payment. Deductions from CBU of the centre members are the last resort. In the cases of crop failure or damage, caused by uncontrollable factors such as weather and natural calamities, ASKI restructures the loans; however, this is limited to the extreme cases in order to avoid moral hazard problems. In ASKI's micro-crop loan programme, the group dynamics appears to work similarly to what one can find in a typical group-liability loan programme for micro-entrepreneurs. Farmers have a strong social network, which makes the group-lending approach practical and effective. ASKI has 8304 clients and 20 credit officers in the programme. The portfolio at risk as of December 2008 was 1.79%, an improvement over previous months. In order to ensure proper loan utilisation, ASKI pays a special attention to the proper timing of loan disbursement and has increased the intensity of monitoring. The major challenges to the programme cited by ASKI are crop failure due to natural disasters, illness or other family emergencies, and clients' lack of understanding or seriousness about repayment and due dates.

4.3.3 Valiant rural bank

Valiant Rural Bank (VRB), a rural bank based in Iloilo City, was established in 1997. VRB's micro-agricultural loan programme, Bugana sa Valiant, is an individual-liability loan product for small farmers with multiple sources of income, and began in October 2005. The programme aims to extend financial assistance to small farmers and is intended for crop production, raising livestock, and purchasing farm equipment. A majority of clients in the Bugana programme are engaged in rice farming (50%), hog-rearing (30%) and sugarcane farming (10%). The Bugana programme also requires a secondary, non-farm source of income to encourage farmers to diversify their income generating activities. VRB uses cash-flow analysis to determine the loan amount, and the average amount is 15,000 PhP. The loan term is determined by the length of the cropping season and can be up to 6 months (or 12 months if the client offers serialised assets). Loans are released in cashier's check at the beginning of the loan term. Loan repayments are amortised on monthly basis, collected by account officers from clients' homes or businesses. The interest rate is 2.75% per month. Even though the Bugana programme is a cash flow-based lending that only considers regular sources of income, credit officers conduct regular farm visits. Credit officers generally do not have agricultural background, so they do not intervene in farming activities; they only conduct the loan utilisation check to make sure that the loans are used for farming activities. VRB mandates credit-life insurance provided by the Country Bankers Life Insurance Corporation for every loan. Upon death, the insurance company will pay off the loan; however there is no additional benefit for the family. Bugana does not include technical assistance.

As of December 2008, VRB's Bugana programme has 1946 borrowers and 18 loan officers with client-loan officer ratio of 108:1. Portfolio at risk is 10%. The main challenges to clients are negative income shocks in the household resulting from family illness or natural disasters. To reduce PAR, VRB is implementing strict assessment of applicant's cash flow and persistent follow-up with delinquent clients. Product design and implementation procedures are under re-evaluation and may be modified in the near future. By de-linking the assessment of loan repayment capacity and loan usage, Valiant Bank extends financial assistance for farming activities; however, the product design is not much different from that of the traditional micro-enterprise loans-the programme adopts cash flow analysis based solely on the regular sources of income and frequent and small repayment schedule. As a result, the programme only includes households that have regular income sources.

5. Africa

African Development Bank finds medium-sized farms as the engines for agricultural growth in Africa and given their position and potential, they merit considerable investment. However, agriculture sector campaigners argue that while they support such an approach, investors must not overlook small-scale farmers. In early 2009, the African Development Bank (AfDB), Agence Francaise de Developpement and the International Fund for Agricultural Development (IFAD) launched the African Agriculture Fund, aiming to raise US$674 million to help medium-sized agricultural companies and cooperatives modernise, improve management and diversify agricultural production. Those companies that are big enough can already raise their own money for agri-business, and very small farmers can turn to micro-credit. What we are missing is (farmers in) the middle, to really add value. Oxfam has supported this fund, but argues that it favors increased funding for agriculture for a long time. Smallholders are vital to developing the agricultural sector. Many of the poorest farmers across Sub-Saharan Africa need funding boost to be able to organise themselves into a cooperative in order (even to go after) larger-scale funding. Targeting small farmers with assistance would help them grow. It is only then Africa could produce enough food for national use and regional trade without having to resort to large-scale agribusiness.[19]

5.1 Kenya

For Kenya, lack of access to innovative rural financial services and over dependence on microfinance to revitalise agriculture in rural Kenya compounds the problem of agriculture. Despite the fact that microfinance is helping alleviation of poverty in urban and rural Kenya, its present form of 'one size fits all financial products' and lack of flexibility in product offerings is seen as insufficient to transform agriculture. Only effective, well-designed rural financial services, done by sector sensitive but 'best practice' focused institutions could play an effective role in Kenya. Agriculture is a technical and fluid sector for any lender. It is expensive and risky. The fear for lenders is genuine- the sector is faced with high transaction costs, vagaries of weather, uncoordinated market for agricultural produce crippled by glut at harvest time and poor contractual adherence by farmers and marketers. These risk factors result in under-provision of financial services. However, innovativeness of microfinance and micro-insurance technology can help overcome this. Many governments and donors have reduced assistance to agriculture and embraced the microfinance revolution. Microfinance at its best pushes the rural active poor to urban areas and creates a nation of 'traders and hawkers' who may not feed the nation, but improve the food value chain and access.

Many factors contribute to the rural-urban push, but access to financial services is increasingly becoming a convincing argument. It is argued that one only need to start a second hand kiosk in an urban set-up in Kenya, link up with fellow second hand cloth sellers, co-guarantee each other- and an MFI will support you. This way, you partner to fight your poverty. Start a farming enterprise and financing will not easily come. Small farmers frequently experience credit constraints. Both businesses have different cash flows. Microfinance business model would favor trader against farming enterprise. Trading by its very nature is an urban phenomenon. Agriculture is a rural activity. Creating a million jobs through hawking and trading is a mirage and a source of sustained conflict in urban areas. However, agriculture, when focused has the potential to create millions of jobs, open rural areas for development mitigate growth of urban informal settlements and reduce gang culture. An injection of innovative and sector targeted microfinance services at this point props up the rural areas and directly contributes to agriculture and reduction in crime. The government should facilitate a sector dialogue with financial service providers, input producers and suppliers and marketing agencies to develop a strategy of innovative rural credit access to small farmers. For a farmer who cannot afford the Ksh 4,000 bag of fertilizer and the Ksh 2,500 per acre tractor hire and a bag of seed, a Ksh 10,000 loan, innovatively designed could be all he need. Farmers need access and not subsidies in Kenya. They can pay back- there are no bad borrowers. All stakeholders have to become friends of the poor but not poverty. The financing needs are small, but the impact is big. In any case this is the rationale behind the microfinance business model- innovatively provide financial services for the active poor and low- income people by offering smaller loans, savings services and micro-insurance, while accepting a wider variety of non-traditional collaterals. Is there a ray of light? Yes, with the current branch expansion and further downscaling by banks and microfinance institutions, competition for the marginal client and desire for institutional survival through innovation in product offering could be the engine to open rural areas for productive investments. Will the momentum be sustained in the face of the looming hunger and despair? Time will tell, but the debate is on.

6. Benin

Agricultural potential remains enormous and the needs for credit in this sector significant. Credit is required for cotton cultivators, the main cash crop in Benin, as well as producers of food crops such as maize, millet, sorghum, rice, beans, igname, manioc, sweet potatoes, and tomatoes. In addition, producers of oleaginous products such as peanuts, coffee, karite and palm also require credit. Fishermen also have significant credit needs. Finally, herders and livestock breeders require access to credit.

Cash crops: Even though much of the credit needs for seeds and other inputs for cotton are covered by SONAPRA, increasingly farmers are accessing agricultural micro-credit of the CLCAMs for loans up to 10,00,000 CFA for working capital to purchase inputs--often at a lower price from Nigeria, in order to avoid some of the SONAPRA policies. They also use the micro-credit for the harvest, commercialisation of their products, and consumption needs during the hungry season. For the 1996-97 agricultural campaign, of the approximately 1,50,000 producers from the four cotton producing regions of Borgou, Atacora, Zou, and Mono, two-thirds accessed agricultural micro-credit from a CLCAM. If the average loan size is 50,000 CFA and this loan is provided to 1,00,000 producers (two thirds of the 1,50,000 producers total), then the micro-credit needs in agriculture would be estimated at 5 billion CFA. In reality, however, the demand of cotton producers is for loans ranging in size from 3,00,000 CFA to 10,00,000 CFA and most of the 1,59,000 producers (rather than two thirds) would want access to micro-credit. Therefore, the hypothetical demand could be as high as 150 billion CFA.

Food crops: Producers of food crops in Benin typically rely on micro-credit, as they often do not have access to any other credit. Food crop producers are active in every department, although the departments in the south are specialised in food crops, since those in the north have specialised in the cash crop of cotton. If there are at least 2,00,000 producers who specialise in food production, and if loan amounts vary from 50,000 CFA to 1,50,000 CFA, then the demand could be as high as 30 billion CFA. This figure would be even higher if one included the credit utilised for food crops for own consumption produced by cash crop farmers.

Oleaginous crops: The three most important crops in this category are peanuts, palm oil, and palm kernels, particularly the two latter products. Credit needs for these two are relatively high, as for the first, credit for processing is required as well as for cultivation, and for the second, credit for storage and marketing is required as well as for cultivation. The total demand in this sector is at least 7 billion CFA.

Fishing: If both artisanal and semi-industrial fishing are taken into consideration, there are roughly, 3,00,000 fishermen. Taking into consideration the standard size of micro-credit loans, a range from 2,00,000 CFA to 10,00,000 CFA, and if one considers that at least 50,000 people engaging in fishing on a full time basis, the total estimated demand in this sector is 10 billion CFA to 50 billion CFA.

Livestock: households engaged in agriculture and also by those who are exclusively doing livestock rearing commonly practice Livestock rearing. The population actively engaged exclusively in livestock rearing is estimated at around 10,000. Credit needs in this sector range from 5,00,000 CFA to 20,00,000 CFA, for a total demand of approximately 20 billion CFA, if one takes the volume of credit distributed by the FECECAM network to this sector as indicative.[20]

The above observations reveal that the microfinance sector, motivated in part by the broader trend towards financial inclusion, is changing in Benin. New actors are emerging along side the traditional ones (MFIs, NGOs, farmer organisations, etc.). In addition to banks, one observes increasing involvement of specialised microfinance funds, international guarantee funds, agro-food industries, as well as other agricultural value chain stakeholders. Given this context and in light of agriculture's peculiarities, there is a need to take a step forward, viz., identify intermediary channels that encourage interaction between the diversity of public and private actors, old and new. Indeed, while recent changes to the microfinance sector have created a certain imbalance, they also bring great potential. To take advantage of new opportunities, there is a need for a pluralistic, inclusive approach to the financial sector as a whole and to public/private partnerships.[21] There are three broad ways to respond to agriculture's specificities and improve MFIs' provision of agricultural finance: (1) Initiatives that bring together diverse stakeholders; (2) Active partnerships with farmer organisations and (3) Strong public policies. Here, it is important to rethink synergies and coordinate various stakeholders. It has to be at two levels - MFI governance and strategic alliances.

7. CGAP Model[22]

In this section, we look at CGAP model that puts the above discussion in a perspective. The CGAP model is called 'agricultural microfinance'. It combines the most relevant and promising features of traditional microfinance, traditional agriculture finance (bank/institutional), and a host of other approaches including leasing and area-based insurance.[23] These schemes harnessed technology and existing infrastructure and contracts with processors, traders and agribusiness. There are schemes/ programmes like crop insurance that are basically area-income-based one. This does form an agriculture microfinance model characterised by following broad characteristics. Most of the features though are specific to financing agriculture, some do handle the familiar challenges of operating in a rural setting and some are basically good practices in delivering small, unsecured loans. It is not that in one form or the other these characteristics are not being tried out in India. They are:

Repayments not linked to loan-use: This consciously de-links loan use from re-payment sources (traditional lending is a mix of production loans narrowly designed for varieties of crops or livestock-rearing). The model argues that if a loan is provided for raising a certain crop, the borrower's entire household income should be taken into account to arrive at repayment capacity. There is evidence that this approach has helped in increasing repayment rates.[24] It is known that farm households are invariably engaged in a numerous activities like petty trading, elementary processing, labor, livestock, temporary migration, etc., which align with agriculture cycles.[25]

Character-based lending techniques: This characteristic emphasizes the principles that most self-help groups adhere to- group guarantee, peer pressure, follow-up on late payments, etc. It stresses on infusing the credit mechanism and process with specialised agricultural knowledge. Select microfinance programme involved in full-scale agricultural activities have specialists like agronomists and veterinarians to support loan decisions and methodologies.

Provision of saving mechanisms: All categories of poor- individual or household- need to manage liquidity, conduct transactions and accumulate assets. It has been shown that rural financial institutions offering deposit accounts to farming households has enabled them to save funds for lean periods and handle life events. This led to a situation saw number of such accounts swiftly out-numbering number of loans.

Diversify portfolio risk: Diversification has been one of the primary risk-mitigation strategies in financing.[26] It has been found that a number of microfinance institutions with stable lending portfolios have minimised risks by lending to households or groups that have a diverse crop mix and also earn from other sources such as livestock-keeping. Organic farming practised by small, marginal farmers is the best platform for organic principles to encourage diversity, inter-cropping, buffer, companion crops, etc. Most organic farmers are skilled at livestock- keeping, for it is integral to the system. Dung, urine and other on-farm resources are vital ingredients in the bio-composting and pest management techniques adopted by farmers practicing sustainable agriculture.

Cyclical cash flows and large investments: A successful agricultural micro-lenders has to keep in mind highly cyclical farming cash flows. This means that loan terms and conditions have to closely track these cash flows without compromising on the principle that repayment is expected regardless of the success or failure of an individual productive activity, irrespective the use purpose of the loan. Flexible repayment mode has worked well.[27]

Contractual agreements and risks reduction: Due to complex production risks, many lenders believe that small farmers require additional support than just receiving loans, particularly if they are undertake production of a complex crop like tea plantation. Farmers are directly provided with technical assistance and other types of support. This is done because they seek to improve farm practices as part of an integrated development programme, or to guarantee minimum yields and quality of commodities for processing or resale. Traders, processors, other agribusinesses[28], and individuals by linking credit with provisioning of technical advice (such as on input use or what crop variety to grow to meet market demand), or timely delivery of appropriate inputs (seeds, etc) or by building relationships with farmers reduce the production and operational risks associated with lending to farmers. In another situation credit is tied to subsequent sales of produce, a practice often called interlocking or interlinked contracts because it provides inputs on credit based on the borrower's expected harvest. Operating costs for providing credit can be low because credit is built into crop purchase and input supply transactions with farmers, for which agribusinesses may have existing physical infrastructure (warehouses), agents, processing facilities, information technology systems, farmer networks and market knowledge. This approach is taking root in India.[29]

Financial service delivery convergences: Increasing the supply of agricultural finance requires creating institutional capacity. One way to do this is by building on existing institutional infrastructure and networks such as post offices, agribusiness agents or collection centers, and state-run banks, and using technology appropriate to rural areas such as mobile banking units or bank correspondents. Rural lenders have to invest in techniques and technologies that deliver financial services sustainably, in areas characterised by poor transportation and communications infrastructure, low client density and low levels of economic activity.[30] The challenge of devising new channels of delivery to 70%of the Indian populace living in rural areas is daunting. Technological innovations such as kiosks and smart cards are being tried out to reduce transaction costs significantly and improve access.[31]

Membership-based organisations and rural financial services: Lenders generally face much lower transaction costs when dealing with an association of farmers as opposed to numerous individual, dispersed farmers. Associations or groupings of farmers can also administer loans more effectively. Membership-based organisations can be viable financial service-providers themselves. Some experts feel that thousands of SHGs is too great a number for banks to be interested in. Therefore, newer structures emerging, such as a collection of groups may be required. The challenge now is in creating and sustaining producer/farming SHGs. Experiences with producer/farmer associations have been mixed, with problems of lack of member motivation and association capacity. Smaller and more marginal farmers need considerable handholding and training in order to establish effective associations.

The upfront costs may be more than what private sector actors are willing to pay. Therefore, the situation merits donor support through specialised intermediaries/ NGOs that can provide training, systems support and other assistance to existing associations and to farmers wishing to set up producer associations. Creating a second tier institutional support structure for small rural financial organisations, such as a network or federation of savings and loan cooperatives, could address some of these challenges. Audits and benchmarking is also a vital to the success of initiatives in this area. They promote transparency and performance standards. In addition, services can be offered that make it easier for member organisations to negotiate funds from banks and donors, lobby for policy and legal reform, monitor performance and meet short-term cash flow needs. A refinancing facility, for instance, would help in this regard.

Area-based index insurance & risks of agricultural lending: Area-based index insurance, which can be applied to both production and price risks, is a promising approach. Such insurance is defined at a regional level and provided against specific events that are independent of the behavior of insured farmers.[32] Examples include weather-related insurance policies linked to rainfall or temperature in a defined area, offering indemnity payments if the relevant index falls or rises above a certain level, and price-related policies with payouts based on crop prices. Such policies enable providers to insure against a specific risk rather than all agriculture-related risks, and being defined at a regional level makes them more viable and attractive to private insurers because they reduce administrative costs and risks of fraud and moral hazard. Index-based insurance has the potential to reduce both the risks of losses for individual farmers and the operational risks of lenders. The basic difficulty for insurers in extending such coverage to small farmers is the same as that faced by microfinance institutions: how to profitably service small contracts and transactions. Governments and donors can adopt or support measures that enhance the potential for index-based insurance from the private sector to include small farmer clients. They can ensure the existence and availability of accurate, timely and comprehensive databases on national or regional rainfall levels and commodity prices for private insurers to value instruments for weather and price risks.

Agricultural microfinance *Vs* political interference: Agricultural microfinance cannot survive in the long-term unless it is protected from political interference. Even the best designed and best executed programme become weak in the face of government moratoriums on loan repayment or other such meddling in well-functioning systems of rural finance. In India cooperative sector movement suffered because of political interference and controls.

9. Concluding Observations

There is no doubt that microfinance can play an important role in agricultural finance and is capable of mitigating the many challenges associated with the sector. In order to achieve this goal a variety of conditions must be fulfilled, viz., organisation of the agricultural sector; professionalism at all levels of the various actors; a supply of diversified and well-adapted financial services; access to non-financial services that promote agricultural development; MFI access to medium- and long-term refinancing, at affordable rates; diversification of regions and types of activities financed, keeping in mind the primary objective of financing rural and agricultural sectors; and a regulatory framework adapted to the challenges of agricultural and rural finance.

These various factors underlie the fact that meeting the financial needs of farmers on a sustainable basis requires governments to support the microfinance sector. Given the limitations of both the state-only and market-only models, there is a need to study new alternatives. The current international context has made agriculture, especially agriculture in developing countries, a primary global concern. Agricultural prices and population pressure are increasing, and food security is no longer ensured. In this light, the primary challenge is for developing countries to meet their food security needs by relying on regional producers. But, under what conditions can rural populations meet this increasing demand? For farmers in the southern hemisphere, the present context offers great opportunities. However, to benefit from it, they need to be able to invest and increase production. This implies access to appropriate forms of credit and insurance[33] and other income stabilising incentives. The governments must, therefore, support agricultural finance.

Some new initiatives experimenting with partnerships and public policy tools are promising. However, it is too early to judge their effectiveness on meeting the diverse needs of farmers. Most analyses have been limited and cannot be generalised. Those that do examine the role of government rarely take into account the peculiarities of agricultural activities. Cross-analyses at a regional level are particularly useful because they go beyond a normative national analysis, making it possible to identify experiences that offer solutions and thus guide decision-making. Hence, to both deepen and broaden the new rural and agricultural finance paradigm, there is a need to further study public policy tools as well as private initiatives such as guarantee funds and strategic partnerships, so as to identify the most promising experiences that will help push agriculture in developing countries forward.

When we take a look at the fragile balance and play of actors, which are coming into existence, their experiences so far, indicate that if the MFI are to become a permanent fixture in development they must articulate a set of financial services aimed at rural and particularly agricultural milieus different from what is offered in urban areas. That being said, while microfinance holds undeniable advantages, it can also substantiate the fears of rural actors and especially producer organisations concerning the abandonment of farming in favor of more profitable activities. It is therefore essential that each actor take into account the constraints faced by other actors and that partnerships develop out of this mutual understanding. In this context, numerous initiatives in microfinance aimed at helping rural populations have become a source of hope for agricultural financing in developing countries. But, the reality remains that significant inequalities in financial service access are still prevalent, not only among different regions but also in agriculture as distinct from other sectors. Establishing financial services in out-of-the-way areas with low population density and which lack basic infrastructure (roads, electricity, health centres, and the like) is truly a challenge. When in addition the target activity is agriculture, the challenges only increase due to the risky nature and low profitability associated with this sector. For these reasons, microfinance has not been able to respond to more than a small fraction of the needs of agriculture in developing countries for financial services.

Overall, microfinance has a key role to play in agriculture and its related activities. Among the areas identified are: the role of microfinance in promoting agriculture; role of microfinance in reducing post-harvest losses; extension services to agriculture through microfinance; input supply to agriculture through microfinance institutions; value chain in agricultural financing; approaches and strategies in wholesaling and retailing of micro-credit to farmers; use of microfinance in promoting all year farming including irrigation farming; and the role of microfinance in land acquisition for farming (fishing, poultry, etc). Experience in the field indicates that microfinance can play a crucial role[34]:

> Where all round and infrastructure development has taken place in rural areas due to private sector investments (factories, mines, etc.), by government (roads, power, storage, public sector units), or by market forces (trade centres/mandis, near crossroads where passenger vehicles ply regularly, etc.).
>
> Where significant increases in productivity in dry land agriculture, in agricultural diversification and in the portfolio of rural livelihood options, both on and off farm have occurred.
>
> Where the risk of investment in agriculture by the poor has been significantly lowered through insurance, irrigation and dry land agriculture technology.
>
> Where people have market linkages for agricultural and forest products
>
> Where the poor have been able to overcome oppressive relations, which deprive them of access to resources, markets, equal opportunity, political power, confidence, management skills and social status.

Finally, it is not either or situation, rural sector require finance and it has to be delivered to sustain communities and food security of countries like India.

Notes

1 NSSO's 2005 Survey shows that rural India is going through a major upheaval. More and more people from the villages are abandoning agriculture for other livelihood options.

2 Jonathan Morduch (1999), "The Microfinance Promise", *Journal of Economic Literature*, 37 (December): 1569-1614.

3 In most cases it has practically skipped the rural poor and most particularly their agricultural activities as smallholders" M. Valdivia and J. Bauchet, 2003, "Information Sharing and Microfinance in Peru" paper presented at USAID BASIS project on Microfinance, October [as quoted in Jerry R. Skees and Barry J Barnett, 2006, " Enhancing Microfinance Using Index-based Risk-Transfer Products" Department of Agricultural Economics, University of Kentucky, www.globalarisk.com/-/2006%20...) (dated 28.5.2010].

4 B. Bachelier (2007), "Agriculture: le role essentiel des banquiers " aux pieds nus "", Le Figaro, Decembre 4 (as quoted in Solene Morvant-Roux, 2008, Proceedings from the International Conference on What Can Microfinance Contribute to Agriculture in Developing Countries?, Paris, December 4-6, 2007).

5 These characteristics are can be found in the approaches originally used by local agricultural banks in France, for instance.

6 R. Meyer (2007), "Microfinance Services for Agriculture: Opportunities and Challenges" Paper for the International conference What Can Microfinance Contribute to Agriculture in Developing Countries?, Paris, December 4-6 (Plenary Session 1: How Can Microfinance Respond to the Needs of Farmers?).

7 Although there are some 3000 microfinance institutions serving more than 100 million clients around the world, it must be noted that the rate of coverage of the population ranges from 47% in Asia to 9.5% in Africa.

8 Manfred Zeller (2003), "Models of Rural Financial Institutions", paper presented at the Paving the Way Forward Conference, June 2, Washington D.C (as quoted in *World Development Report 2008*).

9 FAO (2006), The State of Food and Agriculture 2006, Food AID for Food Security?, Rome. World Bank (2007), *World Development Report 2008*: Agriculture for Development, Washington DC.

10 S. Daley-Harris (2006), State of the Micro-credit Summit Campaign, *Report 2006*, Washington D.C.: Micro-credit Summit Campaign.

11 D. Lesaffre (2000), A propos de l'offre et de la demande de financement du monde rural en Afrique de l'Ouest, Lome, BOAD, July (as quoted in Solene Morvant-Roux,

2008, op cit.).

[12] Satish Pillarisetti (2007), "Microfinance for Agriculture: Perspectives from India" paper presented in the International Conference on What Can Microfinance Contribute to Agriculture in Developing Countries", Paris, December 4-6 (Plenary Session 1: How Can Microfinance Respond to the Needs of Farmers?).

[13] G. Ivatury (2006), "Using Technology to Build Inclusive Financial Systems", CGAP, *Focus Note no. 32*, January.

[14] B. Wampfler and Cecile Lapenu (2002), La microfinance au service de l'agriculture familiale. Executive Summary for Conference held on January 21-24, 2002, Dakar, Senegal. Afraca/Cirad/CTA/MAE/Enda-Graf/IFAD, Cerise. French/English. French Ministry of Foreign Affairs, "Partenariats" Series (as quoted in Solene Morvant-Roux, 2008, op cit.).

[15] PACS, LAMPs and other credit institutions at the grass root level have played an important role in India.

[16] The Hindu (2010), "Thrust on forming more Joint Liability Groups" Thanjavur, May 26.

[17] See, www.iba.org.in/events/CHANG%20YAFENG(ENGLISH).doc. Chang Yafeng, General Manager of Agro-related Personal Banking Department, Agricultural Bank of China).

[18] Innovations for Poverty Action (2009), Improving Agricultural Microfinance: Barriers to the Supply of Agricultural Lending in the Philippines, (in partnership with PinoyME Foundation, Benigno S. Aquino, Jr. Foundation and Hanns Seidel Foundation Foundation, Germany (www.poverty-action.org).

[19] DAKAR, 18 May 2009, IRIN.

[20] See, UNDP (1997), *UNDP Microfinance Assessment Report for Benin*, September.

[21] Cecile Lapenu (2007), "Recent Advances in Agricultural Finance: Supply and Strategies: A Review of Literature and Experience", Paper for the International Conference What Can Microfinance Contribute to Agriculture in Developing Countries?, Paris, December 4-6 (Plenary Session 1: : How Can Microfinance Respond to the Needs of Farmers?).

[22] CGAP (2006) Managing Risks and Designing Products for Agricultural Microfinance: Features of an Emerging Model, IFAD. Also R. Christen and D. Pearce (2005), "Managing Risks and Designing Products for Agricultural Microfinance: Features of an Emerging Model", CGAP, Occasional Paper No. 11, August (available at www.empowerpoor.org/backgrounder.asp?report=205).

[23] The area-income-based Farm Insurance Income Scheme was tried out for the first time in India across 19 districts, during the rabi season in 2003-04, by the Agriculture Insurance Company of India. In 2003, ICICI-Lombard experimented with rainfall insurance, based on a composite index. AIC followed with Varsha Bima in 2004. See, Surjit Singh (2008), Weather Insurance in Rajasthan: Some Grassroots Experiences,

a report for Oxfam International, and CENTAD, New Delhi.

[24] The results of detailed studies on how poor households earn, spend, borrow and accumulate assets form the basis of this model.

[25] Non-farm income of a typical farming household in Asia is around 32%; the non-farm part of rural full-time employment is 25%.

[26] Surjit Singh (2008b), "Agricultural Risks and Public Policy: Cross-country Experiences" in S.K. Bhuamick ed. Reforming Indian Agriculture: Towards Employment Generation and Poverty Reduction Essays in Honour of Prof. G K Chadha, Sage Publications, New Delhi.

[27] For example, Caja Los Andes in Bolivia has adjusted its repayment options with the agricultural activities of the borrowers. The options include (i) One-time payment of capital and interest; (ii) Periodic payments of equal amounts; (iii) Periodic interest payments with payment of capital at the end of the term loan; and (iv) Plans with differing, irregular payments (for clients with several crops).

[28] Bangladesh has vast experience in micro-credit led by Grameen Bank and BRAC. Its agriculture interface is recent one. The Grameen- Danone Foods Ltd. Project in Bangladesh is a partnership between Grameen Bank and Danone designed to produce and distribute yogurt locally, and incite local consumption of the product Danone is responsible for building the factory and producing the yogurt. Grameen Bank facilitates financial access at two levels: (a) upstream, with milk producers who supply the factory, thus guaranteeing a stable supply for Danone and (b) downstream, with the women in charge of distributing (retail sales) of the product and creating a new commercial niche.

[29] See, Sukhpal Singh, 2000, "Contracting out Solutions: Political Economy of Contract Farming in Indian Punjab" World Development, 30 (9): 1621-1638. Also see, Surjit Singh, 2008, Weather Insurance in Rajasthan: Some Grassroots Experiences, a report for Oxfam International, and CENTAD, New Delhi.

[30] NABARD and the Department of Posts jointly tried to deliver credit though post offices initially in three districts of Tamil Nadu in December 2005 so as to scale it up across the country. NABARD took all the credit risks, while the post offices acted as agents on a fee basis.

[31] ICICI Bank is already using smart cards, in association with SEWA Bank in Ahmedabad. The bank is also working on a "high quality shared banking technology platform" that can be used by MFIs, cooperative banks and regional rural banks. Wipro, Infosys, I-Flex and 3iInfotech are spearheading this initiative.

[32] See for details, Surjit Singh (2008b), op cit., Surjit Singh (2010), "Agriculture Risk, Weather Insurance, Derivatives and Agricultural Insurance" in Sucha Singh Gill, Lakhwinder Singh and Reena Marwah (eds.) Sustainability of Asian Economic Development, Routledge India, New Delhi, Chapter 7. Jerry R. Skees and Barry J Barnett (2006), " Enhancing Microfinance Using Index-based Risk-Transfer Products" Department of Agricultural Economics, University of Kentucky [available at

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33 J. Diouf and J-M Severino (2008), "La hausse des cours agricoles, risque ou chance pour I'Afrique?", AFD, La Lettre des economistes, January (as quoted in Solene Morvant-Roux, 2008, op cit).

34 Aloysius Fernandez, 2008, 'Can Microfinance Eradicate Poverty in India? The Harbinger: 'Microfinance can play a crucial role', *Tehelka Magazine*, Vol.5, Issue 46, November 22.

Appendix 1: Differences between Traditional Agricultural Lending and Micro Enterprise Credit

Traditional agricultural lending	*Micro enterprise credit*
Borrower selection, credit decisions, product designs	Borrower selection, credit decisions, product designs
Bases credit decisions on projected income from future crop or livestock sales	Bases credit decisions on current repayment capacity
Typically uses feasibility studies to determine borrowers' capacity to repay	Often uses peer group information and past loan performance to determine the creditworthiness of borrowers
Funds all or most of a targeted activity based on its merits and the borrower's ability to carry it out	Uses short-term, incrementally increasing loans to establish relationships with clients and lower default risk. Thus, micro loans tend to be far smaller than agricultural loans to households with the same income level
Sometimes provides agricultural finance to small groups which often administer rotating loan funds	Tends to use group mechanisms to gather client information and enforce loan contracts, but retains loan administration functions'
Often ties credit to the adoption of particular technologies, inputs, or marketing channels; often requires farmers to join associations or cooperatives	Does not tie credit to other services. Exceptions include programmes that require compensating savings balances or that provide minimal training on issues of social concern, such as maternal health or child nutrition.
Often sets interest rates so that they are affordable within (narrowly defined) projections of returns on agricultural investments.	Sets interest rates to cover costs fully, enabling microfinance institutions to engage in more operational activities, which lowers risk.
Relies on trained technical staff (agronomists, husbandry specialists) or detailed analytical models (or both) to make loan decisions and monitor investment production programmes	Relies on staff trained in lending methodology, not on client activities
Following through with borrowers	*Following through with borrowers*
Expects loan officers to spend most of their time developing and enforcing investment plans and ensuring production.	Expects loan officers to focus on building relationships with clients, enforcing repayment and understanding the performance of farming households' multiple economic activities.
Expends enormous effort to ensure that loans are used according to predetermined plans	Understands that money is fungible and makes minimal attempts to control loan uses
Tends to be far more lax in the timing of payments, often assuming that farmers time their sales to achieve highest possible prices	Expends great energy enforcing rigid repayment discipline
Relies on extensive guidelines for multiple crops and livestock investment programme, expected cash flows, and repayment plans	Relies on a couple of key indicators (such as loan or payment amount) to monitor repayment performance
Uses more rudimentary loan tracking systems	Develops efficient management information systems to facilitate immediate follow-up on late payments

Source: Adapted from CGAP (2006).

Micro-Credit For Agriculture: Issues and Concerns in Financing through Joint Liability Groups

- Gopakumaran Nair. G*

The practice of Joint Liability Groups (JLGs), elsewhere in the world, had proved to be effective mode in prevailing over some of the restraints built-in the SHG- bank linkage programme, such as limit in loan amount, minimum waiting period for loan eligibility, etc.

Abstract

In India, access to affordable credit by the less-privileged sections of the society was always far from satisfactory. SHG-Bank linkage programme, initiated during 1990s and spearheaded by NABARD, could make good strides in promoting thrift and improving credit access among poor, albeit with smaller amount. Investment credit requirements of the resourceless poor, however, was still eluded from the formal banking system on account of security based lending practices, information asymmetry and widespread moral hazard. The practice of Joint Liability Groups (JLGs), elsewhere in the world, had proved to be effective mode in prevailing over some of the restraints built-in the SHG- bank linkage programme, such as limit in loan amount, minimum waiting period for loan eligibility, etc. Groups formed under JLG by the borrowers themselves, on the basis of self-selection by understanding his/her social integrity, productive capacity and credit worthiness in the same community, enhanced enforcement and minimised repayment defaults. This paper seeks to study the issues and concerns observed while implementing two models of JLG linkage in Kerala (in Pathanamthitta and Alappuzha districts). The study identified prominent push and pull factors associated with JLG based lending and found that the JLG based lending could supplement SHG - bank linkage rather than supplanting

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it. The study observed that the JLG system is helpful in increasing capital formation, promoting income generation activities among the rural poor, enhancing repayment of loan (especially by women groups) and increased activity specialised groups. The study also offers some important pointers, which need to be addressed for better success of the programme.

Introduction

Credit plays a crucial role in the development of agriculture, especially in an era where the share of purchased inputs to output is on the increase. In India, credit, especially 'affordable credit', holds utmost importance in view of large segment of small and marginal farmers, their poor resource base, low level of capital formation and adoption of technology and consequent low level of productivity. With the positive and established linkage between finance and growth (Goldsmith, 1969, Gurley and Shaw, 1955, Levine, 1997), below par performance by formal credit purveying system has been a matter of concern. Hence, naturally, financial inclusion secured the position as the foremost prerequisite for the all- inclusive growth, the plan target of the Eleventh Five Year Plan. This aspect has also got justification on the growing presence of informal moneylenders in the rural economy and the history of adverse terms of credit associated with their operation. Better access to farm credit from the formal sources by the farming community, therefore, it is expected that, will accelerate growth in agricultural and rural sector reducing poverty in such hotspots.

In India, historically, spread of institutional credit was paltry. Findings of the Situation Assessment Survey of Farmers - Indebtedness of Farmer Households, brought out by the NSSO (GoI, 2003) highlighted that less than half (48.6%) of our farming community (89.35 million households) has access to any source of credit. The situation was reported to be more precarious in case of small farmers, who account for more than 80% of total number of farm holdings in the country, but only 45% of them had access to credit. Despite various efforts to improve the reach of institutional sources, a large segment of our rural society still depends on private moneylenders, traders, etc. to meet credit requirement of farm operations. The NSSO also estimated that for all farmer households taken together, at the all India level, institutional sources were responsible for providing 57.7% of the total credit (of those who have access to any form of credit), pointing a southward movement as compared to the situation prevalent (66.3%) during 1991-92 (GoI, 1991-92).

One of the major innovations in the rural credit scenario in India during 1990s was the Micro Credit Programme[1] pioneered by NABARD. The initiative started in 1992, later on claimed to be a movement, has made rapid strides with cumulative number of credit-linked SHGs attaining upto 47.07 lakh as on 31 March 2009. This programme has enabled more than 7 crore households in the country to gain access to credit facilities from the formal banking system (NABARD, 2008-09). Group liability, a contract feature is a common component in most of the microfinance programmes. Many believe that this feature, because of its purported ability to overcome adverse selection and moral hazard problems, is a key innovation responsible for the rapid growth of the microcredit movement in credit markets for the poor (Xavier Giné and Dean S. Karlan, 2007). Joint Liability Group concept gained importance with the advantage of group based lending where all members in the group are liable for each other's loan. The programme is also capable of prevailing over some of the restraints built in the SHG-bank linkage programme, such as limit in loan amount, minimum waiting period for loan eligibility, some members' disagreement in accepting liability, etc.

Under group liability, clients have an incentive to screen other clients, so that only trustworthy individuals are included in the group with mutual agreement. In addition, clients will make sure that funds are invested properly. Enforcement is enhanced because clients face peer pressure to repay their loans. Thus, the system effectively shifts core responsibility from the lender to the client themselves. Group liability, it is claimed, have helped to overcome information asymmetries typically found in credit markets, especially for households without collateral (Xavier Giné and Dean S. Karlan, 2007). For the banks, such contracts enable to reduce cost of screening, monitoring and enforcement. Almost all JLG mechanisms have common set of incentives, such as the limited or unlimited liability of each borrower for all other borrowers of the group, the repeated (group) access to further loans if previous ones have been repaid by all group members, and the dynamic incentives of increasing loans, etc. despite some variations to suit local conditions (Alexander S. Kritikos and Denitsa Vigenina, 2005).

In short, under JLG concept, groups are formed by the borrowers on the basis of self-selection by understanding his/her social integrity, productive capacity and credit worthiness in the same community. Normally, a person regarded as a high-risk borrower by others will not be included in a group since he is more likely to default and impose a financial burden on the rest of the borrowers. With this mode, the banks could circumvent the dangers of providing loans without collateral, and make it possible to finance productive activities among the poor. In India two models of group liability based lending[2] are propagated, wherein the lender can issue loan either individually, or it can loan the amount to the borrowers as a group. In both the cases of group lending there is joint liability for the repayment of the loan.

In this background, the present study is to explain various aspects of joint liability group-lending schemes. The paper also discusses the relative contribution of various factors towards the success of such group-lending schemes. The remaining part of the paper is organised as follows. Section II describes the objective and methodology of the study on JLG lending. In Section III, a brief review of the various aspect of JLG with respect to the present study while in section IV, the results of the study are discussed. Section V provides conclusion and offer some policy recommendations based on the study.

II Objective, Coverage and Methodology of the Study

The study objectives are :

i. to examine the structure and functioning JLG groups formed under two models suggested by NABARD;
ii. to understand issues relating to implementation of various models of JLGs and its credit linkage; and,
iii. to suggest policy recommendation for better implementation of the scheme.

The study was launched in two districts in the middle part of Kerala, viz., Pathanamthitta and Alappuzha. JLGs formation and their credit linkage were taken up by Pathanamthitta Cooperative Agriculture and Rural Development Bank (PCARDB) since 2007-08 directly without the help of any facilitating agency. In Alappuzha, Gandhi Smaraka Grama Seva Kendra (GSGSK) promoted JLG and facilitated credit linkage with commercial banks such as SBT and Federal Bank and District Cooperative Bank. The study covered 40 such groups financed during 2007-2010 period, drawn equally from the JLGs credit linked by PCARDB, Pathanamthitta and GSGSK representing Model A and Model B, respectively.

The study is based on the interview and observation method. Relevant information for the study was collected using a simple schedule through interview with the JLG leaders. In addition detailed discussions were also held with financing agency and the facilitating agency. The information / data so collected were tabulated and analysed to derive conclusions and presented.

III JLG - Experiences

Study by Ghatak (2000) found that by exploiting local information, joint liability lending could improve efficiency compared to standard debt contracts in the presence of asymmetric information about borrower types. Sufficient information about each other in the group could reduce the information gap that was confronted by the lender before teaming up of JLG (Stiglitz 1990, Ghatak 1999, Kritikos 1999, Armendariz and Gollier 2000, N'Guessan and Laffont 2000). The loaning operation under JLG is observed to ensure high repayment as combined mechanism induces borrowers to self-select into homogenous groups of low risks inducing several peer measures within the group (Morduch, J. (1999). High repayment among urban homogeneous JLGs in Burkina Faso, observed by Paxton (1996) was attributed to sufficient training and reliable leaders. The fundamentals of JLG lies in the principle that any risk type of borrower who aims to maximize his benefit will try to keep the probability of default within the group as low as possible, in particular a low risk type will reject a matching with a high risk type (Alexander S. Kritikos and Denitsa Vigenina, 2005).

Availability of collateral is the hindrance in expanding institutional credit in a security-oriented system of lending followed in India. In developed countries collateral can be used more easily than in developing countries due to better titling of property and a more efficient legal system. In contrast, in developing countries, even if the poor have some assets (e.g., a small plot of land) it often cannot be used as collateral because of the absence of these institutions (De Soto, 2000). Credit delivery in the developed countries also have systems to accommodate less privileged not necessitating contractual mechanisms such as joint-liability to overcome credit market failures. When other potential screening instruments, such as collateral, are not available, joint liability lending has accepted as practically attractive method.

The task of monitoring of loan and ensuring the repayment are transferred from the lender to the borrowers themselves under JLG system. The backbone principle of joint-liability is that, if a borrower rejects to repay his share of the loan, the whole credit group is considered in default losing access to subsequent loans, inducing the group to put pressure on him to repay loan or repay for him/her. Thus the enforcement capacity is created through the termination threat (Besley and Coate 1995, Kritikos 1999). As a consequence of these incentives, lenders are able to obtain higher rate of repayment of all loans. Further, enhanced mutual support among members in case of repayment problems and enhanced peer pressure, if case of loan misuses, and consequential reduced probability of moral hazard were also observed under JLG mode of loans. Effective functioning of the JLG system requires a provision in which the borrowers are allowed to exclude members from their group if they proved to be defaulters. Zeller (1998) found that members of those groups who engaged in formal screening with an internal code of regulations, had a low probability for delinquency in Madagascar, indicating that screening within the group resulted in an informational efficiency gain.

Manohar Sharma and Manfred Zeller (2000) identified factors such as group size, loan amount had inverse relationship with repayment rate of loan, whereas group's portfolio diversity, extend of credit rationing, social interrelationship within groups, demographic composition of group, higher share of female composition, own involvement in screening and monitoring, etc. were positively related with repayment of loan. A study (Simtowe, Franklin and Zeller, Manfred, 2006) covering 99 farm and non-farm JLGs in Malawi, also supplemented that peer selection, peer monitoring, peer pressure, dynamic incentives and variables capturing the extent of matching problems explain most of the variation in the incidence of moral hazard among credit groups.

Despite factors favourably influencing repayment of loan, there were observations that JLGs can also adversely affect repayment of loan. Paxton's (1996) study also revealed that groups tend to experience repayment difficulties after a few loan cycles. As loan size increase due to the dynamic incentives, loan terms and volumes will differ with the consequence that borrowers with smaller loan volumes may reject joint-liability for borrowers with higher loan volumes in the same group. Almost similar observation was also made by Godquin (2002) that the borrowers' repayment performance deteriorated with the age of the group. Besley and Coate (1995) cautions that the main problem of the joint-liability mechanism may arise from the termination threat. If a group, not able to repay the loan of one defaulting member, and excluded from further loans, the group members' best strategy may be not to repay their loans either because all members will be excluded irrespective of their individual ability to repay their own loan. Such outcome is disadvantageous for the lenders because all other group members except the defaulter could have repaid their loans (Rai, A.S. and T. Sjo¨ stro¨m, 2004). The joint liability feature associated with group lending, thus, creates a free-riding problem which makes group lending unattractive. (Yeon-Koo Che, 2002).

Influence of social ties also studied by Alexander. S Kirtikos (2005) and came up with mixed effect on repayment performance. Thierry van Bastelaer and Howard Leathers (2006) had identified that high repayment performance by collectively liable groups in Southern Zambia was on account of collective action within groups, such as, community-based cognitive social capital, proxied by generalized trust. This suggests that attitudes and values shared by community members create an environment in which borrowers honor their engagements. Alexander (2005) also observed in studies by Thierry van Bastelaer and Howard Leathers, (2006), Wydick (1999) justify that strong social ties had a negative effect on group. Likewise, Mondal and Tune (1993) emphasized that too weak social ties may also lead to negative outcomes, if there is a lack of willingness to support the fellow group members. Similarly, Sadoulet (2000) argues that "social collateral" induced by group liability is not sufficient to ensure high repayment rates.

Successful operation of JLG warrants certain condition to be fulfilled to induce favourable factors [Gibbons, D.S. and S. Kasim, (1990), Krahnen, J.P. and R.H. Schmidt (1994), Sharma, M. and M. Zeller (1997), Kritikos, A.S. (1999), Ghatak, M. and T. Guinnane (1999), Woolcock, M.J.V. (1999)]. They include factors such as focus on the target group (coverage of borrowers who have no access to the regular banking system), restriction of the group size for better ties among members, deliberate grouping by its eventual members (not by the loan officers of bank), enforcement of the group liability mechanism, good quality leadership, trusting and clearly understood relationships between the groups and the bank, homogeneity in activity, single purpose groups, etc.

IV Discussion and Results

A. JLG by PCARDB Pathanamthitta (Model A)

PCARDB Pathanamthitta started forming and financing JLG from 2006-07 onwards. Bank's staff has taken initiatives to form JLGs with the help of some of its Directors of Board, existing borrowers, etc. Homogeneity in place of stay, activity followed and economic conditions were considered while forming the group. Loan amount was decided based on investment requirement, absorption capacity, banks loan provision, etc. Land revenue receipt of the property owned, joint agreement (to repay the loan of the members in the group) were obtained while financing JLGs. In almost all the cases loans were issued within 2 weeks time after forming the group. Each member was issued individual loans and all members in a JLG were given loan for the same activity only. All the members in the JLG were made jointly and severely liable for the loan taken by the members in the JLG. Activities such as vegetable cultivations, dairy, readymade garment, food items preparation, etc., were major activities for which loans were issued. Though entire loan issued were to individuals 15% of the JLGs utilised the loan group activities in which costs and net profit were shared equally. The JLG member covered members were not given any training programme, so far. As on 31.03.2010, PCARDB, Pathanamthitta formed 105 JLGs, under which 461 individual loans were issued with credit component of Rs. 111.28 lakh (Table 1).

Table 1: Business under JLG by the agencies covered under the study (Position as on 31 March 2010)

Sr. No.	Particulars	Model A (Pathanamthitta)	Model B (Alappuzha)
1	Agency	PCARDB, Pathanamthitta	GSGSK, SBT, Federal Bank DCB Alappuzha
2	No. of JLGs credit linked	105	522
3	No. of loan	461	522
4	Total loan issued	111.28	1648
5	Average loan amount per JLG	1.0598	3.157

B. JLG Intervention by GSGSK in Alappuzha (Model B)

GSGSK, in Alappuzha, the district centre of the Gandhi National Memorial Trust, New Delhi, was established in 1958 and registered in 1960, under the Tranvancore-Cochin Literary, Scientific and Charitable Societies Act of 1955. GSGSK initiated efforts to form and credit link JLGs on a larger scale from 2004 onwards. Members for activity based JLGs were picked up from the matured SHG/s (under their folder). The process of formation of JLG starts with self- selection of members by SHG federations. Field staff of GSGSK sub centres helped to form activity based JLGs of 5 to 10 individuals belonging to single or various SHGs affiliated to GSGSK. Homogeneity is strictly on activity followed and members are often from various SHGs (upto from 7 SHGs in a JLG) under the same federation and some from places 2 KM distance. All JLG members were, thus, from the matured SHGs formed and maintained by GSGSK and remain part of the parent SHGs even after credit linkage of JLGs. After forming JLG and on satisfactory verification by field staff, they were affiliated to GSGSK and imparted training to members by GSGSK/ subject experts, before credit linkage. Normally, stabilisation period of 3 months was maintained before credit linkage. Monthly meeting and savings were compulsory. Monthly meetings attended by federation leaders & GSGSK staff (not in all meetings). Meetings of JLGs formed from single SHGs were normally coincided with the weekly meeting of SHGs (held immediately after the regular SHG meetings). As on 31.03.2010, GSGSK has facilitated formation of 996 JLGs, ofwhich 522 were credit linked (332 JLGs credit linked through banks such as SBT, Federal Bank and District Cooperative Banks, and 190 through GSGSK)- and these JLGs availed loan of Rs.1,648 lakh (Table 1).

C. Sample characteristics

Entire sample covered under the study were in the category of Small and Marginal farmer, owning a house and small area of land. Broad characteristics of the sample, JLG and their members are present in Table 2. The sample JLGs under both models were availing bank loans, with joint liability, either individually or on group basis. Loans taken were utilized for undertaking group based activity by 15% of JLG under

Table 2: Sample characteristics

Sr. No.	Particulars	Model A (Pathanamthitta)	Model B (Alappuzha)
1	Study Area	Pathanamthitta	Alappuzha,
2	Financing period	2007-10	2007-2010
3	Supporting Agency	PCARDB, Pathanamthitta	GSGSK, SBT, Federal Bank DCB Alappuzha
4	JLGs covered	20	20
5	Average member in JLG	5	8.15
6	Drop out since inception of JLG (%)	0	7.9
7	Female JLGs (%)	65	55
8	Male	10	45
9	Mixed JLGs	25	0
10	Homogeneity	Neighborhood, activity, economic conditions	Activity, economic status
11	Asset possession of members Farmer category	All owned house & land SF/MF	All owned house & land SF/MF
12	Size of holding (acres)	0.17	0.36
13	BPL share in JLG (%)	23	14
14	Average savings (Rs) excluding JLGs with group based activities	Nil	32
15	JLGs followed group based activities (%)	15	45
16	Activities of JLG/members	Vegetable, dairy, goat, readymade garment, food items preparation, choola stone making, etc.	Vegetable, dairy, fish, coir making, fishing, fruit /vegetable processing, etc.
17	Loan amount issued (Rs.)	23100	26075
18	Equal sharing of loan amount by JLGs (%) including JLGs followed group based activities)	90	75

Model A and 45% under Model B. Though the JLG concept targeted tenant farmers sharecroppers, etc., in the entire sample, no landless farmer was included.

While PCARDB, Pathanamthitta directly formed the JLG and issued loans, GSGSK facilitated JLG bank linkage, by forming, monitoring its performance, recommending for loan issue and further follow up. Loan amount issued varied between Rs. 20,000 and 25,000 under Model A whereas it was in the range of Rs. 2,000 to 60,000 per member in Model B. Most of the loans (90%) under model A and three-fourth under Model B were shared equally among the members. Investment was made out of the loan taken and under-financing was not observed.

D. Push factors of JLG

Discussion with JLG members, GSGSK and PCARDB etc. reveled the following advantages on account of JLG scheme:

i. Self selection and peer monitoring

In both the models, selection of members in the JLG was by the group members themselves, enhancing mutual trust among them. The practice of peer monitoring of investment /utilisation of loan was reported among JLGs in Model B; whereas, it was not observed in case of Model A (in Pathanamthitta) where individual loans were issued and end utilization was not monitored by other members in JLG. However, peer monitoring was not very effective in preventing disinvestments as the individual investors discontinued the activity despite such advise/warning from other members of JLG/ NGO. Monitoring of group activities, utilization of loan, follow-up in case of loan default was observed good in Model B with the involvement NGO as a facilitator.

ii. Bridging the information gap

With the involvement of NGO, SHGs, local leaders, etc., in selection of members, as far as bankers are concerned, the issue of asymmetric information on client was reduced considerably in JLG finance. It was also generally observed (irrespective of models) that low risk borrowers tried to team up with similar borrowers and thereby reduced their risk in taking liability.

iii. Hassle free credit

In both the models, it was observed that, loan disbursement was very smooth and hassle free. Except tax receipt and inter-se agreement in stamp paper, no other formalities was involved/document collected by the bank in case of loan disbursement. Loan disbursement was quick under Model A, where loans were disbursed normally within 2 weeks after the formation of JLG. It was also observed that, in case of Model B, there was a time gap of almost 4 to 6 months between JLG formation and availing loan. This was attributed to the initial formation process, affiliation to NGO, 3 months' waiting period for stabilisation, and further loan process on satisfactory functioning of JLGs. These members also availed loan without providing any collateral, which was a stumbling block in accessing institutional credit under individual loan schemes.

iv. Access to investment credit and its utilisation

Members in JLG were having the uniform opinion that they could invest in income generating activities with the loan under joint liability without depending any other sources. The erstwhile SHG membership and subsequent credit linkages enabled the member to have access only to small amount of loan, which was not sufficient for the start up of an income generating investment. Majority of the members were of the view that the investment they made provide them livelihood support, which was impossible through in normal SHG route. Details of bank loan and its utilisation pattern are given in Table 3.

Table 3: Bank loan and its utilisation

Sr. No.	Particulars	Model A (Pathanamthitta)	Model B (Alappuzha)
1	Loan amount (Rs.)	23100	26075
2	Average investment made (Rs.)	21700	26850
3	Loan amount utilised full or more for the purpose (% to total)	77	88
4	Loan amount partially utilised for purpose (% to total)	23	12
5	Defunct units (%)	27	19

Of the total, 77% of the borrowers/groups utilised entire loan amount or more in the purpose for which loan was taken. Utilisation of loan was cent% in case of borrowers who performed group based activities. Full misutilisation of loan was not observed in none of the models covered under the study. Of the total borrowers, who made investment out of loan, 27% under Model A and 19% under Model B were found to be defunct at the time of study on account of reasons such as non-viability, personal reasons, disasters (such as death of animal in case of dairy), ill-health, etc.

v. Improved repayment of loan

Inbuilt peer monitoring of investment, self selection of members, better utilisation of loan, peer pressure etc. reportedly favourably influenced repayment of loan. Practice of extending assistance to member in trouble (such as internal loan from JLG savings) was practiced in women groups under Model B (help restricted only for 2 -3 occasions to a member) to avoid default of loan by the groups. While surplus from the operation was used for repayment in case of group activities, income from investment (income from other sources in case of disinvestment) was normally used for loan repayment by individual investors. Members who were defaulters of loan were mostly observed to be willful defaulters since sufficient net income was generated from the investment made out of loan, in majority cases. Expectation of loan waiver (in view of recent debt waiver schemes by Centre and State governments), free-riding habit of some of the members in the groups, lack of proper follow up (in case of Model A), investment failure (in some cases), etc. were prominent reasons prompted to default/delay loan repayment. Details of loan taken by the JLG members and repayment status are given in Table 4.

Table 4: Loan and repayment of sample

Sr. No.	Particulars	Model A (Pathanamthitta)	Model B (Alappuzha)
1	Loan amount issued (Rs.)	23100	26075
2	Defunct units (%)	27	19
3	Prompt repayment (% to total)		
i.	Women (including groups)	52.5	81.8
ii.	Men (including groups)	30	33.3
iii.	Total	48	60

Repayment of loan was also better in case of JLG under Model B (60% as against 48% under Model A) on account services of facilitating agency, more of group based activities, better utilisation loan amount, etc. Loan repayment was distinctly better among women members under both the models. Under Model A, of the total, 46% were prompt repayers, while 2% closed the account and the rest, i.e., 52% partly defaulted the amount due. Of the total 20 men members, 14 members were found defaulting their dues (70%) while 5 promptly repaid the loan and one closed the account. Under Model B, of the total, 12 groups were reported prompt in repayment (60%). Among the 11 women groups, 9 were repaying loan regularly (81.8%); whereas, of the 9 men groups covered under the study, only 3 JLGs made loan repayment promptly, with a defaulting share of 66.6%. Overall prompt repayment among women members/JLGs was 69.7% whereas among the men member / JLG the same was as low as 31.7%. Non-serious investors (investment made as subsidiary activity), diversion of loan amount, expectation of waiver schemes, subsidies offered to similar collectives under other programmes, etc., had demotivated / influenced against prompt repayment of loans. Need for continuing income generation activities, group based activity, threat of denial of continuous loan, persuasion by facilitating agency etc. motivated women members to repay loan in time.

vi. Transparency in operation

Number of members in JLG was less as compared to SHGs and in majority cases, members were residing in the same area pursuing the same activity and known to each other, very well. These were found to be enabled JLG to operate compactly, transact easily, functioning very transparently, improved group cohesion, etc. Perfect accounting system followed under Model B was found to enhance the confidence building among the group members, which was lacking in case of samples under Model A in the study. Clarity in conditions of loans taken by the members was found more in Model A where loan issued and repayment, etc., were undertaken individually. However, lack of regular group meeting, saving stipulation, record keeping, etc., adversely affected the performance JLG under Model A.

vii. Complementary to SHG movement

It was observed that all the JLG members under Model B and majority of members (86%) under Model A were drawn from the existing / matured SHGs. The formation JLG from the SHG, it was hypothesised, that will affect the performance of erstwhile Groups. However, available interactions with the group members have not confirmed any such presumptions. All the members drawn from SHGs continued in the groups with all its formalities, even after joining JLGs. Efforts were made under Model B to put limitation on loan liability of JLG member in SHG loans to avoid mounting liability due to borrowing from multiple sources. As SHG and loan facilities were from other sources, under Model A, no such restrictions were possible. The study result showed that JLGs not supplanting the SHG concept, instead it is supplementing the loan disbursement effort under SHG by providing higher loan amount to the needy investors reducing conflict among SHG members where some members were against taking higher group liability. JLGs also found to be a better conduit for issuing investment credit to the needy SHG members which could fulfill their aspiration of setting up an income generating activity.

E. Pull factors - limitation of JLG linkage

i. Free riding

One of the major constraints that JLGs confronted was free riding issues. As the entire members in the JLG are jointly and severely liable for the entire loan taken by the JLG, some members took advantage of the situation and willfully defaulted loan repayment. Withdrawal of some member in repaying loan tend discourage other members also since entire group is affected uniformly by the defaulter. Instance of entire group fell into repayment default was observed under Model B also on account of default by one or two member in the group. This process is likely to have multiplier effect, adversely affecting repayment of loan under JLG mode. In some groups under Model B, such issues have resulted in drop out of members who were not willing to share the risk of defaulting members.

ii. Prompt re-payers branding as defaulters

Joint liability in the group prevented even prompt repayers also from availing sequence loans, in case of default by some members in the group. Denying sequential loaning to JLG is likely to happen in majority cases, where repayment of loans were defaulted. A good share of members in such groups, however, were found prompt in repaying their dues. This could be one of the biggest challenges that the JLG linkage system may confronted with, in future, as the same will adversely affect the customer base of the lending institutions, as well.

iii. Weak monitoring by banks

Identification of members who are genuinely interested in JLG, pursuing same activity and formation of group stands critical for the success of the concept. Under Model A, manpower shortage and lack of knowledge on local conditions put some slip-up in selection of group members. Peer selection was successful in certain cases. It was also observed that, high risk borrower teaming up high risk borrowers was observed in certain cases even in case of Model B, eventually leading to the full default of loan by the entire groups. High loan amount available under the mode with out collateral also attracted such people to form groups and evade repayment.

iv. Unequal sharing of loan amount

Instances of conflict in group were also observed on account of unequal sharing of loan amount (occurred both on and off the record). Normally loan amount per individual was fixed depending on his/investment requirements. Instances of some members cornering lion share of the loan or investment by taking the share of other members were observed under both the models. In such cases loan liability was in the name of individual members, but investment/ loan was actually administered by a few members with the oral agreement that he/she will repay the entire loan.

V Conclusion and Policy Recommendations

The concept of JLG is observed to be highly beneficial to those who could not offer any collateral to take relatively higher loan as compared to SHG loans. The system is helpful in increasing capital formation, promoting income generation activities among the rural poor, enhancing repayment of loan and increased activity specialised groups. NGO facilitated/supported JLGs were found to be well structured, better performed, well monitored, and repaid loan more promptly as compared to JLGs directly formed and managed by the banks. The concept was also found to be complementary to the SHG bank linkage programme by providing higher loan to the needy members in the groups. Financing banks got the incentives such as broadened customer base, cost reduction in the lending operation (especially in model B), borrower dominated follow up, shifting the repayment risk to the JLG, etc. As compared to women JLGs, repayment and other performance was observed poor in case of men JLGs. In spite of enumerated advantages, some negative elements such as free riding issues, denial of sequential financing even to the prompt repayers, etc., are likely to be crept in the system uprooting the concept. Some policy measures are, therefore, suggested for successful implementation of the system:

- Utmost importance needs to be accorded in the selection process of group members in JLGs. Participating members should be given free hand in selecting members in their group and lending banks dominated selection to be discouraged.
- Members with right aptitude in the activity alone need to be covered under the group. Selected members need to be imparted suitable training on the activity selected. Similarly able leadership in JLG also positively contributed for the success; hence, leadership building needs to be encouraged through training.
- A foolproof system need to put in place to avoid multiple membership in JLGs. Members loan outstanding with erstwhile SHGs also need to be collected while credit linking JLGs.
- Model A is found to be less effective as it is hard for the banks to form and nurture JLGs. Hence large-scale implementation of JLG may be adopted through Model B with the help of a facilitator.
- To avoid termination issues and to ensure sequence financing from the same institution, JLG may be given power to exclude members who are defaulting loan, by taking over his/her dues.
- There is a chance that higher loan amount, without collateral and time lag, may attract many to form/join JLGs. Proper checking system (such as proper screening, strict monitoring of utilization of loan, etc.) need to be evolved to exclude borrowers who are attracted by larger loan amount under the system.
- More concentration in promoting and credit linking of women JLG s and may put a stabilisation period for the men JLGs may also be stipulated, for better results
- Efforts, such as awareness creation, escorting, close monitoring, etc., are needed in case of men JLG on account of their poor performances and misutilisation of loans. The JLG should cover more of SF/MF tenant, who are in need of credit. More importance may be accorded to incorporate farmers who are not member in any of the SHGs and other sources of finance.
- Proper assessment on loan requirements of each of the members needs to be made and also to ensure that no member corner lion share of credit availed by JLG.

Notes

1 A comprehensive definitions on the concept is given by Marguerite S. Robinson, (2001) as "small scale financial services -primarily credit and savings- provided to people who farm, fish or herd ; who operate small enterprise or micro enterprise, where goods are produced , recycled , repaired or sold ; who provided services ; who work for wages or commissions; who gain income from renting out small amount of land, vehicle, drat animals, or machinery and tools and other individuals and groups at local levels of developing countries, both rural and urban".

2 NABARD envisages two models viz., Model A - Financing Individuals in the JLG (NABARD, 2009), each member of the JLG should be provided an individual loan. The financing bank could assess the credit requirement, based on the investment /crop cultivation/activity to be undertaken and the credit absorption capacity of the individual. All members would jointly execute a loan document, making each one jointly and severally liable for repayment of all loans taken by all individuals belonging to the group. Under Model B - Financing the JLG as a Group - the JLG functions, operationally as one borrowing unit. The group would be eligible for accessing one loan, which could be combined credit requirement of all its members. 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.

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SHG-Bank Linkage Mechanism - Exploring Facts and Roadmap

- Neeta Tapan*

Abstract

Against the backdrop of the global agenda of SHG-Banking, the disillusionment with government programmes of poverty alleviation and the recommendations of different Committees, the logical foundation for promoting micro-credit was laid down in India. Contrary to the earlier readymade credit delivery programmes, SHG-Bank linkage is a savings-led model designed on the lines of participatory development. An advantageous bank linkage operates at all levels as it can lead to the functional efficiency, economic activity of SHGs and economic empowerment of the members. But, several factors like maturity level of SHGs, repayment ethics, borrowing profile of the members, use of bank loans, etc., are responsible for the sustainability of the linkage mechanism. The paper attempts to study the SGSY SHG-bank linkage at a micro level in the background of the allegations of target-based formality where banks do not play the desired role. The fact-finding leads to some reflections, which show the roadmap to the way ahead.

Several factors like maturity level of SHGs, repayment ethics, borrowing profile of the members, use of bank loans, etc., are responsible for the sustainability of the linkage mechanism.

Contextual Background

Rural development is a process and cannot be achieved overnight. Moreover, in addressing the problem of rural poverty, besides employment generation, credit delivery is one of the most urgent concerns of the government. A vicious cycle of low capital, low productivity, low incomes, low savings, and

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consequently a weak capital base is perceived to be operating, perpetuating a chronic poverty syndrome. Experience with rural communities indicates that while poor households are engaged in building up saving for cushions against emergencies, insufficient opportunities for earning incomes and sustained employment coupled with the constant need to service old debts lead to frequent seasonal and yearly deficits. The informal credit providers play a critical role in banking on these vulnerabilities and developing and strengthening relationships of dependency, exacting surplus and perpetuating exploitation.

Many national rural development programmes in the form of integrated efforts or cooperatives have endeavoured to increase the availability of financial services, reduce collateral or other requirements, and adapt procedures to rural clients. They were framed on the basis of the belief that by combining additional labour with more capital, production and income can be increased. Rural credit delivery system was basically designed for the farmers. However, in reality, the rural borrowers are not just small, medium and big farmers, but they are landless, artisans, agricultural labourers, men and women mostly engaged in non-farm activities and need small, and regular loans for trading, small income generating activities and even for consumption. They also require loans to redeem their mortgaged assets like land, house, jewellery, etc. The problem of credit for rural poor is both a demand side and supply side problem.

Moreover, credit is only an input in the economy and is not sufficient for initiating or regenerating rural development. Firstly, credit cannot merely be created by an increase in the money supply; nor can capital be used for developmental purposes if the clients divert savings for consumption purposes. Secondly, rural development and poverty alleviation are not about production and productivity alone. Credit needs of the rural clients arise due to growing family size and societal obligations like expense on marriages and deaths, medical treatment, and to bear market and climatic uncertainties. Moreover, there is a very thin line between the consumption and production needs of the rural poor. Credit for rural development, therefore depends on rural savings as much as it depends on the provision of liquidity to farmers and entrepreneurs without sufficient funds to invest in improved technological advances.

A number of committees viz. Rural Banking Inquiry Committee (1949), All India Rural Credit Survey Committee (1954), Committee on Cooperative Credit (1960), All India Rural Debt and Investment Survey (1962), All India Rural Credit Review Committee (1969), Working Group on Rural Banks (1975), Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (1981), Agricultural Credit Review Committee (1989), and Narsimhan Committee (1991 and 1998) constituted by Government of India looked into the working of institutional financing agencies and made several recommendations to improve their functioning and delivery (Karmakar, 1999).

Thus, it was realised that in a country as vast as India and with poverty so deeply rooted in the complex socio-economic milieu of rural areas, a single strategy or approach may not be feasible. The constraints of micro-enterprises and the need for looking beyond credit have to be recognised while framing appropriate policies for promoting growth with equity.

Bank Linkage

The major issues confronting the formal rural credit agencies were high transaction costs, tiny savings, reduced margins and profits, less viability, poor monitoring and recovery, and growing non performing assets. Against the backdrop of similar problems, the Grameen Bank in Bangladesh set up an effective model to deal with rural credit problems. It developed highly effective techniques like taking services to the village level, promoting and motivating groups of the poor, use of group guarantees, compulsory savings mobilisation, intensive supervision of borrowers, and decentralised and cost-effective operations, for lending to the poor. The success story of this model inspired other such nations facing rural poverty syndrome and credit delivery crisis. Simultaneously, international concern to evolve new concepts of banking triggered off policy dialogues between the Asian and Pacific Regional Agricultural Credit Association (APRACA) and Gesellschaft fur Technische Zusammenarbeit (GTZ-Germany). On this international platform, it was felt that the traditional banking should not ignore the creative human potential of the poor in Asia, as they are potential motor for grassroots development. The following thesis became the entry point of SHG-Banking. It was proposed that providing the rural poor with access to saving and credit services may stimulate their self-help capacity and can be one essential entry road to overcome poverty and address some of their crucial social concerns. Finally, in Kathmandu, in 1986, an agreement was signed in order to undertake national level studies in existing Self-Help Groups of the rural poor and to initiate project activities on "Promotion of Linkages between Banking Institutions and Self-Help Groups in Rural Savings Mobilisation and Credit Delivery to the Rural Poor".

In India too, a multi-agency approach for providing working capital and assets acquisition to rural borrowers had been in operation since 1969. Credit, in this approach, was viewed as an input rather than a claim on resources and services. Bank nationalisation and the creation of new credit institutions were seen as a step for cheap credit. Low interest rates were also prescribed to offset price distortions to transfer income to the rural poor and to induce farmers to adopt new technologies. However, these low interest rates made it difficult for lenders to cover their operating costs.

On the other hand, within the system that existed, availability of credit was restricted to the few who were able to have recourse to credit under various government-sponsored programmes like Integrated Rural Development Programme, Pradhan Mantri Rozgar Yojana, Jawahar Rozgar Yojana, etc. The majority of the rural poor were unable to avail the benefit of these credit programmes due to past indebtedness, lack of sufficient knowledge about these schemes and inability to interact with bank/ district officials. Besides, the banks do not provide credit to meet the real urgent needs of the poor. Even those who avail these credit opportunities were tempted to divert this loan away from production requirements under the pressure of consumption and social needs. Moreover, credit in a vacuum of a support system is severely counter-productive as it imposes the burden of loans on the poor who have no repaying capacity.

Thus, it was realised that a more participatory approach to development should be evolved for poverty alleviation in contrast to such readymade credit delivery mechanisms. In this line, it was decided that rural credit agencies or other government agencies should encourage sufficient reallocation of tangible wealth as also new investment through intermediation between savers and entrepreneurial investors, and also increase the rate of accumulation of capital by providing increased incentives to save, invest and work.

Against the backdrop of the global agenda of SHG-Banking, the disillusionment with government programmes of poverty alleviation and the recommendations of different Committees, the logical foundation for promoting micro-credit was laid down in India as well and the National Bank for Agricultural and Rural Development (NABARD) undertook the implementation step. Early results achieved by SHGs promoted by NGOs such as MYRADA, prompted NABARD to offer refinance to banks for collateral-free loans to groups, progressively up to four times the level of group's savings deposits. An amasingly large number of formal and non-formal bodies have partnered with NABARD in this unique process of socio-economic engineering. What had started off in 1992 as a modest pilot testing of linking around 500 SHGs with branches of half a dozen banks across the country with the help of a few NGOs today covers 30 States and Union Territories in India with 7,17,360 SHGs financed in 523 districts involving 504 banks and 2,800 NGOs and other agencies. This programme accessed 11.6 million poor families with 58 million poor people and 90% of these were women SHGs (NABARD, 2003).

SHG-Banking is a programme that helps to promote financial transactions between the formal rural banking system in India comprising of public and private sector commercial banks, regional rural banks and cooperative banks with the informal SHGs as clients. SHG-Banking through self-help groups and the existing decentralised formal banking network including several organisations in the formal and non-formal sectors as banking partners allow for large-scale outreach of microfinance services to the poor in India. These banking services (depositing savings, taking loans) are made available at low cost, are easily accessible and flexible enough to meet poor people's needs. Linking SHGs directly to banks is the basic model in which an SHG, promoted by an NGO or DRDA can access a multiple of savings in the form of loan funds or cash credit limit from the local rural bank. The SHG onlends the funds it accesses from banks to its members.

This programme encompasses three broad models of linkage:

Model I: Bank-SHG-Members
In this model, the bank itself promotes and nurtures the SHGs until they reach maturity. It accounted for 16% of cumulative bank loan provided till the end of March 2002.

Model II: Bank-Facilitating Agency-SHG-Members
Here groups are formed and supported by Government agencies or NGOs. Being a dominant model it accounted for 75% of cumulative loans of banks by March 2002.

Model III: Bank- NGO-MFI-SHG-Members
In this model NGOs act as both facilitators and Micro Finance Intermediaries, and often federate SHGs into apex organisations to facilitate inter-group lending and larger access to funds. Cumulative bank loans through this channel were 9% of total by March 2002.

The SHGs formed under the Swarnjayanti Gram Swarozgar Yojana follow Model II of bank-linkage. However, it should be noted that the bank linkage model in any form is a savings-led model and the SHG must have a minimum savings period of 6 months prior to the availability of bank credit. The quantum of credit available to SHGs starts from parity with savings and can increase to eight times the level of SHG savings. The SHG-bank linkage model provides the cheapest and most direct source of funds. However, this has to be set against the low volume of funds that are available through this channel in view of the linkage of credit with SHG savings. Moreover, the attractiveness of the SHG as a micro-bank serving its members arises from the low-cost retailing option it provides as the linkage permits the reduction of transaction costs of banks through the externalisation of costs of servicing individual loans and also ensuring their repayment through the peer pressure mechanism.

Sustainability of SHG banking in the long run is an unresolved issue. Given the flexibility of SHG banking in India, there may be different routes to the sustainability of access to formal financial services. One is direct access of individuals to bank services, based on the growth of their micro enterprise activities and the track record provided by their SHGs; for a transitional period, small-size loans from group funds and opportunities for graduation to larger-size individual bank loans may exist side by side. Another option, presently developing in Andhra Pradesh and neighbouring states on a growing scale, is the formation of federationsvi, some with and others without financial intermediation functions, indirectly giving legitimacy to the member-SHGs. A third option presently under discussion may lie in the full integration of credit NGOs and MFIs, with their SHG clientele, into the formal financial sector.

Study Design

One of the most important objectives behind launching Self-Help Groups was to establish the formal banking system in rural areas. Besides opening up of accounts and depositing saving amounts in the banks, the SHGs enter into a formal linkage programme with the banks, which in turn extend formal financial services for providing credit inputs to the groups. The members and their families would thus get out of the clutches of the exploitative informal sources of credit. At the same time, it is presumed that the banks linkage apart from serving such practical macro interests of financial inclusion also fulfils some strategic objectives of empowering the beneficiaries.

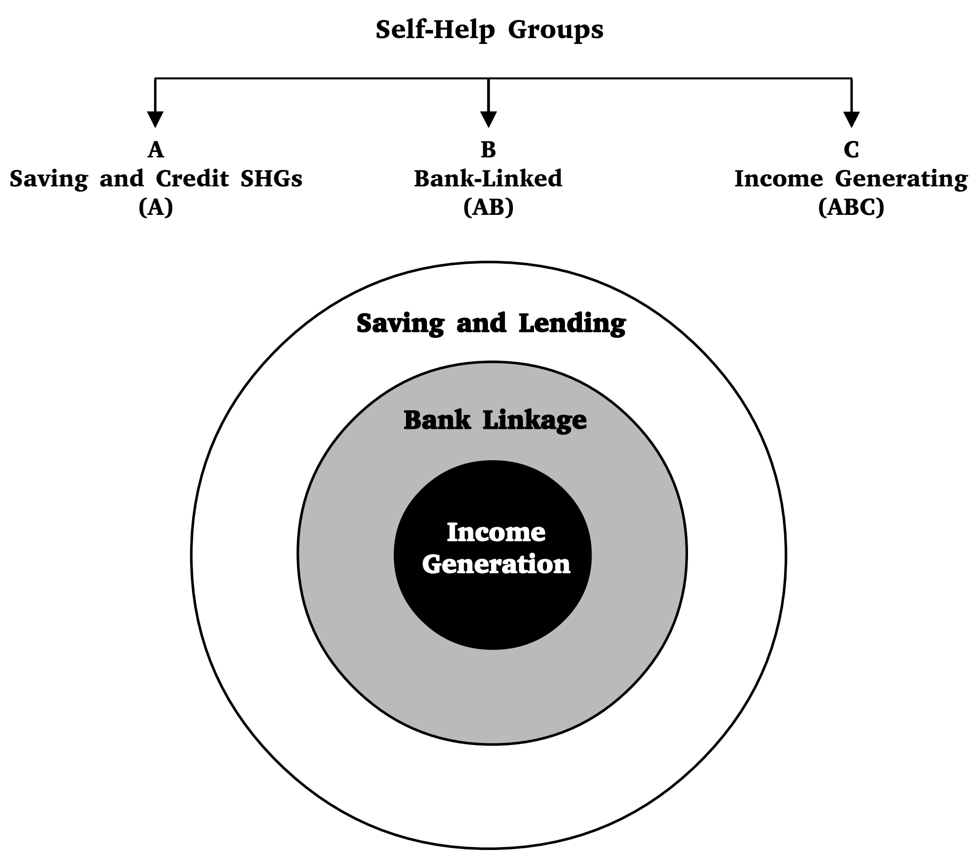
The SGSY bank linkage has, however, been criticised on the grounds of linking groups after formal completion of six months without ensuring the maturity of the groups. Moreover recovery of bank loans can lead to a successful and sustainable linkage. If the groups suffer from the subsidy hangover of the earlier government programmes and avail external credit from banks either just to disintegrate in order to escape repayment or to recycle old debts, then the bank linkage can only ruin the whole concept and functioning of SHG. The SHGs produce benefits on multiple levels and bank linkage is meant to enhance those advantages and not hamper the process. Thus, micro level studies are essential to enquire into such micro level realities of SGSY SHGs in Ujjain district with special reference to outcome of bank linkage mechanism.

The present study is based on a sample of 150 women SHGs drawn from Ujjain district of Madhya Pradesh. Madhya Pradesh is the third largest state in India, with a population of six crores of which 73% lives in rural areas. The state has a high percentage of population living below poverty line (36.9%) and low per capita Net Domestic Product of Rs.8,288. A high Infant Mortality Rate of 86 per thousand births and a distressingly high incidence of child malnourishment (50%) and low Human Development Index of 0.282 place the state at the bottom of the development ranking. Ujjain district of Madhya Pradesh has a population of 17,09,885 as per 2001 census and the rural population accounts for 61.26% of the total population. There are 161 Commercial Banks, 30 central Cooperative Banks, 14 Land Development Banks, and 172 Cooperative Agricultural Credit Committees in Ujjain district.

The SHGs under SGSY are being run block-wise in Ujjain district. Therefore, all the 6 blocks viz., Ujjain, Ghatia, Badnagar, Khachrod, Mahidpur, and Tarana form the area of study. There are about 1,500 women SHGs, which are in the functional state in the district. Out of these, it was proposed to select a sample of 150 SHGs. It was further proposed to select 25 groups from each block. The pilot survey, however, disclosed the fact that many of the groups existing in the official records had dis-integrated or the members of many groups had joined the groups formed by the missionary NGOs. Considering the wastage of time, money and energy in such visits, which proved to be futile at the end of the day, it was decided to alter the sampling plan and work in conformity with the district officials to identify the working SHGs. Finding out the rate of demise of SHGs or blowing the air out of the balloon of the official records, which claimed highly inflated number of SHGs existing in the district, would make no sense in the present context and in fact, is altogether a new area of research.

The SHGs pass through different stages of working. These are initially formed as saving and credit groups, which later on qualify for bank linkage and out of these some groups further mature into income generating groups. These stages are not watertight compartments as such and in fact, overlap each other. The income generating groups are bank-linked groups and all the groups are essentially saving and credit groups. If we consider these three stages as attributes A, B and C respectively then the working stages in the life of the SHGs can be described as under:

Figure 1: Stages of Self-Help Groups



The three working stages of the SHGs were treated as strata for sampling to ensure the representation of all three types of SHGs. In fact, all the SHGs are basically saving and lending groups so all the 150 groups to be selected in the sample would essentially belong to this category. Therefore, 54 (77%) bank-linked groups were purposively selected out of the 70 women bank-linked SHGs in the universe, as these had taken up income generation activity either on group or on individual level. There happened to be 12 SHGs (22%) engaged in income generation and 41 swarozgaris involved in income generation. The remaining 96 SHGs (64%), which were purely saving and lending groups were randomly selected from the lists. All the 150 SHGs were then mapped across the villages falling in different blocks of the districts.

Two women were selected from each SHG. Of these two women, one was purposively selected from the office bearers and the other one was selected from the remaining members by convenience. Thus, in all 300 women were selected to get their responses. A structured schedule was administered on the respondents. Besides, a range of methods like observation, interviews, group discussion, and maintenance of field diary were used to collect primary data.

Observations

The situation of bank linkage in this study, however, gives a pessimistic picture apparently when the data show that only 37% of the groups have been linked with banks. Basically, a group becomes eligible for bank linkage after completing six months of its formation, but in the sample of group linked with banks, it is evident that 53% of the groups were linked with banks when their saving and lending conditions became sound enough, while 41% of the groups proceeded for linkage for their income generating activities. Only 6% of the groups reported the linkage after a formal completion of six months.

The relationship between the age of SHG and bank linkage has been shown below:

Table 1 clearly shows that the SHPI did not proceed for bank linkage after a formal completion of six months and reasonably old groups have been linked with banks. However, it is also evident that several groups have not been linked with banks even after becoming old enough. Therefore, to enquire into the fact that if not age then is saving capacity deciding the process of bank linkage, the relationship between per capita saving and status of bank linkage is estimated.

Table 1: Age of SHG and Bank Linkage

S.No.	Age of SHG (years)	Bank Linkage		Total
		Yes	No	
1	1	1	11	12
2	2	4	40	44
3	3	16	20	36
4	4	16	13	29
5	5	17	10	27
	Total	54	94	148

Table 2 shows that about 53% of the total groups linked with banks are in the higher per capita saving slab and about 56% of the total groups not linked with banks are in the smallest per capita saving slab. The value of chi-square is 31.875(.000), which shows a highly significant relationship between per capita saving of the groups and the status of bank linkage. Therefore, it is good to note that the groups have been linked with banks when their saving conditions have become sound enough and not just with increasing time span. Nevertheless, it is disheartening to note that several groups with sound saving status have not been covered under the bank linkage programme as yet.

Table 2: Per Capita Saving and Bank Linkage

Per Capita Saving (in Rs.)	Bank Linkage		Total
	Yes	No	
0-20	13	53	66
21-40	13	20	33
> 40	28	21	49
Total	54	94	148

The advantages of bank linkage as experienced by the respondents have been given below:

Table 3: Advantages of Bank Linkage

S. No.	Advantages	No. of Respondents	Percent
1	Security of savings	9	16.00
2	Bigger loans on low interest	16	29.63
3	Started/expanded IGA	19	35.18
4	Increased efficiency and Confidence	12	22.22
	Total	54	100

Table 3 shows that when the respondents were asked about the benefits of bank linkage, the two major advantages described by the respondents were access to bigger loans at a lower rate of interest (29.63%) and ability to start/expand their income generating activity on group or individual level (35.18%). Whereas, 22.22% of the respondents felt that the efficiency in banking operations enhanced their confidence level and 16% of the respondents were contended with the security of amount of saving.

An overview of amount of loan borrowed from bank is as shown in Table 4.

The profile of amount of loan accessed by the respondents from bank shows that the respondents get an access to bigger amount of loans through banks, as 29% of the respondents in this category of borrowers took an amount up to Rs.10,000. On the other hand, 23% of them borrowed between Rs.10,001 and Rs.20,000, while, 19% of such borrowers took loan between Rs.20,001 and Rs.30,000 and 29% of the respondents borrowed an amount exceeding Rs.30,000 as loan from banks. On the other hand, it is evident from the mean value and the standard deviation of the amount of loan accessed from banks that the group members are mostly concentrated in a lower stratum

Table 4: Amount of Loan from Bank

S. No.	Amount of Bank Loan (in Rs.)	No. of Respondents	Percent
1	1-10,000	14	29
2	10,001-20,000	11	23
3	20,001-30,000	9	19
4	> 30,000	14	29
	Total	48	100
Mean: 7,179.60, S.D.: 3,309.30			

of an amount up to Rs.10,000. This shows that very few group members are engaged in income generating activities involving a capital beyond this range and either the poor members are still cautious in borrowing a larger amount or the banks are still hesitant in disbursing larger amount. One reason behind this tendency can be that the savings of the SHGs are not huge enough to trigger larger loan disbursals.

On the other hand, since their very inception, banks have been graded as credit agencies lending for productive purpose. The details of bank lending by purpose has been shown below:

Table 5: Details of Bank Lending by Purpose

S. No.	Bank Loan Purpose	No. of Respondents	Percent
1	Income generating Activity	44	94
2	Household Consumption	4	6
	Total	48	100

Table 5 shows that 94% of the few respondents taking loan from bank did so for income generating activity. But the remarkable feature about this credit profile is that banks have been able to get an outreach to the poor women in rural areas, who earlier could not even dream of accessing banks for credit. Moreover, groups have emerged as a parallel source of credit, which lend for all reasons and the positive feature of this project is that although being informal institutions, SHGs have the best of both formal and informal channels of credit.

Only regular repayment of bank loans can justify the outreach of banks to rural areas and access of rural people to formal credit source like bank. Otherwise, Bank linkage will lead to increasing NPAs for banks and unpaid debts for the borrowers. Therefore, repayment ethics is the most important aspect of credit dealings in bank linkage programme. Only 48% of the respondents who had taken loan from bank reported a regular tendency of repayment, and 52% of the respondents said that there is a poor tendency of repayment. In such a case monitoring of loans can be one of the measures to check default or use of the amount of loan in ostentatious and wasteful consumption.

The actual status of repayment of bank loans in case of the sample studied is as shown in table below:

Table 6: Status of Repayment of Bank Loan

S. No.	Status of Repayment	Bank loa Borrowers	Percent
1	Yes	4	8
2	No	22	46
3	Still Returning	22	46
	Total	48	100

Table 6 shows that in case of borrowers of bank loan 46% of the respondents are still repaying their dues, while still other 46% of the respondents have not paid off the loans at all as against only 8% of the respondents who have repaid their debts to banks. The borrowers belong to extremely poor section of society and unless they get substantially good returns from their income generating activities, they will not be able to repay such huge amounts of debts. But since there is no indication of the borrowers getting involved in a debt trap, it can be inferred that the repayment status is not very frightening for the borrowers, even though it is not giving positive signals for the bank linkage programme.

Revolving Fund

One of the advantages of bank linkage programme is that the groups have access to revolving fund. The persons living below poverty line are placed at such a point, which is extremely difficult to cross and rise above. Therefore, a critical minimum effort of saving or credit is essential to bring them out of this vicious circle of poverty. Such capital formation by Self-Help Groups is called the "Revolving Fund". Thus, revolving fund can be formed by saving, interest earned on saving, grants from external institutions, bank, penalty etc. A 1:3 ratio between group's saving and external grant is essential. Saving of the group, and not the external grant, should be the starting point of management of credit. Moreover, group efforts to enhance the revolving fund should go on continuously.

The term "Revolving Fund", however, is conceptually not clear to the members of the groups in the sample. They treat it as a grant to be received from the bank, 25% of which has to be paid back. Figures on access to revolving fund show that about 25% of the groups had either received the amount of revolving fund or had been registered to get it. On the other hand, about 75% of the groups had not got any such fund. The classification of groups according to the amount of revolving fund is given below :

Table 7 shows that 30% of the groups received an amount up to Rs.10,000 as revolving fund, 19% of the groups have received revolving fund amounting between Rs.10,001 and Rs.20,000 and 51% of the groups have an entitlement to revolving fund ranging between Rs.20,001 and Rs.30,000. The average amount of revolving fund received by SHGs is Rs.18,351.35.

Table 7: Revolving Fund

S. No.	Amount of Revolving Fund (in Rs.)	No. of Groups	Percent
1	1-10,000	11	30
2	10,001-20,000	7	19
3	20,001-30,000	19	51
	Total	37	100
Mean: 18,351.35, S.D.: 7,421.61			

With regard to the use of the amount of revolving fund, the data show that 44% of the recipient groups have distributed the amount of fund among the members, 26% have circulated it in internal lending; and 30% have used the amount for individual or group income generating activity.

Borrowing Profile

One serious stigma attached to the borrowing pattern of the rural poor is that they often repay old loans through taking new ones. But the loan profile of the borrowers in this study shows that:

- Only 3.2% of the group borrowers have taken loans to clear off old debts;
- Loans contracted by the respondents prior to SHG membership have been repaid in 70% of the cases;
- No loan has been raised from bank for debt service;
- The bank loans have mainly been contracted for income generating activities;
- The loan sources show a significant shift from informal channels to channels like group and bank;
- The repayment status in case of group borrowing is satisfactory;
- The status of repayment in case of bank loans projects stress on the part of borrowers;
- The group loans are small loans and thus cannot be used to service the huge debts contracted from the banks.

Thus, it can be inferred that the women borrowers are not getting caught in a debt trap but may turn out to be defaulters of bank loan and give a jolt to the bank linkage programme

Another remarkable finding is that the post SHG membership borrowing profile shows a significant shift in the sources of loan from informal to formal chanels of credit. Out of the total 300 respondents, as SHG members 33% of the respondents borrowed money from the groups, 29.7% of the respondents contracted loans from multiple sources (which mainly includes SHGs and Bank), 21.7% of the respondents did not access any source of credit, 7.7% of the respondents still approached sahukars to fulfill their credit needs, 6% of the respondents borrowed money from their relatives/ friends and 2% of the respondents took loan from only bank. Thus, a reduction in the dependence of the rural women on the exploitative informal credit outlets is visible and some level of financial inclusion can be documented.

Reflections - The Way Ahead

The banks emerge as the most potent tool, which do not just give life to the SHG mechanism but also improve its quality of life. They take the groups higher from the elementary level of thrift and credit. An advantageous bank linkage operates at all levels as it leads to functional efficiency, economic activity and economic empowerment. In the poor socio-economic milieu of the rural areas, the saving and lending profile may not show a vertical move for a very long time, so the groups should be considered eligible for bank linkage on the basis of horizontal continuity of the economic activities. Therefore, it is essential to link the groups with banks once the saving profile shows consistency and internal lending and repayment takes off. This linkage has to spread its advantages in variety of ways such as issuing of revolving fund, imparting training for income generation. Simultaneous efforts should go on by other agencies for capacity building, entrepreneurial training, enabling all the links from workshop, raw material, machinery, to market etc. Until a group can gain expertise in a particular income generating activity and take it up with all the necessary paraphernalia, banks can extend credit to aspiring individual members to take up a fresh activity or expand the existing income generation activity. Interface, issuing of bank credit and the follow up of the use of loan are essential to generate real advantages for the groups and the banks. The chain of these activities should be continuous and there should be no gap or else the vulnerable groups will get infected and disintegrate soon. Only fruitful income generating activities can help the groups to develop repayment ethics and prevent default of bank loans. Such two-way process of group-bank linkage can motivate the groups to function efficiently, carry on their economic activities with full vigour and thereby lead to economic empowerment of the respondents. In absence of such well-planned and monitored linkage, bank linkage can prove disastrous. In such a case, the SHG members will either divert the bank loan in some unproductive activity or will run into a loss. There is no question of repayment in both the situations and the whole process of bank linkage will only result in NPAs for the banks. What is worse is that the groups might deviate from their thrift, saving and lending activities and disintegrate. Bank loan is the ultimate and the most tempting hope for the SHGs, thus banks can make or mar the existence of SHGs. Moreover they also pave the way for the entry of other micro-credit institutions, which will promptly take up such creditworthy SHGs for further financing.

It is clear from the deficiencies, as were reported by the respondents, that the external agencies like banks and the Self-Help Promoting Institutions (SHPIs) are not extending their facilitating services satisfactorily. One of the major limitations with bank funding is that by rule, revolving fund can be disbursed only to groups with 100% BPL membership, which is a phenomenon found rarely in the sample. Moreover, SHGs in the study area have not been able to evolve as vibrantly and dynamically as was expected, so they are still not able to offer a good business opportunity to the banks. The main culprit in this case is the SHPI, which does not follow all the steps of group formation and promotion faithfully. Instead of laying down the importance of thrift, saving, internal lending and group strength, many a times the district agencies tempt women into group membership to fulfill their targets, in the name of bank loans. Such misleading concepts of SHGs not only give rise to such complaints against banks on a large scale but also lead to disintegration of groups. The problems of small or irregular savings and repayments are mainly due to the macro level rural problems like extreme poverty, temporary, seasonal and low-paid employment status, and pressing expenditure priorities.

The Self-Help Promoting Institution, the facilitator, the government agencies, bank and the gram panchayat should come forward to extend all kind of support to the SHG to ensure that it sustains as a vibrant entity. Such functionally efficient SHGs will strengthen this interface in the due course of its evolution. The small internal loans for meeting the emergent needs work as a glue for the SHGs and this is the aspect of SHGs which establishes the justification of association with group and saving in the eyes of the members. This perhaps serves as the most potent driving force of self-motivation for the members to participate in the group activities vibrantly and make it functionally efficient. Finally, the initial attraction of associating with the SHGs was to be able to leverage external loans from banks and so access to bank credit and moreover banking system in itself lead to related advantages, which in turn result in sustainability of the SHGs. It can be further deduced that the advantages of bank lead to economic empowerment of the SHG members. SHGs which have been advantageously linked with banks can boast of members who develop sound credit links with group and bank, get involved in income generating activities and show signs of entrepreneurial spirit. Economically active groups also lead to economic empowerment of the members.

Another important thing to be kept in mind is that a very close watch on the borrowing portfolio of the SHG members is essential to rule out the possibility of a debt trap. The whole concept of SHG will fail in case micro credit gets popularised as micro debt. Micro credit, as a tool, may not be very effective in dealing with extremely poor and the groups comprising of very poor members may not sustain for very long and disintegrate soon. Regular grading, to monitor the saving and lending status of the groups is of utmost importance for the sustainability of the groups. Economic stratification of the individuals as well as the groups is very necessary before selecting the groups for interventions like issuing of revolving fund, bank loans, and opening up income earning opportunities. Very poor members cannot graduate out of absolute poverty through such financial interventions alone and will only survive on governmental handouts. Eventually such members will alienate the banks and other institutions from the SHG mechanism. Hence, micro credit in case of extremely poor members has to be supplemented with social intermediation and many other constraints have to be addressed simultaneously.

SHGs face problems in dealing with banks. In the midst of the rapid upscaling of the SHG linkage, the macro as well as micro experiences reveal the fact that several groups and NGOs report denial of loans or delay in dealing with their proposals. The initial loan volumes are very low. Often the banks require the groups to place all their savings with the bank, leaving little scope for internal lending of members' savings. The repeated visits, documentation requirements, lack of time on the part of branch staff to visit the groups in their villages and the lack of continuity of the branch staff add to the woes of the groups. These difficulties in securing bank linkage and sustaining the linkage over successive cycles of funding increase the borrowers' transaction costs. Thus, a vibrant bank linkage emerges as a major area of intervention.

From the initial step of opening accounts of the groups and entertaining their deposits, the bank officials have to be very congenial in behaviour with the SHG members. Against the background of the complaints of the respondents about the low level of cooperation extended by the bank officials in this study, it becomes imperative that they should be specifically trained and sensitised to the needs of SHGs. The next step, which involves the linkage of SHGs with banks, should be done after the SHPIs have completed the first monitoring and grading exercises and only the SHGs, which reveal a consistent record of saving with a commencement of internal lending should be linked. This process should be extensive enough and the eligible SHGs should be covered at once as bank linkage provides incentives for sustainability as well as growth. This linkage should not just involve financial intermediation for income generation but should also extend grants for training, capacity building, exhibitions and other support services. Follow up of use of loan and repayment can be done by vibrant involvement of banks with SHPI and SHGs. If the banks find it difficult to issue repeat loans despite a good recovery of the first loan, they should immediately involve other Micro Finance Institutions to cater to the needs of such SHGs which are performing well in income generation activities. The MFIs can further provide insurance and other such facilities to the successful SHGs. Retail outlet facilities for products can give a big boost to the activities of the SHGs.

Policy Implications

The following policy implication emerge from this study:

- The SHPI and other agencies should build a vibrant interface with the SHGs to help them sustain.
- The bank linkage should not be a time based formality and rather should be based on the performance of the SHGs.
- The criterion of 100% BPL membership should be relaxed for the issuing of revolving fund in SGSY.
- Economic stratification of the individuals as well as the groups should be done before selecting the groups for interventions like issuing of revolving fund, bank loans, and starting up income earning opportunities.
- There should be a separate cell for the SHG dealings in the banks, which should preferably engage female employees.
- The bank staff catering to the SHGs should be specially trained and sensitised to the needs of the rural poor.
- The banks should be involved in identifying the viable income generating activities (IGAs).
- The backward and forward linkages of the IGAs should be very strong so as to render these IGAs as profitable.
- The vertical mobility in IGAs should be ensured by the SHPI so as to encourage the banks to disburse larger amounts of loan since savings of the SHGs cannot rise with mounting pressures of repayment.
- Banks, in coordination with the facilitator, should follow up or monitor the use of loan so as to rule out the possibility of misuse or diversion of the loan.

Finally, the Union Budget 2010-2011 has made provisions for private sector banking in the rural areas, but there are apprehensions about their catering for social good at concessional terms. So, either the SHGs will have to evolve into profitable units so as to attract private bank credit or the existing bank linkage mechanism involving the public sector banks will have to be made beneficial for both the SHGs as well as the banks to render the bank linkage system sustainable. Microfinance Institutions have already trapped most of the SHGs with the unrestricted credit flow at highly illusive interest rates. Thus, immediate steps are essential to revamp the SHG-Bank Linkage mechanism of NABARD, before the poor in rural areas also lose the road that can lead to a just and inclusive financial system.

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Implementation of the SGSY Scheme: Need for a New Orientation to Administration

- R. Jaya*

Abstract

This paper discusses the issues involved in the implementation of the SGSY scheme based mainly on the experiences of the writer during her tenure as Additional Collector and Project Officer, DRDA, Tiruvallur district of Tamil Nadu. It argues that the self-help group approach to self-employment under the prevalent circumstances is not viable, principally because these groups have been formed as savings and lendings groups and not as entrepreneurial groups. Further, the lacuna in terms of capacity-building, credit linkages, the problems of inclusion and exclusion, etc., have been discussed in depth to point out crucial issues in the implementation of the scheme.

In the last section of the paper, the way forward has been discussed. The paper proposes that a new orientation to administration is needed, which includes the concept of reaching out to each and every beneficiary and not merely the enumeration of a few success stories. The need for professionally competent team of administrators, realistic project duration, mapping of activities and their monitoring, individual choice in the selection of opportunities through a process of decentralisation and finally better use of Information and Communication Technologies to monitor the scheme have been emphasized upon. In short, it has been proposed that the administration has to facilitate and monitor the group in the economic activity, rather than choose and direct the activity by itself. It is proposed that by the adoption of this new orientation, it is possible to achieve wide-spread impact of the scheme.

A new orientation to administration is needed, which includes the concept of reaching out to each and every beneficiary and not merely the enumeration of a few success stories. By the adoption of this new orientation, it is possible to achieve wide-spread impact of the scheme.

It is sometimes contended that the various forms of subsidies to/for the poor are a cost a society has to necessarily pay if

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its market laws and rules in normal circumstances are not efficient enough to usher in an acceptable level of equity in the distribution of income among its members. Hence, the pertinent question would not be whether the activities pursued with state subsidies on various counts are really profitable in abstraction of these subsidies but whether through all these subsidies, it had been possible for the members of SHGs to earn the envisaged few bucks more as compared to their earlier state and thereby it brought increased share of their consumption in the GDP.

However, a deeper analysis would suggest that for the sustainability of the enterprise, the group/individual has to be fully aware of the costs, irrespective of who bears them. Subsidies can be withdrawn at any stage; resources, being limited, may be re-distributed to the next claimant. However, the cost of the enterprise remains to be borne. Hence, it is extremely necessary that the enterprises become as self-sufficient as possible from the beginning; if not, their sustainability and profitability, and with them, the hopes of poverty alleviation of many women, would be jeopardised. Moreover, there is no concrete evidence to suggest that the infusion of the subsidies consistently have led to either sustainable enterprises or to any significant increase in family income.

Introduction

This paper discusses issues concerning SHG-Bank linkage programme from the vantage point of the government practitioner through experiences of implementing the SGSY, the Bank Linkage programmes of the Government of Tamil Nadu through the Womens' Development Corporation, the Slum Development Board and other initiatives such as the Vaazhnthu Kaattuvom programme. It draws mainly from my experiences in implementing the SGSY programme as Additional Collector and Project Officer, DRDA of Tiruvallur district between 2000 to 2001, a period when the programme was still at a nascent stage. Nonetheless, these views were reinforced by my later experiences as District Collector, Chennai and Director of Handlooms and Textiles, between 2006 to 2009. Additionally, experiential and academic inputs from the concerned stakeholders including SHGs, NGOs, project implementation agencies like the DRDA, BDOs, officials of the Slum Development Board as well as studies on SHGs and Micro-finance have reinforced these views. Hence, this paper attempts to look back at the SGSY scheme to provide insights into the strength and weaknesses of the SHG approach and to provide insights into the future implementation of the SGSY programme.

The broad approach of the paper would be in three sections as follows:

1. A description of the SHG process, with special focus on the SGSY scheme.
2. An analysis of the issues concerning the SHG approach of the SGSY scheme.
3. The delineation of the need for a new orientation to implementation of the Scheme.

Section 1: Description of the SHG Process

Broadly, it is agreed that the micro-finance and self-help group approach seeks to address the limited availability of formal credit facilities, especially in the rural areas. This could be due to limited institutional presence in these areas, limited credit worthiness of the credit seekers and limited capacity for credit absorption. Combined with a high prevalence of non-institutional credit mechanisms such as kin and friendship groups, money lenders, pawn brokers etc, at usurious rates of interest, the indebtedness of the rural population has been a matter of concern. The co-operative movement in the early decades of independence had attempted to address this issue and to this day, most states have success stories of cooperatives to relate. In states like Tamil Nadu, the cooperative structure continues to be strong. However, the movement in general did not deliver on its high promises and declined. Moreover, it did not successfully address issues of inclusive development, which rendered many of the poor outside its purview.

Origin of SHG approach:

Bangladesh has been the acknowledged pioneer in the field of microfinance and SHGs. Dr. Muhammad Yunus, Professor of Economics in Chitgaon University of Bangladesh, was the initiator of an action research project called 'Grameen Bank'. Started in 1976, the Grameen Bank provides loans to the landless poor, particularly women, to promote self-employment. Other organisations subsequently adopted the concept in Bangladesh. The microfinance practices of the Grameen Bank and other Microfinance Institutions (MFIs) had five basic features:-

a. Women as target group;
b. Group approach for achieving targets;
c. Savings as an essential pre-condition for availing credit from MFIs;
d. Officials of MFIs present with the group in meetings, collection of savings, updating of passbook and disbursement of loans.
e. Systems and procedures simple and in tune with the requests and capabilities of their clients.

In India, the SHG approach gained prominence in 1991-92, when NABARD started promoting SHGs on a large scale. Facility to open savings accounts of the groups in 1993 gave a boost to the movement.

Now, there are more than 31 lakh SHGs throughout the country. However, as literature on the subject, including the report of the Committee on 'Credit-related issues under SGSY' under the Chairmanship of Prof. R. Radhakrishna, commissioned by the Ministry of Rural Development (MoRD), shows, the goal of poverty alleviation through SHG approach is far off. While the reasons for this are manifold, this paper seeks to address this issue based on experiences gained by the writer as an implementing agency of the SGSY and subsequently of the SHG approach. It seeks to understand the inherent contradictions in the SHG approach - as exemplified by the SGSY programme - to argue that group entrepreneurship through the SHG approach is at best of limited utility in augmenting the rural poor, as practiced at present. There is a need to change the orientation of the approach to suit members of multiple groups to come together without affecting the SHGs concerned, To elaborate this changed orientation, it is necessary first of all to understand the processes involved in the SHG approach of the SGSY, the agencies promoting SHGs and their objectives.

Processes involved in the SHG approach

Broadly, the SHG approach involves the following stages irrespective of the objectives of their formation and the agency through which they are formed or sustained, insofar as the SGSY is concerned.

a. Formation of SHG, including training in the basics of maintenance of SHG records.
b. Monitoring the internal working of the SHG for a specified period.
c. Introduction of an external credit agency, often a bank for infusing a Revolving Fund (RF) into the group.
d. Monitoring of the internal working of the SHG for a further specified period.
e. Infusion of credit under any Government or bank or any other scheme for income-generating activity.
f. Monitoring of the internal working of the SHG, the recovery of the loan and the progress in the economic activity as also the internal working of the group.
g. Hand holding and capacity building throughout the above stages, till the SHG is capable of handling its own internal working and the economic activity is stabilised.

Apart from the above well-documented processes, the three agencies promoting SHGs and their objectives are also to be discussed. These are the NGOs, the banks and the government. The latter two may promote SHGs either by themselves, or more frequently through the NGOs or the federations.

Agencies promoting SHGs and the objectives of SHG formation:

a. The NGOs: Pioneers in the concept in India, the NGOs formed groups of women, located in residential proximity to one another, mainly in rural areas. These SHGs, apart from being savings and lending groups, were also mobilised for other social purposes like water conservation, women's empowerment in general, etc. Indeed, apart from savings and lendings, they were also mobilised consciously for women's empowerment. Most of these groups did not have any economic activity as their target. Bank linkages were mostly for savings purposes and economic activities, unless organised around a single activity by the NGO - such as cane, jute or other products-for a group of SHGs promoted by it - were not on the agenda till programmes of credit linkages and the SGSY came into existence. Grading and related activities are again a feature of the post-credit linkage programme, though the initially promoted SHGs were well-monitored by the NGOs. The NGO-SHG symbiotic relationship was more or less permanent in nature and the NGO rarely withdrew or made the SHG empowered enough to be self-sufficient. The strong focus of the NGOs was and continues to be the objective of empowerment of women, with savings and now credit linkages providing the base for such empowerment.

b. The Banks: The main focus of the banks was to extend the credit linkages to the rural areas. The credit-linked poverty alleviation and self-employment generation programmes of the government, such as the IRDP, the Million Wells Scheme, the PMRY, etc., had not been encouraging to the bankers in general. Questionable feasibility of the projects, non-creditworthiness of the beneficiary, target-orientation, alleged indifference of officials towards recovery of loans etc. had made the banker wary of these schemes. The high rate of recovery of internal loans, the success of the 'Grameen Bank' experiment, the social collateral that was intrinsic to the group concept, the opportunity to test the 'credit-worthiness' of individual and concomitantly the groups through the SHGs by means of grading, the comparatively low transaction costs and the high visibility, the relatively lower credit limits - all these combined to make the SHGs a valued customer of the banks. Indeed, at the commencement of the SGSY, bankers were enthusiastic about the group approach. Though the scheme allowed individuals to be given credit, this was hardly taken note of by both the bankers and the DRDAs, the implementing agencies.

c. The Government: The government, as a promoter of SHGs, is largely focused on the twin objectives of poverty alleviation and self-employment, often linking the two by the statement of poverty alleviation through self-employment. The DWCRA groups were some of the earliest examples of group enterprise promoted by government. Later, some state governments adopted the SHG concept. However, the focus was mainly on SHG formation, through NGOs, whose credentials were established by government. Credit linkages were not subsidy based and the objective remained social empowerment.

However, with the commencement of the SGSY, the SHG approach assumed prominence nation-wide. The objective of poverty alleviation through self-employment, defined in quantitative terms as the generation of an additional income, per family below the poverty line, of Rs.2,000 at least per month, became prominent. Subsidy-based credit-linkage through the banks was a necessary part of this objective. However, the programme also sought to address, in an integrated manner, concerns regarding backward and forward linkages, capacity building, infrastructural needs, etc.

Section 2: Analysis of the Issues Concerned

However, this enthusiastic embracing of the SHG concept, so much so that it has entered other self-employment programmes, such as the PMRY, has its own concerns. Some of them, connected with the processes, agencies and objectives, are broadly the following:

1. Issues of inclusion and exclusion: The formation of groups is almost always in terms of residential proximity of its members. The initial groups that were formed were mostly in the main village,in areas of mixed population of the non SC/ST locations, as opposed to the residential colonies of the SCs/STs. This has given the impression that the SHGs have been able to overcome caste and community affiliations and have brought all women together. This view, however, ignores the fact that the initial groups that were formed were of the more privileged than the most vulnerable. This was also the group of the women who though not necessarily economically well off, were able to save on a regular basis. Their credit needs, being mainly of consumption, previously fulfilled by money lenders, etc., were now fulfilled by the SHGs. Therefore, the SHG movement spread amongst these women in the initial period, when Government had not yet adopted the SHG approach. It excluded the most vulnerable sections, till the concept of poverty alleviation through the SHGs came into being.

It was only when the SGSY was introduced that this aspect got highlighted. The existing groups were adopted for the purpose of grading and credit linkages when the programme commenced. These groups had a head start over the others. Further, issues of BPL/APL members were not given much importance at this stage, since the groups consisted of both types of members. Further, since the women in these SHGs were not economically destitute, the lending banks found a high rate of recovery, even more than 95%, when the RF component of the SGSY was disbursed.

Secondly, the groups were formed as savings groups and not as income-generating groups. Nor were they occupationally homogenous groups. Most women were either unskilled agricultural labourers or homemakers or worked as part time/ casual labour. Artisians women's group were not a feature of the early SGSY groups. Hence, introduction of an income-generating activity for the whole group has been a difficult proposition.

Numerical targets for group formation also led to breaking up and re-grouping of many groups. Conflicts among NGOs and complaints of poaching on groups/group members of one NGO/agency by another were not uncommon. Member registration in more than one group is also believed to have occurred. The process was sought to be arrested by computeri sation of the data on SHGs. The other phenomenon reported was of groups not reporting earlier default in loans by members or of credit agencies unwilling to provide credit linkages to groups which had members defaulting on repayment of earlier loans.

2. Issues in capacity building: The training of SHGs in internal group working, drawing up of Minutes, maintenance of accounts of contributions, loans, repayments, interest calculations etc. is a stupendous task. The grading of the SHGs for credit worthiness depends to a large extent on these records. Yet in the bid to achieve targets, it is not clear whether this training is up-to-the-mark. It is also not clear whether each state/district has clear grading parameters. While in Tiruvallur, I had deputed a group of officials to study the grading system in other districts and in Andhra Pradesh. We found that the system we had devised was by far the most stringent for credit worthiness. Should grading be stringent or should it take into consideration the needs of the members and the needs of the scheme in operation?

3. Issues in sanction and utilisation of revolving fund: Despite the SHG approach, adopted universally under the SGSY, the concept of non-creditworthiness of whole villages/areas continues to hold sway among lending banks. The poorest and the most vulnerable are often at the receiving end of this concept. Having been the target groups for similar programmes, and having defaulted on the loans disbursed under these schemes, they are rendered non-credit worthy a second time. Would the SGSY be able to reach out to these sections?

From the stage of the opening of SB Account, some groups may encounter problems because of the profile of their members. Further with the passage of time, the banks also worry that the more number of accounts of groups that each branch opens, the more it would be involved in grading and extension of credit facilities to the SHGs.

Unless the banker is involved in grading, sanction of RF can be difficult. Further, the RF may by simply re-distributed to the group members who may then commence individual income-generating activities. Thus, income generation may commence from the RF stage itself. However, neither the banker nor the administrator takes note of this important aspect at this stage. Their sole focus is on recovery of loan at this stage, so that the credit worthiness of the SHG is established. This focus leads to the neglect of individual entrepreneurship in a group situation.

However, if this important aspect of income generation at the RF stage is focused upon, it would lead to engagement of individual group members in diverse economic activities. This would lead to less emphasis on taking up of the same economic activity by all members of the group. Mapping of these activities and the income that they generate for the individual would be a good indicator of the impact of the SGSY. The sustainability of these activities would also need to be followed up over a period of time. Focus on this aspect would also lead to the blooming of more rural entrepreneurs, fulfilling local needs without need for large amounts of credit or infrastructure or even subsidy. However, focus on group activities and cluster approaches to economic activity has made this factor invisible in the SGSY.

4. Issues concerning economic activity: The funds utilised for this purpose under the SGSY have been consistently lower than the allocation. Further, the income generated from these economic activities has also been lesser than the targeted Rs.2,000. The report of the Committee on 'Credit related issues under SGSY' of February, 2009 suggests that this is due to the lack of credit absorption capacity and the inadequacies of the credit delivery system. However, this paper suggests that the nature of the activity, the caution exercised by startups, the lack of inadequate entrepreneurial training, the phasing of the loan and the social collateral inherent in the structure of the scheme are factors that need to be studied further as contributory factors for this under-utilisation of funds. However, the most important reason adduced by this paper for the under-utilisation of funds for economic activity is the non-viable nature of the existing SHGs to function as group enterprises. This shall be elaborated in the following paragraphs.

Prevalent SHGs and group entrepreneurship: an unviable concept?

The entrepreneurial spirit requires inherent willingness to take risks, skills of salesmanship and innovation, creation of needs and opportunities, and a high level of resourcefulness. Further, it requires a conducive and nurturing environment to flourish. Entrepreneurship is an individual quality; a group enterprise can be possible only when similar individuals come together, with a common goal to commence and sustain an enterprise for a considerable duration.

The existing SHGs are the coming together of socially and residentially homogenous, occupationally heterogeneous women in groups ranging from 10 to 20 women, most of whom are not engaged at the time of group formation in entrepreneurial activities. They are a group of women come together as a 'savings and lending group'. Their skill levels, their occupations and their personal needs are different. Most of them may not be interested in self-employment.

Further, an SHG member, if involved in a group activity, has to act as the producer, marketer and promoter of its product. The risks of failure are very high; each member is responsible for repayment of the group loan. The group member has to depend on the group and the administration for the success of the enterprise over which she may have no control. Unlike savings, which can be regular, skill and entrepreneurship levels of the group members is unlikely to be uniform. Their commitments to the enterprise is also dissimilar. Hence, the risks of failure and drop-outs is greater.

Further, the administrators of the scheme have not made the crucial distinction between 'skill' and 'entrepreneurship'. The promotion of a 'skill' typically requires skill-oriented training and then ensuring linkages with a producer who can use these skills. This does not require credit linkages most of the time and if required, the amounts are not high. However, need to achieve the targets for economic activity leads to promotion of enterprises and self-employment, combined with the high risks of failure. This aspect, coupled with subsidised marketing, training, infrastructure, transportation and rentals for participation in exhibitions etc, hides the real profitability of these enterprises. In such a scenario, are group enterprises a viable and sustainable proposition? Should poor women be persuaded to take up these risks without adequate preparation? Should we look to other forms of employment - tie-ups with companies, bulk orders for produce, an outside agency running the enterprise, with a certain proportion of risk and credit liability, plain wage labour to service local industry/service sector and so on? Most of these alternatives would require investments in capacity building, infrastructure and revolving fund and much less by way of credit to groups for economic activity. However, the goal of additional income to the group members would be achievable by these means, with lesser investment and risks of failure. Further, it is necessary to map the success and failure stories of group enterprises.

The anomalies associated with a group enterprise are sought to be minimised in two ways under the SGSY scheme. These are:

a. cluster approach and
b. federation approach.

The Cluster approach envisages identification of clusters of activities in each area, which are then provided with necessary linkages to promote them as suitable group entrepreneurial activities. Activities are identified through a top-down approach, with the SHG being a recipient, rather than an active participant in the decision making. Training is often skill related - the more important entrepreneurship training being given relegated to a few days, if at all. Activities chosen are on the basis of production capacities and training requirements - market surveys rarely precede them.

The specific problems of the group members are also often ignored. This leads to a process of exclusion from group activities of partially employed women and women with dependent children or elders. Training is centralised leading to poor attendance. There is a hiatus between the completion of training, commencement of activities, disbursement of loans and marketing of the products. This leads to loss of interest among many group members in economic activity. Further, it is our experience that the NGO promoting the SHG is often not as enthusiastic at this stage as during the initial stages. There is a fear of loss of influence over the groups if they become economically self-sufficient.

Training, if institutional, is not personalised and handholding by the trainer of the group is not possible. If provided by individual trainers, it is not complete - the nuances of the activity such as the finishing touches, the sourcing of raw materials and markets, quality and pricing issues etc are rarely shared for fear of emergence of competition. Established individual trainers are not able to provide localised training. The net result is training is not optimal.

Dedicated, professionally qualified personnel are not available at the district and block levels to guide the SHGs during the initial days of the enterprise. The NGOs are not always professionally qualified for economic activity. Further, the duration of the project from conceptualisation to self-sustainability is not flexible. There may not be continuation of the team of official stakeholders. This leads to the clichéd but very real issue of sustainability of the clusters. However, certain success stories of the clusters are reported, whose characteristics would be discussed subsequently.

The Federation approach is a participatory approach of bringing together various SHGs into a multi-layered organisational structure with the intention of enabling them to be sustaining groups. The organisational structure of a federation consists of many SHGs federating into a village organisation (VOs), which in turn federate into block level organisations. They, in their turn, federate into district level organisations, which further lead to a state level organisation. However, each state may have its own variations of this structure. Each level consists of representatives from each of its lower level organisation, thus making each level a representative body of the SHGs.

The federation at various levels is expected to provide capacity building for group formation, ensure backward and forward linkages for economic activity, conduct capacity building activities for community resource persons, etc. In short, the role of the SHG promoter, that the NGOs were engaged in, is to be gradually taken over by the federations.

The federation approach, this paper argues, is an off-shoot of the need for poverty alleviation and credit linkage programmes to better monitor/ supervise/ control/ interact and communicate with the SHGs. Whether federation formation is required for SHGs to be self-sustaining is a moot point. The perceived benefits of federation are all to be seen from the perspective of the government and financial institutions. The presence of members of SHGs from the village to the state levels ensures that awareness of various government interventions reaches the SHG. The SHGs being beneficiaries of government and financial institutional programmes especially those involving subsidies are often flattered by the attention paid by the government/bank functionaries to them. However, the impact of the federations on the women's income is yet to be assessed.

There is a need to examine the efficacy of this approach. The federations are manned by the SHGs themselves. There is no evidence to suggest that they have been able to break ground insofar as income generating activity is concerned. Indeed, where the federation approach seems to be a success as in Andhra Pradesh, the impact of the scheme on poverty alleviation has not been obvious. The mere presence of an organisational structure does not necessarily mean the success of the approach. This has to be gauged by the activities promoted by these federations, the impact of income on the members, the linkages and handholding provided by the federations and the self-sustainability of the activities so promoted. On these counts, there is little to suggest that federations fare any better than the NGOs.

Why then is the federation approach preferred? As in the case of the cluster approach, belief in the potential of the federation, rather than their success, seems to be the impetus for this approach. Further, as stated earlier, the stupendous task of handling innumerable SHGs with their myriad diversities through the agency of the NGO, creates its own problems for administrators. Hence, the federations are mooted as the solution to make sense of these diversities and to provide a medium through which communication is possible.

The federations, as is the SGSY programme itself, depends on the kind of administrative leadership that it encounters. Further, the availability of resources - in the form of personnel, trainers in skill and entrepreneurial matter, a non-exploitative environment is a crucial determinant of the success of federations. However, this is as much true of individual SHGs as well. Why then are federations needed? The counter question to this would be - is the present administrative structure adequately equipped to deal with the SHGs? This question shall be taken up in the next section, when we shall suggest that a new orientation based on minute mapping of the profile of each SHG member to administration is needed. At this stage, suffice it to note that the cluster and the federation approaches are not necessary elements of the SHG approach. Their efficacy is more in the nature of potential than actual impact.

Success stories: their characteristics: Both the cluster and the federation approaches allow group members to pursue different economic activities and to align with members of other groups without affecting their membership in their SHG. However, it is unclear whether the stated objective of achieving economics of scale in both approaches has been achieved. Success stories are cited of how cluster approach in some cases like handicrafts have yielded good results. However, a deeper analysis of these success stories highlights the reasons, described below, for the success:

i. Typically, the SHG members are producers of the product - they are paid in wages- daily or piece-rate.
ii. The conceptualisation of the project, ensuring credit linkages, raw material, infrastructure, skill training and marketing is done by an outside agency, generally the NGO which formed the SHGs. More than one SHG is generally mobilised by this agency, thus adopting the cluster approach.
iii. Credit linkages are in small doses. Most of these activities required minimal infrastructure and working capital.
iv. Close monitoring and repayment of credit and working of the groups is done by the NGO/agency.
v. Typically, the project is conceived over a period of time- The project may take more than 2 years to reach stability.
vi. A dedicated, well-trained team mans the project.
vii. Handholding of the SHGs continues even after stabilisation of the project. Indeed the intricacies of entrepreneurship are not known to the SHGs. The NGO/agency concerned negotiates forward and backward linkages including raw material and markets.

viii. Markets are typically in the form of bulk orders, exhibitions, display in SGSY marketing avenues like haats etc. These market avenues are made available through various programmes/funds provided by the SGSY, other government schemes, banks etc. Bulk orders could be obtained through the efforts of the SHG promoters and the administration. The SHG members do not locate these marketing avenues; this is typically done by the NGO functionaries at the state/district/national levels.

ix. A huge portion of cost of resources is in the form of subsidies for the group formation, SHGs or the NGOs - for group formation, credit linkages, infrastructure, cost of transportation and other expenses for participation in marketing avenues etc. Hence, the actual cost of these activities and the sustainability of these groups on their own is not known.

x. Dependence of the groups on the NGO is so high that the enterprise may not sustain without the NGO.

xi. The issues of quality, branding etc. are handled by the NGO.

xii. The risks of individual SHG members is considerably reduced; they act as skilled wage earners rather than as entrepreneurs

The above being the characteristics of success stories, it is questionable whether similar approach is possible by the federations if they are themselves constituted of SHG members at various levels. Are they capable of replicating the success stories of the NGOs? Is the same level of dedication and commitment possible? Above all, federations are based on the geographical location and not occupational factors. Can they specialise in the economic activities of all their member SHGs?

The intra and inter group dynamics may also get reflected in the federations. Articulate members and leaders of SHGs would represent their groups in the organisational structure of the federations and thus render the inarticulate, the illiterate, the socio-economic-politically vulnerable more defenceless. A scheme to alleviate poverty can ill-afford to ignore the most vulnerable sections of society. If such is the case, it contradicts with the greatest achievement of the SHG movement, viz, women's empowerment.

This paper suggests that that instead of the centralising federation approach, there is a need for true decentralisation - as was the case initially - up to the individual SHG member. This theme shall be taken up along with others in the next section.

Section 3: The Way Forward: Delineation of a New Orientation to Implementation of the Scheme

To ensure wide impact of the SGSY scheme, it is necessary to incorporate the following suggestions in the implementation of the scheme. Cumulatively, these could lead to a new orientation of the administration and other stakeholders in the SGSY scheme:

i. Draw upon the strengths of the SHGs: These are the ability of the women to function in groups as limited economic entities for saving and lending purposes. As savings increase and as credit linkages are established, women are interested in expanding their income generating capacity. This needs to be channelised into sustainable activities. Participation of women in tiny economic or wage-employment at this stage must be encouraged, without pre-conditions of cluster approach or group activity. Further, tying up their skills with existing enterprises should be encouraged and explored, without preoccupations with targets for credit linkages.

ii. Decentralisation: The cluster and the federation approaches envisage economies of scale. However, the centralisation of economic activities and a top-down approach is the result. In the decentralised approach, all the stakeholders facilitate the group members in their choice of economic activity. This approach allows members of many groups to choose different economic activities without breaking up the groups. The crucial factor here is the choice of the individual; linkages are provided accordingly and not the other way round.

Further, each individual group member has to be monitored on the progress of the activity. The one-size-fits-all approach, characteristic of clusters, has to be substituted by a more nuanced approach of allowing individual choices. This had been tried out in Tiruvallur district between 2000-2001. Groups of SHGs were exposed to a variety of activities during a day's orientation by specialists/ practitioners. Each member of the group could opt for any activity, irrespective of the group's choice. Training was organised on the basis of their choices. Linkages with raw materials and markets were established through tying up the women with practitioner trainers and in one case with a PMRY candidate.

The hallmark of this exercise was the conscious selection of activities by the women. Many opted out; some chose low risk activities. Credit was arranged as per requirement of a startup and based on actual needs and absorption capacities. However, crucial questions of sustainability, duration of the project, handholding and its withdrawal, the impact of the chosen activity on income levels could not be assessed during my tenure. However, the individual choice exercised by each woman ensured a sense of responsibility amongst them. The chances of success of such activities is therefore greater.

iii. Better capacity building measures: Target fixation has led to thinning of resources insofar as capacity building is concerned. Sustained and gradual capacity-building with focus on specific economic activity as chosen by the group members is needed. Training of trainers, not merely as Community Resource Persons, but as professional facilitators of economic activities, is needed with specific focus on each of the gamut of activities of each block being covered. Continuous capacity-building, ranging from skill to complex entrepreneurship, including branding, packaging, advertising, competition etc should be provided. The scheme allows for this; however focus on initial commencement of projects of the administrators, makes continuous training a casualty. This aspect needs to be focused on for optimum results.

iv. Better monitoring and use of ICT: Administrators often measure the success of a programme by a few of their success stories. However, where public monies are involved and the target groups are numerous, it is necessary to map each beneficiary and monitor his/her progress over a period of time till they achieve the target. This is especially so in the case of the SGSY, which targets the most vulnerable sections of the Indian population.

Administration needs to be oriented to reach out to each and every beneficiary at each stage of the scheme. Today, information and communication technologies have enabled the maintenance and analysis of large databases. Information on each SHG member is possible to be maintained and monitored over a period of time. What is more significant is the possibility of mapping of individual and group activities, success and failure stories, tracing of the drop-outs, market surveys, location of markets and potential employers for trained SHG members and so on. These technologies also assist in exploitation of existing opportunities and to monitor credit linkages and repayment issues. Administration needs to be oriented to reach out to each and every beneficiary at each stage of the scheme. Indeed, issues of repayment and success of enterprises is largely a function of post-loan monitoring and handholding. This approach alone can ensure large-scale success of the scheme.

v. Provision of trained personnel and dedicated teams for each area/activity/sector: The lack of adequate trained personnel at the cutting edge level of the panchayat, who can guide the SHGs has been a lacuna of the scheme. The NGOs and the federations have been the agencies through which this has been addressed. Yet, these are also lacking in many respects. Hence, the need to provide for specific teams to facilitate the groups/individuals for the duration of the project should be recognised. The present system of administrators/bankers/community resource persons doubling up as experts in micro-finance and all economic activities has to cease. We need to have sector specific expertise to guide the activities.

vii. Need for a new role of administration: The role of administration and of other stakeholders must be one of facilitation and monitoring, the role of the mid-wife, not of the anxious mother. An impassionate yet committed and professionally qualified personnel must be allowed the autonomy to interact with the groups/members on a project mode. They must be the trouble shooters, and not the determinants of the project. Individual choices must be exercised by each group member, which may be guided by the team, but not thrust upon them. Personal styles of administration by District officers must give way to the team spirit.

Rural India is far more dynamic today, with opportunities opening up. Rural call centres, catering services, business correspondents, salespersons, daycare centres for children and the elderly, geriatric nursing, provision of alternate health facilities are upcoming fields where the SHGs have a role to play. Yet, most enterprises providing these services and requiring personnel are reluctant to tie up with SHGs due to quality issues. The role of administration is to intervene and link up the service provider with the group. The need for finances is minimum and the activity can be self-sustaining. However, the potential of these linkages are not fully explored, since there is a conceptual understanding that economic activity must be linked to group credit - both to achieve the targets and to make the group a productive one. A new orientation, based on facilitation and monitoring of the activities in the manner suggested above, is needed on this.

One other feature of this new orientation is realistic time frames for the project, which includes handholding at all stages and finally, letting go but this aspect has yet to be successfully handled.

Conclusion

This paper has brought out issues concerning the implementation of the SGSY programme through the SHG approach. It has attempted to delineate a new orientation to administration by which some of the problems associated with this approach may be addressed. There is a need to adopt this orientation on a wide scale to make the scheme truly effective.

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Impact of Self-Help Credit Programme on Livelihood Diversification and Women Empowerment: Evidence from Jammu and Kashmir

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Abstract

The study reveals that that economic activities supported by self-help credit programme have induced improvement in level of empowerment of women. Women's role in enterprise and household decision making, their access to assets and their control over self earnings have improved significantly among the client than non-client group. Self-help credit-based economic activities have facilitated them to take decision for their personal needs, availing treatment and recreational facilities independently as well as to participate in other aspects of household decision making. However, there is need to critically examine certain issues and self-help credit programme should incorporate necessary steps to further enhance empowerment of the women irrespective of their duration in the programme, types of economic activities, and marital status. In order to transform self-help credit programme into a genuine livelihood diversification and gender strategy, women's empowerment needs to be understood as more than a marginal increase in access to income and/or consultation in limited areas of enterprise and household decision-making and/or occasional meetings with a small group of other women. While such advances may be useful first steps in a process, changes at both the micro- and macro- levels are required.

Women's role in enterprise and household decision-making, their access to assets and their control over self earnings have improved significantly among the client than non-client group.

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Introduction

The concept of livelihood diversification[1] is emerging as a survival strategy of rural households in developing countries

(Ellis, 2000; Bryceson, 2000). The rural people are looking for diverse opportunities to increase and stabilise their incomes, which are determined by their portfolio of assets - social, human, financial, natural and physical capital (Ellis, 1999). The impact of livelihood diversification varies from negative effects - the 'withdrawal of critical labour from the family farm' to positive effects - the 'alleviation of credit constraints and a reduction in the risk of innovation'. The contribution made by livelihood diversification to rural livelihoods is a significant one, which has often been ignored by policy makers who have chosen to focus their activities on agriculture (Ellis, 1998). Reardon, et al., (1997) and Turner et al., (1993) have highlighted the importance of earnings from non-farm activities. The livelihood diversification activities are of increasing importance for women empowerment[2] (Bryceson, 1996 and 2000; Bryceson and Jamal, 1997) through additional income earning and improvements in family welfare (Ellis, 1999) supplemented by self-help micro-credit[3] (Hulme and Mosley, 1996; Johnson and Rogaly, 1997). The self-help micro-credit programmes have played valuable roles in reducing the vulnerability of the poor, through asset creation, income and consumption smoothing, provision of emergency assistance, and empowering and emboldening women by giving them control over assets and increased self-esteem and knowledge (Zaman, 2001). Several recent assessment studies have also generally reported positive impacts (Simanowitz and Walker, 2002; World Bank, 1998; Lalitha and Nagarajan, 2002; Krishnaraj and Kay, 2002).

Keeping in view the pressure on agricultural lands and common property resources in ecologically fragile rainfed region of the Shivaliks in Jammu and Kashmir, the resource management policies are being supplemented by livelihood diversification and women empowerment strategy. The different sources of income represent opportunities to individual or to families possessing different incomes and assets; therefore livelihood diversification and women empowerment is affected by policies that promote self-help micro-credit programme for operationalisation of income generating activities. The operationalisation of income generating activities is severely constrained due to inherent institutional rigidities of formal financial institutions to give credit to the rural poor women. Thus, removal of constraints to, and expansion of opportunities for, livelihood diversification and women empowerment are desirable policy objectives because they give rural poor women more capabilities to improve their livelihood security. With above backdrop, an attempt has been made to analyze the process of livelihood diversification and women empowerment through self-help micro-credit programme and its impact under Integrated Watershed Development Project (IWDP), Hills-II, Jammu and Kashmir; to find out difficulties in operationalising income generating activities through self-help credit groups; and to suggest policy recommendations to make the self-help credit programme for livelihood diversification and women empowerment a success.

Data and Methodology

The present study has been confined to women members of self-help credit groups promoted by Integrated Watershed Development Project (IWDP), Hills - II in two sub-watersheds namely Akhnoor and Ramnagar in Jammu and Kashmir State. The members of the self-help credit groups were divided into three categories: regular, auxiliary and new members. The regular members are those who have spent more than five years in the self-help credit groups, auxiliary members have spent at least two years in the self-help credit groups and new members had spent at least two months in the self-help credit groups and had never received any loans before, either from IWDP, Hills-II funded self-help credit group programme or elsewhere. The above categorisation enabled us to ensure similarity in the demographic and economic characteristics of the samples. The primary data and information has been collected using pre-tested survey schedules supplemented by focus group discussions and participatory appraisal exercises. On the basis of stratified random sampling technique, a total sample of 275 women members of self-help credit groups were selected from above three categories viz. regular members (156), auxiliary members (76), and new members (43) for comparative study. The category-wise sample selection was done to analyze the impact of the self-help credit programme on livelihood diversification and women empowerment and also to distinguish between more mature members, who were evidently more experienced in managing their loans, versus newer women members. For the focus group discussions and participatory appraisals, participants were selected without distinguishing between the length of the membership in the programme, as both old and new members had to be given the opportunity to express their views. However, we did ensure that all the three types of members were represented. The data and information regarding women empowerment was also collected from the sample consisting of above three categories of members for making a comparison.

Both quantitative and qualitative tools were used to assess the impact of self-help micro-credit programme on livelihood diversification and women empowerment. Empowerment of the respondents was assessed by Weighted Mean Index (WMI) method. The formula of Weighted Mean Index is

$$WMI = f_1 \times W_1 + f_2 \times W_2 + \dots\dots\dots + f_n \times W_n / \Sigma\ (f_1 \dots\dots f_n)$$

Here, $W_1 \dots\dots\dots W_n$ = respective weightage of the variable
$f_1 \dots\dots\dots\dots f_n$ = respective frequency

The weight for different variables was assigned subjectively.

The impact data analysis was carried out to analyze level of control of resources and self-esteem on the part of women members of self-help credit groups. The purpose of the women empowerment analysis was carried out to determine if women have grown more confident and gained more self-esteem while participating in the programme. It was also aimed at identifying how those qualities have translated into specific changes in their behaviour that demonstrate empowerment.

Self-Help Credit Programme under IWDP, Hills - II

IWDP, Hills-II, Jammu and Kashmir has been launched in the state of Jammu and Kashmir in September 1999. One of the objectives of IWDP (Hills-II) is to diversify the rural livelihood conditions of the people in the watersheds lying in the Shivaliks through active community participation at each stage and in all project interventions. Most of the project interventions are land based and the women are not the sole owners of the land, so they are deprived of the benefits of most of the interventions directly. Women constitute about half of the population in the Shivaliks and their involvement is ensured to enhance the sustainability of the project interventions. The women of other disadvantaged groups, viz., landless, Scheduled Castes (SCs)/Scheduled Tribes (STs) and nomadic and semi-nomadic pastoral communities are also roped in to take up suitable income generating activities to diversify their livelihoods and make the project interventions sustainable. The income generating activities implemented for women of tribal - nomadic and semi-nomadic pastoral communities are demand driven and decided through participatory approach. The project is promoting income generating activities on group basis, however, in the case of tribal women of nomadic and semi-nomadic pastoral communities, those types of activities are being implemented, where more benefits accrue to individuals. IWDP (Hills-II), Jammu and Kashmir intends to support the self-help credit groups to inculcate the habit of saving and to take up viable income generating activities on sustainable basis with project assistance as well as with forging suitable linkages with government and non-government development agencies. The targeted population possesses traditional skills in enterprises such as rope making, pickle making, basket making, papad and bari making, handloom and handicraft, dairying, sheep rearing, petty small business enterprises, etc., which is being utilised properly by upgrading the skills through training as well as extending/ providing other support services like credit and marketing. By doing so, not only the targeted groups could be able to utilise their spare/free time productively, but also rural livelihood diversification will be the outcome due to increased socio-economic status.

The rationale for income generating activities under IWDP (Hills-II), Jammu and Kashmir is highlighted as under: (i) The targeted groups exploit the forest resources in the project area ruthlessly in order to eke out out/supplement their livelihoods. These groups venture in to the nearby forests for fuel wood and fodder, both for domestic needs and also sell them in the nearby townships in return for cash. They also graze their livestock on the village common lands beyond the carrying capacity, which results in land degradation and adds to the problem of low productivity and rural poverty. Income generating activities under IWDP would reduce the over exploitation of environmental resources and help in restoring the productive potential of the project area. (ii) The provision of alternative income generating activities would help in rational utilisation of spare time available with the targeted groups by reducing the drudgery especially for the women through the provisioning of the system of stall feeding, drinking water availability, rotational grazing, availability of more fuel and fodder. (iii) Most of the project interventions are land based, and the targeted groups possess no land, thus provision of non-land based income generating activities would help in augmenting the livelihood strategies for them. (iv) Income generating activities under IWDP would help in strengthening the economic base of the poorest of the poor in the project area by improving their bargaining power in decision-making and thus results in their empowerment. (v) The operationalisation of income generating activities through self-help credit groups would generate confidence among the targeted groups in the sphere of organisation and management capabilities. The rural livelihood diversification would have a "demonstration effect" on the rest of the communities. (vi) The provisioning of income generating activities would help in restoring the productive potential of the fragile eco-system of the Shivaliks and Karewas by reducing the pressure of over exploitation and unsustainable use of environmental resources. The targeted groups would be pursued to take up only those income generating activities which would be sustainable, both ecologically and economically, and upkeep and enhance the carrying capacity of the eco-system in project area. (vii) The implementation of income generating activities through participatory process via self-help credit groups would help in achieving the goal of institutional strengthening and ultimately rural livelihood diversification and poverty alleviation would be the outcome. Thus, the twin vital objectives of the project would also be realised.

The overall objective of initiation and operationalisation of income generating activities has been to strengthen the process of rural livelihood diversification and to empower the targeted groups. The selected income generating activities have been operationalised through adopting "bottom up approach" evolving and strengthening participatory process. Participatory approach has been utilised for the sustainability of the institutional arrangements and rural livelihood diversification. The Action Plan for implementation of income generating activities under IWDP (Hills-II) based on PRAs has been prepared (See Box 1). In the first year of the project, the participatory rural appraisal exercises have been undertaken by the participatory development functionaries and consultants of the project, which carried the baseline survey of the existing potential, socio-economic milieu, existing traditional institutions, their strengths and weaknesses, etc., in order to form village level institutions like self-help credit groups. The participatory development functionaries have organised awareness and motivational camps in the project area to propagate the policies and programmes among the stakeholders like the women, landless, disadvantaged sections of the population, non-governmental organisations (NGOs), Panchayats, Mahila Mandals, functionaries of National Bank for Agriculture and Rural Development (NABARD), District Rural Development Agency (DRDA), Block Development Officer (BDO) and reputed local persons. On average, 2-3 camps have been organised in each micro watershed to motivate and create awareness regarding income generating activities and other activities to be carried out under the watershed development and protection. The Sector Officers in respective watershed have played a vital role in organising these camps. A few separate camps have also been organised for the women especially from the disadvantaged sections of population including tribal nomadic and semi-nomadic pastoral communities, as this section of watershed community is traditional, introvert and shy in nature, without experience of handling money and material, and dependent on male folk for even minor decision-making. The local ethics like purdah system are also not conducive to encourage them to come in forefront to take up income generating activities on sustainable basis.

Box 1: Schedule for implementation of income generating activities

I Year	I Year	II Year	III/IV/V Year	III/IV/V Year
Activity	Activity	Activity	Activity	Activity
Participatory process	*Participatory process*	*Formation of self-help credit groups*	*Training/financial and marketing linkages*	*Income generating activities/monitoring and evaluation*
Discussion with village level stakeholders	Identification of income generating activities based on different parameters	Operationalisation of self-help credit groups	Provision of training and skill up-gradation	Initiation of income generating activities
Interaction with village community and PRA process	Raising the awareness of different stakeholders	Creation of thrift habits	Training in financial and marketing issues	Evolving participatory monitoring
Identification of their problems	Building the confidence of community	Opening of saving accounts and creation of inter-loaning scheme	Linkages with other development agencies	Participatory evaluation

In order to improve community capacity building, steps have been initiated to mobilise the community through participatory approach. To ensure community ownership in project activities, the project provided extensive training to beneficiaries on technical, financial and social aspects of income generating activities. The social assessment and participatory planning exercises carried out by the participatory development functionaries have identified needs and constraints faced by the targeted groups in the project area, and integrated into the proposed plan for income generating activities. Special attention has been given to gender training, awareness campaigns and development of close links with other gender related poverty alleviation and social programmes. Keeping above in view, the participatory development staffs have initiated the participatory processes to motivate the various stakeholders regarding the objectives of the project, rationale for initiating income generating activities and other vital issues related to the project, which includes: (i) discussion with the community leaders and village level stakeholders; (ii) identification of their problems; (iii) raising the level of awareness regarding project objectives; (iv) building the confidence of the village level stakeholders; (v) collection of data and information about community and resource availability; (vi) undertaking of participatory planning and exploring the views of different group of stakeholders and integrating them with participatory planning process; and (vii) formation of self-help credit groups and their operationalisation viz. creation of thrift habits, opening of accounts in bank, creation of users group, etc., (IWDP, Hills - II, 2005).

Before explaining the process of SHG formation, the occupational profile of the population inhabited in the project area is presented in the paragraph that follows. The proportion of males is higher than that of the females, however, the phenomenon is not uniform. The age composition of population reveals strength as well as its weakness. The dependency ratio is quite significant. The landholding status of the targeted population has an important role in agricultural production and livelihood strategies. The quality of the holding has a significant bearing on production as well as productivity. The agricultural land in the project area is rainfed and productivity is low. The majority of the cultivators have less than 2.5 acres of agricultural land holding. The smallholdings tend to be fragmented into a number of plots scattered over different parts of the village. Assured irrigation is not available. There is at least one water tank in almost all the villages, but the area covered by them is small and tank water is not utilised for irrigating agricultural fields, because of lack of proper water lifting facilities through pumping sets. Work force participation rate for males is higher than females. On account of high incidence of casualisation, intermittency, and erratic availability of work, targeted population is engaged in multiplicity of activities. Along with multiplicity of activities, they are confronted with multiple employment status which varies from unpaid family work to wage labour outside home (mainly in other fields and households) and in this case they receive wages in kind, and rendering of services in exchange of goods and services. Due to underdevelopment, poverty and scarcity the women participate in agriculture but have low level of decision-making. Large number of households in project area is poor. In the primary sector their mainstay is agriculture and even in agriculture they mostly work in their own fields. Besides agriculture, the targeted population is engaged in cattle rearing, horticulture, crafts, and collection of goods, services and other activities. The landless male population is also engaged in construction related activities, however, irregularly. The main economic base of the tribal and nomadic community in project area is livestock rearing. The sedentary Gujjars own lands, wherever they have settled. The size of land holdings of the sedentary Gujjars is small. Nomadic Gujjars and Bakerwals own no land, nor do the Banharas (Milk Gujjars). The sedentary Gujjars maintain small herds and feed their stocks indoors during winters. The living condition is subsistence in nature and during lean periods, they do manual jobs like wood chopping, loading and unloading of articles, etc. in urban towns. Weaving of woollen blankets is another occupational activity during winter.

Through participatory appraisal exercises, the participatory development functionaries have identified the existing moderately homogeneous groups which may undertake income generating activities. The consultations were held with the various interest groups at village level. The participatory development functionaries have motivated the poor women folk and disadvantaged groups to organise themselves in small homogenous groups called self-help credit groups. Self-help credit groups are have been provided elaborate training in technical, financial, and marketing aspects of the income generating activities and in record keeping. Clear roles, functions and accountability modes have been jointly worked out for the different members of self-help credit group. The members of the self-help credit groups contribute a small sum ranging between Rs.20-50 on monthly basis, for the purposes of inter-loaning among themselves. Most of the self-help credit groups have already opened their accounts in the banks and some of them have started inter-loaning. Self-help credit groups have been considered as an appropriate entry point for initiating the income generating activities. Self-help credit groups have been financially integrated with mainstream rural credit and envisaged to become self-sustaining so that at the end of the project they will continue to function.

The participatory development staff has identified the viable income generating activities based on the factors like skill possession, raw material availability, less training inputs required, better marketing potential, better financial viability, profit margin expected and existence of linkages with government/non-government agencies. The ultimate production considerations include the existence of physical infrastructure, raw materials, availability of training facilities, the norms for quality control, the production capacity, pricing the product etc. The targeted groups have been over-enthusiastic in arranging/providing production space, whether income generating activities is home-based or group-based. However, most of the activities are group based to make them sustainable. The local availability of raw materials for a product is essential and if the same is not available locally, is being procured at reasonable price from the nearby villages/markets. Even if some raw material is locally available, sometimes, some raw materials and/or other inputs are to be procured from the markets. The seasonal fluctuations in the availability of raw material have been taken into account while initiating activity planning. The targeted groups possess substantial skills in traditional activities, whereas other self-help credit groups preferred mushroom cultivation and poly-green house needs skill development, for which training facilities provided by respective line departments have been utilised. However, extension staff of the project has shared major training responsibilities. As for as the non-production skill training is concerned, the beneficiaries have been equipped with marketing, bookkeeping, management and cooperative skills.

In the second year of the project, a few self-help credit groups have been formed to inculcate the saving habits among the members and to initiate the training programme and income generating activities on experimental basis. A number of income generating activities have been operationalised and a higher proportion of SHG were linked with banks by opening saving accounts. Other self-help credit groups have also been motivated to open the saving account in the banks. A few fulkari, charkha, and khaddi centres have also been initiated, which are functioning quite successfully. Through the creation of self-help credit groups, the beneficiaries have been trained and most of them have taken up income generating activities on sustainable basis and started earning up to Rs.500 per month per beneficiary. The scheme of inter-loaning has been also been introduced and members of self-help credit groups get a benefit up to Rs.5,000. Through the opening of saving accounts in nationalised banks, the monthly savings of these self-help credit groups have increased up to Rs.1,000. Likewise, self-help credit groups have also been formed in other sub-watersheds and linked to banking system by opening saving accounts in nationalised banks and also successfully initiated activities related to skill up-gradation and income generating activities on sustainable basis, which have resulted into their increased income and improved livelihoods.

The targeted group possessed some traditional/technical skills in dairy farming, poultry rearing, etc. which has been harnessed by providing additional skills by arranging suitable training programmes to take up income generating activities. The targeted groups have shown keen interest in new promising and emerging income generating activities like apiculture and mushroom cultivation. In these areas, the skill gap is large, which have been bridged through proper training, for which suitable linkages have been maintained with the Departments of Agriculture and Horticulture. Training linkages have also been explored with existing technical/vocational training institutes. The services of local master craftsperson have also been utilised for upgrading the skill possession of the targeted groups. The reputed local NGOs have been identified for providing training in various aspects of income generating activities such as technical, financial, marketing and record maintenance. The project intends to support self-help credit groups till the goal of sustainability are achieved, for which the project has attempted to evolve the system of revolving fund/mutual fund groups. The extent of beneficiaries' willingness to contribute towards the cost of any income generating activity is a 'litmus test' of their interest and commitment. Efforts were made to evolve cost-sharing mechanism to ensure sustainability.

Suitable financial linkages have been forged with the existing development programmes and schemes of the Women Development Corporation (WDC) and government for rural livelihood diversification and poverty alleviation. The Ministry of Rural Development implements various poverty alleviation schemes through District Rural Development Agency (DRDA). The outside sources of finance have been tapped, as the targeted groups have limited finances at their own. Even if they save some meager sum, they never risk these in income generating activities, as they have numerous social obligations to meet. The initiation of income generating activities requires investment in equipment, raw materials, etc., for which funds must be made available with the self-help credit groups. The members of self-help credit groups have utilised the loans from the NABARD and nationalised banks for taking up of income generating activities. Besides, the existing government schemes such as Swarnajayanti Gram Swarojgar Yojana (SGSY) have also been utilised for implementing income generating activities. The agencies and schemes mentioned above provides credit to self-sustainable self-help credit groups, so to begin with the project has undertaken the major responsibility in providing the seed money to self-help credit groups to take up income generating activities and they were encouraged to accumulate more savings, as their creditworthiness is the first step in establishing a long-term relationship with the lending institutions and ensuring financial sustainability.

The marketing potential of the initiated income generating activities is tremendous locally as well as in nearby town markets. Besides, attempts have been made to forge successful marketing linkages with a host of line departments, NGOs, etc. In ideal situation, local market is preferable to the distant market, because social norms and cultural patterns do hamper women's active participation in marketing. However, the income generating activities have been strengthened to undertake the task of marketing effectively. The market size of a particular product is constrained by the availability of substitutes, quality of the products etc. The products of income generating activities have a host of competitive and substitute goods available, often of better quality. Even though, if the qualities of the products of the income generating activities are kept at a certain minimum reasonable standard, still these products have better scope of marketing and expansion too.

Analysis of Results

a. Characteristics of sample

The table 1 presents the characteristics of the sample, according to the use of

Table 1: Characteristics of sample

Characteristics	Regular	Auxiliary	New	Total
Sample size	156	76	43	275
Average duration in credit group (month)	64.56	43.24	2.4	33.4
Average number of loans	3.65	2.13	0	1.92
Average amount of first loan (Rs.)	23255	12421	0	14849
Average amount of last loan (Rs.)	43211	21336	0	21515.6
Average amount of savings by credit group (Rs.)	6437	3421	0	3286
Number of persons who had never received a loan	0	16	43	59

micro credit in the credit group. In the sample, the average length of membership in the credit group, the average number of loans received, the average amounts of loans received (first and last loans), and the average amount of savings were higher among regular members as compared with auxiliary members, as could be expected given the membership conditions of these two categories of clients, whence the need to sometimes distinguish between the client categories while analysing the results.

b. General information on respondents

There were more married women among the clients as compared to non-clients followed by single and widow (see table 2). In fact, there were more women under 30 years of age among non-clients, while there were more women in the 31-40 years of age and above range among the clients. A small proportion of non-clients had never been to school and, surprisingly, there were none non-clients who could not read, as compared to clients. Moreover, they were also proportionately "younger" - a societal phenomenon, as education has gained in importance. However, at the household level, the average number of persons in the household was higher among non-clients as

Table 2: General information on respondents

Respondents' information	Regular	Auxiliary	New	Total
I. Individual level				
a. Status				
Married	52 (33.33)	24 (31.57)	11(25.58)	87 (31.64)
Separated/Divorced	27 (17.31)	19 (25.00)	4 (9.30)	50 (18.18)
Widowed	33 (21.15)	21 (27.63)	13 (30.23)	67 (24.36)
Single	44 (28.21)	12 (15.79)	15 (34.88)	71 (25.82)
Total	156 (100)	76 (100)	43 (100)	275 (100)
b. Age				
Under 20 years	8 (5.13)	3 (3.95)	7 (16.27)	18 (6.54)
21-30 years	34 (21.80)	11 (14.47)	23 (53.48)	68 (24.73)
31-40 years	47 (30.13)	17 (22.37)	11 (25.58)	75 (27.27)
41-50 years	23 (14.74)	23 (30.26)	2 (4.65)	48 (17.45)
+50 years	44 (28.20)	22 (28.95)	0	66 (24.00)
Total	156 (100)	76 (100)	43 (100)	275 (100)
c. Education				
Never went to school	38 (24.36)	27 (35.53)	3 (6.97)	68 (24.72)
Average number of years in school	9.37	10.14	11.96	10.49
Cannot read	29 (18.59)	21 (27.63)	0	50 (18.18)
II. Household level				
Average number of persons in the household	6.27	6.42	6.64	6.44
Average number of economically active persons	2.48	2.11	2.22	2.27
Average number of salaried workers	1.19	2	1.73	1.64
Dependency ratio	2.53	3.04	2.99	2.83

Note: Figures given in parentheses are percentages compared to clients but the average number of economically active persons was higher among the clients. Besides, it appeared that the dependency ratio was lower among the clients than the non-clients. The differences thus identified could prove useful while analyzing the results.

c. Impact of the self-help credit programme

i. Effect on individual savings

The regular members save more due to longer duration of stay in the programme and have higher access to credit than auxiliary and new members. Although savings were not obligatory for those desiring access to self-help micro credit, the need for investments were the main reasons behind savings. Increased control over resources could translate into the capacity to save and this capacity seemed considerably higher among older clients (69.56% claimed they saved) as compared to the other members (19.87% of auxiliary members and only 8.9% of new members claimed they saved), as shown in the table 3.

Table 3: Effect on savings

Savings	Regular	Auxiliary	New	Total
% claiming that they saved	69.56	19.87	10.56	33.33
Variation in savings over 12 previous months:				
a. Decreased greatly	17 (15.17)	3 (9.37)	2 (11.76)	22 (13.66)
b. Decreased	21 (18.75)	4 (12.50)	4 (23.53)	29 (18.01)
c. Stayed the same	23 (20.53)	7 (21.87)	7 (41.17)	37 (22.98)
d. Increased	39 (34.82)	12 (37.5)	4 (23.53)	55 (34.16)
e. Increased greatly	12 (10.71)	6 (18.75)	0	18 (11.18)
Total	112 (100)	32 (100)	17 (100)	161 (100)
% of women who used their profits for savings	20.51	17.10	75.0	37.54

Note: Figures given in parentheses are percentages

As for variations in savings over the previous year, significant differentials were noticed among the members and they have demonstrated practically the contrasting behaviour patterns. In the case of downward variations, the behaviour of three groups was not similar. 33.92% of the regular members said that they were saving less ("decreased" and "decreased considerably") as against 21.87% among auxiliary members and 35.29% of non-clients or new members. The same was the case with upward variations ("increased" and "increased considerably"): 45.53% of the regular members said that there had been an increase while the rate stood at higher levels of 56.25% for auxiliary members and lower levels of 23.53% for non-clients. The prevailing economic conditions could be partially responsible for this phenomenon since there was a decreasing trend in the income of respondents from client categories. There seems to be a greater number of non-clients who used the profits from their enterprise activities for savings. Since clients had access to financial resources through their institution, they were less inclined to use their profits for savings. To summarise, the overall effect on savings in the previous year was slightly more favourable in the case of clients as compared to non-clients, and this positive effect was higher in the case of regular members who had received more credit than auxiliary members.

ii. Impact on management practices

Control of resources can improve good management practices. By learning how to manage their enterprises better, women can become more capable of controlling their economic activities and thereby better able to evaluate their resources. The table 6 gives the responses of the respondents on the issue of their management practices and the interviewers' perception vis-à-vis the interviewees' skills in estimating the results of their enterprise activities. The data reveals that the regular micro-credit clients had adopted good management practices more substantially, in particular with regard to calculating profits on the basis of records (see table 4). In fact, the clients were more inclined to use costs and earnings records than were the auxiliary members and non client group, as they have received training in book-keeping as a part of the programme. As for the interviewer's perception (response time, consistency between sales and expenditure, determination of profits, etc.), the clients appeared better able to estimate their sales, expenditure and profits than those in the non-client group.

Table 4: Management practices in use

Management practices	Regular	Auxiliary	New
a. Keep enterprise money separate from money for personal expenses	89 (57.05)	43 (56.57)	23 (53.48)
b. Calculate profits based on records	81 (51.92)	42 (55.26)	25 (58.13)
c. Able to estimate profits	122 (78.20)	65 (85.52)	21 (48.84)
d. Pay themselves a wage for their work in their enterprise	38 (24.35)	7 (9.21)	4 (9.30)
e. Have a fixed location with protection from the sun and rain	96 (61.53)	36 (47.36)	27 (62.79)
f. Have a fixed location different from the location where the family lives	86 (55.12)	17 (22.36)	11 (25.58)
Interviewers' perception on skills of interviewees:			
a. Great deal of difficulty	14 (8.97)	7 (9.21)	15 (34.88)
b. Some difficulty	67 (42.94)	32 (42.10)	11 (25.58)
c. No difficulty	75 (48.07)	37 (48.68)	13 (30.23)
Total	156 (100)	76 (100)	43 (100)

Note: Figures given in parentheses are percentages.

iii. Impact on ownership of enterprise

Another way of measuring control of resources is by analyzing ownership. It is pertinent to mention that none of sample women have an organised income generating activity before the programme, however, in some cases small proportion of male households' members were engaged in petty small shops and rural trades. In order to analyze the survey results, we developed the hypothesis that access to credit would allow for greater financial autonomy, which would, in turn, translate into a larger number of women who owned their enterprises. This hypothesis seemed to be verified, as shown by the results given in the table 5. It may be seen that in all the categories of self-help credit group members interviewed, a large proportion of the interviewees said that they were themselves the owners of their enterprises. In all likelihood, it is possible that, generally speaking, the women have their own enterprise activities but they may often have been started with the help of some financial assistance from a relative.

Table 5: Effect on enterprise ownership

Ownership of enterprise	Regular	Auxiliary	New	Total
a. Primarily your own enterprise	148 (94.87)	69 (90.78)	37 (48.68)	254 (92.36)
b. Primarily an enterprise belonging to another family member	3 (1.92)	0	2 (4.65)	5 (1.82)
c. A business partnership with others in your household	2 (1.28)	4 (5.26)	0	6 (2.18)
d. A business partnership with others not in your household	3 (1.92)	3 (3.94)	2 (2.65)	8 (2.91)
e. No answer	0	0	2 (4.65)	2 (0.73)
Total	156 (100)	76 (100)	43 (100)	275 (100)

Note: Figures given in parentheses are percentages.

iv. Impact on decision-making

In order to increase control of resources, members of self-help micro credit groups also need to be able to take decisions regarding enterprise activities like expanding the size of enterprise, adding new products, hiring more workers, improving quality of products, reducing costs, purchasing equipments, and transport and marketing decisions and allocation of profits within households such as buying food and clothing, meeting school and health related expenses, improving household, re-investing in enterprises, contributing to funeral expenses. The table 6 gives the data with regard to decision-making powers in the household. A mere perusal of the data in table 6 makes it evident that not only did a larger proportion of the clients in the sample say that they themselves were the principal decision-makers in the household as compared to the respondents in the non-client group, but more mature clients seemed to have a greater hold over decision-making in their households.

Table 6: Effect on decision-making

Principal decision-maker	Regular	Auxiliary	New	Total
Principal decision-maker				
a. Self	59 (37.82)	34 (44.73)	13 (30.23)	86 (31.27)
b. Male relative	71 (45.51)	23 (30.26)	17 (39.53)	111 (40.36)
c. With spouse	8 (5.13)	9 (11.84)	8 (18.60)	25 (9.09)
d. Female relative	11 (7.05)	7 (9.21)	2 (4.65)	20 (7.27)
e. Others	7 (4.48)	3 (3.94)	3 (6.97)	13 (4.72)
Total	156 (100)	76 (100)	43 (100)	275 (100)

Note: Figures given in parentheses are percentages.

v. Increased household income

The adverse economic situation in the Shivalik hills of Jammu and Kashmir, which includes ongoing violent conflicts, prolonged droughts, climatic distress and resulting displacements coupled with economic slowdown seems to have had an impact on income since 26.28% of the regular members reported that they had witnessed a fall in their income, as can be seen in the table 7. There were more auxiliary members and non-clients who noted a decrease in household income. 34.61% of the regular clients noted that their household income had increased greatly; however, the respondents in the non-client group had not witnessed any substantial increase. Thus, there were more members/clients who witnessed an increase in household income than non-client members. The other members of the households, if not directly related to the programme, are not contributing in cash or kind in running the enterprise, and even if they were doing so, such responses have not been elicited at the time of the survey. If one look at the average number of economically active persons in the respondents' households, one would observe that the average number is lower in the case of auxiliary members and non-clients as compared to regular clients. Thus, regular clients' households seem to have suffered more from the "economic recession", which could only be expected since "the greater your involvement in the economy, the more you risk being affected by adverse economic circumstances".

Table 7: Effect on household income

Variation in household income over the last year	Regular	Auxiliary	New	Total
Decreased greatly	18 (11.54)	8 (10.52)	7 (16.28)	33 (12.0)
Decreased	23 (14.74)	19 (25.0)	14 (32.55)	56 (20.36)
Stayed the same	16 (10.25)	12 (15.78)	9 (20.93)	37 (13.45)
Increased	45 (28.84)	23 (30.26)	4 (9.30)	72 (26.18)
Increased greatly	54 (34.61)	14 (18.42)	9 (20.93)	77 (28.0)
Total	156 (100)	76 (100)	43 (100)	275 (100)

Note: Figures given in parentheses are percentages.

vi. Financial contribution to the household

In more than one-fifth of the households, women are sole earners and as such their engagement in credit-based entrepreneurial activities had contributed significantly to the households' income. One-third of the households have at least one person in regular employment and receiving salary and 43.27% of the households have more than one earner (see table 8). In addition to the salary and other incomes, credit-based women's entrepreneurial activities have also made significant contribution to the households' income and raised their living standard which is evident from the fact that they contribute significantly towards households' expenses on food, clothing, education, health, housing improvements, and reinvestment in enterprise activities, funeral expenses and savings. In view of these results, it appears that the fact of having access to credit differentiates client households from non-client households with regard to their financial contribution to the household. Thus, women with access to credit appear to contribute more to the household than non-clients.

Table 8: Financial contribution to households

Financial Contribution	Regular	Auxiliary	New	Total
% of households in which the woman alone has an income	34 (21.79)	18 (23.68)	13 (30.23)	65 (23.63)
% of households where at least 1 person receives a salary	49 (31.41)	27 (35.52)	15 (34.88)	91 (33.09)
% of households where more than 1 person has an income	73 (46.79)	31 (40.79)	15 (34.88)	119 (43.27)
Total	156 (100)	76 (100)	43 (100)	275 (100)

Note: Figures given in parentheses are percentages.

vii. Allocation of profits within households

As can be seen in the table 9, the allocation of earnings towards various household expenses varies between the clients and the non-client groups. In a proportionately larger number of cases, earnings from enterprise activities are used to buy food and clothing (primary needs) in the non-client group as compared to clients. In a larger proportion of cases, non-client group members use a part of their earnings toward health-related expenses and funeral expenses. It is interesting to note that the behaviour of less mature clients (auxiliary members) with regard to the use of earnings for buying food and clothing was closer to that of the non-client group's respondents. Long standing clients allocate a smaller proportion of their earnings for what we call "subsistence" expenditure, such as food or clothing. In fact, a larger share of their earnings is allocated to the secondary needs identified in the survey, such as paying school expenses, health-related expenses, housing improvements, reinvestment in enterprise activities, funeral expenses and savings.

Table 9: Allocation of earnings from enterprise activities*

Activities	Regular	Auxiliary	New	Total
a. To buy food	8	31	45	28
b. To buy clothing	9	36	35	26.67
c. To pay school expenses	14	27	34	25
d. To pay health-related costs	13	25	31	23
e. To pay for household improvements	8	16	19	14.33
f. To re-invest in the enterprise	32	24	18	25.67
g. To save	33	28	17	26
h. To contribute to funeral expenses	6	9	11	8.67
i. To buy items for the house	14	6	9	9.67
j. Other	9	11	8	9.33
k. Don't know	2	5	3	3.33

Note: Figures given in parentheses are percentages.
*Multiple answers

viii. Trends in income

Due to on-going violent conflicts, prolonged droughts, climatic distress and resulting displacements coupled with economic slowdown, the State of Jammu and Kashmir is passing through an economically difficult period, with a marked decrease in trading activities including demand and non-existence of robust marketing infra-

Table 10: Variations in individual income

Variation in income over last 12 months	Regular	Auxiliary	New	Total
Decreased greatly	16 (10.25)	13 (17.10)	13 (30.23)	42 (15.27)
Decreased	23 (14.74)	17 (22.36)	9 (20.93)	49 (17.82)
Status quo	27 (17.30)	13 (17.10)	7 (16.28)	47 (17.09)
Increased	48 (30.77)	15 (19.73)	6 (13.95)	69 (25.09)
Increased greatly	42 (26.92)	18 (23.68)	8 (18.60)	68 (24.73)
Total	156 (100)	76 (100)	43 (100)	275 (100)

Note: Figures given in parentheses are percentages.

Table 11: Reasons for variations in individual income

Reasons	Regular	Auxiliary	New	Total
Bad sales	45 (28.84)	13 (17.10)	7 (16.28)	65 (23.64)
Illness	16 (10.25)	11 (14.47)	16 (37.21)	43 (15.63)
Supply problems	7 (4.48)	17 (22.36)	14 (32.56)	38 (13.82)
Expanded the enterprise	38 (24.35)	19 (25.0)	3 (6.97)	60 (21.82)
Purchase of inputs at reduced rate	28 (17.95)	16 (21.05)	3 (6.97)	47 (17.09)
Set up new enterprise	22 (14.10)	0	0	22 (8.0)
Total	156 (100)	76 (100)	43 (100)	275 (100)

Note: Figures given in parentheses are percentages.

structure and competition with factory made goods and products of multi-national companies. Hence, it is not surprising that a majority of the respondents in all the three categories said that their income had decreased over the last 12 months preceding the survey. Bad sales, a consequence of "the economic recession" due to on-going conflicts, seem to have affected the respondents in the regular category more; however, supply problems have affected the non-clients more than client groups. The non-client members, who were not as dependent on their income-generating activity, appeared to have found a job to compensate for losses in income in their enterprise activity. A high proportion of both regular and auxiliary members have expanded their enterprise in the last one year preceding the survey (see tables 10 and 11).

ix. Participation in enterprise and household decision making

Respondents' opinion regarding their participation in enterprise and household decision making both before and after involvement in project supported enterprise activities have been collected in order to examine the extent of change in their participation in enterprise and household decision making due to their relatively enhanced financial capabilities. The decision making aspects which have been taken into consideration are shown in table 12. It presents a comparative picture of women's participation in different aspects of enterprise and household decision making. This table also assesses the extent of change in participation in enterprise and household decision making after being members of the programmes.

Table 12: Participation in enterprise and household decision making: before & after

Decision making aspects	Regular			Auxiliary			New		
	WMIb (Before)	WMIa (After)	WMIa: WMIb	WMIb (Before)	WMIa (After)	WMIa: WMIb	WMIb (Before)	WMIa (After)	WMIa: WMIb
Take a loan	0.11	0.46	1:4.18	0.9	0.36	1:4.0	0.8	0.11	1:1.37
How to use loan	0.21	0.55	1:2.61	0.14	0.35	1:2.5	0.14	0.16	1:1.14
Buy for business	0.17	0.59	1:3.47	0.13	0.43	1:3.30	0.12	0.17	1:1.42
How product is sold	0.19	0.61	1:3.21	0.14	0.31	1:2.21	0.13	0.23	1:1.77
How to use profits	0.13	0.56	1:4.3	0.9	0.36	1:4.0	0.9	0.19	1:2.11
Child education	0.19	0.52	1:2.73	0.13	0.31	1:2.38	0.12	0.18	1:1.5
Child marriage	0.15	0.47	1:3.13	0.11	0.39	1:3.54	0.13	0.21	1:1.61
Buying Household Items	0.18	0.54	1:3.0	0.10	0.32	1:3.2	0.11	0.17	1:1.54
Buying Personal Items	0.13	0.49	1:3.76	0.9	0.34	1:3.77	0.9	0.17	1:1.89
Buying Household Assets	0.17	0.58	1:3.41	0.13	0.37	1:2.84	0.9	0.13	1:1.44
Use of Contraceptives	0.8	0.47	1:5.87	0.8	0.34	1:4.25	0.8	0.14	1:1.75
Avail Treatment	0.11	0.69	1:6.27	0.14	0.37	1:2.64	0.11	0.17	1:1.54
Avail Recreational Facilities	0.13	0.48	1:3.69	0.13	0.39	1:3.0	0.9	0.12	1:1.33
Visiting Parents or Relatives	0.17	0.62	1:3.64	0.13	0.42	1:3.23	0.13	0.21	1:1.61
Overall Decision Making	0..15	0.55	1:3.67	0..12	0.36	1:3.0	0..10	0.18	1:1.8

Note: A three point scale was constructed to measure the level of participation in household decision making both before and after becoming project member. Values are: Participation not at all = 0.00, Jointly Participation = 0.50, Exclusive Participation = 1.00

In fact the extent of participation is determined by various factors like boldness of the women to express opinion, awareness of their rights and share of contribution to the family income. After participation in self-help credit groups, more regular members take decisions regarding taking loans, use of loans, buying for business, selling of produce and use of profits on their own compared to other members. Thus, the long standing client members are better empowered in enterprise related decision making than other members (see table 12). In the social structure of Shivalik hills of Jammu and Kashmir, generally women are allowed to participate to take decision jointly with their husbands and other family members on their children's education and marriage related matters. However, women's participation level in the case of children's education and marriage related matter undergone considerable change and improved significantly after becoming member of the self-help credit groups and being involved to economic activities. The improvement in decision making was more in case of regular members compared to auxiliary and new members. Women's ability in buying goods for personal use and households assets, availing treatment and recreational facilities were also undergone significant improvement after their involvement in project financed activities, more so in case of clients with long standing than auxiliary and non-client members. The data reveals that after being member of self-help credit groups, women's earnings significantly enhanced their capability to express their opinion and make decision to meet personal needs, to contribute to buy households assets, availing treatment and recreational facilities independently. In fact, this remarkable change in women access to such crucial aspects of decision making is greatly appreciated, which is a salient indication towards the progress of women empowerment.

A majority of the clients answered that they made most of the decisions themselves. As far as decisions concerning children were concerned (number of children to have, their schooling and marriage), a higher proportion of the clients mostly made decisions at their own. However, in the non-client category, in most cases, comparatively lower proportion of the women decided on these points. Thus, more women made such decisions alone among the clients than among the non-clients self-help credit groups. Decisions concerning enterprise related financial and marketing matters were taken mostly by the women themselves in a greater proportion in both the groups (client and non-client) surveyed, although the women played a greater role in the regular category of members.

For decisions "outside" the household, it appears that the women play a greater role in decision-making in both groups after project interventions, though more markedly so in the client group than non-client group. The behaviour of the two groups was similar from the viewpoint of the work to be done during a normal day, though it differed with regard to the purchase of daily-use items for the household, in which case a majority of the clients made the necessary decision concerning such purchases, whereas in the case of non-clients, a greater proportion of spouses took such decisions. Finally, after the project, there has been three-fold increase in the proportion of the women taking overall decision making in client group compared to about one-fold increase in non-client group.

x. Extent of empowerment

The above three key components of empowerment have been assessed with a view to evaluate the level of empowerment of the members of self-help credit programme. In order to evaluate the performance of self-help credit programme in empowering women, it is necessary to aggregate the results of different indicators. Therefore, following Weighted Mean Index of Empowerment has been constructed through aggregating three different indices. This index is showing not only the comparative position of each indicator of empowerment but also indicating overall empowerment level of the women involved in different economic activities.

The weight of the rating scale ranges from 0.00 to 1.00 in the case of WMI of each of the indicators of empowerment. The weight 1.00 denotes the highest/best condition while 0.00 indicates the lowest/worst condition (table 13). Since WMI values of different aspects of empowerment vary from one activity to another, the aggregated values of empowerment also vary from each other. Index values in table 13 shows that the aggregated WMI of long standing client group is relatively higher than other auxiliary and non-client groups. This higher value is considerably contributed by their better overall decision making, higher level of control over income and access to assets. Women who are long standing members of credit group have managed to accumulate more assets as their own than others. The level of empowerment is noticeably low among the non-client members. The responsible factors behind such situation have been highlighted earlier. In fact, the long standing credit group, where the concentration of abandoned and widow women are relatively higher their performance in empowering women is also better than auxiliary and non-client groups. Here, it should be mentioned that the WMI higher than 0.50 implies a tendency towards impressive positive improvement toward empowerment.

Table 13: Index of empowerment

Empowerment levels	Regular	Auxiliary	New	Total
Participation in Decision Making (IDM)	0.55	0.36	0.18	0.36
Control over Income (ICI)	0.69	0.51	0.31	0.50
Access to Assets (IAA)	0.70	0.40	0.28	0.46
Empowerment (IE)	0.65	0.42	0.26	0.44

Note: A three point scale was constructed to measure the level of participation in household decision making both before and after becoming project member.

Values are: Participation not at all = 0.00, Jointly Participation = 0.50, Exclusive Participation = 1.00.

The extent of control over income was measured based on a three point scale. The values of the scale assigned for the construction of the index are: 1. Not at all = 0.00, 2. Partial = 0.50, 3. Full = 1.00.

For assigning weight to each activity the highest value of average assets is considered as 1.00 and different activities have obtained the weight as a proportion of their assets values to the highest value. Here, IE = (IDM + ICI +IAA)/3

Conclusion and Suggestions

Like almost all development programmes, self-help credit programme is not free from shortcomings. In spite of comprising several limitations, it is evident that the economic activities supported by self-help credit programme have induced improvement in the level of empowerment of women. Women's role in enterprise and household decision making, their access to assets and their control over the self earnings have improved significantly among the client than non-client group. Self-help credit-based economic activities have facilitated them to take decision for their personal needs, availing treatment and recreational facilities independently as well as to participate in other aspects of household decision making. Further, the women living with their husbands are comparatively less empowered while the level of empowerment has improved much in case of the activities comprising relatively higher number of abandoned women and widows. In the cases of widows and abandoned women generally there is no male member to control or govern their families. Eventually their involvement in economic activities raised their level of empowerment significantly. Besides the tenure in the self-help credit programme, the marital status (women living with husband or without husband) act as influential factors of women empowerment. Thus, there is need to critically examine the issues and self-help credit programme should incorporate necessary steps to enhance empowerment of the women irrespective of their duration in the programme, types of economic activities, and marital status.

Self-help credit groups must have sufficient knowledge and skills to deal with the organisational and technical issues related to various aspects of the economic activities, in addition to relevant management skills. Therefore, the training meant for grass roots organisations must deal with formation and structure of self-help credit groups, their roles and responsibilities, and account-keeping and financial management. Technical training should also be provided on a range of activities, with a view to build institutions that can make economic activities sustainable. The professionals with a sound socio-economic perspective of the project area should be engaged for imparting technical training. The services of sociologist, economist, community organisers, and extension agents of various line departments including project professionals should be utilised for the task. The institutions and professionals involved in training should also be invited to participate in the monitoring and review of the progress. The review team should help identify the scope for skills enhancement in relation to specific groups and make necessary modifications in the content and the methodologies of the training. The extension agents of the project should be imparted necessary training on various aspects of enterprises, such as institutional, technical, financial, participatory, social development etc. NGOs with sufficient experience in dealing with participatory issues in the field of micro enterprises and which are proficient in development communication should be engaged for this training task.

A fundamental part of the strategy should be to overcome the prevalent dependency syndrome, under which rural stakeholders have become conditioned to expecting subsidised inputs from the government programmes, and to inculcate a sense of local ownership and self-reliance. The basic process of participatory planning and implementation should encourage this. Important subsidiary factors for sustainability should be: (i) local institutional development (formation of self-help credit groups and training); (ii) reciprocal contributions by beneficiaries (in cash, kind or labour); (iii) encouraging formation and use of village-level funds to sustain the assets created and to enable villagers to generate income. More self-help credit groups should be formed, which will be involved with the subsequent implementation of enterprises identified during participatory processes. Special focus should be given by the participatory development functionaries to motivate the women to form more sustainable and vibrant self-help credit groups. New self-help credit groups should be motivated to create revolving funds and accounts for sustainable development and future management of economic activities after the end of the project. Villagers should be motivated and encouraged to formulate their own rules and regulations for loaning.

A prerequisite for success of economic activities is that it should catalyze local entrepreneurship. If the villagers see direct benefits for themselves, they will support the village organisation and its funds. For this purpose, the villagers should be allowed to use their accumulated funds for their own purposes, but at the same time, attempts should be made to inculcate a sense of moral responsibility for maintaining assets created by the project. Dictating how funds will be used would destroy the sense of local ownership. Exposure visits and training programmes should also be organised on regular interval to give targeted groups opportunities to learn and express themselves in public and improve their self-confidence. As confidence increases, leadership emerges. The active members of the s self-help credit groups should be identified and trained to conduct group meetings and sessions. This will ensure continuity and functioning of self-help credit groups after the project ends.

The process of social mobilisation should be conceptualised broadly so that the self-help credit groups can perform more encompassing roles. The institutional frameworks, which bring these self-help credit groups together and harness their collective strengths, are also necessary. A promising example is the federating of self-help credit groups, where all such groups in one watershed form an apex body consisting of selected representatives of each group. In this way, women leaders in federated bodies would gain prestige and recognition, which will pave their path to elected office in local government and thus empowering them more. These federated bodies should be linked further, reaching up to the district and above levels, presenting opportunities for women to engage in decision-making at higher levels. It is at the level of political decision-making that women can hope to have a voice in transforming society. In this regard, affirmative action, whereby women are allocated quotas in various decision-making bodies, can be an effective strategy.

In order to transform self-help credit programme into a genuine livelihood diversification and gender strategy, women's empowerment needs to be understood as more than a marginal increase in access to income and/or consultation in limited areas of enterprise and household decision-making and/or occasional meetings with a small group of other women. While such advances may be useful first steps in a process, change at both the micro- and macro-levels is required. In order to justify their role as a key element of livelihood diversification agenda, self-help credit interventions also need to be massified and make a quantum leap beyond the limited outreach of those few women who already enjoy more privileged access to resources and skills. Such a 'gender policy for empowerment' would make self-help credit more empowering for more women.

Some empowerment strategies produce 'win-win' situations benefiting all concerned. Still there are often conflicts of interests between women, as well as between women and men. If empowerment strategies are to really address entrenched inequalities in power and resources, they will inevitably be contested by different interest groups and entail the 'disempowerment' of current vested interests. A genuine empowerment strategy must be defined by women themselves, and not imposed by external agencies. Empowerment is a long-term process, not a 'one-off end-product' decided at one focus group meeting or assessed in a one-off impact assessment. To maximise the contribution of self-help credit programme to women's empowerment requires equality in access to all credit services but also an adequate and non-discriminatory regulatory framework. Gender policy goes much further and integrates productive and reproductive work, welfare concerns and measures to address power inequalities in strategies for both women and men. This approach implies a strategic thinking through ways of mainstreaming empowerment questions. It also involves linking with other organisations challenging gender inequality at different levels and a rethinking of current 'best practice'.

Notes

1 Livelihood diversification is defined as the process by which rural households construct an increasingly diverse portfolio of activities and assets in order to survive and to improve their standard of living (Ellis, 2000).

2 Empowerment is defined as the processes by which women take control and ownership of their lives through expansion of their choices (UN, 2001). Thus, it is the process of acquiring the ability to make strategic life choices in a context where this ability has previously been denied. The core elements of empowerment have been defined as agency (the ability to define one's goals and act upon them), awareness of gendered power structures, self-esteem and self-confidence (Kabeer, 2001). As long as the disadvantaged suffer from economic deprivation and livelihood insecurity, they will not be in a position to mobilise (UN, 2001).

3 Micro-credit as an alternative source of credit for the poor has received wide attention in recent years. It is defined as "programmes that provide credit for self-employment and other financial and business services (including saving and technical assistance) to the poor persons" (World Bank, 1997). In many countries, micro-credit programmes have succeeded in generating self-employment by providing access to small capital to people living in the poverty (United Nations, 1998).

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ANNEXURE

List of enterprises by type of members

Enterprise	Regular	Auxiliary	New	Total
Rope making	3	-	-	3
Pickle making	9	4	-	13
Basket making	7	-	-	7
Papad and bari making	6	4	-	10
Handloom	11	8	6	25
Handicraft	27	14	9	50
Dairying	33	13	11	57
Sheep rearing	9	5	4	18
Poultry keeping	24	17	13	54
Mushroom cultivation	11	-	-	11
Petty small shop	16	11	-	27
Sample size	156	76	43	275

Tribal Transformation Through Microfinance: An In-depth Impact Study of an NGO Sponsored Microfinance Programme in Kerala

- C. Krishnan* and Silvi. T.S**

Abstract

More than a decade of deepening engagement with microfinance programmes throughout the world has brought home the message that microfinance goes beyond finance and compels attention and action from a larger development perspective. It is considered as a tool for the emancipation of the poor and the marginalised. At this juncture, a study has been carried out in Kerala to examine the impact of group based microfinance in transforming the tribal communities. A comparison between the target households with the control household had formed the basis of analysis where the target households were the households in which one of the family members was a participant in the selected microfinance programme; and the control group included households where none of the members were under any microfinance programmes. The study focuses on the microfinance activities of an NGO, viz., Shreyas. The study found that the impact of microfinance on the income, saving, employment and migration is encouraging. Similarly, the expenditure pattern reveals higher level of expenditure by the target group over the control group. Microfinance also acts as a catalyst in the livelihood diversification among the tribal folks. In the matter of economic empowerment, reduction of poverty and social empowerment, the beneficiary households claim positive changes, yet, miles to go to mainstream them. Given the same socio-economic fabric among the target and control groups under study, the positive impact of microfinance on the target group is a real testimony to the magical effect of microfinance.

Microfinance acts as a catalyst in the livelihood diversification among the tribal folks. The positive impact of microfinance on the target group is a real testimony to the magical effect of microfinance.

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Introduction

In recent years microfinance has become an important intervention as a tool for rural development and poverty alleviation. In India, a number of microfinance institutions including NGOs, NBFIs and Government agencies have intensively intervened. More than a decade of deepening engagement with microfinance programmes throughout the world has brought home the message that microfinance goes beyond finance and compels attention and action from a larger development perspective. This enabling alternative paradigm seeks the engagement of microfinance programmes beyond credit schemes as a judicious blend of finance and development for addressing the many dimensions of poverty and community development. Microfinance brings together communities of the unorganised poor, building their social capital and networks. Building and sustaining social capital requires faith and affirmative action within the alternative paradigm of microfinance, whereby building the capacity of communities to direct their economic and social development is given primary importance and focus. This social capital then sets the stage for other interventions in primary education and health. Perhaps, no other development instrument has generated so much enthusiasm and promise in the recent past as microfinance in impacting the lives of the poor. Through innovation, microfinance provides micro savings, micro credit, micro-insurance, and payment and remittance facilities for the poor and disadvantaged population. This type of financial support helps expand their choices and mitigates potential risks of poverty and social exclusion (Madhurai Symposium, 2009). Keeping abreast of these developments, there have been conscious attempts in our country also in embracing microfinance for the development of the marginalised. A look at some of those sincere efforts which brought out the incontrovertible benefits of microfinance in empowerment, poverty reduction and mainstreaming the poor is meaningful in the context of the present study.

A journey through empirical evidences

An attempt is made here to review some of the important studies carried out so far in the realm of microfinance in orienting this study in the proper direction.

Many researchers had conducted the impact assessment studies on the group based microfinance programmes. Some of the researchers have concluded the positive impact of microfinance on the socio-economic development in India (Tripathy, 2006; Sundarapandian, 2006; Pandian and Eswaran, 2002) and across the world (Hiatt and Woodworth, 2006). At the same time some other researchers found that the microfinance interventions had little impact on the socio-economic development of people (Kabeer, 2005; Shamsuddoha and Azad, 2004). Also, Kabeer, (2001) came out with the negative impact of microfinance in Bangladesh. So the positive impact of microfinance can not be generalised and universally accepted.

Murthy and Rao (1997) revealed that the NGO development programmes are relatively more successful to reach the poor and poverty alleviation. As Rao (1999) has rightly pointed out that any development process in India should begin with the programmes meant for the Scheduled Castes (SCs) and Scheduled Tribes (STs) as these are the most disadvantaged and neglected people in the society. Nagayya (2000), Zaman(2001), Puhazhendhi and Satyasai (2001) and Gurumoorthy (2000) maintain the view that an informal arrangement for credit supply to the poor through SHG's is fast emerging as a promising tool for promoting income- generating enterprises. The study conducted by Rajasekhar (2000) concludes that microfinance programmes often benefit the non-poor, savings amounts are not high enough to reduce vulnerability and the loan amounts not large enough to alleviate poverty.

The concept of livelihood diversification is emerging as a survival strategy of rural households in developing countries, according to Ellis (2000) and Bryceson (2000). Livelihood literature (Hussein and Nelson 1999; Ellis 2000) suggests that exogenous trends and shocks play an important role in pushing rural people towards a diversified livelihood strategy, in which microfinance has a leading role to play. Diversification choices are also firmly rooted in the micro-economic logic of farming households. The livelihood diversification activities are of increasing importance for women empowerment (Bryceson 1996 and 2000; Bryceson and Jamal 1997) through additional income earning and improvements in family welfare (Ellis 1999) supplemented by self help micro credit (Hulme and Mosley 1996; Johnson and Rogaly 1997).

Abdul Lathif(2001), revealed that increased availability of micro-credit to the poor through micro financing SHGs will enable rural households to take up larger productive activities, empower the poor women, decrease the dependence on exploitative local money lenders and increase savings. According to Satish, (2001) Manimekalai and Rajeshwari (2001), and Manimekalai (2004), NGO's are more suited for forming and nurturing of the SHG's, and therefore, it is essential to strengthen them and their resources. The study by Anand (2002) found that the micro-finance programmes have enabled the poor to take up micro-enterprises by availing credit without outsiders dictating to them as to how and on what projects the loans should be used.

Pattanaik (2003) in her study reveals that SHGs are continuously striving for a better future for tribal women as participants, decision-makers and beneficiaries in the domestic, economic, social and cultural spheres of life. However there are certain constraints like gender inequality, exploitation, women torture for which various Self Help Groups are not organised properly and effectively. Kalpana (2004) attempts to trace the paradigm shift away from an earlier conviction in the presumed ability of microfinance to function as a silver bullet that lifts poor households above the poverty line through a virtuous cycle of 'more income, more credit, more investment', towards a more cautious approach emphasizing the protectional as opposed to the promotional dimensions of microfinance. Frances Sinha(2005) found that microfinance is making a significant contribution to both the savings and borrowings of the poor in the country.

Reddy (2005), argued that unless microfinance is tuned with livelihoods in production, manufacturing and service sectors, it would not be able to deliver anything. It will make more and more people indebted because of an easy access to credit. The study conducted by Emil Mathew (2005) analyzes the factors influencing the members to undertake Income generating activities initiated both by NGOs and Government organisations of Wayanad district of Kerala. Panda (2009) in his study concluded that the group based microfinance impacted the client household positively in the increase of income, assets position, savings, and literacy and in the reduction of migration. By analyzing the experiments of a state sponsored programme and an NGO supported Programme, Krishnan (2009) concluded that microfinance has substantially contributed towards the empowerment of women, promotion of income generating activities, expansion of formal credit sources to the members of the groups and training of various sorts. In another paper, the same author (2010) examined the role of microfinance in promoting financial inclusion of women and concluded that microfinance is successful in promoting financial inclusion of the marginalised and oppressed. An analysis of the studies reviewed above project to the dire need for conducting a fresh study to understand the role of microfinance in tribal transformation.

Objectives of the study

The general objective of the study is to examine the role played by the MFIs in transforming the tribal economy. The specific objectives of the study are:

1. To examine the potential of microfinance in changing the socio-economic conditions of tribal folks.
2. To understand the role of microfinance in diversifying livelihood strategies of tribal communities.
3. To analyse the impact of microfinance on tribal migration, and
4. To look at the effect of microfinance on household expenditure pattern.

Working hypothesis

It is hypothesised that microfinance has positive impact on beneficiaries in terms of increased income, assets, savings, employment, formal debt and lessening migration.

Methodology

The present study had involved primary data collected from households, which was supplemented by information gathered from secondary sources. Data collection was done by pre-tested household schedules. The household schedule was structured pertaining to the objectives of the study.

A comparison between the target households with the control household had formed the basis of analysis where the target households were the households in which one of the family members was a participant in the selected microfinance programme; and the control group included households where none of the members were under any microfinance programmes. The comparative analysis between the target group and control group was a suitable method to study the impact of participation in the microfinance interventions, where there is no evidence of baseline data (White, Sinha, and Flanagan; 2006, Panda 2009). This method is considered as one of the best method among the quasi-experimental design (Barker, 1999), and it removes exogenous problems (Nguyen, 2007).

This study focused the household as the unit of analysis than other units like clients or micro-enterprises based on its suitability. Again Individual households were the form of the unit of analysis to measure the impact of participation in group based microfinance involving variables like consumption pattern, literacy, migration etc., which were difficult to measure taking the unit of measurement like individual or enterprise. Based on the demand of the objectives, six major indicators were selected for the study; and these indicators were (i) income, (ii) savings, (iii) expenditures, (iv) employment, (v) debt and (vi) migration; which were earlier considered as important variables to measure the impact of microfinance interventions (Panda; 2009, 2008; SIDBI, 2008, Ghalib, 2007; and Manimekalai, 2004).

The study was carried out in Wayanad district of Kerala, which has the highest concentration of tribal folks in the State. Several NGOs and Governmental agencies have been offering microfinance services for the tribal folks in the district for quite a long period of time. Among these agencies, one NGO, namely, 'Shreyas' has been selected as a MFI for intensive study on sound footing. First of all, this NGO has a long standing experience in the field of microfinance. Secondly, it has been a forerunner in forming tribal SHGs in the district. Finally, it is the largest NGO in the district in terms of membership and number of programmes. For identifying the sample elements for the comprehensive survey, a multi-stage stratified random sampling technique was adopted. In the first stage, one Block Panchayat (Sulthan Bathery Block Panchayat) was selected randomly from the district where the selected NGO mediated microfinance interventions were carried out. From that Block, one Grama Panchayat with maximum number of tribal SHGs was selected at random in the second stage. It happened to be Nenmeni Grama Panchayat. In the last stage, from this Panchayat, fifty tribal households each were selected from the target group and the control group respectively by stratified random sample method. The selected tribals belonged to two strata, viz., the Kurumans and the Paniyans. The Kurumans are the advanced and the Paniyans are the least advanced among the tribal communities. Data collection was made in the year 2010, from the month of January to March.

The analysis was done engaging the standard statistical methods. Simple tabulation was made to compare the variables between the target group and control group. Independent sample **t**-test was employed to understand the significance difference between two means, i.e., between the target group and control group. Similarly, χ^2 test for independence was used to test whether there is any significant difference in the proportion of alternative livelihood options between the control and target groups.

Microfinance Initiatives of 'Shreyas' in Kerala

The idea of microfinance in Kerala had germinated long before the advent of the modern Microfinance Institutions (MFIs). Many church-based development institutions in Kerala had promoted Credit Unions early in the 20th century. Microfinance institutions/programmes of the modern type emerged in Kerala in the late 1980s and the early 1990s. A review of such experiments would be useful in this context. The community Development Society (CDS) of Alapuzha was the foremost of the formal experiment in the form of Neighbourhood Groups (NHGs) in the State. Based on the success of this programme, this initiative was first extended to the entire Malappuram district (a socially and economically backward district) and then to 57 other urban localities in Kerala under the name Kudumbashree. By 2002, the Kudumbashree programme has been scaled up to all the districts of the State. It is the largest women based CBO in the country. It is a woman-based poverty eradication programme. It is an organisaiton of women from below the poverty line. The core activity of this programme is to empower women through microfinance, micro enterprise and convergent community action. The role of NGOs in the microfinance space of Kerala is not of recent origin. Shreyas, Pazhakulam Social Service Society, Bharat Sewak Samaj, Dale View, WIN Society, Rural Agency for Social and Technological Advancement are a few to mention. . In addition, a number of Community and Caste based organisations in Kerala organise and promote microfinance among its members. They perform a wide range of activities such as credit unions, farmers' clubs and SHGs. The vision and mission of the NGOs largely depend on the socio-economic fabric of the region in which they function. Accordingly, most of the NGOs operating in Wayanad district of Kerala give topmost priority to the cause of tribal communities.

Shreyas, an NGO under the flagship of the Catholic Diocese of Sulthan Bathery, Kerala, has completed 31 years of its service by 2009-10 The operational area of Shreyas spreads over three States, viz., Karnataka, Kerala and Tamil Nadu. It has 10 Regional Offices and 100 village level units for effective co-ordination of its activities in its operational area. Its vision is to become an excellent facilitating organisation through participatory approach. Formation and strengthening of people's organisations has always been the foremost programme of Shreyas all through these years. Shreyas practices the family centred approach by facilitating the formation and strengthening of groups for women, men, youth, children, disabled, tribal and senior citizens. As on March 2009, there were 2760 CBOs in which 2059 are women and men SHGs It was formed with the prime objective of developing a people's organisation for the oppressed and the marginalised by promoting local leadership through an integrated approach. The strategy is to create critical awareness among the poor of their life situation and of how they are being oppressed and marginalised and to empower them through political, social, economic activities, and informal education. On the basis of experiences and research it could learn that the tribals are trapped in a vicious circle of poverty, illiteracy, chronic disease, irregular income, trafficking of women, alcoholism ,migration etc. In order to liberate them from their untold miseries, Shreyas now focus on leadership promotion; education; awareness creation; livelihood enhancement; promotion of CBOs; promotion and preservation of culture and indigenous practices and promotion of active participation in local governance. Shreyas has been engaging in 175 tribal colonies in Kerala with 187 tribal SHGs under its patronage in 2009. Thus, microfinance has become an integral part of the developmental efforts of the State economy and it is assumed that all these efforts will lead to empowerment of the marginalised.

Tribal economy of Kerala: an overview

It is customary to portray the socio-economic profile of the group among which an impact study is organised. As in other parts of the country, the tribes in Kerala constitute a weaker section of the population. Tribal concentration in Kerala is very low and they constitute only 1.14% of the total population. In all, there are 35 communities recognised as Scheduled Tribes in the State. The Western Ghats region that dominates the cultural geography of Kerala is an area where most of the tribes live. The district-wise population of tribesfolk in Kerala revealed that about 70% of the tribal population in Kerala resides in four districts viz., Wayanad (37.40%), Idukki (13.99%), Palakkad (10.89%), and Kasargod (8.33%).

The tribes' folk in Kerala have undergone various kinds of exploitation for long periods of time and their life is characterised by poverty and misery. As Indra Deva (1983) puts it, indiscriminate contact with uprooted people from various cultural backgrounds has led to sexual as well as economic exploitation. The report submitted in 1997 to the Government of Kerala by the Scheduled Castes and Scheduled Tribes Welfare Committee stated unequivocally that sexual assaults and crude abortion methods were widely practiced by the affluent upper castes on the tribal women of Wayanad, Idukki, and Palakkad districts. In Wayanad alone, as per the government estimates, the number of unwed mothers is more than 400. While the estimates of NGOs found the number of unwed mothers above thousand in the district. Of late, the State Government has instituted a pension schemes for these victims! In Wayanad alone 364 unwed mothers are found eligible for a monthly pension of Rs.500/- in the first phase (Biju, 2010). Though Kerala is often hailed as a 'Model' of development, its tribal development strategy has not found fruits so far. In the recently published Human Development Report released by the Government of Kerala (2006), it was stated that there exists spatial and social deprivation in the regional context of the

State. The Human Development Report of Tribal Communities in Kerala (Government of Kerala, 2009) brought to the fore the stark realities of tribal life in the State. According to the Report, most of the tribal communities get work somewhere between 9 days and 16 days in a month. Majority of the tribal households are within the average monthly income category of Rs.1350-1850. The drop-out ratio among the tribal students was four times higher than that of the state level ratio. More than 90% of backward tribes bear financial incapability which is higher than that of the forward community. Nearly 58% tribes have no usable latrine. About 38% of the tribal households reported debt incurred. These evidences are the real attestation of the failure of mainstream policies followed during the last six decades for the uplift of this outlier community. The intensity of poverty among the STs are also the highest. As per the 55th Round(1999-2000) National Sample Survey estimates, while the percentage of population below poverty line for the State as a whole being 9.4, for the STs the percentage was 24.2.

Profile of the study area:

One important characteristic feature of Wayanad district is its large tribal population, consisting mainly of Paniyas, Kurumas, Adiyars, Kurichyas, Ooralis, Kadans, and Kattunaikkans. The Kurichyar is the most developed among them. They are small land owners; where as the members of other tribes are mostly laboureres. A vast majority of tribes in Kerala state hail from the Paniya tribal sect. About 71.95% of Paniya tribes are found in Wayanad alone. The Paniyan means 'worker' as they were supposed to have been the workers of non-tribes Wayanad has a large settler population. There are people from almost all parts of Kerala who migrated to this fertile land for building up their lives. People from all religions reside here. In their march towards enriching their lives, however, it is sorry to state that the last few decades have seen the complete marginalisation of the indigenous people, viz., the tribal. Table 1 is really a confirmation of the marginalisation of the aboriginal people of the district. The index of deprivation for all the social groups in the district is higher than the State average. As one fifth of the population of the district belongs to tribal group, it can categorically state that no development headway is possible in this region without the mainstreaming of the aboriginal people.

To add fuel to the fire, the confession of the District Human Development Report of Wayanad district (Government of Kerala, 2009b) highlights the human development experience of diverse social and economic groups in Wayanad district, especially that of tribal folks. The Report underlines the fact that though the share of tribal population in the district is more than 17 percentage of the total population, they are eligible for only less than 2% of the seats in higher education. Around 97% of the Adivasi families in Wayanad are eligible to be granted land, that is, the case of landlessness is the highest among the tribals. Similarly, the drop-out ratio and reduction of children at the primary level are the highest among the STs.

Table 1: Index of Deprivation by Social Groups in Wayanad district, 2001								
District	SC	Rank	ST	Rank	Others	Rank	All	Rank
Wayanad	51.5	11	66	14	41.6	14	46.3	14
Kerala	45.5		57.9		26.9		29.5	
Source: Government of Kerala, State Planning Board, 2006.								

Large scale migration of tribal people to the neighbouring districts of Karnataka State for want of work is a regular feature in the tribal economy of Wayanad. They move to the boarder districts in groups to work in the plantation sector there. "Liquor for Work", is said to be the norm for these poor workers. So, the cobweb of illiteracy, liquor, unemployment, poverty and deprivation makes the life of these people un-imaginative and meaningless. This study is undertaken in the background of these realities.

Results and Discussion

In any social studies, it is imperative to begin the analysis with the social and economic status of the beneficiaries. So, an effort is made here to examine some of the relevant variables.

Educational status

Literacy stands out as an important variable in utilising the various schemes offered for the poor people. The status of literacy of the households covered under the study is provided in Table 2. As is evident from the table, the percentage of illiterates in the sample families is comparatively low among the target group households. In addition, the successive levels of education are also found higher among the target groups. It may have a bearing on the utilisation of the microfinance programmes.

Table 2: Educational Status of Members of the Households				
Educational status	Target Group		Control Group	
	Number	Percentage	Number	Percentage
Illiterates	52	23.42	110	48.67
Literate only	84	37.84	74	32.74
Primary	41	18.47	33	14.60
Secondary	26	11.71	6	2.65
Higher secondary & above	19	8.56	3	1.33
Total	222	100.0	226	100.0
Source: Survey data				

Occupational distribution

The standard of living of any community is evident when one looks at its occupational pattern. It is true that education plays an important role in determining occupational pattern. In the case of tribal folks, their educational level is too low and as such their occupational diversification is too less. The information provided in Table 3 points towards the deplorable position of the community as the lion share in both the target and control categories work as wage labourers, particularly in the agricultural sector. In a region where the farmer suicides are reported to be very high, even the wage labour is at stake. It warrants alternative occupational avenues. Unless some suitable subsidiary occupational opportunities are available, their existence itself will be at risk.

Table 3: Primary Occupation of the Tribal Households
(Figures are in percentages)

Occupation	Target Groups	Control Groups
Cultivator	6.0	8.0
Wage Labour	96.0	85.0
Self employment	2.0	2.0
Others	2.0	5.0
Total	100.0	100.0

Source: Survey Data

Other aspects

Table 4 examines the position of the tribal households in terms of the possession of land, debt and their involvement in training programmes. In these variables, both the target and control groups do not vary much except in the case of attending various training programmes.

Table 4: Other social profiles of tribal households

Variables	Target Groups	Control Groups
Average Land Possessed (Acres)	0.28	0.27
Average Debt (Rs.)	956.0	1012.0
Average Informal Debt (Rs.)	470.0	448.0
Participation in training (%)	87.0	46.0

Source: Survey Data

Impact of microfinance

The impact of the group based microfinance was measured by involving variables like income, assets position, savings, employment, migration and indebtedness. The summary of the variables were represented in Table 5. It was observed that the target households had registered 36.67% higher annual average income as compared to that of the control households, which was statistically significant at 1% level ($P<0.01$). However, in the case of the asset position, though the target households had recorded 26.44% higher assets value over the control group, the test result is not significant between the target group and control group ($p>0.05$). It may be due to the failure of the target group to convert the higher income earned through the microfinance initiative to assets. It may also be due to the fact that the microfinance interventions need considerable time period to make a substantial change in the assets position. It is to be noted that the average period of membership of the target groups in microfinance initiative is only less than five years.

From the data presented in the Table, it was observed that the annual average savings per household was Rs.1,555 for target group and Rs.686.0 for control group respectively, which shows that the target group had a significant higher saving of

Rs. 869 over that of the control group. As per the group based microfinance programme, the target clients were contributing a compulsory monthly saving of Rs. 10 to 20 (as per the group policy) to their respective microfinance group, which was missing in case of the control households. The higher growth of savings in the target households was due to the monthly group savings. Also many of the microfinance clients had opted for micro-insurances, and the compulsory premium formed a portion of the total savings. It is also interesting to note that most of the target group households have savings only with the SHGs. The t-value is significant at 1 per cent level as the p value is less than 0.01.

In the case of employment generated through microfinance, the target households had a significantly higher annual average employment days (28.23%) over that of the control households. These higher man-days of employment in the target group are the result of the livelihood diversification made possible through the microfinance mediation. The t-value is significant ($P<0.01$). Migration can take many forms which in turn affect the prospects for local rural development prospects: temporary or permanent, rural or urban, national or international destinations, involving individuals or entire households, motivated by the prospect of higher incomes or merely by survival rationales, etc. In the case of the tribal group in the study area, migration is viewed

Table 5: The Impact of microfinance on the socio-economic variables

Variables	Target Group	Control Group	Difference	't' values
Average Income (Rs.)/ annum/ household	14684 SD:4083.76 CV:27.81	10744 SD:2191.09 CV:20.39	3940	6.01 (0.000)**
Assets Position (Rs.)/household	103680 SD:92551.90 CV:89.27	82000 SD:22556.96 CV:27.51	21680	1.61 (0.1108)^
Annual Average Saving/ annum/ (Rupees)/household	1555 SD:675.56 CV:43.44	686 SD:305.23 CV:44.49	869	8.29 (0.000)**
Employment (Mandays)/ annum/household	268 SD:52.93 CV:19.75	209 SD:33.23 CV:15.90	59	6.68 (0.000)**
Migration days/annum/ household	4.52 SD:7.54 CV:66.78	9.52 SD:12.55 CV:31.82	-5	-2.42 (0.0176)*
Average debt(Rs.)/household	956 SD:766.3 CV:80.16	1012 SD:918.33 CV:90.74	-56	-0.33 (0.7413)^
Average informal debt(Rs.)/Household	470 SD:627.27 CV:133.46	448 SD:599.40 CV:133.79	22	0.18 (0.858)1^

Note: (i) Figures in brackets are p-values; * Significant at 5% level; ** Significant at 1% level; ^ Not Significant.
(ii) If the value of $p < 0.05$, the t-value is significant at 5% level and if the value of $p < 0.01$, the t-value is significant at 1% level.

as a form of survival strategy. The tribal folks migrate to the neighboring states for want of jobs to sustain their lives. In this context, microfinance can provide ample opportunities for these unfortunates to find a livelihood opportunity in their native place itself. In this backdrop, enquiry was made to understand the extent of migration to the border states among the target and control groups. There had been significant decrease in the migration in the target households as compared to that of the control households. In the target group, the annual migration day per household decreased by 52.52% as compared to that of the control group [statistically significant at 5%, ($P<0.05$)]. So, it can be safely concluded that the higher income and higher employment levels as a result of microfinance interventions had led to a reduction in the migration in the target households.

The impact of microfinance on the debt of the tribal households does not show any significant difference ($p>0.05$). Both the groups have more or less the same level of indebtedness. Similarly, their indebtedness to informal sources, especially, the traders and neighbours form the sizeable proportion of their debt. These agencies provide loans to these people on the condition that their labour and products in their homesteads will be sold to them as and when demanded, that too, at a price lower than the market price. So, some sort of credit-product-labour linkage is still practiced among these groups which are unethical and suicidal. It is an outright way of exploitation.

Livelihood diversification

Livelihood diversification is defined as the process by which rural households construct an increasingly diverse portfolio of activities and assets in order to survive and to improve their standard of living (Ellis 2000). Microfinance is expected to promote livelihood diversification among its beneficiaries. An endeavor is made here

Table 6: Livelihood Diversification through microfinance

Livelihoods	Target Group		Control Group		$\div^{2}$value
	Yes	No	Yes	No	
Animal Husbandry	22	28	8	42	9.33 (0.0023)**
Minor Forest Produce Collection	20	30	34	16	7.89 (0.005)**
Tribal Medicine	8	42	2	48	4 (0.0455)*
Tailoring	16	34	2	48	13.28 (0.0003)**
Horticulture	22	28	4	46	16.84 (0.000)**

Note: Figures in brackets are p-values; * Significant at 5% level; ** Significant at 1% level.

to examine the status of livelihood strategies among the sample covered. The analysis made in the Table 6 shows that the target group has been successful in harnessing more opportunities to eke out a fine standard of living. All the χ^2 values are found to be significant for the target group(since the p values fall in the accepted region). In other words, the microfinance provided by the NGO has been promoting livelihood diversification among the target group households.

Impact of microfinance on household expenditure

The results presented in Table 7 shows that the target group had a significant higher annual average household expenditure by 31.60% over that of the control group.

It was found that the target group had an increase in expenditure in all heads over those of the control group. Among all the heads of the expenditure, the growth from control group to the target group was found statistically significant at 1 per cent level for all heads (at 5% level for health expenditure) except for the consumption of liquor and tobacco as evident from the t-test value. The results signified that the highest impact of group based microfinance was found in the expenditure on productive assets and household consumables. However, the higher amount of expenditure on

Table 7: Impact of microfinance on household expenditure pattern

Items of consumption	Target Group	Control Group control group	% difference over the	t-values
Food	8368 SD:2008.5 CV:24.0	6840 SD:1501.29 CV:21.95	22.34	4.31 (0.000)**
Health	996 SD:2919.77 CV:293.15	152 SD:174.66 CV:114.91	555.26	2.04 (0.0440)*
Education	400 SD:469.69 CV:117.42	94 SD:149.37 CV:158.90	325.53	4.39 (0.000)**
Entertainment	779.2 SD:421.69 CV:54.12	504 SD:145.63 CV:28.89	54.6	4.36 (0.000)**
Clothing	874 SD:366.76 CV:41.96	650 SD:410.82 CV:63.2	34.52	2.88 (0.0049)**
Liquor & Tobacco	1593 SD:501.71 CV:31.49	1562 SD:622.09 CV:39.83	1.98	0.27 (0.7844)^
Total expenditure	13236.2 SD:3885.3 CV:29.35	10058 SD:2046.63 CV:20.35	31.6	5.21 (0.000)**

Note: Figures in brackets are p-values; * Significant at 5% level; ** Significant at 1% level; ^ Not Significant liquor and tobacco by both the control and target group is a matter of serious concern. Next to food, their expenditure pattern shows preference to tobacco chewing and alcohol consumption. Microfinance initiatives, in this context, should address these types of social evils in company with the promotion of income generating activities.

Other benefits of microfinance

Finally, one more aspect was analysed to examine the impact of microfinance on some of the most important aspects of their social life. Here, the target group beneficiaries were asked to state their perception on the factors identified. The results of the opinion as given in Table 8 point towards positive changes felt among the members of the microfinance programme supported by the NGO. In most of the aspects under consideration, majority of the households feel empowered, which though not tested for any significance level, is a testimony of the power of microfinance.

Table 8: Perceptions of the Target Groups on the benefits of Microfinance

Sl.No.	Benefits of microfinance	Percentage response
1	Livelihood Diversification	79.0
2	Reduction in Poverty	87.0
3	Economic Empowerment	91.0
4	Social Empowerment	89.0
5	Networking with Banks/Government	43.0
6	Awareness to Social Issues	62.0
7	Starting Micro enterprises	42.0

Source: Survey Data

Conclusion

The discussions on the transformational potential of microfinance on one of the marginalised communities in a socially and economically developed region in the country offer encouraging results. Even after more than six decades of planned development, the situation of the tribals has not changed much as evident from the data on their level of education, severity of poverty, mass unemployment, addiction to alcohol and the like. In this background, the paper examined the role of microfinance provided by an NGO in the socio-economic transformation of the tribal folks in Kerala. The study found that the impact of microfinance on the income, saving, employment and migration is hopeful. Similarly, the expenditure pattern reveals higher level of expenditure by the target group over the control group. However, in the case of expenditure on the consumption of alcohol, both the groups do not vary much. On the issue of indebtedness, both the groups do not show significant difference and both the groups rely extensively on informal agencies like traders and neighbours for their immediate requirements. These informal agents practice unethical practices like credit-labour and credit-output linkage in the provision of loan.

Microfinance also acts as a catalyst in the livelihood diversification among the tribal folks. The other benefits of microfinance as perceived by the members of the microfinance programme gives hopes for the practitioners of the programme. In the matter of economic empowerment, reduction of poverty and social empowerment, the beneficiary households claim positive changes, yet, miles to go to mainstream them. Given the same socio-economic fabric among the target and control groups under study, the positive impact of microfinance on the target group is a real testimony of the magical effect of microfinance. If efforts are strengthened in tune with the revelations of the study, one can expect that microfinance can be a potent tool in the march towards tribal upliftment.

From the study, the following suggestions have emerged for the consideration of the policy makers.

- As the mainstream policies for the uplift of the Tribal folks have not found successful in mitigating their poverty and vulnerability, the microfinance paradigm should be strengthened for their development.
- The MF programme should address the perverted consumption pattern of the tribals besides concentrating on promoting income generation programmes.
- The MF programme should also attend to converting the income and savings generated through microfinance for their asset building.
- Microfinance should be streamlined to expand the livelihood diversification among the tribals as the reliance to their primary occupation is shrinking in the study area.
- There is scope for encouraging micro-enterprises with the active involvement of tribal folks in areas like the processing of minor forest products, development of tribal medicine and group farming.

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Tribals in the Formal Financial Landscape: Review of Issues in Provision and Access in the Context of Gujarat

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Abstract

Despite the policy pronouncements and development efforts made over the years, there is lack of clarity regarding the extent of indebtedness among tribal population as also the trends and patterns of credit flow to them. This paper reviews the available secondary material to assess the overall situation with respect to flow of credit to the weaker sections of population, including the tribal population, with special emphasis on micro finance in the state of Gujarat. Having been lagged behind others in the SHG-bank linkage programme, Gujarat embarked on an ambitious programme of SHG promotion under the Sakhi Mandal Yojana a couple of years ago. The district-wise distribution of sakhi mandals reveals impressive coverage of the programme in all the districts with significant tribal population. The paper argues that the implications of such sudden proliferation of SHGs must be adequately appreciated. Formation of SHGs in large numbers does not translate into sustainable development and positive contribution to poverty reduction and livelihood security unless focused efforts are made to balance the quality and quantity of SHGs.

Despite the policy pronouncements and development efforts made over the years, there is lack of clarity regarding the extent of indebtedness among tribal population as also the trends and patterns of credit flow to them.

Introduction

The link between debt and tribal livelihood figures as a critical subject of discourse in the narratives of the colonial tribal history of India. David Hardiman in his graphic historical accounts of the complex relationship of domination and sub-

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ordination among the peasants, the moneylenders and the colonial administration in western India has portrayed debt as the 'cruellest feature' of peasant life in colonial India (Hardiman, 1996). He has also explained the cycle of debt that entrapped the poor tribals in south Gujarat who had to resort to seasonal borrowings in times of abnormal distress (like famines), to celebrate marriages and perform death rites, to purchase farm implements and livestock and to meet routine household needs. Much of such borrowings were for the long term. The terms of lending were harsh, especially, in the case of long term loans and loans that were extended in crisis situations. The poor debtors were made to adjust all their surplus produce against their debt. Thus, the moneylenders (or the sahukars) wielded enormous control over agricultural and artisanal production as also produce from the forests. Even in the local markets the wares of petty producers could fetch only a small fraction of the actual value, as these were also controlled by the trading and money lending class.

Usury, as Hardiman argues, has dominated the tribal livelihood system of the 18th and 19th centuries. The usurers were seen, ironically, by the tribals as their benevolent benefactors. The colonial administration and even the nationalist leaders considered them as a set of useful agents who helped the poor tribals and peasants bridge resource deficit at the household level. The constitution makers of independent India took cognisance of the ill of indebtedness among the tribal population, while the policy planners and political leaders in the early years suggested and implemented many affirmative steps to redress the problem of lack of access to institutional credit to the economically weaker populations, including those belonging to scheduled castes and tribes (SC/ST).

Despite the policy pronouncements and development efforts made over the years, there is lack of clarity regarding the extent of indebtedness among tribal population as also the trends and patterns of credit flow to them. This paper reviews the available secondary material to assess the overall situation with respect to flow of credit to the weaker sections of population, including the tribal population with special emphasis on the state of Gujarat. It also discusses the available information on access to credit by the tribal households and, finally, examines the status and potential of microfinance, the innovative financial services credit delivery model promoted since the late 1990s by NABARD in the specific context of Gujarat.

2. Addressing Tribal Indebtedness and Financial Exclusion: State Initiatives

Part B of the Fifth Schedule of the Indian Constitution [(article 244(1)] covering nine states including Gujarat empowers the governors to regulate "the carrying on of business as money-lender by persons who lend money to members of the Scheduled Tribes in such area". The Fifth schedule areas in Gujarat are parts of the districts of Surat, Bharuch, Dangs, Valsad, Panchmahals, Vadodara and Sabarkantha. The First

Five Year Plan expressed in generic terms the need for "a positive policy of assisting the tribal people to develop their natural resources and to evolve a productive economic life wherein they will enjoy the fruits of their labour and will not be exploited by more organised economic forces from outside". The Second Five Year Plan (1956-61), however, was more candid in positing indebtedness as a serious problem that hinders the progress of the tribal population. It states: "The creditors, who are commonly moneylenders, merchants or contractors, sometimes acquire a strangle-hold over tribesmen and take away a large proportion of the current produce. We suggest a closer study of this problem with a view to assessing how large and widespread it is in actual fact, and also taking suitable measures to eliminate past debts and provide for supply of easy credit in the future".[1] The Committee on Special Multipurpose Tribal Blocks in its report (March 1960) expressed concern about the states not according adequate importance to the problem of tribal indebtedness. It suggested the enactment of social legislation to prevent moneylenders from practising in tribal areas as also to liquidate tribal debts, apart from designing a system to provide both productive and unproductive loans. The report also suggested that forming of tribal primary cooperatives could help mitigate the ill effects of costly, informal money lending.

The report of the Scheduled Areas and Scheduled Tribes Commission (October 14, 1961) also drew urgent attention, among others, to the prevalence of various systems of debt bondage based on its study of nine states, including Gujarat. The Commission observed that immediacy, personal human contact, almost instantaneous disbursal, lack of security requirement, lack of documentation formalities and flexibility in repayment form are the major reasons that motivate the tribals to keep approaching moneylenders for both productive and unproductive loans. The moneylender is also indifferent to the purpose of borrowing, whereas the government loans are advanced only for productive purposes. Though there are provisions in the Fifth schedule to protect the tribal population from usurious practices, in the absence of alternative institutional arrangements, the states were hesitant to implement them. The Commission recommended promotion of primary level cooperative societies with exclusive tribal membership that deal in procurement of tribal produce, distribution of consumption articles and provision of credit. During the first five year plan 312 multi-purpose co-operative societies were established in tribal areas and in Orissa, Bihar and Madhya Pradesh. The government also set up 350 grain golas or grain banks.

3. Social Banking Initiatives and Weaker Population Sections

The response of the commercial banks to the problem of skewed and concentrated growth of banking industry to the exclusion of a large majority primary and artisanal producers as also economically weaker population, paradoxically, was spurred by the ambition of a section of the political elite to change the image of the then ruling party.

In fact, the state started playing an active role to make the commercial banking system address the issues of iniquitous socio-economic development in the 1960s. The success of the then Prime Minister Indira Gandhi in nationalising 14 commercial banks in 1969 in the face of fierce opposition from some of her own party elders ushered the era of social banking - social control of banking institutions - in the country.[2] Some consider this as having marked the beginning of a rather uncomfortable relationship between the fiscal and financial systems wherein the former could arm-twist the latter to support even overtly political agendas of the parties in power. The political implications withstanding, studies did show that bank nationalisation brought in noteworthy progress in agricultural credit (which rose by 133% between 1969 and 1972) and impressive increase in advances to small scale industries as also smaller accounts (Torri, 1975). A later study by Burgess and Pande (2005) found significant association between rural branch expansion post nationalisation and reduction in rural poverty. Using rural household survey data from the NSSO, Burgess et al. (2005) showed that between bank nationalisation in 1960 and financial liberalisation in 1990, the rural poor households' access to bank credit improved. And the SC/ST households, the poorer among the rural poor, gained relatively more. Introduction of priority sector lending norms and the setting up of regional rural banks (RRB) in the mid-1970s and the consequent expansion of banking infrastructure in tribal and backward regions seem to have significantly contributed to this.

It may be mentioned here that there are mainly two banking channels to provide support to weaker sections - the priority sector lending and the centrally sponsored schemes. As per the priority sector lending guidelines, SC/ ST households are considered under weaker sections (along with scheduled castes, small and marginal farmers, artisans, distressed urban poor indebted to non-institutional lenders and minorities) and it is stipulated that 10% of the adjusted net bank credit be allocated to these sections under priority sector lending. As for lending under the centrally sponsored Differential Rate of Interest Scheme (DRI), banks provide finance up to Rs.15,000 at a concessional rate of interest of four% per annum to the weaker sections of the community for engaging in productive and gainful activities. The stipulated share of DRI is to the tune of one percent of the total advances outstanding as at the end of the previous year. In order to ensure that persons belonging to SCs/STs also derive adequate benefit under the this scheme, banks have been advised to grant to eligible borrowers belonging to SCs/STs such advances to the extent of not less than 2/5th (40%) of total DRI advances.[3]

The following discussion is divided into two parts. Firstly, we will examine the trends in access to credit by ST households as gleaned from the available data. Unfortunately, the latest data that deals with this aspect, the All India Debt and Investment Survey, pertains to January-December 2003 (58th Round of the National Sample Survey). However, by comparing this round with the earlier one, i.e., the 48th (January-December 1992) Round of the NSS, we will attempt to ascertain the changes in the pattern of access to institutional and non-institutional over time of tribal households in Gujarat. The second part will present some important trends in the flow of formal sector credit to ST households over a longer period of time - 1995-96 to 2007-08) with a view to highlight the changes in the trend relating to provision of credit to SC/ST households. These trends, it is assumed, broadly reflects those in access to institutional financial services, especially by the lower income categories.

4. Access to Credit by Tribal Households: Patterns that Emerge from Existing Data

Table 1 presents the data relating to tribal population share (2001), head count ratio (HCR) of poverty (2001) and incidence of indebtedness among tribal households (2002) in seven states that account for 68% of the total tribal population in India. As the data shows, population share of tribals within states vary significantly - from 9% of the total population in Maharashtra to 32% in Chhattisgarh. The HCR of tribal population too varies between 33% in Rajasthan to 75% in Orissa. Other than Gujarat and Rajasthan, the remaining five states have more 50% of their tribal population officially classified as poor.

When it comes to credit access, with the exception of Jharkhand and Rajasthan, proportion of tribal households reporting cash loan outstanding is within range of 16 to 19%. Jharkhand reported the least percentage of households with cash loan outstanding (7%) and Rajasthan, the highest (35%).

Table 1: Status of Tribals: Some Indicators

State	% of ST population to total ST population in India	% of ST population in state's population	% of rural ST population below poverty line	% of rural ST households with cash loan outstanding
(1)	(2)	(3)	(4)	(5)
Madhya Pradesh	14.5	20.3	58.6	17
Maharashtra	10.2	8.9	56.6	16.1
Orissa	9.7	22.2	75.6	17.9
Gujarat	8.9	14.8	34.7	18.6
Rajasthan	8.4	12.6	32.6	34.7
Jharkhand	8.4	26.3	54.2	6.6
Chhattisgarh	7.9	31.8	54.7	15.8

Source: For columns (2), (3), and (4), www.tribal.gov.in; and column 5, NSS 59th Round (January-December 2003).

The following discussion is focussed on one of the typical states -Gujarat - which has the fifth largest share in the country's tribal population with moderate poverty level of 35%. The proportion of scheduled tribe households reporting cash loan outstanding against institutional or non-institutional credit agencies stood at 18.6% at the time of the AIDIS, 2002. In 1992, only 14.5% of the tribal households in the state reported any outstanding cash loans. In other words, there was an increase of about 4 percentage points in the percentage of current borrower households. However, as it appears from Table 2, the increment in this share was made possible through increased intermediation of non-institutional sources of credit, especially, traders and friends/relatives. Among all the sources, friends and relatives seems the most important both in 1992 and 2002, indicating how important social ties are in sustaining household economies in tribal regions.

Table 2: Percentage of Rural Tribal Households in Gujarat Reporting Cash Loan Outstanding by Credit Agency: 1992 and 2002

Credit agency	1992	2002
Government	0.04	0.09 (10.0)
Coop society/ bank	3.90 (11.7)	4.80 (12.9)
Comm. banks/ RRBs	2.60 (65.0)	2.50 (26.1)
Other		0.02
All Institutional sources	*6.80 (77.2)*	*8.20 (53.0)*
Landlord	0.09	
Agri. money lender	0.05	0.06
Prof. money lender		0.06
Trader		2.30 (10.4)
Relatives and friends	5.70 (15.7)	9.20 (34.6)
Other	0.02	
All non-institutional sources	*7.20 (21.0)*	*12.50 (47.0)*

Note: Figures in brackets are percentages of amount of cash loan outstanding within respective categories.
Source: NSS 48th Round (January-December 1992); and NSS 59th Round (January-December 2003).

Though the institutional sources were used by a relatively a lesser proportion of households, they account for a substantial chunk of the cash credit outstanding - 77% - in 1992. Commercial banks including RRBs alone had 65% share in outstanding loan amount reported by the households. The overall pattern remained the same in 2002, but the relative share of non-institutional sources in amount of loans reported increased substantially from 21% to 47% owing to increase in the shares of friends/ relatives (from 15.7% in 1992 to 34.6 in 2002) and traders (from none reporting in 1992 to 10.4% in 2002). The percentage share of banks came down significantly, though their share in exposure remained more or less the same. This seems to suggest the shift in preference among the commercial banks for larger accounts among the tribal households. In contrast, the cooperatives not only have improved their exposure marginally, but they also registered an increase in the household debt reported.

As for tribal households in urban Gujarat, the trend is just the reverse. Between 1992 and 2002, percentage of households reporting outstanding cash loans from all sources increased from just about 3% to 17%. More importantly, the share of institutional sources in the amount of cash credit reported shot up dramatically from 27% to 70%, because of the financial corporations and institutions who came to account for 57% of all cash loans reported. Another noteworthy change is the decline in the share of loans reported as having sourced from government during the decade.

It is interesting to note that the share of non-institutional sources in the urban sector declined in the case of tribal households from 73% to 30%, with traders accounting for 26% of all reported cash credit in this category. Loans from friends and relatives which constituted 68% of outstanding loans in 1992 came down to just 3.4% in 2002. These changes seem to indicate the increased attractiveness of urban credit markets to institutional players over the decade, which also appear to have benefited the ST households in urban areas.

There have also been some changes in the mode of procuring credit by tribal households in rural Gujarat over the decade 1992-2002. About 60% of loan outstanding reported by the households in 1992 were availed against mortgage of immovable property, presumably land. In 2002 the share of such loans came down substantially (to about 11%), whereas 29% of loans were reported to have been availed against "first charge on immovable property". Also, the share of loan availed on personal security rose from 26% in 1992 to 42% in 2002. The reason and implications of this change need to be explored in detail. One of the plausible reasons seems to be the rise of credit linked livelihood programmes implemented by non governmental organisations in the tribal districts, where loans are extended without any collateral. A noteworthy observation in this context is that the period under review coincides with an increase in tribal poverty in the state from 31 to 34% (though the overall poverty declined from 22 to 19%).

Purpose of borrowing as reported by ST households shows a significant shift towards productive activities during the decade, especially in farm sector, though household expenditure still accounted for 60% of the cash loans outstanding in 2002. Share of loans availed to meet non farm business related expenditure remained to be quite low in both the periods.

5. Flow of Institutional Credit to Tribal Households: A Broad Overview

There is no separate time series data available on institutional advances to tribal households per se, as they got included along with SC category within the weaker sections. Between 1995-96 and 2008 the share of advances to weaker sections in total priority sector lending declined from 19% to 16% (Table 4). The decline has been particularly significant in the case the SC/ST advances. Interestingly, during the same period weaker section advances under the DRI scheme declined from 4.35% to 0.58%.

What are major trends in these advances moved in the states that have significant presence of tribal population? The data presented in Table 3 clearly suggest that most of the states, excepting Madhya Pradesh, have seen a decline in the share of SC/ST advances. The decline has been particularly dramatic in the case of Orissa and Rajasthan. In the case of Gujarat, while the share of SC/ST advances came down in the total priority sector advances by about one percentage point, weaker section advances increased marginally.

Table 3: Percentage Share of SC/ST and Weaker Section Advances in Priority Sector Lending

State	% in priority sector advances			
	1995-96		2008	
	SC/ST	Weaker sections	SC/ST	Weaker sections
Rajasthan	13.06	24.52	7.88	20.63
Jharkhand	*14.02	*33.53	13.04	32.86
Madhya Pradesh	**10.48	**30.72	10.73	25.29
Orissa	18.11	31.88	8.71	28.92
Chhattisgarh			11.28	20.44
Gujarat	5.27	12.44	4.25	12.77
Maharashtra	3.08	8.21	1.94	5.59
All India	7.01	18.88	4.17	15.63

Note: * the data is for Bihar; ** includes Chhattisgarh.
Source: RBI, Statistical Tables Relating to Banks in India, 1995-96; 2006; 2009.

However, as it is shown in Table 4, the average loan sizes of SC/ST advances have increased substantially by 6 to 14 times across the states, the increase being the highest in Maharashtra. In Gujarat the average loan size increased by 8 times. This increase, as we see in Table 5, has been facilitated by the substantial decline in the number of accounts. In other words, there seemed to have been a significant migration of accounts from small borrowals to large sized loans in the case of both SC/ST advances in particular as also weaker section advances in general. Notably, Gujarat has performed better compared to Jharkhand Maharashtra and Orissa by showing a lesser extent of contraction of accounts in the case of SC/ST accounts. It registered an increase in number of loan accounts of the weaker sections.

Table 4: Average Loan size of SC/ST and Weaker Section Advances

State	Average Loan Size (Rs.)			
	1995-96		2008	
	Advances to SC/ST	Advances to weaker sections	Advances to SC/ST	Advances to weaker sections
Rajasthan	7750	7203	60351	61617
Jharkhand	*5062	*4891	28182	36088
Madhya Pradesh	**6047	**2946	52365	76342
Orissa	4416	4896	28650	52329
Chhattisgarh			40858	60516
Gujarat	6902	8000	55067	65476
Maharashtra	6380	6770	93700	75344
All India	6222	5944	43644	56712

Note: * the data is for Bihar; ** includes Chhattisgarh.
Source: Same as Table 4.

Table 5: Growth in Number of Accounts with Respect to SC/ST and Weaker Sections Advances (1995/96 to 2008)

State	Growth in Number of Accounts (1995/96 to 2008)	
	Advances to SC/ST	Advances to weaker sections
Rajasthan	-8.07	16.70
Jharkhand	-64.19	-71.53
Madhya Pradesh	-11.71	-76.28
Orissa	-32.40	-22.60
Chhattisgarh		
Gujarat	-12.31	8.92
Maharashtra	-44.61	-20.90
All India	-13.50	-11.49

Source: Same as Table 4.

The analysis in the forgoing sections was meant to provide a diagnostic snapshot of the current status of institutional financial intermediation among the social groups of scheduled castes and tribes in the tribal dominated states of India, and particularly in Gujarat. The analysis indicated an important phenomenon - while disbursal of credit has largely grown in tandem with the norms of the priority sector lending, this growth has been achieved not by expanding the borrower base among these social groups, but by rationalising the portfolio through a process of rationing out small credit. The need for an alternative methodology to link these segments with the financial markets, thus, looks extremely critical if the mission of financial inclusion is to be achieved meaningfully. Microfinance, obviously, has emerged as one such alternative in the state in recent years.

6. Self-Help Programme in Gujarat: Review of Trends

Though Gujarat houses some of the successful models of financing the poor like the SEWA Bank, the celebrated women's cooperative bank, and many NGO-mF programmes (implemented by BAIF-DHRUVA, ANANADI, Bhasha Trust, Shroffs Foundation), the self-help group - bank linkage scheme promoted by the National Bank for Agriculture and Rural Development (NABARD) has progressed rather slowly in the districts of Gujarat. A rough estimate shows that in 2006 there were only three SHGs per every 1,000 poor population in the state, whereas in Andhra Pradesh, there

Table 6: Progress of SHG-bank Linkage in the Western Region: Bank loans Outstanding

(As on 31 March 2009)

Western Region	No. of SHG	Bank loan	% Share in bank loan of			National share	
		(Rs. Lakh)	CB	RRB	Coop	SHG	Bank loans
Goa	2828	1923	96.50	**	3.50	0.07	0.08
Gujarat	37105	10938	81.63	10.61	7.75	0.88	0.48
Maharashtra	353566	142253	81.66	9.21	9.13	8.37	6.27
Regional total	393499	155115	81.84	9.20	8.96	9.32	6.84
India	4224338	2267984	71.21	23.04	5.76	100	100

Source: NABARD (2009).

Table 7: Progress of SHG-bank Linkage in the Western Region: Savings of SHGs with Banks

(As on 31 March 2009)

Western Region	No. of SHGs	Savings	% Share in savings of			National share	
		(Rs. Lakh)	CB	RRB	Coop	SHG	Bank loans
Goa	5892	827	79.71		20.29	0.10	0.15
Gujarat	105046	6276	54.38	22.83	22.79	1.72	1.13
Maharashtra	685324	59325	54.80	11.04	34.15	11.20	10.70
Regional total	796262	66428	55.07	12.02	32.91	13.01	11.98
India	6121147	554562	50.00	9.03	14.12	100	100

Source: NABARD (2009).

were 47 SHGs per every 1000 people living below the poverty line income. The share of Gujarat in SHG-bank linkage has remained less than one percent in terms both number of SHGs and outstanding bank loans. In the case of bank loans the share is, in fact, less than half a%. When it comes to SHGs with bank savings, the situation is slightly better with close to two% share in number of SHGs and one percent share in savings (Tables 6 and 7). In 2008-09, 199 NABARD sanctioned projects were on in Gujarat, of which about 68 were either working or about work in districts with significant tribal presence.

Coming to the direct intermediation model of microfinance, one cannot see much happening in the tribal regions except in Sabarkantha and Vadodara of Gujarat. Tribal regions especially are not very attractive to mFIs as they find it difficult to develop markets in these economies which are not cash based and where the volume of transaction is not very high. mFIs are interested in those who have the ability to earn a regular income. Interestingly, one of the top ranking mFI with national presence declared that "tribal areas are too dangerous to operate in".

Table 8: Status of Sakhi Mandal Scheme: December 2009

Indicators	2009-10
No. of new SMs formed	145504
Started	96990
Linked with banks	85046
Bank credit (Rs. Lakh)	13042
Saving by SMs (Rs. Lakh)	8877
No. SHGs under SBLP tracked	67260
No. of SHGs revived	10452
No. of SHGs linked with banks	1654
Bank credit (Rs. Lakh)	637
Saving by SHGs (Rs. Lakh)	1101

Source: www.ruraldev.gujarat.gov.in

Starting from 2006-07 the Government of Gujarat launched an ambitious programme of massive SHG mobilisation under the Sakhi Mandal Yojana, which aims at converging the SHG movement with the various government schemes. The scheme envisaged formation of one lakh new SHGs with the help of ICDS and NGOs acting as promoting agencies by the year 2010. As on December 2009, there were close to 1,55,956 sakhi mandals (including the SHGs under the SBLP) in the state. Of these only about 55% groups were credit linked. The bank credit and savings figures stood at Rs.13,679 lakh and Rs.9,978 lakh respectively.

The data presented in Table 9 on Sakhi Mandals (as reported by the CRD) gives district-wise break up of the number of newly formed groups across social groups. Overall about 23% of the members reportedly belong to STs. The district-wise distribution of members seems to broadly correspond with the tribal population distribution with a couple of exceptions. Thus in Dangs almost the entire membership is from tribals. Of the rest, in Surat, Dahod, Narmada, and Navsari, the tribal membership coverage far exceeds their population share.

In the promotion and management of sakhi mandal the government uses the ICDS infrastructure and manpower along with NGOs. Also, it has introduced a

Table 9: District-wise distribution of ST Members in Sakhi Mandals – December 2009

District	% of tribal population	% coverage in SMs	% coverage of BPL
Dang	93.8	99.58	66.67
Narmada	78.1	91.24	40.17
Dahod	72.3	87.29	80.94
Surat	28.2	71.75	11.20
Navasari	48.1	63.72	9.52
Valsad	54.8	56.36	25.12
Bharuch	32.4	37.51	29.07
Panchmahal	27.5	33.39	19.21
Vadodara	26.6	31.89	32.02
Sabarkantha	20.2	17.18	8.65
All	14.8	22.57	20.82

Source: www.ruraldev.gujarat.gov.in

component of one time cash grant of Rs. 5000 in the form of revolving fund at a fairly early phase of group formation, i.e., after the first grading before the bank loan is sanctioned. The groups are eligible for 4 times the size of their savings as loans. The oldest sakhi mandals in the state have been in operation for about 3 years. Within the groups the loan terms are relatively shorter - 2 to 6 months.

What is noticeable in Table 9 is the low coverage of BPL households in these groups excepting in Dahod and Dangs. This makes one wonder as to the core development drivers of the strategy of collectivisation of women through sakhi mandals and worry whether the movement will further consolidate the banking deficit already experienced by the poorer among the tribals in the state. The other implicit danger is in following a target approach to SHG promotion among a population that is already trapped in a vicious circle of social and economic deprivation and financial exclusion. Enquiries have revealed that the immiserisation of poorer tribal households can be attributed almost exclusively to: (i) high cost of credit; (ii) practical absence of production credit; (iii) high incidence of 'unproductive credit' leading to poverty traps; (iv) high morbidity, related expenditure and indebtedness; and (v) absence of saving (in cash) 'habit'.

It is also important to recognise some of the critiques from sociological-anthropological enquiries that highlight the problems with using credit as strategy to develop the economic status of tribal households. By mapping the livelihood environments of tribal areas in states like Tamil Nadu and Andhra Pradesh they argued that introduction of cash credit has the effect of disturbing and eventually weakening the traditional institutions of mutual help and community support (not always based on the logic of money) as also undermining the livelihood structure for no good reason. It is clear that aaddressing the issue of credit market is complex in tribal regions given the peculiar connections in the tribal livelihood system among poverty, ecology, social-political distance, local governance systems, property relations, and social relations of credit.

7. Cooperatives: The Unfinished Social Technology

The role of cooperatives in developing the tribal economy and liberating the tribal population from exploitation by middlemen, money lenders and petty traders has been emphasized time and again since the beginning of planned development in India. The economic life of the tribal people and their customs are seen as "specially adapted to successful organisation on co-operative and community lines". Beginning from 1961 many committees and study groups looked into this issue. These include Special Working Group on Cooperation for Backward Classes (1961), Report of the Committee on Tribal Economy in Forest Areas (1962), Study Team on Cooperative Structure in Tribal Development Project Area (1971), Study Group on Relief of Indebtedness, Land Alienation and Restoration in Tribal Development Agency Areas (1973), Study Team on Marketing, Credit and Cooperation in Tribal Areas (1978). Right from the First Five Year Plan it was prescribed that ttribal co-operatives should, as far as possible, be multi-purpose in character, providing for credit, supply of consumer goods and marketing at the same time. Large-sized Adivasi Multi-purpose Societies (LAMPS) were introduced based on the recommendations of the Study Team on Cooperative Structure in Tribal Development Project Area. The objectives of LAMPS were: (i) provision under a single roof of all types of credit including those for meeting social obligations and consumption needs, (ii) extension of technical guidance in the intensification and modernisation of agriculture; and (iii) arranging for the marketing of agricultural and minor forest produce and the products of other subsidiary occupations of the tribals. Each LAMP covers 10,000 to 20,000 population, which is larger than the expected coverage of a PAC. By the end of the 1990s there were about 3,600 LAMPS all over the country with a membership of close 50 lakh, of which ST members constitute about 53%. Close to half of these cooperatives, however, were running at a loss during this period.

What explains such lack luster performance of a form of organisation that is considered the most suitable for tribal population? Unfortunately, there are not many studies that enquired into this issue. As for the specific factors that have constrained the working of tribal marketing cooperatives, the Shivaraman Committee (1981) identified the following: lack of aggressive investment lending, non-availability of skilled personnel for executive positions, frequent increase in the royalties payable for forest produce, unhealthy competition from private traders, absence of effective marketing organisation, and marketing intelligence, lack of infrastructural arrangement for storage and transportation and inadequacy of agency commission paid to these societies for distribution activities (Mahalingam, 1990).

In a comparative study of the sustainability of producer cooperatives done a decade ago, Datta (1996) argued that high incidence of inactive membership, low correspondence between the societies' activities and members' needs as also the resource endowment of the region (what Datta calls 'low centrality of the organisation to members and region') and weak local leadership are some of the factors that create hurdles for efficient collective action to emerge. As per his analysis cooperative action is bound to be effective when institutions are founded with the explicit purpose of managing a common business problem. For instance, cooperatives can help large number of small and scattered farmers to pool their small marketable surplus create scale economies. Or they can help farmers manage high perishability and seasonality of raw materials by creating facilities for storage and agro-processing. In situations where farmers are affected by market uncertainties and input risk cooperatives can provide them with the necessary safeguards through appropriate backward linkages.

The relevance and prowess of cooperative form of organisation in promoting tribal livelihoods is amply demonstrated by the success of the cooperative Vasundhara - Vriksha Vanwadi Jalsinchan Vikas Sahakari Mandali Limited - promoted by the Dharampur Utthan Vahini or DHRUVA (an associate of BAIF Development Research Foundation). Vasundhara was born out of the need of the tribal wadi producers to find a marketing arrangement of their produce that works on their terms. Activities like procurement, processing/value addition and marketing of wadi produce are organised through 11 tribal cooperatives, each covering 10-15 villages. Vasundhara, the umbrella cooperative, pools all the output and collectively markets them. Apart from the local market, the products are sold under the brand name Vrindavan to retailers and wholesalers in cities like Surat, Baroda, Ahmedabad and Mumbai. Importantly, DHRUVA also operates a microfinance programme by name Sahabhagi Vikas Yojana which is managed by community groups the members of which are shareholders of the village cooperatives.

The success story of Vasundhara emerging from one of the tribal regions in Gujarat seems to suggest that it is perhaps time to revisit some of the anxieties and hopes around tribal cooperatives and make efforts to infuse this organisational alternative with the power of real community ownership and management. It must be mentioned that these are guaranteed in the self reliant cooperative acts enacted in several states.

8. Conclusion

Access to affordable institutional credit has been a major constraint for the economically weaker communities, including the tribals, in the country despite efforts by the banking system to integrate them through special provisions. In the tribal regions, which usually are remote and difficult to navigate, accessing institutional credit has remained almost impossible task given their lack of assets and skewed distribution of bank branches. The setting up of Regional Rural Banks in the mid-1970s has resulted in the creation of banking infrastructure in tribal and backward regions, but has not significantly improved access to credit of weaker sections of the population, especially the tribals.

The strategy seems to have abruptly shifted from hesitation to engage to over enthusiasm to mainstream and include the regions and populations that have hitherto been bypassed by both the government and financial systems. The implications of sudden proliferation of SHGs in Gujarat do not seem to have been adequately appreciated. The district-wise distribution of sakhi mandals reveals impressive coverage of the programme in all the districts with significant of tribal population. This indeed was a welcome initiative on the part of the government as it could possibly get the marginalised tribal households closer to the institutional framework of financial services delivery. However, the experience so far indicates that sheer mobilisation of SHGs cannot automatically ensure their sustainable development and positive contribution to poverty reduction and livelihood security. A study conducted jointly BASIX, CARE Andhra Pradesh and Vikasadarshini in the late 1990s observed that only 20-30% of the groups in the state of Andhra Pradesh of good quality. Majority of them were found to lack knowledge of the basic concepts and methods of working in groups. A more recent analysis of SHG performance by Sa-dhan revealed that across regions they score very low in group constitution, self reliance, external linkage and social and community action.[4] All such enquiries clearly underline the need for focused efforts to balance the quality and quantity of SHGs.

Lack of vision among promoter agencies, especially banks and government agencies, regarding the long term goals of SHGs has led to a situation where groups are seen as sheer instruments or conduits to channelise state patronage. Such thinking is more predominant while working with weaker sections including tribals.

Notes

1. www.planningcommission.gov.in/
2. See, Torri (1975) for an interesting interpretation of the dramatic political happenings that preceded this historic decision.
3. Master Circular Priority Sector Lending-Credit facilities to Scheduled Castes (SCs) and Scheduled Tribes (STs), dated July 1, 2009.
4. www.sa-dhan.net/Adls/Microfinance/Article/SectorReport/5%20SHG%20performance.pdf

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Socio-economic Status of Plain Area Tribes of Andhra Pradesh and Their Access to Microfinance

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Microfinance, has emerged as a promising tool to correct market failure and ensure social-economic-political development of tribals. It is seen as an empowering tool having the ability to give voice to people and help them deal with exploitative forces.

Abstract

The Human Development Index of tribals is much lower than that of the rest of India's population. In the UNDP Human Poverty Index, tribal communities of India, as a group, are ranked alongside those of sub-Saharan African countries, in the bottom 25. This is alarming, considering that India is a middle ranked country on the same index. Though tribals live in resource-rich regions, they continue to be marginalised in the development process. Microfinance, in this context, has emerged as a promising tool to correct market failure and ensure social-economic-political development of tribals. Microfinance is seen as an empowering tool having the ability to give voice to people and help them deal with exploitative forces.

The paper looks at the outreach of Microfinance among the plain area tribes of Andhra Pradesh (AP) and the factors required for making Microfinance work for tribals. It is based on a study of tribal habitations in the plain area districts of AP commissioned by the Tribal Welfare Department, Government of AP. The paper argues for establishment of community-based financial institutions, bundling business development services with Microfinance and development of physical, social and economic infrastructure for development of plain area tribes. The paper also proposes building up a 'tribal cadre' for effective implementation of development programmes for tribals.

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Introduction

The United Nations 'State of the World's Indigenous People' report estimates that there are approximately 370 million indigenous people, representing 6% of the global population. According to the ILO Convention No. 169, indigenous and tribal people are those "whose social, cultural and economic conditions distinguish them from other sections of the national community, and whose status is regulated wholly or partially by their own customs, traditions special laws or regulations". The indigenous people of the world inhabit areas which are rich in natural resources and are responsible for the world's linguistic and cultural diversity. They speak an overwhelming majority of the world's estimated 7,000 languages. They are recognised for their unique relationship with the environment, tradition, knowledge and spirituality. However, across the world, they continue to suffer discrimination, marginalisation, extreme poverty and conflict. Although constituting 5% of the world's population, they make up 15% of the world's poor and about one-third of the world's 900 million extremely poor (UN, 2009).

Tribal economy of India

India has the largest tribal population in the world, 84.3 million, constituting 23% of the world's indigenous people. Article 342 of the Constitution of India has notified 700 ethnic groups as Scheduled Tribes, based on the criteria of primitive traits, distinctive culture, geographical isolation, shy nature and backwardness. The Scheduled Tribes (ST) are referred to as 'adivasis', which literally means 'original settlers'.[1] The word 'scheduled tribe' has not been defined, but is an administrative term used for the purpose of 'administering' certain specific constitutional privileges, protection and benefits for specific section of people historically considered disadvantaged and backward (Roy Burman J J, 2009).

Tribals are sitting on a mountain of natural resources which they are unable to use effectively due to various socio-economic-political barriers. Though the Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006, a revolutionary piece of legislation, has been enacted by the Government of India, which recognises the title rights, use rights, relief and development rights and forest management of tribals, its implementation has been tardy and 'is seldom to the benefit of tribal population' (IFAD, 2010). There are stringent laws prohibiting alienation of tribal land to non-tribals, due to which, land markets are underdeveloped and therefore the cost of acquiring land in tribal areas is extremely low, encouraging the tendency to acquire land in excess of requirement, especially by mining companies. (GoI, 2009). The resources of tribals have become, what the Peruvian economist, Hernando De Soto terms 'dead capital'. The assets held by them are not 'tradable' and cannot be readily turned into capital, cannot be traded outside narrow local circles, cannot be used as collateral for loan and cannot be used as a share against an investment.

Despite various constitutional provisions, protective legislations and development initiatives by Government of India (GoI) since independence, 'the socio-economic condition of the STs has improved only marginally' (GoI, 2009). The annual report of the Ministry of Tribal Affairs, GoI, 2008-09 bemoans that the 'Human Development Index of the STs is much lower than that of the rest of the population and there are more ST families below the poverty line than those of other communities. Their condition is far worse than that of the rest of the population and they have not been able to reach the envisaged level of development, where they could benefit from the new opportunities offered by a fast expanding economy'.

Deforestation, mining and construction of dams have led to loss of livelihood and displacement of tribals from their homeland. It is estimated that developmental activities since 1950 have displaced 50 million people, 40% of them are tribals, accounting for 25% of the total ST population. With only 29% of affected families rehabilitated, the track record of governments on resettlement and rehabilitation leaves much to be desired. Tribals have been converted from owners of resources and well-knit contented communities to wage earners in urban agglomerates with uncertain future and threatened existence, resulting in assetlessness, unemployment, debt-bondage and destitution (GoI, 2009). Lack of socio-economic development, physical and economic exploitation, land alienation and other problems have led to a situation in which, 75 predominantly tribal districts are affected by violence (GoI, 2008).

Microfinance as an instrument to address socio-economic problems

Money is at the root of human progress, and evolution of credit and debt was as important as any technological innovation in the rise of civilisation (Ferguson Niall, 2007). Poor people, however, live in a non-monetised economy depending on erratic and insecure informal channels for basic financial services such as savings, credit, money transfer, insurance and financial counseling. Traditionally, banks have not considered poor to be a viable market (CGAP). Exclusion from financial services 'leads to social exclusion, poverty as well as all the other associated economic and social problems' (RBI, 2008). The STs, being the most vulnerable section of the poor, continue to be marginalised from the financial markets more than other poor communities. Majority of the STs live in scattered habitations located in interior, remote, and inaccessible hilly and forest areas of the country, which the formal institutional finance structure finds difficult in servicing. Banking procedures, documentation formalities, collateral requirements, high transaction cost to the banks and borrowers, inadequate risk mitigation measures and unfavorable mindset of bankers and developmental agencies towards tribals have hampered the availability of financial services to the poor.

In the above context, Microfinance has emerged as a mechanism to correct this anomaly in delivering financial services to the rural poor and improving the socio-economic milieu of tribals. As tribal communities live in contiguous areas, unlike other communities, the strong community bond among tribals helps in social mobilisation and building community-based organisations. The institutional structure of Self Help Group for delivery of microfinance could provide a voice to the tribals and empower them to fight the exploitative socio-economic barriers.

A study by Mosley (2001) revealed that microfinance has reached reasonably large number of poor and helped reduce poverty in Bolivia, Bangladesh and Indonesia. Regardless of their scale, outreach, location and type of clients, all microfinance interventions aim for a common target - human development geared towards economic and social upliftment of the people they cater to (Naveen Shetty, 2008). An impact evaluation study of SHG-bank linkage programme (SBLP), the dominant microfinance model in India by NABARD (Puhazhendi V and Satyasai, KJS) observed that the microfinance programme had contributed to increasing the self confidence and self worth of the SHG members and improved communication with others, after association with SHGs.

A research paper in the International Journal of Sociology and Anthropology, evaluating tribal SHGs in Kerala revealed that after joining SHGs, 'tribal women alleged changes in their identity towards working collectively to exerting pressure for change at the village and panchayat levels. They organised community and social action programmes, both at the local level and by joining in issues beyond the local.' The tribal SHGs were seen to 'make a modest but significant contribution to broader transformation of repressive structures' (Nideheesh K B, 2009).

Some critics, however, point out that the low per-capita loans under SBLP are grossly inadequate for pursuing meaningful livelihood activities. They argue that unless enterprise and livelihood activities are supported, access of microfinance to SHGs would merely have a liquidity-smoothing effect, and will not be able to achieve the objective of poverty eradication (Srinivasan R, 2008). It is also expressed that the paradigm of micro-credit needs to be broadened to livelihood finance covering financial services, business development services and institutional development services (Vijay Mahajan, 2005). A study in tribal districts of Adilabad, Khammam and Srikakulam (P Purushottam et al, 2010) observed that most of the tribal households in interior Andhra Pradesh are unable to access institutional credit even three years after joining SHGs. 98.6% of sample tribal households had no individual accounts with banks. The tribal SHG members were able to obtain only 20% to 38% of the threshold credit required for crossing poverty line from institutional sources.

The current paper looks at the outreach of microfinance among the plain area tribes and the enabling social-economic-political factors required to make microfinance work for tribals. The paper is based on learnings from a study of tribal settlements in the plain area districts of Andhra Pradesh (referred to as PAT study, 2008 in subsequent paragraphs) commissioned by the Tribal Welfare Department, GoAP. The paper suggests approaches for development of tribals in plain areas. The paper uses the term 'plain area tribes' (PAT) for the scheduled tribes living outside the districts covered by scheduled areas.

II. Tribal Economy of Andhra Pradesh

Andhra Pradesh has a tribal population of 50.24 lakh, constituting 6.6% of the total population (2001 Census). 35 communities have been notified as scheduled tribe in Andhra Pradesh under Article 342 of Constitution of India. 55% of the total ST population resides in eight districts having scheduled areas (referred to as agency districts in subsequent paragraphs) and rest 45% live in 15 districts in plain areas (Table 1). Four communities, viz, Sugalis (58.8%), Yanadis (19.9%), Yerukula (15.5%), and Chenchu (2%) form 96% of the ST population in the plain areas.

Table 1: Region-wise tribal population in Andhra Pradesh

Region	Total Population (lakh)	ST Population (lakh)
Districts having scheduled areas (also referred to as Agency areas) (8 districts)	256.37	27.69 (55.1)
Plain Area Districts (PAD) (15 districts)	505.73	22.55 (44.9)
Total	762.10	50.24 (100)

Note: Figures in bracket indicate percentage to total
Source: Basic Statistics on Scheduled Tribes of AP Published by TRICOR, GoAP.

Tribal self-help groups in Andhra Pradesh

Government of Andhra Pradesh is implementing a poverty alleviation programme, Indira Kranti Patham (IKP) adopting the SHG model. The strategy of IKP is to build and nurture SHGs of women, particularly the poorest of the poor, as self-reliant and self managed organisations to improve their livelihoods and quality of life and to enable the household to come out of poverty. The Scheduled Tribes, being the poorest of the poor of rural population, are part of the target group of the project.

Over 10.50 lakh SHGs have been formed under IKP, covering over 1 crore women, of which 4.79 lakh SHGs were credit linked during the year 2009-10. Of this, 21,383 ST SHGs were credit linked, forming 6.1% of the SHGs credit linked. The SHGs have been organised into a three-tier federation structure; Village Organisation at the village level, Mandal Samakhya at the mandal level and Zilla Samakhya at the district level. The federations have emerged as focal point for spreading awareness and implementation of various government programmes on health, girl child education, vaccination, family planning, AIDS awareness etc. The federations have also taken-up disbursement of social security payments, livelihood interventions, food security measures, procurement and marketing of agriculture and non timber forest produce and services for Mahatma Gandhi National Rural Employment Guarantee scheme such as finalisation of job cards, verification of musters.

Box 1

Major Interventions under IKP

Pavalavaddi scheme

The SHGs promptly repaying the loan to the banks under SBLP are provided with interest subsidy to the extent of interest charged by banks over and above 3 per cent per anum.

Meeting the total financial needs of SHGs

A financial product has been evolved to meet all the credit needs of a family such as consumption, investment, housing and redemption of debt taken from non-institutional sources under one umbrella.

Insurance Scheme

A co-contributory pension cum insurance scheme has been launched by the Government in 2008-09 for the SHG women above the age of 18 years in rural areas to provide social security after attaining the age of 60 years.

Special Development Plans

20 Yanadi Mandal Samakhyas covering 1324 SHGs and 17 Chenchu Mandal Samakhyas covering 633 SHGs have been formed which has given a voice to these communities.

Land Purchase Scheme

As on April 2009, 4,539 acres of land was purchased and handed over to 5,303 poor families of which 2,799 (53%) were SC and 1979 (37%) ST.

Procurement and marketing of non-timber forest produce

SHG federations in the tribal belt take up this activity for ensuring remunerative prices and improving bargaining power of tribals. During the year 2007-08, 1.31 lakh NTFP collectors have benefited from the initiative.

Under the special development plan for the STs in plain area districts, SHG federation of Yanadi and Chenchu community have been formed in the plain area district to give a voice to their issues. SHG members belonging to SC/ST communities are assisted under the Land Purchase Programme to acquire a "micro-plot" measuring half to one acre. Procurement and marketing of non-timber forest produce has been taken up by federations to provide livelihood and good returns to the STs. Measures such as interest subsidy for the SHGs, innovative financial product to meet all the credit needs of SHGs, including debt from non-institutional sources, insurance scheme etc. have been initiated in the state for strengthening the SHG movement (Box 1).

Access to financial services

A bank account provides gateway to financial services and 'confers a sense of identity, status and empowerment and provides access to the national payment system' (Committee on Financial Inclusion, 2008). Inspite of an extensive bank network in the state and a strong Microfinance movement, access to financial services for the tribals in the plain areas has been inadequate. PAT study 2008 observed that the percentage of individual accounts of the STs with banks in plain areas ranged from 0% to 20%.

A quick study in the Banjara embroidery (Malkapur thanda) and tribal jewellery (Ausala thanda) clusters in the plain areas of Nizamabad district observed that only 18%of the sample tribal households had individual bank account with Public Sector

Banks (PSBs), and only 4% of the households reported debt from formal financial institutions. Those who had access to institutional finance narrated that they had to visit bank branch 5 to 10 times for obtaining loan. Bank finance was available only to individual tribals when they had agriculture land and pattadar passbook.

Table 2: Access to institutional financial services

Particulars	Percentage of households
Individual bank accounts with Public Sector Banks	18
Individual loans accounts from Public Sector Banks	4
Membership with SHGs under Indira Kranti Patham	64
Borrowings from non-institutional sources	48
Interest rates on borrowings from non-institutional sources	3% to 4% per month

Source: Field Study conducted through Saibaba Educational Society, Nizamabad

48% of the households reported borrowings from non-institutional sources at interest rates ranging from 36% to 48% for amounts ranging from Rs.5,000 to Rs.20,000. It was reported that during the agricultural season, more than 60% the households borrow from non-institutional sources for agricultural needs. Though all the households were covered under Janashree Bima Yojana under AHVY, none of the household reported insurance coverage from their own resources.

Coverage of STs under IKP

Though Andhra Pradesh is considered the 'Mecca of Microfinance' and claims to have achieved 'universal coverage of poor' under IKP, a closer look reveals that the plain area tribes continue to suffer exclusion from the Microfinance programme.

PAT study 2008 observed that only 64% of the ST households identified through Participatory Identification of Poor (PIP) in the plain area districts had been organised

Table 3: Mobilisation of poor households into SHGs in AP (31 March 2008)

	Name of the District	No. of POP and Poor households				
		Total as per PIP	ST Households (HH)	% of ST HH	ST HH organised into SHGs	% of ST HH organised into SHGs
		Lakh	Lakh	Percentage	Lakh	
I	Agency districts	28.40	7.62	27	5.48	72
II	PAD	46.89	6.09	13	3.92	64
	Total I+II	75.29	13.71	18	9.40	69

Source: Society for Elimination of Rural Poverty (SERP) into SHGs as against overall coverage of 92% of the PoP and Poor households. In the agency districts, 72% of the ST households had been organised into SHGs. The presence of a specialised institution such as ITDA in the agency areas had helped achieve greater penetration of SHGs as compared to plain areas.

Analysis of the data of SHG-Bank linkage for the year 2009-10 reveals that the credit linked ST -SHGs in the plain area districts formed 4.1% of the total credit linked SHGs in the state as against 10.1% in the agency districts (Table 4). This has to be viewed in the background of plain area tribes constituting almost 45% of the tribal population of the state. The number of ST SHGs credit linked during the year 2009-10 in PADs formed 30% of the estimated potential ST SHGs eligible for SHG-bank linkage.

Table 4: SHG-Bank Linkage Programme in AP: 2009-10

Districts	Total no. of SHGs	No. of SHGs credit linked	Loan amount disbursed (Rs. crore)	Achievement for Scheduled Tribes	
				No. of SHGs credit linked	Loan amount (Rs. crore)
Agency	312600	116173	1848.25	11778 (10.1)	138.98 (7.5)
PAD	737029	235738	3665.25	9605 (4.1)	124.04 (3.4)
Total	1049629	351911	5513.50	21383 (6.1)	263.02 (4.8)

Note: Figures in bracket in column no. 5 and 6 indicate percentage to column 3 and 4 respectively
Source: SERP

PAT Study, 2008 revealed that there are about 2,000 dormant ST SHGs in the 15 plain area districts forming 8% of total SHGs. Though the reasons for dormancy were varied such as migration, lack of trust, leadership, one of the main causes of dormancy was lack of adequate capacity building of SHGs. The understanding about group principles was lacking in some SHGs, and even group meetings were not held regularly and book keeping was not up-to-date. Even after several years of existence, many SHGs heavily relied on their sponsor institutions for decision making and operations. It was often seen that majority members of the group go along with one or two vocal members. Over the time, this had resulted in economic disparity across the members getting wider. It appeared that adequate effort and investment in capacity building had not been made in tribal pockets by the IKP.

Micro-credit and business development services

Tribals, like any poor, have a hierarchy of credit needs; consumption smoothening, productive activities, investment, social and personal contingencies. PAT Study, 2008 revealed that SHG-Bank Linkage Programme (SBLP) mainly met the financial needs of social, economic emergencies and seasonal income gaps followed by animal husbandry, agriculture and service activities (Table 5).

Non-farm sector loans constituted a very small proportion, as lack of education,

Table 5: Activity-wise utilisation of loans availed by SHG families from Banks

Activity	% of SHGs members
Social, economic emergencies and filling in seasonal income gaps	43.5
Milch animals / Dairy / Sheep / Goat / Pig / Duck	29.9
Agriculture (incl. Horticulture, Floriculture, Nursery etc.)	11.8
Service Sector	10.2
Miscellaneous (Artisan, Stone cutting, fisheries etc.)	4.6
Total	100

Source: PAT Study, 2008

skill, poor resource base coupled with landlessness acted as deterrent for tribal households to venture into microenterprises. Micro-credit mainly bridged the gap between the working capital required and personal resources available with the SHG members. Investment needs were largely unmet by the micro-credit under SBLP. Banks

Table 6 : Problems faced in the livelihoods of tribal families

Livelihood	Major tribe	Problems of tribals	Suggested Livelihood interventions
Agriculture	Sugalis	• Absence of land records / pattas causing problems ownership and lack of bank finance • Small size of landholdings leading to subsistence agriculture • Lack of irrigation • Absence of extension	• Ensuring land titles • Intensification of crop production through irrigation, input supply
Agriculture labor	Yanadi and Sugalis	• Non availability of land • Lack of employment in their habitations • Low wages for women	• Awareness creation on livelihood avenues, i.e. NREGA, dairy, etc. • Skill up gradation to serve the construction industry, viz, masons, plumbers, electricians etc.
Animal Husbandry	Sugalis, Chenchu	• Dependence on low milking nondescript animals • Lack of veterinary health services • Inadequate grazing land • Lack of knowledge on fodder development and usage • Non availability of drinking water for animals.	• Intensification of existing animal production system, viz, new breeds, stall feeding of goats, etc. • Extension support
Non Farm Sector	Yerukula	• Non Availability of raw materials such as bamboo, etc. • Increasing price of raw materials such as bamboo etc. • Increased use of plastics in all walks of life affecting the demand for bamboo baskets.	• Skill development • Design development for broadening the markets and moving up the value chain • Vocational training in micro enterprises.
Non-Timber Forest Produce	Chenchu, Yanadi	• Dwindling forest resources • Restrictions by Forest Department • Absence of identity cards for accessing NTFP • Dependence on local markets with low returns.	• Value addition to forest collections • Promoting home herbal gardens, • Honey-bee keeping.

Source: PAT Study, 2008

were extending crop loans only to tribals owning land. The educated unemployed youth were looking for loans for buying transport vehicles, opening of service units (shops, agriculture input centers, repair units) but were found to be unable to obtain loan from banks.

The livelihood issues faced by plain area tribes collected through a process of semi-structured interviews and the suggested interventions are given in Table 6.

Many of the livelihood issues indicated require credit-plus services such as potential mapping, skill building, and marketing interventions. The PAT Study, 2008 showed that there was lack of awareness among the STs on the economic opportunities and the economic support schemes of the tribal welfare department. The department has its office in district headquarters but most of its manpower concentrated on welfare schemes. Micro-credit alone may not help in emancipation of ST unless the credit plus services are integrated with micro-credit.

Social-economic-political barriers

Banking systems and procedures, documentation formalities, collateral requirements; high transaction costs to the bank and borrowers, inadequate risk mitigation measures and unfavorable mindset of the bankers towards tribal have impacted the financial inclusion of tribals.

The socio-economic conditions, income level, infrastructure, financial literacy affect the demand for financial services. An analysis by the Reserve Bank of India regarding the inter-relationship between financial inclusion and economic development in general and infrastructure development in particular found that apart from per capita income and branch network, electricity consumption is a significant factor in determining expansion of savings accounts. Electricity consumption also influences credit account penetration in a significant manner. Infrastructure development also affects per capital income level. Thus, it had concluded that economic development and infrastructure appear to play crucial role in financial inclusion by creating conducive conditions for expansion of savings and credit activities. (RBI, 2008).

The PAT Study, 2008 revealed that last mile connectivity was a major issue in tribal habitations. Though ST villages had good internal roads, surprisingly 55.9% of the tribal habitations did not have connectivity to the nearest Black Top (BT) road which connects to the major market centers and 65.8% of the ST habitations did not have connectivity with their gram panchayat, the focal point for village administration. Lack of connectivity was found to be a factor hindering the IKP staff/ banks to approach tribals. The average distance of the thanda/gudem to the nearest bank was around 10 Km. There were a few ST habitations where the bank was located as far as 25 Km.

With regards to drinking water, 12.7% of the tribal habitations in plain areas did not have access to safe drinking water. 62.4% of the tribal habitations that had access to drinking water did not get adequate supply. 22.1% tribal habitations reported fluoride contamination and 11.5% tribal habitations had bacterial contamination of water. The dropout rates in Class I to VII was found to be very high (69%) for the plain area tribes. Only 37% of habitations in plain areas had the services Anganwadi Centres.

These gaping holes in infrastructure and socio-economic indicators led to demand among a section of the tribals for a separate gram panchayats for tribals in the plain areas. There was a feeling that a separate gram panchayat would help preservation of their socio-cultural uniqueness, give them control over the funds for development of their villages, build leadership in tribal communities and help them in power sharing at the state/central level.

The basic infrastructure for tribal habitations in non-ITDA districts is expected to be taken care by respective line departments as part of their Tribal Sub-Plan. As reports of gaps/deficiencies in primary education, primary health, road connectivity, power and economic development had come to the notice of the Government time and again in non-ITDA districts, the Government of Andhra Pradesh was contemplating at one point of time, to establish a specialised agency at the State level for planning, coordinating and monitoring developmental activities for STs in plain areas.

Prioritisation of needs of the plain area tribes

The need prioritisation exercise undertaken under PAT 2008 through PRA exercises in 83 tribal habitations revealed that social infrastructure such as drinking water, schools, physical infrastructure such as roads ranked higher in their priorities. The prioritisation in the order of ranking were; (1) adequate and protected drinking water supply (2) credit for investment activities (3) skill development training for the unemployed educated youth (4) land ownership rights (5) local employment opportunities under NREGS and other schemes (6) motorable /BT road (7) awareness on government schemes (8) pension for widows, old and disabled (9) drainage and internal roads (10) training to SHG women on sustainable livelihoods (11) housing (12) promotion of new SHGs (13) primary health center (14) irrigation (15) regular supply of electricity (16) animal health care (17) special school for ST children (18) community hall (19) adequate ration. The PRA exercises indicate that in their need hierarchy, the ST communities rank social and economic needs ahead of microfinance.

III Approach to Tribal Development

Community-based financial institutions

Niall Ferguson, in his book 'The Ascent of Money: Financial History of the World' argues that poverty is not the result of rapacious financiers exploiting the poor, but the result of lack of access to efficient credit networks. The existing financial institutions in India have not been able to meet the financial needs of the vulnerable sections of people due to their structural and attitudinal infirmities. Regional Rural Banks, which started with a mission of focusing on the vulnerable section, after their merger and consolidation into bigger entities, have changed their course and are moving away from their mandated clientele.

Though the National Scheduled Tribes Finance Development Corporation (NSTFDC) and Andhra Pradesh Scheduled Tribes Cooperative Finance Corporation Ltd. (TRICOR) have a number of credit-linked economic support schemes, they have been unable to reach the tribals effectively due to their ineffective and inefficient delivery mechanisms and their reliance upon the formal financial institutions, which do not have a favorable disposition towards lending to people of small means, particularly tribals. While Microfinance is able to partly smoothen the consumption needs, for livelihood finance requirements, they continue to rely on non-institutional sources.

Community-based financial institutions (CBFI) could be an answer to meet the specific needs of tribal communities. An example of a successful CBFI can be found in Shore Bank, Chicago, USA, a 34 year-old large community development and environmental banking corporation committed to "provide financial and information resources to under invested people, low income communities, racial minorities which are historically not well served by other banks." It works on a triple-bottom-line mission: 1) build wealth in economically integrated communities; 2) promote environmental health and sustainability; and 3) operate profitably. It focuses on markets, communities, and individuals that have historically been economically under invested (Shore Bank, 2007). In the year 2007, Shore Bank had issued community development credit of $156 million. Shore Bank's credits are intended to fuel economic opportunity and enhance economic development and prevent physical deterioration of the community.

NSTFDC and TRICOR do not have any implementing arm and are working through the set up of District Tribal Welfare Officer in non-ITDA districts. Most of the time of DTWO is spent in disbursement of scholarships and taking care of ST hostels leaving little time for focusing on the economic support programmes. They have no time or inclination to ensure bank linkage for the economic support schemes, which requires running after reluctant bankers and involvement in ensuring community participation, capacity building and skill development. Integrating the functions of welfare, development and finance at the level of DTWO in the plain areas has resulted in lack of focus on the latter two aspects. NSTFDC could be converted into a CBFI by incorporating private equity and providing operational freedom and a ground level institutional structure. Such an institution could meet the varied and diverse livelihood needs of tribals.

Providing livelihood support services

Micro-credit alone cannot ensure socio-economic development of tribal communities. The 'maximalist' approach of Microfinance, integrating savings, insurance, credit-plus services such as financial literacy, skill building and business development services will help in social and economic welfare. The agencies involved in delivery of micro-credit need to ensure that these services are available to the STs to make credit work towards enterprise building and asset creation. The wide spectrum of services that are required for an integrated approach, while possible to put together, convergence and collaboration among various agencies requires a single empowered entity that has the ability to do things itself as well as outsource services, as needed. This would require a widening of the scope and functions of the existing agencies or promoting a new development agency which can work for the holistic development of tribal communities.

Focus on physical, social and economic infrastructure

The overall development of poor, including scheduled tribes, undoubtedly requires development of physical infrastructure (roads, irrigation etc.) social infrastructure (health, education, sanitation) and creation of economic opportunities. The infrastructure indicators for tribals have been poor, when compared to the rest of the communities. Increased budgetary allocation, creation of assets, ensuring last-mile connectivity are areas of priority for development of tribal economies. The Tribal Sub Plan approach for non-ITDA areas has not been effective. Though the States are expected to provide TSP funds in proportion to the percentage of the tribal population to the total population in the state, this is rarely the case. Many ministries have reported difficulty in segregation their TSP component, citing indivisibility of projects. One of the ideas that has emerged in this context is of creation of separate development authority for the plain area tribes on the lines of ITDA. TSP funds can be transferred to this agency, which could provide resources to implementing agencies for projects benefiting tribals. As scheduled areas also continue to suffer from infrastructure deficiencies inspite of ITDA set up, this idea requires stronger support.

Building a tribal cadre of officers

Tribal development programmes are mostly being implemented by non-tribals who do not fully appreciate the problems of tribals. Workings for the development of tribals require the right blend of head and heart. Jawaharlal Nehru, writing a foreword to Verrier Elwin's book 'Philosophy for NEFA (Arunachal Pradesh)' on 16 February 1957, voiced that "We should try to train and build up a team of their own people to do work of administration and development. Some technical personnel from outside will, no doubt, be needed, especially in the beginning. But we should avoid introducing too many outsiders into tribal territory". His advice continues to be relevant even today, considering the poor outreach and achievements of developmental programmes meant for tribals. The manpower dedicated to tribal welfare should not only have these qualities, but dedicate adequate time to make a difference, as often, the good work done by a competent and committed civil servant posted in tribal welfare department does not sustain beyond his tenure. There is need for involvement of tribal educated youth in implementing the tribal development plans by providing them appropriate training in set ups such as SERP. The SHGs and SHG federations of tribals may have to be increasingly used as delivery channels for implementing the various developmental programmes for tribals.

Conclusion

The gap in development indicators between the mainstream population and tribals needs to be bridged before it becomes a social problem. The physical, social and economic infrastructure would help improve the human development indicators of the community and help in their integration into mainstream financial systems. Microfinance could be used as a tool to bring together tribal communities and empower them to fight for their due in the development process. Community based organisations such as SHGs and SHG Federations would provide a voice to the tribal community and empower them to exercise control over their resources. Microfinance to serve its mandate of empowerment and poverty reduction, has to be bundled with business development services such as financial literacy, skill building, advisory services, building of marketing capabilities etc. The structure of community based institution requires investment in the capacity building of the community to ensure sustainability.

As the existing financial institutions have not been able to meet the diverse needs of tribals, there is need for promoting CBFIs which focus on specific communities. NSTFDC has not been able to effectively meet the financial needs of tribals due to ineffective and inefficient delivery mechanism and reliance on the formal financial institutions which do not have a favorable disposition towards lending to the poor. NSTFDC could be converted from a subsidy-oriented and loan enabling agency into a CBFI along with infusion of private equity and professional management.

Tribal development programmes to be effective have to be managed by the community itself. Educated tribal youth could be trained and inducted into the programme delivery system. The SHGs of tribals and their federations could be used as delivery channel for tribal welfare and development programmes, which would reduce cost of delivery and leakages.

Notes

1. The use of the term 'indigenous' or 'adivasi' equivalent to 'tribe' has been contentious in the Indian context as there are many claimants, such as the Dalits (claiming their Dravidian antecedence), the Vaishnavite Meiteis of Manipur and the caste Hindus of Assam. (Roy Burman J.J., 2009).

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Remittance Needs in India

- Anne Koshy* and Therese Zak**

Abstract

Financial services that serve up to 100 million internal migrants could have a major impact on financial inclusion levels in the country.

Most internal migrants come from low-income households searching for seasonal work in metropolitan areas, other districts or even other states. Hopes are high and despite slow asset accumulation, migration helps to prevent the workers and their families from sliding into further poverty. Often unbanked, migrants need channels to send money from the destination back to their home village. This need is mostly met by the informal market. However, it is argued that remittances channelled through bank accounts may encourage savings, and enable a better match for savings and investment in the economy. Formal financial services should therefore be regarded as essential and be available to any who want to access them.

Remittances are now a major focus of interest for policy makers, practitioners and researchers. Ever increasing migration and money transfer flows mean that remittances form an increasingly vital source of development finance and can act as an important gateway for increasing financial inclusion. In a country such as India, internal migration and domestic remittance flows are very substantial, even if inadequately documented, and require the attention their international counterparts have enjoyed. Moreover, receiving households are more likely to be the poorer households in a country, the very households most likely to be excluded from formal financial services. Thus the potential for securing financial inclusion through the transfer of domestic remittances through formal channels is substantial.

Ever increasing migration and money transfer flows mean that remittances form an increasingly vital source of development finance and can act as an important gateway for increasing financial inclusion.

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Introduction

Under the Technical Cooperation Programme of the Republic of India and the Federal Republic of Germany, the NABARD - GTZ (German Technical Cooperation) Rural Financial Institutions Programme (RFIP) currently supports the revival package of the short-term cooperative credit structure (STCCS), the promotion, supervision and (self) regulation of microfinance organisations and most recently the improvement of remittance sending options for small value money transfers.

Within the framework of this technical co-operation, National Bank for Agriculture and Rural Development (NABARD) and GTZ, under the RFIP, jointly assessed the current situation of domestic migration and remittances in India. The present paper is a brief of the NABARD-GTZ Scoping Study, dated August 2009 which demonstrated the need for remittance sending option for migrants and formed a basis for the extension of the NABARD GTZ Technical Cooperation by the area of remittances. The lead author of the respective scoping study is Dr. Y.S.P. Thorat, former Chairman of NABARD. Realities of the field and results from interviews with migrants and their remittance receiving families are courtesy of NV Ramana, former CEO of Basix.

This brief provides an overview of challenges for migrants to transfer money frequently to their families and assesses sending options for small value remittances. Following the introduction, the second chapter provides a literature review on migration, remittances and financial inclusion. Existing money transfer systems are examined in Chapter Three while Chapter Four identifies the challenges faced by migrants excluded from formal financial services.

The setting up and implementation of a nationwide approach on remittances forms a basis for ensuring improved and extended money transfer options for low income households and the rural poor. By creating favourable framework conditions senders are encouraged to remit through the financial system and the Indian Post, rather than informal systems. A strengthened and enlarged institutional set-up can achieve further outreach to the rural areas.

2 Migration, Remittances and Financial Inclusion in India

Households' access to financial services is important. It matters in terms of poverty reduction, risk mitigation and inclusion, while firms' access to finance matters because of their objective of achieving growth (Demirguc-Kunt 2007).

One estimate indicates there are up to 100 million circular migrant workers in the country (Deshingkar et al. 2008). Most come from low-income households searching for seasonal work in metropolitan areas, other districts or even other states. Hopes are high and despite slow asset accumulation, migration helps to prevent the workers and their families from sliding into further poverty. Often unbanked, migrants need channels to send money from the destination back to their home village. This need is mostly met by the informal market. However remittances channelled through bank accounts may encourage savings. Formal financial services should, therefore, be regarded as essential and be available to any who want to access them.

Financial inclusion

It was noted earlier how financial services like those involving savings, credit, insurance, payment and remittances are necessary for employment and economic growth. These services can also enhance social cohesion and contribute to poverty reduction. By making adequate financial services available and accessible to the lower income families through formal financial institutions, financial inclusion becomes a form of empowerment for the disadvantaged (Committee on Financial Inclusion 2008). People who wish to access financial services should be able to do so. This may entail increased efforts in marketing and financial education services.

In India, as in other countries, banking technology is developing at high-speed. ATMs (Automated teller machines), credit and/or debit cards, internet banking and/ or online money transfer are banking technologies that serve clients efficiently, at low cost and without delay. Yet these advances only serve a very small section of the population. The more sophisticated technology becomes the more exclusive it can get. The financially excluded are those who live on low incomes and cannot access even basic financial services, such as savings, credit, insurance, payment and remittance services.

In remote and poor areas of India the extent of exclusion is substantial. According to the 59th Round NSSO (National Sample Survey Organisation) Survey more than half of all farmer households (the total number of farmer households is 89.3 million) are excluded from formal and informal financial sources. Only 27% borrow, inter alia, from formal sources, while 73% have no access to formal sources of credit at all (Committee on Financial Inclusion 2008). Delivering financial services to the poor in a sustainable manner is therefore an enormous challenge. Especially for labour migrants, away from their home village and without a family safety net, using remittance services can provide a means of financial inclusion because they need to send money home. There are many labour migrants in India, often living under dreadful conditions and belonging to the country's most vulnerable groups. The extent of their exclusion demonstrates the imperative of building an inclusive financial system.

Migrants and migration

Generally, India is witnessing a sharp increase in population mobility, in long-term and short-term migration as well as in commuting. The number of migrants within India is difficult to assess and, therefore, contested. Estimates go up to 100 million of circular (rural-urban) migrants (Deshingkar et al. 2008) while official data from the 55th NSSO round speak of 10 million people "staying outside their village due to employment reason" during 1999-2000 (NSSO 55th Round). At the same time researchers refer to 30 million internal migrants, a figure that is likely to be an underestimate. Particularly affected are people living in rural areas and even more so the "chronically poor" (Deshingkar 2009). The vast majority of short-term, predominantly male and unskilled, migrants come from low-income households and belong to Scheduled Castes (SC), Scheduled Tribes (ST) and Backward Castes (BC) (Deshingkar et al. 2008). The most typical forms of migration are short-term, rural-urban and, to a lesser degree, rural-rural.

The increase in migration numbers can be observed in Rajasthan. Between the 1970s and 2001/2, migration has increased from 4 to 15% for households migrating to other states and from 8 to 20% for those moving to metropolitan cities. Another example is the annual migration of 3,00,000 persons from the drought prone district of Bolangir in Orissa, with the deterioration of agricultural opportunities being a major push factor. Similar large outflows have been witnessed for poor districts in Andhra Pradesh (Ananthapur) and for areas of Madhya Pradesh. Equally, Bihar has doubled its emigration numbers since the 1970s (Deshingkar 2009).

Among rural-rural migrants, seasonal migration prevails, with agricultural wage labour migrating to neighbouring states (Samal 2006). Migration, in particular circular migration, has become a livelihood strategy. It may also constitute an investment in cases where the more years a migrant spends at the destination, the better his/her contract and the more profitable the undertaking becomes; costs of middlemen no longer arise, while, generally, skills improve leading to higher incomes. In some villages as many as 80% of households rely on a migrant to provide their income (Deshingkar and Start 2003).

The district of Ballia in Uttar Pradesh, for example, is a point of origin for migrant workers who are fleeing the flood prone area for work in Mumbai or Kolkata. There, they engage in construction work or work for a daily wage in the markets. Few are employed as watchmen or drivers, or work as crop workers in Punjab during the season. Up to two months a year are spent at home sowing crops. People from the other districts, like Deoria and Ghazipur, mostly migrate to Mumbai, Kolkata or Gujarat for higher income or better opportunities. Their situation is slightly better than for the migrants from Ballia, who migrate because they have to, rather than because it is more profitable to do so.

Yet, despite the economic benefits of migration, people can also face the risk of greater exclusion and costs. The exclusion is twofold: social, because the person no longer participates in the life of a village community and financial, because he or she may be unable to access banking facilities or welfare programmes. The underlying difficulty is linked to having no proof of address at the destination end, and above all, failure to possess an identity card. Lack of these, not only prevents the migrant from accessing social services but also from opening a bank account.

Moreover, migrants often find work in the informal sector characterised by low productivity, with little prospect for sustainable improvement in their economic circumstances and even, on occasion, facing oppressive employers. Accidents are frequent and often without compensation; injuries may be slow to heal, even once the worker has returned to his/her place of origin (Samal 2006). These and other costs (for lodging at destination, for example), are often underestimated by the migrant. Seventy-five% of all migrants are unable to save much, due to high costs at the destination, and are unable to meet the remittance expectations of their families. Once a person leaves their home area they are often no longer eligible for social insurance, health benefits or entitlements to livelihood support systems, even formal welfare schemes. Given the greater risks they are exposed to, their vulnerability and financial exclusion increases (Deshingkar and Start 2003).

Once at their destination the migrants find themselves in one of the three employment types: wage labour (80% mostly on construction sides), contract employment (10% mostly watchmen or petty jobs) or self-employment (10% skilled workers and artisans). Contractual workers are generally hired by middlemen and accrue advance costs to repay their debt at home and cover initial costs for transportation and accommodation at destination.

Seasonal sugar cane workers from Beed a district in Maharashtra, for instance, are contractual workers. They spend three to four months per year in neighbouring districts or states to earn a living for their families. As marginal farmers, agricultural labour during sugarcane season, husband and wife migrate for additional income. The advance money (Rs.30,000 to Rs.40,000 per couple) received from the contractor is used to balance debt and buy grains for consumption and seeds to plant before they leave.

Yet, with experience, and due to the social networks that develop at origin and destination points, customary migration routes are created, so that middlemen become increasingly insignificant. This is the case in Andhra Pradesh where up to 90% of migrants now use social networks (Samal 2006). Networks grow after a migration route from the same destination to the same end has been established for many years. Migrants then rely on a network composed of friends, relatives and employers instead of on a contractor or other intermediary.

It is clear that domestic migrants are among the most vulnerable in a society; including them in the formal financial system is a step towards integration and towards economic betterment.

Money transfers

Current financial services for the rural poor are often limited to agricultural production requirements instead of encompassing the broader needs of rural households, among them money transfers from the destination to the origin, namely remittances. A "continued dependence on the informal financial sector" leaves the rural population without choice (Jones 2008). But remittances are important, not only to meet the consumption needs of a household, but also for investment in agriculture. Research has shown that remittances "provide scope for accumulation of wealth and asset creation for households in addition to providing basic consumption needs (Samal 2006)." But to send money back to their villages, migrants have few options: a) carrying it back themselves or sending it through friends and relatives visiting home b) sending it through the post office by a money order c) sending it through a bank by bank draft or d) sending it through an informal remitter (Ghate 2005). Among these options the first and the last involve the informal market; the second is seen as expensive and sometimes difficult by remitters (a form has to be filled out in the language of the destination). Finally, sending money through a bank is rarely feasible since most migrants don't have a bank account, either at origin or destination or both. Because of this lack of options for money transfer, migrants cannot send money home as regularly as necessary. A study of remittances to Andhra Pradesh has shown that only 15% of remittances are sent to families on a regular monthly basis. Instead, 35% are irregular and 44% are sent only every three to four months (Samal 2006). For labour migrants the frequency is important because safe-keeping options of their income at the destination are rare.

When sending remittances the transaction costs are of concern. The cost of doorstep delivery is high. The post office, for instance, charges five percent, while clients reportedly have to travel to the post office to pick up the remitted amount (Ghate 2005).

The volume of domestic remittances is often underestimated. In Surat, Ganjam migrants send Rs.400 crore a year to their Oriyan home villages. One quarter of it is sent through the informal Tappawala courier system. One hundred Tappawalas cater to the needs of mostly seasonal migrants and remittance senders. Because migrants don't have bank accounts and feel intimidated in the bank's premises, and are not in a position to fill out a postal money order form, they choose the Tappawala, who charges 3% (4% for next day delivery) (The Hindu, 18 July 2009). (See the following chapter for further details)

MFIs (Microfinance Institutions) can also fill the gap in formal remittance services, where banks are absent. Once a critical number of migrant senders and receivers have been reached at each side of the sending route, MFIs can broaden their portfolio and at the same time achieve financial inclusion of migrants. The case of Adhikar, an NGO (Non-governmental Organisation)/MFI in Gujarat, demonstrates the advantages of using remittance handlings as an entry point for further financial services, i.e., savings and credit. (See the following chapter for further details)

What kinds of remittance services migrants need is suggested by The Report on Financial Inclusion: accessibility, timeliness and certainty of delivery, cost effectiveness and receipt of delivery status (Committee on Financial Inclusion 2008). More generally, models to extend financial service outreach to rural areas exist. The renowned SHG (Self-help group) Bank Linkage Programme, for instance, today coveRs.4.2 million SHGs, which have been linked to banks, and reaches out to more than 50 million SHG members and their households. Similarly, the business correspondent model provides a strategy for extending financial inclusion.

3 Money Transfer Systems

It is argued that there should be an increase in the use of the formal financial system for making retail and small value payments. In order to facilitate this increase, alternative and inclusive paths have to be put in place. The following gives an overview of money transfer options provided by the post office and describes examples from the microfinance sector, the informal sector and a business correspondent using mobile phone technology.

Importance of money transfer systems for the migrant population

Access to money transfer services at economical rates by the vast majority of India's population would be essential for securing financial inclusion and also for reducing the dependence on non-banking and informal channels for remittance of funds (Reddy 2006). From a supply side point of view a vibrant payment system improves financial transparency. It brings cash into the banking system which would otherwise have been kept out of the system. This is especially significant in the Indian context, where, as per NCAER (National Council for Applied Economic Research) estimates, more than 90% of the consumer spending is handled on a cash basis - money which never enters the payment systems (Narayanamurthy 2006). Making informal money transfer formal must be supported by an inclusive payment system.

3.1 India's post

Generally, the Indian Post enjoys a good reputation and benefits from its high rural penetration and customer proximity. With its 1,55,204 post offices it can reach out to almost every address. About 130,000 branch post offices are on the ground level in villages, close to 20,000 are sub post offices on a block level, and 838 head offices are either on the district level or general post offices (on average 1-2 in every state) in metropolitan areas. Most of the staff working in the branch post offices in the villages and to a limited extend in the sub post office, i.e., 2.9 lakh in number, are part-time. Village post masters (Grameen Dak Sevaks) work on a part-time basis and provide accommodation for the post office in their residence. They are not transferred and therefore know their clients well.

Clients of the India Post can choose from three money transfer services: Electronic

Clearance Services (ECS), Instant Money Order (iMO) or single money order. However, only the latter option is of relevance to most migrating workers, who are not web-based and mostly unbanked. Under the single money transfer migrants can remit up to Rs.5,000. The few migrants, who have web access and send higher amounts, can also use the iMO to send between Rs.1,000 and Rs.50,000. In the first and more traditional case, the post man delivers the domestic transfer, which the remittance sender has placed at the post office to the doorstep of the remittance receiver. It is sufficient to mention the name and address on the form, the receiver does not require more than that. The remitter adds his/her signature or thumb marks to the completed form and gets a receipt for the amount remitted. Once the transfer has arrived, the sender receives an acknowledgement of the payment signed by the receiver.

Generally, reliability of the system is high, even though clients have reported cases of misuse of remittances. In Uttar Pradesh, for instance, a post man has admitted to having lent the remittance amount at an interest rate and then delivered it many weeks late. Of more concern than safety is the length of time taken for transfer. While iMO is safer and faster, it is accessible to few. One thousand seven hundred post offices are providing the service but only 54,000 iMOs were executed last year. The number of post offices providing iMO is planned to grow by 10,000 in the next years to cover 4,000 post offices. The traditional money order, on the other hand, is slower but easy to handle.

Financial services form 50% of the India Post's business. While it is overall not loss-making, most of its small scale products require cross subsidising. Ninety-nine million single money transfers worth Rs.8,000 crore were handled by the post office last year - that makes an average of Rs.800. Yet 60 to 70% of money transfers are below Rs.500, while break-even is only reached at Rs.4,000. The post office sees its service provision as a social responsibility (universal service obligation), but is taking care of its technology; it is planned to implement CBS (Core Banking System) in 4,000 post offices.

Despite its rural penetration and popular product, the post office is losing its market share in those areas where banks' services are reaching the clients in a safer, more discrete and more efficient manner. In the Ballia district of Uttar Pradesh, for example, banks with CBS and a growing number of ATMs have attracted post customers. Indications are that the post office has lost 30 to 40% of business in money transfers. Here the iMO is hardly being used. A similar observation was made in Beed, Maharashtra, where the head of the post office reported a 50% decline. Despite its effectiveness, the iMO is not a product that appeals to the masses because too few can actually make use of it. Oriyan migrant workers in Gujarat remarked that money order forms are not available in their mother tongue, neither can they be filled out in the same, making the product almost useless for migrants who do not speak Hindi, English or the language of the district (languages to be used on the money order form) and who are not helped to fill it out.

While international remittances work efficiently via the international money transfer, collaborating with Western Union/Money Gram Money Transfers, domestic remittance services lag behind. Despite declining business for the post office in money transfer services, Ghazipur's superintendent is hopeful. In a few years, he states, the post office will have picked up with their CBS and use of hand held services to reach remote areas. One hundred and sixty million clients are saving with the post office an amount of Rs.16,789 crore, which averages to roughly Rs.1,000 per account. There is a cap on how much an individual can save in the postal savings account. Small domestic savers (below Rs.1 lakh for an individual saver and below Rs.2 lakh for joint accounts) are subject to an interest rate of 3.5%.

3.2 Microfinance institutions - the case of adhikar in Gujarat

Adhikar, an NGO-MFI in Gandhidham, has formed an organisation called Shramik Sahayog, of which migrant workers can become members. Senders are Oriya migrants (migrants from seven blocks of Khurda, Puri and Nayagarh districts in Orissa, working in Gujarat (Gandhidham district). The remittance product is linked to compulsory saving accounts. The NGO charges 2% of the remitted amount.

Shramik Sahayog offers a recurring deposit account, where members must deposit at least Rs.100 per month. An interest rate of 6% p.a. is given, when a member has participated for at least one year. Withdrawals of Rs.100 are only permitted after one year. For remittances the amount must be topped up by the remitting amount. Staff of Shramik Sahayog collect money from the work sites and the migrant's colonies, or funds can be delivered to the organisation during office hours. The office in Orissa receives by email a statement of remittances and savings of the accounts from Gujarat and disperses the amounts to be remitted within 24 hours or, at the latest, 48 hours to the Oriyan receiving families (Ghate 2005).

3.3 The Business correspondent model

The Business Correspondent was proposed in 2005 as an outcome of the "Internal Group to Examine Issues Relating to Rural Credit and Microfinance", set up by the RBI and chaired by H.R. Khan. The business correspondent carries out activities within the normal course of a bank's business outside of the bank's premises.

Under the BC model the RBI permits banks to engage NGOs, MFIs set-up under the Societies / Trust Act, societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, Section 25 companies, retired bank employees, ex-servicemen, retired government employees (RBI circular 2008), and post offices as intermediaries in acting as business correspondents. Primary agricultural credit societies (PACS), often the only outlet for financial services in the rural areas, also qualify under the BC model. Following the recommendations of the

"Working Group to Review the Business Correspondent Model," which was set up by the RBI and presented its final report in August 2009, additional entities were granted permission to serve as business correspondents, i.e., individual kirana/medical/fair price shop owners, individual Public Call Office (PCO) operators, agents of Small Savings schemes of Government of India/Insurance Companies, individuals who own petrol pumps, retired teachers, and authorised functionaries of well run Self Help Groups (SHGs) linked to banks (RBI circular 2009).

The Business Correspondent (BC) essentially acts as an agent of its corresponding bank and takes financial functions that are within the normal course of the bank's business. Every BC is attached to a bank branch, the base branch, which supervises and monitors the BC. Different BC models have been initiated and are under implementation.

Some, like A Little World, Fino and Eko are focussing on technology. Eko Aspire Foundation (a section 25 not for profit), for example, functions as a business correspondent to the SBI. Eko India Financial Services Private Ltd. provides all the support services like technology, document management, data processing and call centre facilities. To reach out to the unbanked as an extension of SBI, Eko uses a mobile phone technology and 160 Customer Service Points (CSP). Currently they service around 2,500 customers in the NCR region. At each customer service point, e.g. a pharmacy, the designated and carefully selected CSP has a mobile phone which is connected to an account at simplibank, Eko's banking platform. A customer can, through a number combination/numeric password now open a bank account, deposit savings and withdraw savings at the CSP. For example: a customer deposits Rs.200; he/she physically hands over Rs.200 to the shop keeper, then through a number combination credits his or her own account, through another number combination/use of password the CSP debits his/her own account for the cash received, and the transaction is completed at the banking platform of the BC i.e., Simplibank. These transactions are merged with the CBS of the State Bank of India (SBI) at the end of the day. Confirmations are sent through sms and the number combinations are safely noted in a booklet, carried by the customer. For safety reasons the numbers can be used only once and include a pin code, that is shown as **** and only known to the customer. Within the Delhi region customers under this arrangement can even remit money to each other without approaching the CSP. Even though the procedures are simple and the amounts small, the Know Your Customer norms (KYC), i.e. due diligence and customer identification, as followed by SBI still apply. The client needs a proof of address (POA) in the Delhi region as well as a Delhi mobile phone number. While the approach works for some it does not for others, especially migrant workers. They have no POA of their destination, and often hold an election card for their home village. The strategy is still limited to one region and while the technology is easily extendible, the institutional set-up is not because to remit an amount to UP, Orissa or Bihar, for example, a CSP would have to be there to walk the last mile.

3.4 Family, friends and couriers

The majority of remittances are made through the informal or semiformal system. Together they account for an estimated 50 to 60% of all transactions. Friends and family are perceived to be the safest and most cost efficient remittances channels, because trust among peer groups is high. Although fraud is low, ambush and robbery have increased. Being chosen as money-carrier is apparently as much an honourable as a dangerous task. Thus, the effective cost of this channel is probably underestimated by users.

The courier or agent system operates as urban "pay-in-point". He telephonically informs the agent in the rural receiving end who then delivers. the money to the families. The cost is approximately 4 to 5% up to Rs.10,000 and 3% for amounts greater than Rs.10,000. Agents are closely linked to the local communities and highly entrusted with the money transfers. The relationship and business is extended through multiple services, e.g., selling of insurance products, savings schemes, and intermediate loans (purportedly free of interest). The working capital of the agent was reported to be Rs.1,50,000. Many of the small transactions are not cost-efficient.

Oriyan migrants in Gujarat, for example, trust the Tappawala with their remittances. The money courier receives around Rs.2,500 from his 200-300 clients each month. The Tappawala takes the collected money to a bank in Surat, issues a bank draft and recollects the amount in a bank branch in Berhampur, the main town in Ganjam, where the migrants originally came from. While the money is safe for most of the journey the first and last miles are a security concern. For three hours or between 80 to 100 kilometres, the Tappawala carries the cash with him. Robberies and ambushes are not rare. The Tappawala serves the better earning migrants; poorer ones, carry the seasonal earnings home themselves (The Hindu 2009).

4 Challenges for Effective Domestic Remittance Services

The opportunity to send money back to the family, at a particular point in time, is one of the principal goals of a migrant worker. The relatively higher rates paid for remittance services in the informal sector suggest that clients would be prepared to pay for a better service in the formal sector. The challenge lies in the availability of and access to banks, and in the acceptability of clients to these institutions. However, in order to service migrant workers adequately, the banking system and the India Post face institutional challenges. Furthermore, migrants suffer other forms of social exclusion at their destination points, as well as lack of acceptance in the banking environment.

4.1 The challenge of accessing formal financial services

Low-income families have great difficulties in opening a bank account, hence in accessing formal financial services. Working migrants in particular, often fail to produce the necessary documents at their destinations. Proofs of address, mostly an election or ration card, only state their address of origin, not the one of destination, and therefore migrants are hardly ever permitted to open a bank account at their destination. Not only does lack of proof of address form an obstacle, an additional problem lies in the inability to prove identity. Endeavours to produce identity cards have been undertaken in many areas and should continue. Such cards will help to facilitate access to social services and the financial system.

Under the "Know your customer" (KYC) norms, financial institutions must have relevant information on their customers and ascertain that the financial business is conducted in line with banking standards. It is a protective measure to avoid intentional or unintentional fraud, and to avoid money laundering and the financing of terrorism. It is also a risk management tool because it helps banks to understand their business better.

In operational terms, the KYC is a due diligence of the client. In a profile the bank registers. their customers' information, which generally includes verification of the customers' identity and address, their social and financial status, and the nature of their businesses. It is clear that rigorous KYC norms make access to the financial system difficult for the poor, and especially for migrants. Regulatory measures to support small customers through a relaxation in KYC norms have been put in place, but are almost not in operation.

The Reserve Bank of India (RBI) announced in its 2005-2006 mid-term review, that clients who do not intend to keep balances above Rs.50,000, and whose total credit in one year does not exceed Rs.1,00,000, should be subject to a simplified procedure to open a savings account. The RBI circular of August 2005 (RBI circular 2005), too, emphasizes that KYC procedures for clients in the low income groups should be simplified, because in most cases these clients are not in a position to present the documents required by banks. In these circumstances a client can now open an account under the above mentioned conditions, with regard to a balance below Rs.50,000, and credit below Rs.1,00,000 each year. In such a case there are two options for opening an account. Under the first option, the client finds an introducer who has passed the entire KYC procedure and has been an active account holder with "satisfactory transactions" for at least six months. The introducer then verifies the future client's photograph and address. Under the second option, the client can produce an alternative proof of identity and address which is to the satisfaction of the bank.

Even though the RBI has put regulations in place which are favourable for migrant workers, effective implementation of these regulations is not taking place. Changes on the policy level have been made accordingly; nonetheless, these modifications have not trickled down to the operational units of most banks. Even when a bank uses the business correspondent model as an extension of its branch network, it still is responsible for the KYC norms used, even though banks are encouraged to make use of the flexibility offered when dealing with small clients.

4.2 The institutional challenge

The network of India's banking system is vast, comprising private sector banks, public sector banks, foreign banks, urban banks, Regional Rural Banks (RRBs), state cooperative banks, central cooperative banks, and primary agricultural credit societies. Despite its size, the rural infrastructure, in particular, suffers from inadequate technology, low financial viability, and a lack of human resource capacities and capital.

Commercial banks, local banks and post offices each deal differently with rural penetration and often complement each other. After the post office, the cooperative banking system reaches out to the farthest customers. through its branch network. The provision of its services includes delivery of National Rural Employment Guarantee Scheme (NREGS) payments, pension payments, including widows' pensions. These transactions are carried out free of charge.

The delivery of comprehensive financial services, especially small remittances, even though in large numbers, poses a challenge to profitability and its risk management is cumbersome. Furthermore, branch expansion in remote areas is costly, infrastructure is lacking and human resource capacity is insufficient. Thus providing small and frequent financial services is a challenge for commercial banks and is perhaps more easily dealt with by locally rooted banks, like the RRBs, the District Central Cooperative Banks (DCCBs) or the Primary Agricultural Credit Society (PACS) or other contact points which can function as a business correspondent.

The sending of remittances through the banking system has benefited from technological progress. The growing number of core banking systems (CBS) and ATMs has facilitated a market share of the remittance market going to banks. If potential customers have a choice, then banks operating with CBS are more attractive to individuals looking for remitting services. Even low-income clients who do not like to enter intimidating bank premises choose to use a bank because of their ATM network. Furthermore, banks with CBS can function more efficiently.

The majority of the lower income clients who are banked and those who are the focus of the present study are mostly served by local banks, i.e., RRBs and cooperative banks. These generally have low or no computerisation, and an often unreliable power supply and limited connectivity. Local banks are strongly involved in government payments. In comparison to commercial banks, local banks may be more understanding towards the customer, and relate to them more closely in terms of customs and business ideas. However, without more efficient technology these banks face difficulties in serving the large number of the unbanked. As noted earlier, the proportion of the population who are unbanked is high - about 70% in rural areas, and cannot be reduced by technology alone, as this mostly benefits higher income customers. Mobile phones are an important innovation and can be used to track money delivery and serve as a proof of identity. Although, the use of technology can increase safety and reliability for customers it does not overcome the last mile, because people require cash. Therefore, low-tech solutions e.g. the use of agents, could be further explored.

The post office, though it accounts for the largest network in rural areas and is widely popular, is losing clients for its financial services and with its present systems in place, cannot assure a sound and fast system. Sixty to seventy% of remittances transferred through the post office are of a value below Rs.500. Hence it is difficult and too costly to monitor post masters at village levels, even though corruption and lack of privacy in remittance transfers are reported to be issues of concern to clients.

Safety is not guaranteed when sending remittances via friends and family. Robberies of private persons carrying remittances can be frequent. Often the remitters face a trade-off between safety and speed. Customers feel that this trade-off is best met by family and friends. But the real cost can be far higher than the cost perceived by customers. The price of informal remittance transfer varies and is often high.

With a network of 70,000 bank branches (of which approximately 30,000 are rural branches of scheduled commercial banks, including RRBs) and 1.5 lakh post offices, a supporting institutional framework and mechanism is in place. Nevertheless, an institutional approach together with the business correspondent scheme could allow financial institutions to extend their services further. The aim should be to reach out to all of India's 6,00,000 villages.

4.3 The social challenge

Banks can be intimidating, especially for the low-income population and migrant workers. Coming from small rural villages, many migrant workers try to send remittances from an urban bank branch. In many cases access is already denied by the security guard at the doorstep. Generally, a client wishing to execute a transaction below Rs.500 would not approach a bank. Even though Regional Rural Banks are meant to service these clients, they often do not. A recent paradigm shift in RRB policy is gearing the RRBs more towards the commercial banks. Hence they are increasingly seeking larger clients and imitating the supercilious behaviour of commercial bank staff that may be experienced by the rural low-income population. In addition, inhibitions are felt by migrant workers due to their financial illiteracy and their lack of awareness of available services.

Through various forms of social exclusion the migrant workers at their destination face increasing vulnerability. In the case of sickness, they can utilise their primary health centre in the village, but at their destination health care is not available. Without access neither to social welfare nor to formal financial services, the migrant relies on informal mechanisms and can be exposed to higher risk and fraud. Hidden costs can therefore be high. Greater social and financial exclusion is experienced in the urban context. In rural areas, at least a bank account can be provided by a local bank or a cooperative bank, even though these are mainly used for the availing of credit facilities.

5 Conclusion

There are many challenges to the effective operation of domestic remittance services in the country. These challenges exist at the regulatory, institutional and individual levels. Know your customer norms, though implemented through necessity and with the best of intentions, have the unintended consequence of excluding poor migrants from opening bank accounts. In recognition of these difficulties modifications to KYC procedures have been made but are yet to be implemented in practice.

India's financial sector is impressive in terms of scale and the diversity of institutions. Each type of financial institution has its own culture and characteristics, and level of ability to provide the frequent and often small value financial services required by poor migrants. The sheer size of the institutional sector, suggests that opportunities exist for achieving more effective remittance services, through innovations and improvements within the sector. These could take many forms e.g. through technology developments (bearing in mind these would need to be pro-poor) and business correspondent schemes, to name but two.

Finally, social challenges should not be underestimated. Poor migrants typically face different forms of social exclusion, not just financial exclusion. This can negatively affect how they perceive themselves, and how others, including banks, perceive them.

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Migrant Remittances and Financial Inclusion - A Study of Rickshaw Pullers in Delhi[1]

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Abstract

India is home to one third of the world's poor with second highest number of financially excluded households estimated at about 135 million. A majority of the urban poor are internal migrants employed in unstable occupations (rickshaw pulling, street vendors) in the unorganised sector. Migrants face hardships in remitting their earnings because they do not have a bank account both at the migrated place and their village, thus forcing them towards expensive informal sector. Financial inclusion drive calls for a conscious attempt to reach the vast numbers of excluded poor. As migrant workers are heterogeneous, little, if any direct information is available about the volume of remittances and the transfer mechanisms used by migrants. Given the migrant workers contribution to the urban economy, issues relating to migrant remittances assume significance for achieving financial inclusion.

The paper is drawn from a wider study about 176 rickshaw pullers in Delhi and explores the remittance behaviour based on primary data collected during August-October 2009. The results are instructive about the remittance behaviour of migrant pullers throwing useful insights about the potential market demand that exists for capturing this market by designing suitable products and thus moving towards financial inclusion of these migrant workers.

Migrants face hardships in remitting their earnings because they do not have a bank account both at the migrated place and their village, thus forcing them towards expensive informal sector.

Introduction

India is home to one third of the world's poor with second highest number of financially excluded households in the world,

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which is estimated at about 135 million. In India, 26% of the poor reside in urban areas and during the decade between 1993-94 and 2004-05, urban poverty has increased by about 5.8%. A majority of the urban poor are internal migrants employed in unstable occupations (rickshaw pulling, rag picking, domestic helps, and street vendors) in the unorganised sector and work and live with meagre incomes that barely meet their subsistence needs. Internal migration is a major source of support for poor families living in backward and underdeveloped areas because migrant remittances is a primary means for managing a family's well being, to smooth consumption and to meet other needs. Though the true extent of internal migration within India is unknown, 2001 Census of India indicates that less than 17% of men live in a location different from their place of birth and from 1991 to 2001, migration from rural to urban areas among inter-state migrants showed an increase of nearly 5.6 percentage points in case of male migrants and 3.3 percentage points in case of female migrants.

The financial needs of the urban migrants remain largely unaddressed due to their uncertain and mobile habitat, unstable livelihoods, uneven income flows, weak social links, lack of homogeneous culture among urban poor dwellers and the appropriate eco processes to achieve financial discipline among the urban poor. Formal banking system shuns the urban poor migrants due to their transient nature. The predominantly urban migrants face hardships in remitting their earnings back home because they do not have a bank account either at the migrated place or at their home village. Besides, they do not have identity papers either from their home village or their current place of dwelling. As a result, urban migrants are forced towards expensive alternatives in the informal sector. However, urban poor are bankable is reflected by how informal financial markets understand their needs and offer the urban clients what the formal market does not.

Enormous volumes of remitted earnings move between regions by different mechanisms. Also, urban migrants lack reliable mechanisms of remitting their earnings to their homes in rural areas, where cheap and prompt remittance services are often not only unavailable (post offices are both costly and time consuming) and the informal systems (friends/relatives) are both unreliable and unsafe. Unfortunately, formal banking channels are largely inaccessible for migrant population due to their inability to fulfil KYC norms for opening bank accounts. Research demonstrates that remittance flows/ senders and recipients remain outside of the financial system as they use only the remittance windows (post office) without opening any formal accounts. In Mumbai, remittances account for much of the £ 126 million sent using money orders from the Mumbai post office to Uttar Pradesh, Bihar and West Bengal (Deshingkar, 2006).

India's financial inclusion drive calls for a conscious attempt to reach the vast numbers of excluded poor in order to promote more inclusive growth in India. However, achieving financial inclusion of excluded population depends on, inter alia, building a systematic data base about these vulnerable urban poor for different sections, regions and occupations. Though unorganised sector workers is a subject matter of various studies in India, an examination of financial behaviour of vulnerable migrant urban poor households that can provide crucial insights into their financial needs and requirements is specifically lacking.

Delhi is considered India's urban magnet. According to a recent estimate, 665 persons migrate every day to Delhi, which is a number that far exceeds migration in Mumbai, Bangalore and Ahmadabad put to together. The incidence of rural -urban migration in Delhi has shown an increase in 2001 compared to earlier two decades. According to the 2001 Census, nearly 43%of Delhi's population were migrants. A vast majority of the migrant population are employed in the unorganised sector in Delhi. As migrant workers are both heterogeneous and employed in unstable occupations, little, if any direct information is available about the volume of remittances and the transfer mechanisms used by migrant workers in Delhi. Given the fact that migrant workers contribute essentially to the urban economy, tackling issues relating to migrant workers' remittances assumes significance in the context of financial inclusion initiatives of the Indian Government.

Rickshaw pullers are a sizeable group of migrant workers in Delhi. There are varying estimates about the number of rickshaws plying in Delhi. One conservative estimate pegs the number of rickshaws plying in Delhi at over 6,00,000; another independent estimate indicates that there are 9,00,000 cycle rickshaws on Delhi roads. Despite the fact that licenses have been issued only to about 75,000 to 1, 00,000 rickshaws, rickshaw pulling sector offers employment to an estimated 50 -60 lakhs people (including thousands of small scale manufacturing units, mechanics) who are dependent on rickshaws for a living in Delhi.

Existing research studies on rickshaw pullers in Delhi relate to social, legal, regulatory aspects but little is known about the money management behaviour of this financially excluded migrant group. The present paper is drawn from a sub set of a wider study which explored the financial behaviour of cycle rickshaw pullers in terms of their needs, their choices and the constraints faced by them in managing their money and livelihoods. Therefore, the results presented in this paper are snapshots and are instructive about the remittance behaviour. The findings throw useful insights about the existing potential market demand for remittances. More importantly, results show that the formal banking sector can capture the migrant remittances market by designing suitable and flexible remittance linked financial products which can pave the way for financially including the unbanked migrant workers.

Research Objective

Based on a wider study on the financial behaviour of rickshaw pullers, the present paper aims at exploring specifically at the remittance behaviour of rickshaw pullers in terms of the choices used, the reasons thereof with respect to their modes used and the constraints faced; it also explored the level of awareness about transfer mechanisms available for remittances.

Research Methodology

Sample

The material for this paper is based on primary data collected from from four districts in Delhi (Central, West, North and South Delhi) during August - October 2009. The sample for this study consisted of a total of 176 rickshaw pullers, who were randomly selected from major areas of operations of rickshaw pullers in the 4 districts.

Methods

The study used a combination of methods for eliciting information about various aspects of money management behaviour of rickshaw pullers including strategies, choices, and constraints faced in remitting their earnings from Delhi to their places of origin. Structured in-depth questionnaires were administered to randomly selected rickshaw pullers from 19 areas in Delhi including Karol Bagh, Patel Nagar, Pahad Ganj, Ajmeri Gate, Moti Nagar, Kirti Nagar, Uttam Nagar, Tilak Nagar, Rajouri Garden, Shakti Nagar, Subhash Nagar, Lajpat Nagar, Defence Colony, Kotla Mubarakpur, and Andrews Ganj. Focus group discussions with clusters of 4-6 rickshaw pullers, case studies and key informant interviews (with rickshaw owners, mechanics, and users) supplemented the data base for the study.

Table 1: Background Profile of Rickshaw Pullers (N=176)

Demographic Variables	Number (N)	Mean	Percent
Age (in years)	176	36	100
> 50 years	28	57	16
40 – 49 years	33	43	17
30 – 39 years	54	34	31
20 – 29 years	57	24	32
< 18 years	4	18	2
Marital Status			
Married	152		86
Not Married	20		12
Single	4		2
Education			
Illiterate	85		48
Primary School	34		19
Middle School	31		30
High School	25		2
Under graduation	1		1
Religion			
Hindu	137		78
Muslim	35		20
Others	4		2
Caste			
Upper Caste	34		19
Backward Caste/OBC	75		42
SC/ST	30		17
Other	37		21
Assets			
Own Land	88	< 3.5 bigha	50
Land less	88		50
Other Assets (Fan, wristwatch, Radio, Clock, TV)			
Yes No	16 160		9.1 90.9
Mobile Phone Yes No	 37 139		 21.02 78.98

Findings

Demographic profile of the sample

Table 1 shows the demographic background of the sample respondents. On average, rickshaw puller in the sample was 36 years old. Educational background indicated that nearly half the sample (48%) was illiterate and 30% and 19%of the sample pullers had been to middle and primary school respectively. While 50% of the sample respondents were landless, remaining half of the sample had some land which was less than 3.5 bigha. However, 91% of the sample held no other assets though 21% of the sample respondents had a mobile phone.[2] Social composition of the sample showed that a high proportion of the sample respondents (59%) were from backward castes, OBC, and SC/ST groups.

Table 2 shows the regional wise classification of the sample respondents. Nearly 51% of the sample respondents were from Bihar, followed by Uttar Pradesh (26%), Madhya Pradesh (11%) and the remaining 12 % were from other states.

Table 2 Place of Origin of Rickshaw Pullers

Serial Number	Place of Origin of Sample Respondents	Number (N)	Per Cent
1.	Bihar	89	50.57
2.	Uttar Pradesh	45	25.57
3.	Madhya Pradesh	19	10.8
4.	Maharashtra	8	4.55
5.	West Bengal	6	3.4
6	Delhi	5	2.84
7.	Haryana	1	0.57
8.	Orissa	1	0.57
9.	Punjab	1	0.57
	Total	176	100

Migratory Profile and Other Characteristics

A peek into the background of rickshaw pullers in terms of their personal, migratory profile and other characteristics reveal to us their living and working conditions in Delhi.

97% of the sample respondents were migrants and the rest were residents. Of these, nearly 47% had migrated to Delhi more than a decade ago while 49% had migrated to Delhi in the last one decade. It was found that rickshaw pullers in the sample migrated to Delhi for varying months in a year. For instance, 28% respondents migrate to Delhi for 10 months; 18% are lifetime migrants and work as rickshaw pullers for nearly 12 months with short spells of break taken to visit their families in the village; 19% migrate for 8 months, 14% migrate for 5-6 months and 21% are seasonal migrants working for 2- 4 months in a year in Delhi. On average, the sample respondents had been in Delhi for 14 years.

The sample respondents had been pulling rickshaw on average for 10 years and the minimum and maximum duration of rickshaw pulling was 4 months and 40 years respectively. 62% of the sample had always been pulling rickshaw since they migrated to Delhi while 38% shifted to rickshaw pulling from other activities (casual wage labour, blue collar work, self employed) for various reasons. 95% of the sample respondents were engaged in rickshaw pulling as a full time occupation and 5% were part time rickshaw pullers. 69% of the sample pulled rickshaw for 8 - 10 hours in a day and 31% for 5 - 8 hours in a day. While 55% of the sample worked all the 7 days in a week, 45% worked only 6 days in a week. 94% of the sample respondents hired rickshaws and only 6% owned a second hand cycle rickshaw.

Living conditions of the rickshaw pullers in Delhi are dismal. It was found that 32% of the sample respondents are homeless and they stay on public spaces (foot paths, abandoned ruins, roadsides), 27% stay in juggi jhopdi in unauthorised colonies settlements and 40% were found to be staying in shared rooms in congested areas in Delhi with little or no facilities for sanitation. 64% of migrant pullers lived alone in Delhi and 36% lived with wife and children and or extended family. 48% used common public conveniences by paying user charges and 28% used public spaces for their sanitation needs.

It can be discerned from Table 3 that on average, the household size of nearly the entire sample respondents (95%) was six (6). In terms of personal identification papers, most of the sample respondents in our study had neither a voter's ID nor a ration card in Delhi (Table 3); similarly at the place of their origin (village), while 47% had ration card, 51% had voter's ID card and 40% of the sample had a BPL card as identi-fication. In effect, most of the rickshaw pullers had a major constraint in terms of no identifying documents with them for accessing any kind of opportunity either in the place of their origin (village) or place of destination (Delhi).

Table 3: Domicile and Personal Identity Proof of Respondents

Variables	Number (N)	Per Cent	Mean	Mini-mum	Maxi-mum
Number of years in Delhi	176	100	14	0.4	65
Household Size/ Dependents	168	95.5	6	1	19
No Response	8	4.6	-	-	-
Identity Proof at Delhi					
Ration card					
Yes	20	11.4			
No	156	88.6			
Voter's ID card					
Yes	22	12.5			
No	154	87.5			
BPL Card					
Yes 13	7.4				
No	163	92.6			
Identity Proof at Village					
Ration card					
Yes	83	47.2			
No	93	52.8			
Voter's ID card					
Yes	89	50.6			
No	87	49.4			
BPL Card					
Yes	71	40.3			
No	105	59.7			

Occupational Characteristics of Rickshaw Pulling

The sample respondents in our study pulled on average 14 rides[4] in a day, with minimum and maximum rides ranging between 11 and 16 on a normal day. Rates charged for short, medium and long distances on average, stood at Rs.10, Rs. 15 and Rs.30 for pulling passengers only. While majority pulled passengers only, pulling consignment of goods is not uncommon and rates vary depending on nature, bulk of goods and distance commuted. An examination of the economic aspects of rickshaw pullers is taken up in the following section. Table 4 presents the potential earnings made by rickshaw pullers in the study.

Income from Rickshaw Pulling

In terms of earnings of sample respondents, estimates of gross earnings and net earnings of rickshaw pullers is shown in Table 4. 'Gross earnings' was defined as the earnings of the day and 'Net earnings' was defined as gross earnings minus rent for rickshaw and daily expenses in the study. On average, while the gross earnings for a day was Rs.179; average net earnings was Rs.91 as reported by 90% of the sample and 7% of the sample respondents reported 'zero' net earnings at the end of the day.

Table 4: Daily Earnings from Rickshaw Pulling

Daily Earnings (In Rupees)	N =176	Per Cent	Average Daily Earnings	Total Earnings Daily	Minimum (In Rupees)	Maximum (In Rupees)
Gross Earnings	176	100	179	31460	75	500
Net Earnings	159	90.34	91	14426	10	250
Nil Net Earnings	17	9.66	0	0	0	0

Table 5 shows the notional estimates of monthly earnings of the respondents in our sample. This is derived from the estimates of daily earnings recalled by the sample respondents for previous 7 days' earnings. It can be seen from Table 5 that the average monthly gross earnings reported by 28% of the sample respondents stood at Rs.3,398 and the average monthly net earnings reported by 69% of the sample stood at Rs.2,348.

Table 5: Monthly Earnings from Rickshaw Pulling

Monthly Earnings (In Rupees)	Number (N)=176	Per Cent	Average Monthly Earnings	Total Earnings (for a month)	Minimum (In Rupees)	Maximum (In Rupees)
Gross Earnings	49	27.84	3398	166480	500	7480
Net Earnings	121	68.75	2348	284160	80	5600
No Response	6	3.41	-	-	-	-

In terms of the total earnings generated for a month by the sample respondents, estimates given in column 5 are instructive about the potential monthly earnings of the rickshaw pullers in the sample. While the total gross earnings for a month for 28% of the sample was Rs.1,66,480, the total net earnings for a month for 69% of the sample was Rs.2,84,160. Estimates of earnings (daily and monthly) of the sample respondents given in Tables 4 and 5 are illuminative about the potential earnings that are made on a normal day by the sample respondents as well as the potential gross and net earnings that are generated in a month by the rickshaw pullers sampled in the study.

Internal Migrants and Remittance Behaviour

Given the fact that migration rate in India is on the increase (from 27.4% of the population in 1991 to 30.0% in 2001), remittances form an important source of reducing vulnerabilities of the poor through consumption smoothing, reduction of liquidity constraints and reduce poverty. The following section looks at the remittance related behaviour of the rickshaw pullers in the sample. Table 6 indicates the responses of the sample respondents on some remittance related questions.

It was found that 81% of the sample respondents remit money to their families. Frequency of remittances indicate that 34% of the sample remit every month; 22% sample respondents send money home as and when needed; 10% sample respondents send every three months; another 10% send money home 'as and when needed' at home as well as 'when they have surplus money'. Table 6 also indicate that remittances are sent on weekly, fortnightly, bi-monthly and half yearly intervals in the same order as given.

Table 6: Frequency of Remittances

Responses on Remittances By sample respondents	Frequency (N)	Per Cent
Do you send money home?		
Yes	142	80.68
No	34	19.32
Remittance sent to:*		
Wife/family	74	42.05
Parents	70	39.77
Relatives (daughter/in-laws)	12	6.82
Frequency of remittance:**		
Weekly	3	1.70
Fortnightly	2	1.14
Monthly	59	33.52
Every three months	19	10.80
Every two months	9	5.11
Half Yearly	2	1.14
As and when needed	38	21.59
When I go home only	13	7.39
When I have surplus only	4	2.27
No remittance, no response	35	19.89
Annually	1	0.57
Total	185	>100

* Remittance sent to more than one recipient.
** Total >100 % due to multiple choice

Table 7 illustrates the amount and volume of money sent by the sample respondents in their last remittance prior to the interview period as well as the frequency of remittances sent by the sample respondents in the last one year. Table 7 reveals that 127 (72%) of the sample respondents remitted on average 7 times in the last one year; and the minimum and maximum frequency of remittances was found to be 1 and 32 times respectively.

An examination of Table 7 shows that while average amount of money sent in the last remittance was Rs.2,712, the total amount of money sent in the last remittance was Rs.3,77,000 by 79% of the sample. Minimum and maximum amount of money remitted in the last year was Rs. 1,534 and Rs. 2,908 respectively for 80% of the sample.

Table 7: Volume of Remittances by Frequency						
Frequency, Amount, Volume of remittances by sample respondents	(N)	Per Cent	Average (in Rs.)	Total Amount Remitted (Rs.)	Minimum (in Rs.)	Maximum (in Rs.)
Frequency of remittance sent in the last one year:	127	72.16	7	-	1	32
No Response	15	8.52	-	-	-	-
No Remittance	33	18.75	-	-	-	-
How much was sent by you in the last remittance home?	139	78.98	Rs.2712	377000	100	13000
What is the minimum amount sent in the last one year?	141	80.11	Rs.1534	216300	100	6000
What is the maximum amount sent in the last one year?	141	80.11	Rs.2908	410050	200	13000

A total of minimum and maximum money remitted in the last one year by 80% of respondents in the sample stood at Rs.2,16,300 and Rs.4,10,050 respectively.

These notional estimates of remittances sent through informal services by rickshaw pullers in the sample are instructive about the potential volume of remittances sent by migrant pullers to their families on a regular basis to their villages. The fact that informal mechanisms flourish underscores not only the need and demand for remittance services but also there is a significant need for flexible, quick, safe and doorstep remittance services.

If we could project the potential scenario of an aggregated market demand for remittance services by rickshaw pullers in the city of Delhi, it can open a vast door of untapped remittance market for the formal financial institutions. Assuming for instance, at a conservative estimate, if 33% of 6,00,000[5] were to remit a minimum amount of Rs.1040[6], the potential remittances runs into several crores of rupees. Unfortunately, there is no specific market survey or study that exists about the potential remittances of urban migrants in Delhi. Indeed, the gain of 'informal remittance providers' is the loss of formal financial system. Thus, the absence of formal remittance services results in 'financial exclusion' of vast majority of the urban poor rickshaw pullers, who are forced to depend on informal mechanisms. Left to themselves without any support from the government or formal financial sector, poor rickshaw pullers have been remitting their money with the aid of unregulated informal mechanisms. Informal remittance services like 'courierwalas' serve lakhs of migrants in the city and play an important role in the financial behaviour of these urban poor, notwithstanding the fact there is leakage of crores of money out of the formal financial sector.

Table 8 exhibits the volume of money sent in the last remittance by frequency of remittances. A glance at Table 8 reveals the status of remittance patterns of the sample respondents. In terms of frequency of remittance, volume of money sent by the sample respondents on a 'monthly' basis ranks on top of the list, followed by remittances sent on 'as and when needed', 'every three months', 'every two months' and 'when I go home categories'. An analysis of the remittance pattern by monthly category shows that 34% of the sample respondents remitted every month on average

Table 8: Volume of money sent last time by frequency of remittance

	Number (N)	Per Cent	Average (Rupees)	Total (Rupees)	Ranking of Total money remitted	Minimum amount (Rupees)	Maximum amount (Rupees)
Weekly	3	1.70	900	2700	8	700	1200
Fortnightly	2	1.14	1250	2500	9	1000	1500
Monthly	59	33.52	2078	122600	1	100	5000
Every three months	18	10.23	3267	58800	3	200	13000
Every two months	9	5.11	4444	40000	4	1500	10000
Half Yearly	2	1.14	1000	2000	10	500	1500
As and when needed	30	17.05	3393	101800	2	600	12000
When I go home only	11	6.25	3245	35700	5	1000	10000
When I have surplus only	4	2.27	1475	5900	6	200	3000
Annually	1	0.57	5000	5000	7	5000	5000
No Response	35	19.89	-	-	-	-	-
Total	139*	78.98	2712	377000	-	100	13000

*Refers to the remittance sent for one option in the frequency and not to multiple choices

Rs.2,078 to their families in the village and the total remittance sent by 59 sample respondents stood at Rs.1,22,600 in a month. 17% of the sample remitted on average Rs.3393 as and when the money was needed at home and the total amount remitted under this category was Rs.1,01,800 sent by 30 out of 176 sample respondents. Remittance sent every three months is ranked third in terms of the total money (Rs.58,800 by 18 sample respondents) and remittance sent every two months is ranked next with a total remittance amount of Rs.40,000 by 9 sample respondents; and followed by other frequency categories.

The results of the remittance patterns, amount remitted and volumes of money remitted by the sample respondents is illustrative of the potential market for remittances that can be captured from the rickshaw pullers, which is one of the large migrant groups that exists in Delhi and is a huge monetary reservoir for takers in the financial market in Delhi. In this context, Dr. D. Subbarao, Governor, Reserve Bank of India admitted that "Although there are no firm figures, I have been told that thousands of crores of rupees of remittances take place across the country today, predominantly from migrant labour, and over ninety per cent of this happens through non-formal channels. If banks can capture even half of this into their fold, they will not only reduce costs for the labour making remittances but they will also have the advantage of an enormous, permanent float" (2009)

In the following Table 9, the different channels of remittance used by the rickshaw pullers in the sample are presented.

It is clear from Table 9 that informal channels of remittance are predominantly used in comparison to formal channels by the rickshaw pullers in the present sample. Among the informal channels, migrants in Delhi remitted through an informal 'hawala' system popularly known as 'courier or courierwala' and 43% of respondents were found to be using this channel in the present sample. Hand carriage of cash earnings though risky is the second channel used by 25% of the sample. 20% of sample respondents also sent money through fellow villagers when they travelled homewards. Among the formal channels used, transmission of funds through a bank account of relative/friend was used by 7% of the sample and another 9% sent money through post office.

Table 9: Channels used for Remittance

Remittance Channels	Number (N)	Per Cent
Courier / courierwala	75	42.61
Take money personally	44	25.00
Sent through fellow villager	36	20.46
Transfer into bank account of	12	6.82
Relative/friend		
Money order/postal order	15	8.52
Total*	182	>100

*Total is greater than 100% due to multiple choices

It would be pertinent to note here that when the field work was progressing initial pointers indicated that a high percentage of rickshaw pullers in the sample were dependent on the 'courierwala' as a favoured channel of remittance transfer. Therefore, when the researcher probed about the mechanics of operation of this informal (hawala) channel, there was understandably high reluctance, hesitation and suspicion about our motivation to understand the system as well as our request for meeting the 'courierwala'. As this aspect was not under the ambit of our main focus, this issue was not pursued but it would be highly useful to study this 'courierwala' system in a future study.

As remittances by migrants is an important route for smoothing irregular incomes, consumption smoothing, coping with shocks and reducing vulnerabilities, migrant workers look for safety, speedy delivery and reduction of transaction costs in sending money to their families. In this respect, 'courierwala' is preferred by a sizeable proportion of rickshaw pullers in the sample. For instance, among the reasons for preferring to remit money through a 'courierwala', (see Table 10) safe to remit and timely delivery were regarded as most important reasons, followed by trust in courierwala because he is more often than not, from the respondents' state/village. Also the courierwala system was found to be simple with no paper work involved. Additionally, this system was considered convenient in depositing money for remittance because courierwala offers door step service by picking up the money at suitable locations closer to the area of operations of rickshaw pullers. This greatly reduces the transaction cost of sample respondents.

Among other reasons for preferring this channel was frequent availability of services of courierwala both at collection (Delhi) and remittance points (village), which facilitated in sending money even during emergencies and exigencies at short notice.

Table 10: Reasons for Remitting through Courierwala

Reasons for preferring to send money Through *'Courier wala'* Through *'Courier wala'*	Number N = 75	Rank	Per Cent*
He collects money at door step	47	3	63
I deposit at some collection points	28	5	37
Timely Delivery	69	1	92
Minimum / No Paper work	51	2	68
Safe to remit	69	1	92
Courierwala is from my state/village/nearby villages	51	2	68
Frequent Availability of service at village and Delhi	30	4	40
Retains Confidentiality of amount spent	10	6	13
Less expensive compared to post office	5	8	7
Don't know how to send otherwise	8	7	11

*Per cent rounded off; Per cent >100 due to multiple choice

Table 11 reveals the duration of time taken for funds transfer through 'courierwala'. Respondents emphatically stated that there was hardly any difference between normal and fast delivery time taken by 'courierwala' to deliver money to their families. This can be verified from the above table with two small differences. One, the average time taken for fast delivery was 4 hours and 6 hours for normal service. Two, in some exceptional cases or situations (inclement weather) normal delivery time could take up to 3 days.[7] On average, the commission was fifty rupees for every one thousand rupees but the rates varied between 40 rupees and 50 rupees for every one thousand rupees remitted. Though the commission was considered on the higher side, the respondents felt more than compensated because of safe, fast and convenient services provided by the courier system. This was confirmed in our focus group discussions as well where the discussants argued that it is a safe way of remitting money because the 'courierwala' is a recognised person hailing from their village or /state and hence, there was no fear of loss of money.

Table 11: Delivery Time and Service Charges taken by Courierwala

Delivery Time, Rates for remittance Through 'courierwala'	Number (N)#	Per cent	Average	Minimum	Maximum
Normal Delivery Time					
Number of Hours	34	45	6	1	24
Number of Days	20	27	1	1	3
Fast Delivery Time					
Number of Hours	42	56	4	1	24
Number of Days	13	17	1	1	1
Commission for Remittance					
Rupees per 1000	55	73	50	40	50
No response	20	27	-	-	-

Responses do not total to N=75 because we omitted those responses which stated delivery time as 'immediate within 5-15 minutes only'

Reasons for preferring other informal channels

86% of respondents reported that a major reason for taking money personally home was that it enabled them to go home during emergencies when their physical presence was required as well. Fear of loss of money through other channels was another reason stated by non-negligible per cent (20%) of sample respondents. Table 12 shows other reasons for using this channel for taking cash home.

Table 12: Reasons for hand carrying cash home

Reasons for taking money personally	N = 44	Per cent*
Emergencies	38	86.36
Scared to remit through any other method	9	20.45
Don't know safe way to remit	8	18.00
Keep going home every alternate month	4	9.00
Expensive to send through money order	2	4.50

* Responses add to > 100% due to multiple choices.

Awareness about formal remittance mechanisms

Inquiry into awareness about formal remittance mechanisms indicated very low levels of awareness about bank draft and electronic money transfers. However, awareness about transfers through post office (money order) was fairly high at 47% but many anecdotal incidences in the survey indicated that it is not a trusted channel both for its time duration and cost of transfer.

Table 13: Awareness about Formal Channels

Awareness about Formal Remittance Mechanisms	Number (N)	Percent
Bank Draft		
Yes	30	17.05
No	146	82.95
Post Office		
Yes	82	46.59
No	94	53.41
Electronic Money Transfer		
Yes	24	13.64
No	152	86.36

Financial inclusion of rickshaw pullers: barriers

The above analysis brings to the fore that rickshaw pullers in the study remit money predominantly through informal remittance services / arrangements because they have been excluded by formal regulated system.

Evidently when the available alternatives for financial services is studied in the context of marginalised and financially excluded groups like these migrant pullers, the scenario is riddled with a number of problems - chief among them are various entry barriers that come in the way of their financial inclusion. The present paper gleans out from the lives of sample rickshaw pullers the various entry barriers at four levels - social, economic, personal and market and systemic[8] - all of which work in tandem to financially exclude the disadvantaged and marginalised migrant rickshaw pullers. Table 14 provides a bird's view of the different barriers that come in the way of financially including the urban migrant pullers. These entry level barriers are inter-connected and perpetuate their financial exclusion. The biggest challenge for migrant pullers comes from their inability to comply with 'Know Your Customer' norms which require valid proof of local identity and place of residence in Delhi.

Table 14: Barriers to Financial Exclusion of Rickshaw pullers

Social	Personal	Economic	Market/systemic
1. Mobile habitat and homelessness 2. Lack of homogeneous culture 3. Largely from Socially and economically backward castes 4. Low occupational status 5. Feeling of hopelessness and lack of confidence 6. Lack of guidance and social isolation	1. Low levels of literacy 2. Lack of awareness 3. No personal identity in migrated place (Delhi) (No voter's ID or Ration Card). 4. No Address Proof in Delhi 5. Lack of identity at the place of origin for nearly 50% of sample pullers. And no banking history 6. Lack of time due to nature of livelihood.	1. Low, irregular and unpre-dictable income streams 2. Landlessness 3. Nil or low assets base 4. Low value cash and high volume transactions 5. Lack of financial literacy 6. Lack of awareness about formal alternatives (banks)	1. Lack of access to formal services 2. Exclusion due to KYC norms 3. Insensitive bank staff 4. Disconnect between bank's concern for inclusion and field level efforts. 5. Lack of suitable financial products to suit their needs

Concluding observations

Despite their mobile habitat and unstable earnings, the migrant rickshaw pullers in the study demonstrate they are bankable. This is evident from the findings of the study about the potential remittances that are sent by the sample respondents. Results indicate that there is a vast untapped market that exists for remittance services. As remittances by migrants is an important route for smoothing incomes and consumption smoothing, coping with shocks and reducing vulnerabilities, migrant workers look for safety, speedy delivery and reduction of transaction costs in sending money to their families. Hence, remittance behaviour of rickshaw pullers demonstrates that they use informal channels which offer them services not only at their door steps but also is simple, flexible, fast and reliable in general.

If vulnerability of the poor is to be reduced, providing them a reliable, secure and safe mechanism to remit and access other financial services is a critical need highlighting that the rickshaw pullers and other similar urban poor migrants need access to 'banking services'. As the number of informal workers is estimated to be 85% of the total workforce in the Indian economy, financial services of the required nature can be provided at scale through the formal banking sector. However, there are number of key challenges that need to be surmounted to enable disadvantaged and marginalised migrant groups to become part of the inclusive growth in India.

Some of these key challenges are: i) small value and high volume cash transactions of migrant rickshaw pullers; ii) flexible and doorstep provision of banking services; iii) lack of valid proof of local identity due to their mobile habitat; iv) Lack of awareness about benefits of a bank account.

On the aspect of identification of the migrant rickshaw pullers, it is imperative that the policy on KYC norms should be relaxed especially with migrants who would be greatly benefited to open bank accounts for savings and remittance facilities. Other critical measures that can go a long way in financial inclusion are - willingness of banks and sensitisation of bank staff, specialised customer acquisition team to link the excluded urban poor migrants and financial literacy and handholding[9] of excluded segments by civic society - all this would prepare them better with required documents to convince banks to open accounts (Srinivasan, 2010). Access to financial services for the poor requires a different outlook and innovative remittance linked financial products suitable to these poor rickshaw pullers. In this respect, technology holds the key to further the process of financial inclusion of migrant workers in the informal sector like rickshaw pulling. Technology can facilitate access to financial services in a cost effective manner due to the presence of sheer large number of urban migrants in metropolis like Delhi. Since technology can be the driver in achieving low cost solutions by tapping the high volume migrants remittance market, a number of initiatives in branchless banking using smart cards, biometric cards, business correspondent model, mobile banking are underway. Many banks are experimenting with the use of technology (mobile phone) through the route of business correspondent model (case in point is a synergy between State Bank of India and EKO Technologies in Delhi) for provision of financial services. What is crucial for integrating the disadvantaged and excluded rickshaw pullers into the inclusive growth path is that the banking sector should seriously strategise to cater to this large untapped migrant market segment. There is profit at the bottom of the pyramid and it is the right time to get the right business models and innovative products which fits the different segments of urban poor migrants.

Notes

1 The paper utilises primary data generated for a study on 'The Urban Poor and their Money: A Study of Rickshaw Pullers in Delhi' which was funded by the Institute of Money, Technology and Financial Inclusion , University of California, Irvine. The author is grateful to IMTFI for permitting to use this data for this paper. A special word of thanks to Prof. Bill Maurer, Director, IMTFI for his ever generous help and encouragement to present preliminary findings before submission of the project report.

2 However, not all these respondents had mobile phone in their personal possession with them but they indicated that it was held by a member of the family in the village (wife, parent, son, and sibling) for quicker and easier communication with the family.

3 'juggi' refers to a shack.

4 Rides pulled include short, medium and long distance rides.

5 In the present study 33 percent of sample respondents remitted every month; and as per an independent estimate the number of rickshaw pullers in the city is not less than 6, 00,000. Therefore, potential remittances sent by rickshaw pullers in Delhi are estimated hypothetically based on these two notional figures.

6 Assuming on a lower side, only one half of Rs.2,078 which is the average amount remitted on a monthly basis by 33% in the sample (Refer Table 8).

7 However, this was observed by only two of the respondents in the sample.

8 Market and systemic barriers to financial inclusion are known and identified in a number of studies.

9 Some NGOs and MFIs like Gramin Vikas Trust in Jhabua and Ratlam Districts of Madhya Pradesh and Dahod and Panchmahal districts of Gujarat, Aajeevika Bureau in Udaipur have been working with migrants and provide many migrant support services including registration and identity and intermediating between service providers like banks, insurance companies, etc.

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Remittance Options of Rural Migrant Worker: A Case Study of Workers Engaged in Construction Works

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The best possible solution to the problems relating to remittance of the migrant workers would be to facilitate every household to have one Saving Bank account with any bank having CBS or have an arrangement with a bank with CBS facility.

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Abstract

Migration of workers from the place of their domicile to another destination is influenced by a set of factors which are specific to person, region, prevailing circumstances, geo-political conditions of the region and the country, etc., of both the place of domicile as well as the new destination. The sample includes 97 workers temporarily migrated from different states of the country to Lucknow and engaged in various activities like, construction, electric fittings, plumbing, maintenance of colony, etc. The study found that the 'hand carrying' is the most popular method of remittance (61.2% of total money remitted) amongst the migrant workers followed by sending money through friends/ relatives and other known persons (18.0% of the total money remitted). Remittances through banks was found to the tune of 11.1% of total money remitted by the sample workers. The study concludes that the best possible solution to the problems relating to remittance of the migrant workers would be to facilitate every household to have one Saving Bank account with any bank having CBS or have an arrangement with a bank with CBS facility. However, till this option become a reality, as an alternative model and an intermediate step, all the telecom companies may be convinced to facilitate remittance through mobile banking where the mobile with the migrant workers may be charged with any amount and transferred to the mobile of the recipient which can be encashed at the authorised counters of the telecom companies.

Introduction

Migration of workers from the place of their domicile to another destination is a very complex phenomenon and is motivated by a set of factors which are specific to person, region, prevailing circumstances, geo-political conditions of the region and the country, etc. of both the place of domicile as well as the new destination. Normally the migration has been observed to be taking place from a comparatively less developed centre/ region to a more developed centre/ region. Factors encouraging migration can be divided into two categories, viz., 'pull' and 'push' factors. The pull factors or factors attracting the migrant workers include increasing industrialisation and consequent increase in demand for labour, wage differential between local/destination (for migrating labour) and exporting/ source countries (home country of migrating labour), standard of living, better employment opportunities and livelihood options in formal as well as informal sectors, scope for self-employment, etc., for all types of workers viz., from illiterate to highly educated workers and from unskilled to highly skilled labourers.

The reasons pushing the migrants to move out of their home place may be either for 'survival' or for income maximisation'. The factors compelling the migrants to leave their home place are the debt, lack of or poor access to credit, backwardness of the region/area in terms of development including infrastructure development, especially in arid & semi-arid regions, other ecologically fragile areas, etc. The deteriorating condition of farming in such areas on account of drought, recurring crop failures and a lack of livelihood diversification leads to distress and survival migration to comparatively developed regions (Krishnaiah, 1997; Rao, 1994; Ravindra, 1989 and Reddy, 1990).

The existing literature on migration has focused on various issues including the economic aspect, which has been found to be the one of the most important determinants in rural to urban migration, particularly in developing countries. Traditional microeconomic models of migration were derived from theories relating to the optimising behaviour of an individual that viewed rural-urban migration as the result of large gaps in employment opportunities and income levels (Todaro, 1969; 1976). However, the "new" economic theories on migration emphasized that the family and family strategies are crucial elements in migration decisions (Stark, 1984, 1991).

Migration is indeed not a new phenomenon. It is being witnessed since ages either in the form of forced migration of labourers as slaves or people moving themselves independently in search of better livelihood options. India has been a major source of migrant workers of such types to various countries. During the post colonial era, two patterns of emigration emerged from India, one took place mainly towards the industrialised countries, particularly United Kingdom, United States of America, Canada and Australia; and the other one was directed towards the oil rich West Asian countries. The first stream comprised mainly the professionals (doctors, engineers and scientists), technicians and skilled workers. Emigration towards the Middle East has been basically oriented to labour and servicing occupations on a contract basis (Nangia and Saha, 2001). The government is encouraging such overseas employment both in order to relieve domestic unemployment and augment remittances to the families of these migrants. However, there are many scholars who are of the view that this leads to 'brain drain' which otherwise would have been utilised for the development of our own country.

According to World Bank report on Migration and Development Brief, India has seen the highest amount of migrant remittance flow among 130 countries surveyed followed by China and Mexico. An estimated 25 million NRIs living in 130 countries have remitted US $52 billion so far this year. However, the recent trend shows that there has been a compositional shift in remittance inflows from oil exporting region to North America. The slowdown in oil exporting countries in the 1990s as the oil boom receded coupled with the emergence of high productivity services sectors such as information technology in the Northern Hemisphere drove this compositional shift leading to rising demand for skilled workers. Thus, shift in the labour demand from unskilled/semi-skilled to highly skilled labour has sustained the inflow of remittances to India (Jadhav, 2003).

India owing to its scope and scale witnesses all kinds of migration viz., international migration, inter-state and intra-state migration. As per the International Organisation for Migration (IOM-India), citing the data from Indian census 2001, total migrants by last residence (0-9 yrs) accounted to 98.3 million of which 43.8% moved due to marriage, 21.0% moved with their households, 14.7% migrated due to work, 6.7% moved after their birth, 3% for educational purposes, 1.2% for business and 9.7% specified other reasons. Keeping aside those migrants who moved due to marriage, the total number of migrants falls from 98.3 million to 55.2 million. Total number of migrants among males and females were 32.2 million and 22.9 million, respectively. The total number of inter-state migrants was 42.3 million and those who were born abroad account for 6.1 million. About 97% of these migrants by last residence were from the eight neighboring countries (including Afghanistan). These figures indicate that the inter-state migration despite being more prominent than inter-national migration, has not gained that much attention, probably due to non-accounting of quantity of money which flows from one state to another. There has been no serious attempt, either at the Central Government or State Government level, to look into the issues emerging from inter-state migration and the remittances taking place from one state to another.

Remittance of earnings to family members residing in the original state/place is of utmost importance to the migrants. Traditionally, transferring funds in India is an expensive proposition, costing on an average more than 5% of earnings. Therefore, an attempt has been made in this paper to study the profile of migrant workers and understand the behaviour/ pattern of remittance being made by these migrant workers to their native place. The paper also attempts to suggest some workable solutions for delivering the remittances swiftly, reliably, and cheaply to relatively remote destinations i.e., native places of these migrant workers. The results of the empirical study are presented in Section-B. However, before presenting the finding of this study, a brief review of various remittance models, which are already in place in India has been done and presented in Section-A below.

Section A: Remittance Models / Channels Existing in India

The following channels have been found existing in the country which are used for remitting the funds of migrant workers from one part of the country to another.

(i) Sending money order through post offices: This has been the most widely used channel in the past on account of its accessibility throughout the country. However, this channel has fallen out of favour of many due to high costs and long delivery time (generally 10 to 30 days). Although urban centres have now introduced bulk electronic transmission to intermediate centers around the country, nevertheless the time taken between the receiving center and village post office often delays delivery. It has also been observed that local post office is sometimes out of cash and the recipient has to visit the post office several times to get his/her remittance adding to the cost factor.

(ii) Sending money through banks: Sending bank drafts was one of the important modes in the recent past which used to take a minimum of 10 days to transfer the money to the recipients. However, the introduction of Core Banking Solution has made it possible to transfer the money to the recipient in just 10-15 minutes in case both the sender and recipient have accounts in the same bank. The mechanisms viz., Real Time Gross Settlement (RTGS) and National Electronics Funds Transfer System (NEFT) have made it possible to transfer the money from one bank to another within a reasonable time. In case of RTGS, transfer takes place on the same day but the service is available for transfer of fund of Rs.1.00 lakh and above. On the other hand, NEFT facilitates fund transfer of rupees even for less than one lakh but transfer generally takes place in 2-3 days time. The service charge in case of NEFT is Rs.5 for less than one lakh and Rs.25 for Rs.1.0 lakh to Rs.5.0 lakh (same in case of RTGS also).

(iii) Carrying money back by oneself or sending it through friends and relatives: This mode of money transfer carries great risk at different level. There is also a risk in keeping the money with oneself as most of them stay in unlocked shelters. Apart from the risk of loss or theft during the journey while carrying the money in cash or sending it through friends and relatives, there is also a possibility of late payment of money to the recipient when it is sent through others.

(iv) Entry of other remittance facilitators

(a) FINO's tatkaal

Financial Information Network and Operations Limited (FINO)'s Tatkaal is a biometric authentication based transaction processing system and provides a safe, fast, electronic and convenient way to deliver domestic (city to village) and International (overseas workers to Villages) remittances through a formal remittance delivery channel using FINO Smart Card technology to the doorstep of beneficiaries in the remotest areas. These services are currently made available to the existing customer base of FINO in the areas of Shivaji Nagar and Dharavi in Mumbai with the help of Union Bank Of India. FINO Tatkaal (remittance) is an addition to FINO's other services like FINO Saral (micro-credit), FINO Sure (insurance), FINO Plus (recurring deposit), FINO Parichay (national ID programme), FINO Tijori and FINO Sayana Ravi (financial adviser) through 4,000 business agents (bhandhus) in 1,200 locations across 16 states to provide door-to-door banking facilities FINO is also trying to rope-in Andhra Bank, Corporation Bank, ICICI Bank, ICICI Lombard, Oriental Bank of Commerce, Punjab National Bank, State Bank of India, Union Bank of India, Sewa Bank, and other financial institutions for the purpose. FINO offers three types of Remittance services as indicated below:

- Cash-to-Card: Remitter gives Cash or debits Bank account to send remittance to beneficiary holding a FINO card
- Card-to-Bank Account: Remitter holds a FINO Card and beneficiary has a normal Banking account
- Card-to-Card: Both remitter and beneficiary hold FINO Cards

(b) 'Shramik Sahajog' by Adhikar

Adhikar, an NGO-MFI based in Orissa, set up an organisation of Oriya migrants called 'Shramik Sahajog' (Workers Cooperation) in Gandhigram (Gujarat) in 2002 and expanded to Surat in 2004. Adhikar was already active in providing savings and credit services through cooperatives in the originating area in Orissa. It is now using remittances, along with savings, as an entry point activity in the destination area. Remittances are collected at the destination office. Details of remittances made are emailed to the Orissa office every Monday, Wednesday, and Friday. Money is then delivered to the door of the migrant's family within three days. The service costs 3% of the amount transferred plus an additional Rs.10 for doorstep delivery. The programme also encourages savings. Clients are required to deposit a minimum of Rs.100 per month, against which they earn 6% monthly interest and are issued a passbook with their photograph for the said savings account. They are eligible to get a loan against the balance in the savings account (at a 2% interest rate) and can withdraw money when needed (for example, for the up-front costs of a new migration spell). Every client has a unique code. The clients who do not deposit under the program are eligible to remit money, but they can not get loans and they do not have a code number. Service charges are the same for both clients. (Eye on microfinance, Volume-3, IFMR Centre for Microfinance)

(c) Eko financial services

In February 2009, Eko signed a deal with the State Bank of India as its 'business correspondent' to help achieve financial inclusion. The CGAP (Consultative Group to Assist the Poor) has also agreed to fund $1.78 million to facilitate the services of Eko Financial Services. They source customers, get them a SBI account and also enable deposits, withdrawals and remittances for them. As on date, EKO has over 500 outlets across Delhi, 4 districts of Bihar (Sitamarhi, Madhubani, Samastipur and Sheohar) and 1 district of Jharkhand (Deoghar). These outlets are SBI-EKO/- branded and customers can walk-in and get themselves a SBI no-frill bank account. These outlets also serve as "human ATM" points where customers can do deposits and withdrawals. The cell-phone in the hands of the customers and the retailer acts as debit card and Point of Sale (POS) device respectively. The customer's experience at an EKO/- counter is very similar to a MNO (mobile network operator) customer getting themselves a SIM card and doing talk-time recharge at similar outlets. There is no application installed on the handset and no special SIM card is needed; hence the service works across all phones. They use USSD technology on GSM and "missed calls" on CDMA. The experience emulates that of a "missed call". There is no composition of SMS. Basic 2G GSM/CDMA network coverage is sufficient. All transactions are secured with a patent-filed one-time-use numeric signature. They have come out with a low-cost, paper version of the RSA device which generates one-time use passwords and are mostly issued by banks and similar institutions. Under the present agreement, SBI is accepting only 'Election ID card' as identity proof which is supported by a certificate from EKO indicating the genuineness of identity of the customer.

At present, the remittance facility is available only between SBI account holders. They charge a service charge of 3% which they argue is less than the post office service charges. For transactions more than Rs.15,000, the service charge is reduced to just 2%. Single remittance is limited to Rs.10,000 and per day transaction is limited to Rs.50,000.

(d) ZERO microfinance and savings support foundation (ZERO MASS Foundation/ ZMF)

ZERO MASS Foundation has been working as a Business Correspondent (BC) to 25 Banks in India including the State Bank of India (SBI). A Little World Pvt. Ltd. (ALW) is the technology provider for all the banks who have engaged ZMF as a BC. ALW provides the technology as a service to Banks under its brand "ZERO". The ZERO platform is based on new generation mobile phones and Fingerprint authentication which converts new generation low-cost NFC (Near Field Communication) mobile phones with large storage capacities as a secure, self-sufficient bank branch, with biometrics based customer ID, for customer enrollments for no-frills accounts and all types of transactions in the village with the local Customer Service Point operator acting as a Teller. The CSPs are equipped with a mobile phone and a Fingerprint Scanner cum Receipt Printer to carry out Banking and Payment transactions (i.e., Cash Deposit, Cash Withdrawal, Account to Account Transfer, Balance Enquiry, Mini Statements, etc.) using both online connectivity to Banks and in an offline mode (with daily batch settlements).

(e) Others:

In addition to the above service providers, there are many more who are facilitating remittances for the migrant workers. Green Mobile Money Transfer, launched by Paymate, Corporation Bank and Tata Indicom, facilitates mobile money transfer for migrant workers. The service is available to migrant workers from Kerala working in Mumbai and Bangalore wanting to remit money back to friends and family in Kerala.

The above details indicate that use of modern technology including the use of mobile technology is increasing at a very fast rate, particularly in the field of banking sector. It appears that the 'Banking Correspondents' model has now been accepted as one of the most popular approach for meeting the target of financial Inclusion within a reasonable time frame.

Section B: Results of the Empirical Study

Data and methodology

The present study is based on primary data collected from 97 workers engaged in various construction activities in 'OMAXE CITY', Rae Barelli Road, Lucknow. The OMAXE CITY is an upcoming township of about 1,200 plots/ villas with modern facilities like mall, park, schools, hospital, different water bodies, etc. The workers from different states, viz., Uttar Pradesh, Bihar, Uttarakhand, Madhya Pradesh, Chhattisgarh, Jharkhand, Delhi, Rajasthan, Haryana, etc have come to work for 'OMAXE CITY' company as well as private builders. These workers are engaged in various activities like, construction, electric fittings, plumbing, maintenance of colony, etc. The data was collected through pre-tested 'study schedule'. The data has been collected pertaining to the financial year 2009-10, i.e., 01 April 2009 to 31 March 2010.

Profile of workers

The present section highlights some of the important socio-economic characteristics of the migrant workers, which have been assumed to have some bearing on the decision to move out of the native place to work for livelihood.

(a) Activity-wise profile of workers

There does not appear to be a very strong relationship between age and education of the workers with the nature of works being attended to by them (Table 1). The Comparatively higher age range of sample workers engaged in these activities indicates that the works of Raj Mistry, plumbing and electrical fittings are skill based activities where experience also matters to some extent. However, as expected, comparatively more educated workers (eighth standard to graduates) are engaged in skilled works like plumbing and electrical fittings. The profile of sample workers also highlights that most of workers who are engaged in construction related activities, come from comparatively backward class of the society as only 11% of the total sample workers belonged to forward communities.

Table 1: Activity-wise Profile

Sr. No.	Activity engagement	Sample size		Age range (yrs)	Education (Std)	Caste (% distribution of activity sample)			
		No.	%			SC	ST	OBC	Oth
1	*Raj Mistry*-Construction	16	16.5	26-52	Illiterate- 8	3	1	8*	4
2	Labour Construction	41	44.3	18-39	Illiterate- 8	12	6	21	3
3	Plumber	5	5.2	23-55	08- Gr	1	1	3	0
4	Electric works	7	7.2	25-48	H.S - Gr	0	0	5	2
5	Sweeper	8	8.3	18-28	Illiterate- 8	8	0	0	0
6	Horticultural activity	5	5.2	20-31	12-Jun			4	1
7	Carpenter	9	7.2	20-52	Illiterate- 8	0	0	9*	0
8	White-washing/ painting	6	6.2	18-44	03- H.S	0	0	6	0
	Total	97	100			24	8	56*	10

Note: *Six workers (2 Raj Mistry and four carpenters were Muslim)
H.S- High School, Gr = Graduate

(b) State-wise sample:

The sample workers were found to have come from seven different states of the country. Out of the 97 workers, 12 had come with family.

Table 2: State-wise Sample Distribution			
Sr. No.	State	Workers	Migrated with family
1	Uttar Pradesh	49	0
2	Uttaranchal	2	0
3	Rajasthan	3	0
4	Bihar	21	2
5	Madhya Pradesh	13	8
6	Jharkhand	4	1
7	Chhattisgarh	5	1
	Total	97	12

(c) Family composition - total sample (97):

The data on family composition has been presented in Table 3 with a view to reflect the ratio between earning members and the total number of family members sharing that income. It may be concluded from Table 3 that on an average one earning member is supporting to 3.6 family members for livelihood.

Table 3: Family Composition of Sample Workers		
Sr. No.	Particulars	No. of members
1	Average family size*	8.7
2	Adults	4.8
3	Earning members	2.4
4	Children in the family	3.9
5	School going children	1.8

Note: Family size includes members of undivided family, viz, father, mother, unmarried and dependent brothers and sisters.

(d) Assets owned by workers at native place - total sample (97):

The data on asset owned by the migrant workers (Table 4) indicate that as many as 32 workers (33%

Table 4: Assets Owned by Workers at Native Place							
Sr. No.	Activity engagement	Sample	Landless (No.)	Average land holding (Ac)*	Own pucca house	Electricity connection	Milch animal
1	*Raj Mistry*-Construction	16	5	0.8	3	5	1
2	Labour construction	41	18	1.2	2	8	4
3	Plumber	5	1	1.7	1	3	0
4	Electric works	7	1	2.4	2	4	0
5	Sweeper	8	5	0.6	0	0	0
6	Horticultural activity	5	2	1.2	1	1	1
7	Carpenter	9	0	1.5	2	4	2
8	White-washing/ painting	6	0	1.1	0	2	2
	Total#	97	32 (33)	1.28	11 (11.3)	27 (28)	10 (10.3)

* Average land holding of those who hold some land in their family

Figures in brackets refer to percentage to total sample

of total sample) are landless and support their family through earnings from wages only. The average size of land holding of workers who own some land is 1.8 acres, which may not be sufficient to generate net income to sustain a family. This is also one of the important reasons for migration of labour to other areas.

Migration and Afterwards

(a) Reasons for migration:

Although all the 97 respondents reported to have come in search of livelihood as there was not much opportunity for them to earn enough to sustain their families. However, 58 on them had reported 'under-employment' and the other 36 workers reported 'low wage rate' as the primary reason for their migration to an urban centre.

Table 5: Reasons for Migration

Sr. No.	Reasons for migration	No of respondents indicating it as first reason	Change after migration on total sample (97)
1	Less / No works	58	Average days of employment@ increased from 7.8* to 24.3 per month
2	Low wage rate	36	Average wage rate** after migration increased from Rs.84/- to Rs.182/-.
3	Pressure to repay dues of money lenders	03	Due to employment for lesser days and low wage rate in their native places, they were unable to repay the dues of money-lenders. Two respondents had availed loan for marriage of daughter (Rs.8,000 & Rs.10,000-) and one respondent for medical expenses (Rs.14,000).
	Total	97	

@ Average employment has been arrived after taking into account the total days of engagement/ year.
*out of 58 respondents, 13 were not employed at their native places.
** Comparison is made between the present wage rates (of similar work) at native place and Omaxe city.

(b) Staying arrangement at work place:

Only 9 workers (2 electricians, 1 plumber, and 6 carpenters) stayed in rented house with toilet and bathroom facilities. The average rent per head paid by these workers worked out to be Rs.280 per month as all of them stayed in groups in close vicinity of Omaxe city, 12 other workers (4 plumbers, 5 electricians, 3 carpenters) stayed in unoccupied and unfinished Omaxe City houses. The rest 76 stayed in temporary huts constructed within and outside the boundary of Omaxe city.

(c) Expenditure and income per worker/ family:

It may be observed from Table 6 that there is not much difference in the amount spent by sample workers on their food and other necessary items at the work place. Only 22 out of 97 workers were found to be taking liquor in small dozes not exceeding an amount of Rs.200 per month. Purchase of cloths was limited to once in a year in the majority of cases.

Table 6: Expenditure and Income of Migrant Workers

Sr. No.	Activity engagement	Sample size	Migrated with family	Avg exp per month at work place per		Avg income per month per		Avg Saving per month per	
				worker	Family*	worker	Family*	worker	Family*
1	Raj Mistry-Construction	16	2	1484	3186	6256	9840	4772	6654
2	Labour Construction	41	8	1427	2858	3650	7060	2223	4202
3	Plumber	5	1**	1644	3226	6750	6750	5106	3524
4	Electric works	7	0	1717		6150		4433	
5	Sweeper	8	0	1423		3720		2297	
6	Horticultural activity	5	0	1567		3810		2243	
7	Carpenter	9	0	1712		5835		4123	
8	White-washing/ painting	6	0	1676		5440		3764	
	Total	97	12	1543	2705	4927	6924	3384	4219

* Those who are staying with family at work place
** Not employed, staying as housewife only

The income was found to be varying according to the nature of work. The normal wage rate for Raj Mistry, Electrical works, Plumbing, Carpenters, painting was in the range of Rs.225 to Rs.250 per day in most of the cases and up to Rs.300 in very rare cases. The wage rate in case of wage labourers, sweeper, and horticultural works was found to be ranging between Rs.125 to Rs.150 per day depending upon the contractors with whom they were attached.

(d) State of financial inclusion:

As far as state of financial inclusion of the sample workers is concerned, only 34 members out of total 97 workers were found to have account either in their name (13 workers) or in the name of someone in his family, viz., wife (2 workers), mother (3 workers), father (9 workers), uncle (5 workers), brother (2 workers).

Most of the migrant workers (63) were not aware about facility of opening no-frill accounts. It was also quite surprising to note that as many as 48 workers were not aware about the Kisan Credit Card scheme.

(e) Pattern of remittances:

The average number of days of stay at the work place was found to be varying from 256 days (white-washing/ painting) to 316 days (plumbing) per year. Normally most of the workers were found to be visiting their native place twice coinciding with the kharif sowing, kharif harvesting/ Rabi sowing and/ or rabi harvesting seasons. Therefore, maximum remittances were made by hand carry method at the time of visit of workers to their native places. On an average, 3.8 remittances were made per worker during the period of study (01 April 2009 to 31 March 2010). It was observed that about 92% of the total amount saved by the workers at the work place was remitted back to their family members and the rest 8% was retained with them for some emergency purpose.

Table 7: Pattern of remittances

(Per year)

Sr No.	Activity engagement	Sample size	No. of days of stay at work place	Frequency of visit to native place	No. of days of stay at native place/ visit	Average amount saved during the year	Average amount of money remitted	Frequency of remit-tances made
1	*Raj Mistry*-Construction	16	277	2.3	38	44061	41500	3.6
2	Labour Construction	41	268	1.8	54	19859	17500	3.4
3	Plumber	5	316	1.2	41	53783	48000	4.2
4	Electric works	7	311	1.4	39	52186	47900	5.6
5	Sweeper	8	302	2.1	30	23123	21700	3.5
6	Horticultural activity	5	286	2.2	36	21383	20300	4.4
7	Carpenter	9	294	1.8	39	40405	38500	5
8	White-washing/ painting	6	256	2.5	44	32119	30700	3.2
	Total	97	281	1.9	44.7	30945	28480	3.8

(f) Mode of remittances:

The most popular method of remittance of the sample workers was found to be hand carrying which accounted for 48.3% of total number of transactions and 61.2% of total money remitted to their family members. This was, according to them, the most economical and safe mode of remittance. However, only 3 workers out of the total sample had reported of theft cases while traveling in the train/bus amounting to a total loss of Rs.10,300 (Rs.5,000, Rs.3,500 and Rs.1,800).

Sending money through friends/ relatives and other known persons who had come from either same or a nearby village from the native place, was observed to be the second most important mode of remittance as far

Table 8: Mode of Remittances (number of transactions)

Sr. No.	Activity engagement	Sample size	Total no of remittances	Mode of remittance (No of transactions)				
				Hand carry	Friends/ relatives	Post office	Bank	
							Own/ family A/c	Other's A/c
1	*Raj Mistry*-Construction	16	58	37	12	2	2	5
2	Labour Construction	41	139	74	46	11	0	8
3	Plumber	5	27	6	9	0	8	4
4	Electric works	7	39	10	14	0	13	2
5	Sweeper	8	34	17	16	1	0	0
6	Horticultural activity	5	24	11	10	1	0	2
7	Carpenter	9	45	16	12	0	11	6
8	White-washing/ painting	6	19	15	4	0	0	0
9	Total	97	385	186	123	15	34	27
10	% to total No. of remittance		100	48.3	31.9	3.9	8.8	7

as sample workers are concerned. Although this mode accounted for 31.9% of total transactions during the study period, the money remitted through this mode accounted for only 18.0% of the total money remitted by all the sample workers (Rs.27,62,600) during the year. This indicates that workers normally prefer carrying the bulk of the remittance (61.2%) during their visit to their native place and generally handover lesser amount while sending through friends/ relatives/ other visitors.

Sending money through post office was found to be the least popular mode of remittance amongst the sample workers. This was basically on account of higher service charge (Rs.5 per hundred) as compared to other modes, delay in delivery at native place and undue expectations by the staff of post offices at the delivery point.

Sending money through banks has started gaining importance in the recent past, thanks to the efforts being made for financial inclusion by way of creating awareness as well confidence to come to banks, particularly among those who were neglected by the formal institutional agencies. Sending money to the accounts of the family members was preferred in as many as 8.8 total number of transaction and approximately over Rs.3.0 lakh (11.1% of total money remitted) was sent by this mode. Sending money to the account of some close friends/ villagers was also preferred in as many as 6.8% transactions. However, the recipient of the remittance at native place used to pay some token amount to the account holder for facilitating the remittance through their accounts.

Table 9: Mode of remittances (amount transferred)

Sr. No.	Activity engagement	Sample size	Total Amount Transferred(Rs)	Average Amount Transacted (Rs)	Mode of remittance (Amount transacted %)				
					Hand carry	Friends/ relatives	Post office	Bank	
								Own/ family A/c	Other's A/c
1	Raj Mistry-Construction	16	664000	11448	74.3	11.7	2.2	4.5	7.3
2	Labour Cons.	41	717500	5162	66.3	19.3	8.3	0.0	6.1
3	Plumber	5	240000	8889	27.0	26.8	0.0	32.8	13.5
4	Electric works	7	335300	8597	35.4	27.0	0.0	33.7	3.9
5	Sweeper	8	173600	5106	68.3	28.8	2.9	0.0	0.0
6	Horticulture	5	101500	4229	79.4	13.1	4.5	0.0	3.0
7	Carpenter	9	346500	7700	51.7	10.5	0.0	24.4	13.3
8	White-washing/ painting	6	184200	9695	86.1	13.9	0.0	0.0	0.0
	Total sample	97	2762600	7176	1689350	496000	84350	306100	186800
			100.0		61.2	18.0	3.1	11.1	6.8

(g) Service charges on remittances

Sending money through post office was reported to be the costliest mode of remittance (Rs.5- per Rs.100 remitted). Different banks were having different service charges on money transfers and Rs.20 being the minimum amount to pay per transaction. Sending money through friends had some cost. The workers used friends to send money in different amounts ranging from Rs.500 to Rs.25,000. They generally paid a minimum of Rs.50 to a maximum of Rs.200 to the person carrying their remittances. Similarly, in the case of remittance through other's bank account, the recipient of the remittance paid a token amount to the bank account holder facilitating their remittances. The amount remitted through other's account was found to be varying from Rs.1000 to Rs.10,000 and the token amount paid by the recipient was found to be in the range of Rs.20 to Rs.150.

(h) Inferences from the empirical study

The study reveals that majority of the migrant workers belong to the most disadvantageous group of the society both socially and economically and come from comparatively more backward regions of the state/ country. The study also clearly brings out that the measures aimed at financial inclusion have to still go a long way to reach the last mile post as only 13.4% (13 workers) of total sample migrant workers (and 35% households) were having saving bank account in their names. These migrant workers still find it difficult to do business with banks primarily on account of hesitation on their part to interact with bank officials, difficulty in producing identity proof and address proof, poor response from the bankers, etc. This suggests for concerted efforts on the part of all stake-holders to take up the issue of financial literacy very seriously.

Policy 0ptions

The remittance market aims at facilitating migrant workers transfer funds swiftly, reliably, and cheaply to their family members staying in relatively remote destinations. The present sample study results indicate that in the present day of labor market, even in the domestic market, millions of people are now living and working in locations far distant from their native place/ region/state, and to which they regularly remit a substantial proportion of their earnings. This highlights the need for serious thinking on the issues relating to remittances, particularly in case of domestic migrations. The following are some of the possible solutions to the problems relating to remittances of the domestic migrant workers:

1. The best possible solution would be to facilitate every household to have one Saving Bank account with any bank having CBS or have an arrangement with a bank with CBS facility. This will allow the customer to transact/ remit at his convenience and at the lowest cost. It would also be appropriate that all those financial institutions/other agencies who are engaged in accomplishing the mission of financial inclusion should adopt high-tech driven banking operations in their banks at the earliest possible. As most of the population in the country lack proper understanding of banking operations, popularising the use of biometric cards and opening no-frills accounts may be attended to immediately. Most of the banks are not convinced about opening large number of no-frill account on the plea of comparatively lower rate of active no-frill accounts. In this connection, it is suggested that they should take it as an 'investment' which may yield results in future. Further, maximising the use of other technology like widening of ATM networks and interlinking ATMs by various banks free of costs would certainly result in to desirable outcome. Further, spreading financial literacy among the rural people to make the rural mass aware of the financial inclusion programme may be achieved with the help of NGOs/VAs. For the purpose, Use of Financial Inclusion Fund and Financial Inclusion Technology Fund maintained at NABARD would be of great help to achieve the targets under the mission.

2. Till the first option become a reality, as an alternative model and an intermediate step, all the telecom companies may be convinced to facilitate remittance through mobile banking where the mobile with the migrant

workers may be charged with any amount and transferred to the mobile of the recipient. The recipient can withdraw or en-cash any amount out of the balance available at any counter, especially opened for this purpose at a nominal service charge. However, the transactions made through mobile can be monitored by RBI under the same provision applicable to banks.

3. Realising the importance of the issue and utilising the development of technology, a few agencies including MFIs facilitators like FINO Tatkaal, EKO Financial Services, Zero Mass Foundation and some others have come forward to offer cheap and safe fund transfer facilities to its clients. However, the present regulatory environment does not support provision of remittance services by the MFI sector, directly. The services can be provided by the MFI sector under the Business Correspondent model in association with the banks. The challenges to entering the remittance market directly by the MFI sector include (a) the regulatory and licensing environment, (b) the capacity of the institution in terms of management, staffing, systems and marketing to provide the service, (c) the identification and penetration of an appropriate market niche, (d) the costs of entry into the market, and (e) the identification of partners. The MFI needs to be well managed and governed, with stable, profitable and transparent operations. Money transfer operations require a significant investment in skilled human capital. Specialised staff is needed for customer relations and back-office functions. Although these agencies are providing a solution to the problem relating to the remittance but the service charge of 3% on the amount remitted by the migrant workers appears to be on the higher side. Possibility of reducing the service cost to less than one per cent need to be explored.

4. The State Government of Bihar has taken a lead in providing some support to the migrant workers. The Government introduced Migrant Labour Accidental Benefit Scheme in the year 2008 with an objective to provide monetary assistance to the family members of the migrant workers victimised in the state other than Bihar. The Labour Department of Government of Bihar in collaboration with UNDP has also decided to distribute Identity Cards to migrant workers in unorganised sector. The panchayats will be involved in the registration of migrant workers before they leave their villages to earn livelihood outside the state. It is learned that the registration of migrant workers would be made mandatory keeping in view the safety and security of the migrant workers. These two steps of the Bihar Government are welcome steps and need to be replicated by all other state governments.

5. The present study also throws some issues for further study. The effectiveness

of MNREGA in creating suitable job opportunities in relatively backward areas and its impact on migration of labour to other destinations, particularly to other states can be studied. The Impact of MNREGA on opening of accounts etc and its use for fund transfer from the place other than the permanent/ native place is another area which needs attentions of the scholars.

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