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CONTENTS

Approaches to Microenterprise Development: Experiences from Maharashtra

- Nisha Bharti*

Abstract

By providing employment to two third of the population, agriculture remains a predominant source of livelihood in India. Most of the Indian agriculture is rainfed and unable to provide sustainable income generation to the farmers round the year. This makes the non-farm employment, a major complementary and supplementary area for generation of employment for unskilled, semiskilled and skilled employment, a top priority issue (Parthasarthy, 2005). Microenterprise has always been recognised as an important tool for employment and poverty alleviation in developing countries by policy makers. Three basic approaches for promotion of microenterprises can be identified as: a) Building Human capital approach (providing training, mentoring, counseling etc.), b) Financial System approach (providing financial services like credit, savings, insurance and remittances etc.), and c) Holistic approach (providing two or more than two services in integrated manner). Financial system approach is regarded as the most predominant approach in the recent context but, been criticised widely as the minimalist approach of provision of services. Experiences have shown that various models based on the concept of combining financial system approach with building human capital approach has been effective in promoting microenterprises. This paper document the approach and strategies of three organisations working for promoting microfinance and microenterprises in Maharashtra namely, Mann Deshi Samajik Sanstha, Bhartiya Yuva Shakti Trust and Sampada Trust in promoting microenterprises by coupling financial system approach with building human capital in three different ways. These experiences will help in drawing lessons to decide on the appropriate mechanism for livelihood development through promotion of microenterprises.

Microenterprise has always been recognised as an important tool for employment and poverty alleviation in developing countries by policy makers.

Key Words: Microenterprise, microfinance, approach
JEL Classification: G21, G28

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1. Introduction

By providing employment to two third of the population, agriculture remains a predominant source of livelihood in India. Most of the Indian agriculture is rainfed and unable to provide sustainable income generation to the farmers round the year. Employment elasticity of agricultural output in our country, post-green revolution, has now become almost zero. Share of agriculture has declined over time in both GDP (from 39 per cent in 1983 to 25 per cent in 1999-2000) and employment (from 63 per cent to 57 per cent) during the same period (Ministry of agriculture, Government of India, 2004). This makes the non-farm employment, a major complementary and supplementary area for generation of employment for unskilled, semiskilled and skilled employment (Parthasarthy, 2005).

Microenterprise has been recognised as an important tool for employment and poverty alleviation in developing countries by policy makers. Several organisations have adopted various models to promote income generation activities in the field. In recent context, providing financial services have been recognised as one of the successful approaches for promoting microenterprises as well as other income generating activities. This paper is an attempt to document some of the successful experiences from the field for lessons in microfinance and microenterprise development programmes.

2. Microfinance and Microenterprise Development: A Brief Review of Literature

In the literature, poverty mainly refers to income poverty (Chavan & Ramakumar, 2002). Bates (2005) recognised two reasons for using microenterprise development as a community development tool: first, it is a method of optimising the use of indigenous resources and second, it is a method of wealth generation for historically isolated groups. Microenterprise is recognised as an important means to improve well being particularly in the countries where farming is not self sustaining and formal sector employment is limited (Inayatullah & Birley, 1997). Most of these microenterprises are informal and owner operated. It is believed that major motivation behind these activities is survival of the microentrepreneurs, as opposed to return on investment (Rauch, 1991). But, these microenterprises help microentrepreneurs to increase their income, though small, improve their physical living standards and make a difference between abject poverty and independent subsistence (Haynes, Seawright & Giauque, 2000).

Three basic approaches for promotion of microenterprises can be identified as: a) Building Human capital approach (providing training, mentoring, counseling etc.), b) Financial System approach (providing financial services like credit, savings, insurance and remittances etc.), and c) Holistic approach (providing two and more than services in integrated manner). Financial system approach is regarded as the most predominant approach in the recent context. However, it has been criticised widely as the minimalist approach of provision of services by various researches.

Another important factor is that these enterprises often operate on short term cycle and need short term loan in small amount. In order to run their business, these microentrepreneurs require sufficient amount of capital constantly and on time. In a study, Alagappan and Nagammai concluded that one of the foremost problems of any entrepreneur is finance. Availability of adequate finance at reasonable cost at the required time is the need and expectation of any entrepreneur (Alagappan & Nagammai, 2003). The major problems with formal financing are inadequacy and delayed processing. Microfinance has tried to avoid these two problems but are lacking on part of their cost of lending. To counter the effects of high interest rate, microfinance organisations should couple their services with non financial services for promoting microenterprises and other income generating activities.

In an empirical study done on 12 Microfinance Institutions (MFIs) in four countries of West Africa namely, Benin, Burkina Faso, Niger and Togo to identify key factors which contribute in shaping the microenterprise sector it was found that necessity of money for survival activity was the key drivers for their business activity. Very limited thought were put to decide the nature of activity to be done. Poor access to credit, poor training, lack of trust and cooperation and aversion to risk were the most common factors restricting the success of these microenterprises. That is why the growth of the microenterprise in these regions was suboptimal and there was a need to address broader economic and social barriers (Roy & Wheeler, 2006).

Several interventions adopting various approaches have been made to promote self employment in the form of microenterprises to provide sustainable income generation opportunities to poor. The majority of formal Microenterprise Programmes (MEPs) tend to focus either on credit alone, identifying themselves as credit led-programmes; or on training alone, identifying themselves as training-led programmes. However, having recently realised that neither credit alone nor training alone would be sufficient enough to propel most poor microentrepreneurs out of poverty, a considerable number of MEPs in the developed countries are moving toward a multidimensional approach integrating saving, training and credit services into one programme design- a "one-stop shop"(Ssewamala and Sheradden, 2004). It has been argued that programmes which adopt a minimalist approach of providing only credit can only have limited impact and can lead to a debt trap for the poor.

Promotion of livelihood through microenterprises backed by microfinance is emerging as an important challenge for microfinance providers. Experiences have shown that various models based on the concept of combining financial system approach with building human capital approach has been effective in promoting microenterprises. This paper makes an attempt to describe approach and strategy of three successful models of microfinance combining elements for building human capital in three different ways in Maharashtra.

3. Case studies

3.1 Mann Deshi Umbrella Organisation

Mann Deshi is an Non Government Organisation (NGO) founded by an economist, farmer, and activist, Chetna Gala-Sinha and is working with the objective of empowering rural poor especially women in the rural areas of Maharashtra. The Mann Deshi Mahila umbrella of operations consists of three distinct organisations - Mann Deshi Mahila Sahakari Bank, Mann Vikas Samajik Sanstha, and Mann Deshi Mahila Bachat Gat Federation. In partnership, these three organisations aim to stimulate the achievement of their social goals - empowerment, asset creation, leadership development, capacity building, and property rights for women - through projects in the areas of economic well-being, education and health. Taken together, these projects take a holistic approach to help women in rural areas.

The organisation began its operations in the Mann Desh because of the difficult circumstances confronted by the villagers in this area. The operational area of this organisation is located on the Deccan plateau. This area is prone to drought and has one of the lowest annual rainfall rates in the country. Low profit from agriculture was a major cause of poverty and a high percentage migration in this area. People needed some alternate source of income generating activity for their livelihood. Inception of Mann deshi umbrella organisation was done with the objective of supporting poor people livelihood. Brief description of these organisations is given below:

3.1.1 Mann Deshi Mahila Sahakari Bank (MDMSB)

One of the approaches of this organisation to support rural poor women is to provide financial services through their Mann Deshi Mahila Bank. MDMSB is a regulated cooperative bank run by and for women in rural Maharashtra. Founded in 1997, it is India's first rural financial institution to receive a cooperative license from the Reserve Bank of India. The MDMSB is committed to promoting micro-enterprise among its clients.

Mann Deshi Bank's headquarter is located in Mhaswad, a village in the district of Satara. Its operations cover parts of Satara, Solapur, Sangli, Raigarh, and Ratnagiri districts. The bank has three branches in Mhaswad, Vaduj, Gondavale, and an extension counter in Dahiwadi. The bank has now over 62000 clients, 6,200 members and conducts 4,250 transactions on a daily basis (figures as of March 2007). Prior to opening of this bank the major livelihood source of people of this region was agriculture. But, due to low profitability and uncertainty in monsoon, agriculture was not able to support the livelihood of the people in the region. Recognising the need of micro businesses the bank is open to provide loans for small businesses in the area. Bank focuses more on individual lending rather than group lending because, even in SHGs, people take up individual activities rather than group activities and it has been realised that individual lending is more feasible than group lending.

The bank provides loan to both individual as well as SHGs. Loan is given only to the shareholders of the bank (upto Rs. 50000/- Per month) except SHGs or those who have their saving account (upto 10000/-) with this bank. Deposits of women in this bank are exempted from tax on property. This is the major motivation for women to open their accounts in this bank. The bank gets its clients through agents appointed by the bank. The bank has a plan to open 4 loan offices to provide loans in the areas where no other bank is having their operations.

3.1.2 Mann Deshi Samajik Vikas Sanstha

Mann Vikas organisation was established in 1994. The organisation is providing a variety of non-financial services to Mann Deshi Mahila Sahkari Bank clients. Mann Vikas is responsible for promoting girls' education and providing women with HIV/AIDS health education camps, student scholarships, and vocational skills training.

It also provides information to women concerning life insurance. The NGO runs two agricultural collectives - the Mahila dairies and an animal feed program - which help make milk, livestock, and grain available at affordable rates less than the those charged by retailers. The NGO also helps women manage the risk of taking agriculture loans in drought-prone areas by offering fodder insurance during dry spells.

3.1.3 Mann Deshi Udyogini

'Mann Deshi Udyogini' is a business school for rural women at Vaduz, in Satara Districts. This was established by Mann Deshi Samajik Vikas Sanstha. Mentioning about the initial idea of this business school, Founder and Prseident Ms. Chetna Sinha stated that,

"Within 10 years of its existence, Mann Deshi Women Cooperative bank has served many poor women. Demand for skill and training came from the clients of the bank. More than a hobby class we wanted to make them learn various aspects of business". This has led to the foundation of 'Business School for Rural Women' named as 'Mann Deshi Udyogini' in December 2006. This business school was started for those who are not able to get advance education and had to drop out from school due to various reasons for supporting their families".

Further Ms. Padma Kuber of Mann Deshi Udyogini mentioned that:

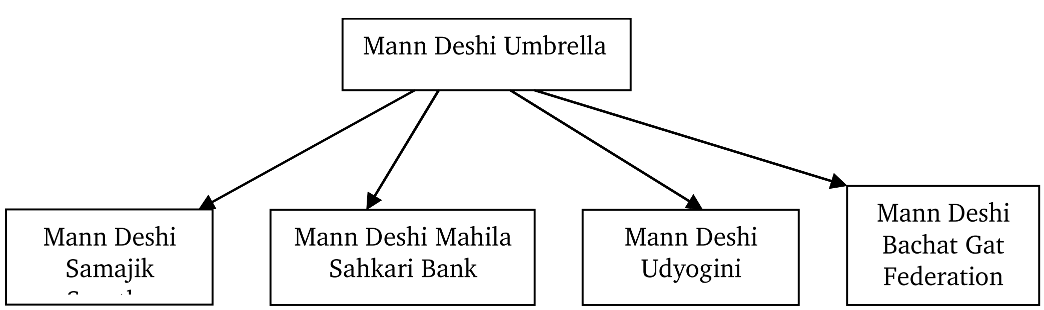
"Distance to school was a major problem in Girls education. This business school has a very different structure to provide business training to women. Unlike other business schools, no age and education bar is kept for women to enter in this business school. Courses with low capital requirement are introduced in the curriculum for benefiting poor women in the rural areas. Basically, training courses are demand based and aimed to provide them with skill. We don't do marketing for them but we teach them how to market their products. We also go to distant places to provide trainings to those rural women who can not come to our centre for training. The organisation also runs a mobile business school in Karnataka."

3.1.4 Mann Deshi Mahila Bachat Gat Federation (Self-Help Group Federation)

In 2000, Mann deshi registered the SHG Federation as a non-profit organisation. It received grants from the government-run Other Backward Caste (OBC) Corporation - money that the Bank used to lend to poorer segments of the population. The Federation also received other grants to run training programs for self-help group (SHG) women. In turn, leaders of self-help groups acted as collection agents for the bank and formed new groups on a commission basis. The Self-Help Group Federation is an NGO aimed at organising rural female entrepreneurs. The Federation consists of more than 2,300 self-help groups (figures as of March 2007). Each group represents 10 to 20 members. The SHGs are made up of self-employed women from each sector of the local economy: vegetable vendors, milk vendors, weavers, and wage earners. The groups receive loan directly from the bank and, with additional support from the state government, conduct lending activities.

The NGO runs programs which allow women to use their SHGs as cooperative financial institutions - SHGs may hold women's assets and issue micro-loans. Women who participate in SHGs may qualify for the MDMSB's individual loans, and use their SHG to obtain a group loan from the MDMSB at a cooperative lending rate. MDMSB also actively consults the federation of SHGs in its management and policy decisions. Mann Deshi's affiliate, Self-Help Group Federation has five additional outreach offices.

Figure 1: Model of Mann Deshi Umbrella Organisation



In this way, the organisation takes a holistic approach for the development of the community. However, unlike the usual holistic approach of providing more than one services from the single organisation, the organisation has created sister organisations and registered them separately. This helps them in managing the various organisations easily. The organisation also follows the approach of SHG and federation, but, unlike the usual practice of forming three tiers structure i.e. SHG, cluster and federation, it follows a two level structure - SHG and federation and link SHGs to MDMSB. Umbrella approach of providing services is the key for the success of this organisation.

3.2 Sampada Trust

The Watershed Organisation Trust (WOTR) was established in December 1993 with the objective of capacity building of the various stakeholders for the Indo-German Watershed Development Programme. In 1994, the organisation started SHG formation. In the early phase of development of SHG, banks were reluctant to provide loans to them. In 1998, WOTR started its credit operation. Later, as the demand for its services grew, need for a specialised and autonomous institution was felt. Finally, in 2002 Sampada Trust was registered on 21st November 2002.

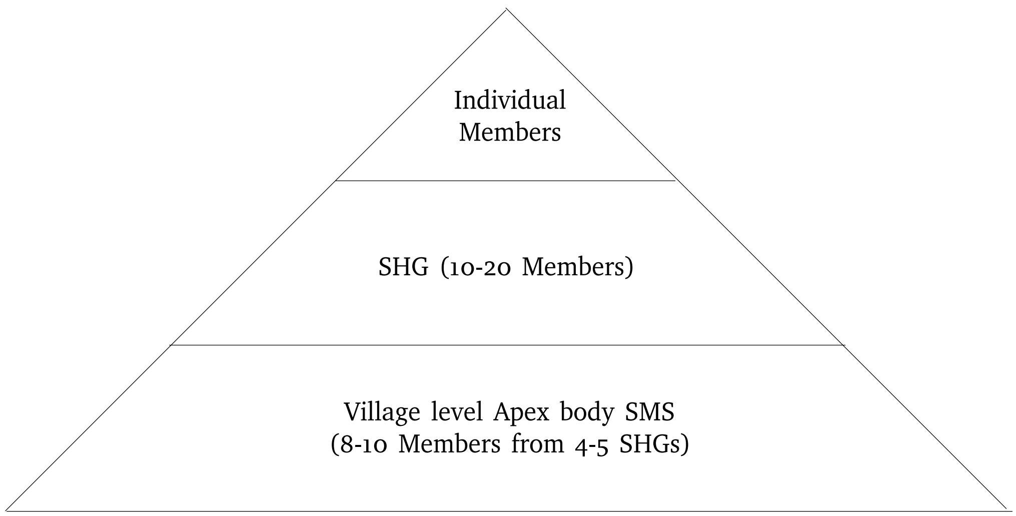
Mission of the organisation is "To mobilise the creative potential of groups and individuals by empowering them and providing financial, entrepreneurial and customised services in order to secure and enhance quality of life". Sampada Trust is head quartered at Ahmednagar and works in 18 districts of Maharashtra through 12 regional offices.

Sampada Trust is working in the area of microfinance, entrepreneurship development, women's empowerment and insurance. These services are provided through their SHGs and village level Apex Bodies- Sanyukta Mahila Samittee (SMS). SMS is a decision making unit consisting 1-2 representative members from 4 SHGs. Formation of SMSs rather than formation of cluster was an innovation done by the organisation. The objective behind forming SMSs rather was to keep the size manageable. Generally, cluster consists of 40-50 members from 20-25 SHGs in 4-5 villages, whereas, SMS consists of 8-10 members of 4-5 SHGs in one village. A smaller size of SMS is helpful for both, community and organisation as well as its management.

In some cases, the organisation also lends through Joint Liability Groups (4-5%). Sampada Trust provides loan only upto Rs. 20000/- to the members. For higher requirement they encourage members to go to banks. They also provide various non financial services like training and other support to the members. The organisation charges 12% interest rate for income generating activities and 13% for agricultural and consumption loans.

In promotion of microenterprise, the process begins with identification of the women who are ready to take up entrepreneurship. Various training inputs including behavioral, motivational and managerial are provided. The organisation also provides microinsurance services in collaboration with Bajaj Allianz. It has developed two life insurance products (General and accidental) and one animal insurance. By the end of March 2007, the organisation has insured about 55,000 persons. Sampada Trust also seeks to assist NGOs and CBOs interested in women's empowerment, extending them support to build up their capacities, as well as by networking and linkage building. As of 30th September 2006, a cumulative total of Rs. 186 million has been disbursed to 65,755 women through 5,745 SHGs. In the year 2007, the organisation had made 6630 disbursements amounting to Rs. 43 millions. A total of 1903 women members have taken on farm activities and 1233 members have taken off farm activities.

Figure 2: Model of Sampada Trust



3.3 *Bhartiya Yuva Shakti Trust (BYST)*

Entrepreneurship development is the key to tackle the global unemployment problem. Realisation of this fact by business community both nationally and internationally led to the foundation of BYST in a partnership with non governmental organisations and the corporate sector. BYST is basically a not for profit organisation and was promoted by Ms. Lakshmi V. Venkatesan after getting inspiration from Prince Charles Trust in UK. BYST is the first organisation to successfully replicate a developed country model in a developing country. Officially, BYST was launched in 1992 by HRH Prince Charles in New Delhi. The basic concept of this organisation is to assists disadvantaged youth who have a will to develop their ventures.

The organisation adopts a very unique way of promoting budding entrepreneurs by providing mentoring through successful businessmen in the society. Three very important components of creating an entrepreneur which this organisation adopts are money, mentor and consultancy. Mentors are expected to give one hour in a week/ fortnight/ month as per the convenience of the mentor and it is the responsibility of the young entrepreneurs to be in constant touch with his/her mentor. The organisation does not get into quantitative aspects and increase its scale rather they focus on creating successful entrepreneurs though they may be less in numbers. Further, as the organisation works for coordinating the activities of mentoring to the new and budding entrepreneurs its cost of operations are also not very high.

It is the unique Guru- Shishya Relationship which helps these young people to grow in their business. Further it expanded its operations to six major regions of India. Out of these six regions four of them (Delhi, Chennai, Pune and Hyderabad) run the urban programme while two regions run the rural programme (Rural Haryana and Rural Maharashtra). As of March 2007, BYST has supported 1000 buisness ventures and disbursed a loan of 37 millions. BYST was approached by DIAGEO, a multinational, to launch a youth entrepreneurship development programme in Pune (Western India) in 1994. CII, which was already a support partner to BYST in Delhi and Chennai, came forward to provide the infrastructure and managerial support. Inspired by the overwhelming success of the Urban Pune programme BYST - Rural Maharashtra was also set up in the year 2001.

Answering the question of what make these successful business person to agree to the idea of providing mentoring to these budding entrepreneurs, Ms. Poonam Bajpayee of BYST stated that,

> "These businessmen develop and flourish in the society and want to give something back to the society. This is the major reason behind their accepting BYST's idea of being a mentor for those budding entrepreneurs. Additionally, seeing somebody growing gives them a sense of achievement and satisfaction. We provide collateral free financial support upto 50 thousand rupees to the young entrepreneurs. For further financial requirement we encourage people to approach to banks. We have tie ups with Bank of Baroda in western region and with Indian Bank in Southern region".

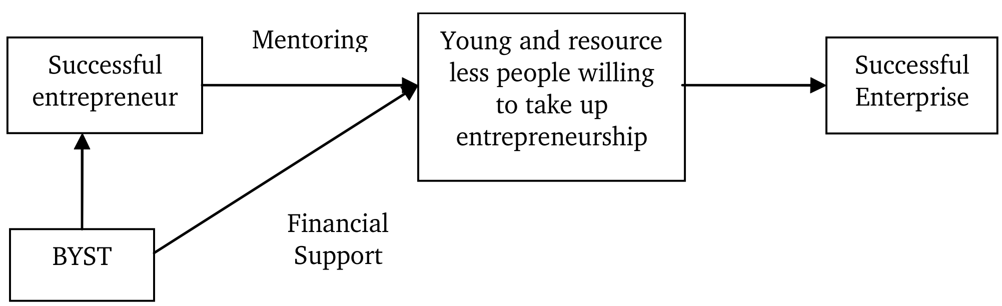
The organisation runs 10 mentor chapters in western India. In each mentor chapters there are 20-50 members. These mentor chapters are responsible for the promotion of entrepreneurship in their respective areas. Each mentor is properly trained through an online programme before getting assigned as a mentor to young entrepreneurs. As per the organisational data, the success rate of BYST is 95 percent. Five percent of BYST's high achievers have become millionaires. 75% of YBI young entrepreneurs credit their mentors with their business success.

In Pune districts alone, there are 500 mentors and have supported 350 entreprenerus. Pune urban office covers the areas in the diameter of 30 Kms. Mentioning about the achievements of rural office of BYST at Hadapsar, Pune, Lokendra Jadhav Stated that:

> "Rural office of BYST covers five talukas in Pune districts: Purandar, Haveli, Baramati, Shirvel and Daund. Rural office has supported 103 entrepreneurs of which 15% are women entrepreneurs. Realising the difficulty of rural youth from distant villages in coming frequently to meet their respective mentor Rural Maharashtra office started a 'Mobile Mentor Clinic' to provide mentoring support to them. Selected mentors use to visit them in orgnisations vehicle once or twice in a month depending on the need of the entrepreneurs".

The success of the organisation lies mainly on its mentorship concept. The organisation basically acts as a mediator between successful entrepreneurs and the young people willing to take up entrepreneurship and provide small financial support upto Rs. 50000.

Figure 3: Model of BYST



4 Discussion

Three cases presented above, follow three very different approaches for promoting microenterprises through combination of financial as well as non financial services. If the establishment year of WOTR (Mother organisation of Sampada trust) is considered, all these organisations are contemporary. Establishment years of these organisation is also parallel to the initiation of SHG movement in India. It was realised that lack of credit availability is the major restricting factor in the growth of the microenterprises. Credit plays an instrumental role in enhancing the capability of entrepreneur to utilise the available opportunity. It has been constantly argued that microcredit can lead the poor into a debt trap if they will not be able to generate enough income for repayments. Credit along with entrepreneurial input can help organisations in supporting income generating activities for the poor.

The entrepreneurial- based microfinance model of developing economically underachieving areas is being loosely replicated around the world and in the Americas

Table 1: Comparison of the Organisations

Sl. No.	Particulars	Mann Deshi	Sampada Trust	BYST
1	Year of establishment	1994	2002 (Mother Organisation WOTR was established in 1993)	1992
2	Nature of organisation	Umbrella Organisation	Sister Organisation of Watershed Organisation trust (WOTR) established in 1993	Single organisation
3	Mission	Empowering rural poor especially women in rural areas of Maharashtra	To mobilise the creative potential of groups & individuals by empowering them & providing financial, entrepreneurial & customized services in order to secure & enhance life quality	Assisting job seekers being job creator
4	Focus of work	Providing financial & Training services	Providing financial services along with entrepreneurial training	Supporting budding entrepreneurs with a financial support & mentoring
5	Target Clients	Rural poor women	Rural poor women	Urban as well as rural youth willing to take up entrepreneurship
6	Operational Area	Satara District of Maharashtra	18 districts of Maharashtra i.e. Chandrapur, Wardha, Amravati, Yeotmal, Beed, Parbhani, Nanded, Latur, Nandurbar, Dhule, Jalgaon, Aurangabad, Jalna, Ahmednagar, Buldhana, Sangli, Satara and Osmanabad	Urban: Delhi, Chennai, Pune and Hyderabad Rural: Haryana and Maharashtra
7	Outreach	62000 clients. 73% are backward caste	65,755 women through 5,745 SHGs. women members have taken on farm activities and 1233 members have taken off farm activities	350 entrepreneurs with a success rate of 95%
8	Approach	Holistic & umbrella approach, Registered Separate organisations for providing various types of services, SHG and SHG Federation	SHG and SMS, Holistic approach, Village level apex bodies as SMS. Finance upto Rs. 20000/-.	Individual financing upto Rs. 50000/- and mentoring through successful & established entrepreneurs
9	Key to success	Umbrella approach	Innovative concept of SMS	Mentoring

(Mead & Liedholm, 1998). Similar to other developed countries, in India also various models for combining entrepreneurial based organisation has been tried. These three organisations innovated different strategies and approaches for providing microfinance services along with non financial services and promoting income generating activities.

Although, the focus of these organisations is largely same- promotion of livelihood and self employment though, they follow different approaches. In these three organisations, Mann Deshi and BYST has concentrated its works in one district i.e., Satara and Pune district respectively. Sampada trust has a widespread work in Maharashtra i.e. 18 district out of 34 districts. Two organisations have a complete focus on poor women in rural areas and follow the group based SHG model, whereas, BYST works in urban as well as rural areas both and do not focus exclusively on women and follows the concept of individual lending. Mann Deshi and Sampada Trust has a large client base, whereas, BYST has a small client base but, a very high success rate (95%). Thus, all the three organisations work in very different contexts and adopt different approaches and strategy. A comparative table of these organisations is presented on p.11.

5 Conclusion

Promotion of microenterprises for self employment remains a key in development policy of India since independence. Various approaches have been tried for the same. In the recent times microfinance has evolved as an important approach for supporting income generating activities. However, in literature it has been argued that minimalist approach of providing only credit to poor people can have negative impacts by leading them into a debt trap (Adams and Von Pischke 1992; Buckley1997; Rogaly 1996). Additional efforts are needed from microfinance organisations to avoid the debt trap for poor. Combination of financial as well non financial services can lead to successful microenterprises. Examples of some of the successful models can help practitioners as well as policy makers to draw lessons for microfinance and microenterprise development programmes. However, these organisations operate in different context and try various approaches and strategies. Organisations need to be clear on their mission, vision and objectives. A clear understanding of the local context as well as the community needs can help an organisation to formulate its strategies in line with their mission, vision and objectives. Clear mission and vision, firm strategies, effective programme design, efficient implementation and close monitoring and evaluation are key success factors for any organisation. Additionally, innovation also plays an important part in defining success of an organisation. Organisational innovation should be need based and community needs should be properly identified for a successful and sustainable development.

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Determinants Influencing a Rural Household's Preference to Join Individual Liability or Joint Liability Micro-credit Contract Operated by Primary Agricultural Credit Society

- Suranjana Mitra* and Amit Kundu**

Agriculture credit which is one form of micro-credit mainly for the small and marginal farmers can be borrowed under individual liability credit contract or joint liability credit contract under Primary Agricultural Credit Society (PACS).

Abstract

Agriculture credit which is one form of micro-credit mainly for the small and marginal farmers can be availed under two different types of short-term credit contracts: individual liability credit contract or joint liability credit contract through Primary Agricultural Credit Society (PACS). The basic objective of this paper is to identify the factors which influence a rural household to link himself directly with PACS for credit contract under individual liability micro-credit contract or to take the initiative to join self-help group under PACS so that if required he/she can take credit under joint liability credit contract. Results reveal that higher education level and the age factor reduce the probability of rural people joining self-help group, but aged farmers with certain size of land prefer to take credit under individual liability loan contract after taking direct membership of PACS. But, ownership of land and its size do not form a decision making factor at the time of formation self-help groups under PACS. Actually, poor people with zero or small size of assets, i.e., mainly the risky type borrowers were not ignored during the time of group formation.

Key Words: Agricultural credit, micro-credit, individual liability, joint liability, primary agricultural credit society.

JEL Classification: G21, G14

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Introduction

Formal sector lending to the rural poor, is plagued by severe problems of inadequate coverage, very low rates of repayment and imprecise targeting. Most of these problems can be traced to two underlying factors, viz., lack of information and inadequate collateral (Roy Chowdhury, 2005). Micro-credit has become the corner-stone of many development strategies. It appears to offer a "win-win" solution where both financial institutions and poor clients can generate profit (Murdoch, 1999). The idea of micro-credit has now spread globally, with replications in Africa, Latin America, Asia and Eastern Europe, as well as in richer economies like Norway, the United States, France and England (Fedele, 2005). Micro-credit as a major tool against world poverty is polarised over the debate of the virtues of individual versus joint liability loan contract where in joint liability micro-credit programme we generally follow the model of Bangladesh Grameen Bank and in individual liability loan contract we follow the model of Bank Rakyat in Indonesia. But the group loan methodology has already been widely imitated and adopted. The World Bank and other international organisations channel most of their large financial support for micro-credit into group lending programs (Madejewicz, 2004). The premise of joint liability lending is that if one borrower cannot repay a loan, then other members of joint liability group will have to repay that. Joint liability lending is a potential breakthrough strategy in economic development (Ahlin and Townsend, 2003). Under group liability, clients have an incentive to screen other clients so that only trustworthy individuals are allowed into the program. Thus, group liability claims to overcome information asymmetries typically found in credit markets, especially for households without collateral. Actually, it mitigates the problem created by adverse selection and leads to positive assortative matching. The problem of moral hazard can also be mitigated through group lending because the borrower will be less willing to take huge amount of loan and will invest in less risky project if the contracts are enforceable and peer monitoring is present.

Critics, however, argue for simpler individual loans monitored by locally recruited loan officers. They claim that these loans achieve results that are as good as or better than group loans. (Conning, 2000). In recent years, Association for Social Advancement (ASA) in Bangladesh or the Bank Rakyat Indonesia (BRI), have expanded rapidly using individual liability loans. Others, like BancoSol in Bolivia, have converted a large share of its group liability portfolio into individual liability lending. The Grameen Bank in Bangladesh also has recently relaxed group liability clause (Gine and Karlan, 2007). Even though group lending has its own advantages, individual liability loan contract which is another form of micro-credit cannot be ignored. Thus the factors that motivate a rural individual to decide which system of loan contract he/she prefers to adopt in future can be an important aspect of research in microfinance.

Overview of Literature

Empirical research on group versus individual liability lending has not provided policymakers and institutions any clear evidence required and determining the relative merits of the two microfinance systems. Instead, the focus has been on which group characteristics lead to higher repayment or which program design do individuals choose. Huppi and Feder (1990) observed that the most successful group lending programs have been those where loans were made to self-selected groups of homogeneous individuals belonging to the same village and with similar economic standing. Conning (2000) has shown that an advantage to joint liability loans exist even under the more realistic assumption that borrowers cannot side-contract and monitoring is costly and subject to moral hazard. Ghatak (2000) in his theoretical study explained how joint liability can achieve high repayment rates even when borrowers have no conventional collateral to offer. Ahlin and Townsend (2002) raised a question - which type of loan contract has a higher repayment. They observed that social structures that enable penalties can be helpful for repayment while those which discourage them can lower repayment. Ahlin and Townsend (2003) in their study found that a wealth level further away from the village average makes choice of a group loan over an individual loan more likely. Madajewicz (2004) established that lenders who use individual liability loans look no different than do group lenders when judged by repayment rates and they tend to be more profitable. She also stated that the poorest borrowers served by group lending programs are often poorer than the poorest clients of individual lenders. Armendariz and Murdoch (2005) argued that group lending contract provides a way to achieve efficient outcomes even when the lender remains ignorant or unable to effectively enforce contracts. Group lending does better than traditional individual lending and makes lending sustainable by inducing peer monitoring and overcoming enforcement problems. Roy Chowdhury (2005) in his study showed that in the presence of joint liability, the rate of monitoring is higher thus leading to a greater rate of repayment. Simtowe and Zeller (2006) have shown in their study that micro finance institutions offering both joint and individual liability loan contracts must relax their rule on joint liability by allowing borrowers with dynamic and growing investments who make use of group loans at the beginning to switch individual credit offers when they are in need of higher loans to reduce mismatching problems and enhance dynamic incentive. Gine and Karlan (2007) observed that individual liability compared to group liability leads to no change in repayment but did lead to more individual borrowing. They also found statistically significant evidence of screening and monitoring but did not find that it adds to economically meaningful way to higher default. Lightfoot from Bank for Agriculture and Agriculture Cooperatives (BAAC) stated that farmers involved in joint liability borrowing are relatively small scale farmers who borrow relatively small amounts. Sarangi (2007) in his study indicates the exclusion of very poor households from participation in group-based credit programs.

Madajewicz (2004) established in her theoretical model that group liability loan is only desirable for the poor borrowers. In her model, below a certain level of wealth, group liability dominates individual liability. But, above a certain wealth individual liability will be preferred by rural households. Gine and Karlan (2007) found less willingness among bank officers to open groups despite no increase in default. According to Lehner(2008), micro finance institutions offer group loans when size of credit is quite large. With a rather small loan size, all micro finance institutions offer individual loans. Kundu (2009) in his primary data based study observed that wealthier among the less affluent rural households prefer to join microfinance system operating on the basis of individual liability loan contract through a micro finance institution and comparatively less wealthy households prefer to join micro finance system operating on the basis of joint liability loan contract. But households with no asset or little valued asset are less amenable to join in any micro finance system.

3 Micro-credit programme through Primary Agricultural Credit Society (PACS)

The cooperative movement which is the largest socio economic movement in the world, has contributed significantly to the alleviation of poverty, creation of productive employment as well as the enhancement of social integration in the country. The cooperative sector is mainly concerned with agricultural credit, marketing of agricultural produce and distribution of fertilisers and pesticides and other essential commodities. Cooperative Credit Societies Act of 1904 and 1912 was the first important landmark in the agricultural credit policy in India. The All India Rural Credit Review Committee (1969) and the Agricultural Credit Review Committee (1989) opined that from the point of view of structural appropriateness, there is no alternative to cooperatives at the village level for provision of agricultural credit. The cooperative banking system has a three-tier structure providing short-term, medium-term and long-term agricultural credit with Primary Agricultural Credit Societies at the village level, the Central Cooperative Banks at the district level and the State Cooperative Banks at the state level. The formation, registration, operation and winding up of cooperatives are governed by state laws and regulations. Since agriculture is and will presumably continue to be the main economic activity of many rural people, therefore agriculture credit is and will be the primary need. But, the problems of agricultural credit like lack of required loan collateral, risks associated with agriculture lending due to yield uncertainties, price fluctuations, low loan repayments, changes in domestic and international policies and high financial transaction cost failed to produce the desired results. Microfinance emerged as an alternative credit delivery mechanism to formal banking in rural India. There is no specific estimate of the size of micro-credit. But, we can generally say thatif the size of credit is not more than Rs.20,000 then, that credit can be treated as micro-credit. Agricultural credit for the small and marginal farmers can be treated as one form of micro-credit because the size of credit disbursed through PACS is a function of the size of land owned by the borrower which in any case is low in the case of small and marginal farmers. . It can be availed under two different types of short-term credit contracts: individual liability credit contract and joint liability credit contract under Primary Agricultural Credit Society. Short-term credit is also known as the crop loan which helps the farmer to increase and maintain his productive ability. Primary Agricultural Credit Societies draw their finances from Central Cooperative Banks who in turn draw their finances from State Cooperative Banks and the State Cooperative Banks draw their finances from National Bank for Agriculture and Rural Development. PACS also contribute in the formation and nurturing of SHGs in many districts of West Bengal including Hooghly. NGOs do not play any significant role in the formation of SHGs in Hooghly. Nor is there any specific MFI to cater to the needs of SHG. Thus, simultaneous existence of individual liability credit contract and joint liability credit contract through PACS is a significant feature in Hooghly district of West Bengal.

3 Individual Liability Micro-credit Contract through PACS

Credit given directly to individuals also form a part of the microfinance structure. Many institutions have adopted the individual credit route for microfinance. In India, Cooperative banks, via the Primary Agricultural Credit Societies play a very important role in priority sector lending. In order to avail of the loan facilities of Primary Agricultural Credit Society (PACS) an individual will have to fulfill certain conditions, which is same for all PACS of Hooghly district. The information on mode of operation of Individual Liability micro-credit contracts through PACS was collected from three Managers of three PACS and that was cross-checked by the Chief Executive Officer of DCCB, Hooghly. The basic eligibility criterion for agricultural loan from PACS is that the individual will have to be a member of PACS. Therefore a person who is not a member of PACS will first have to apply for membership stating the reason for wanting to be a member and pay a nominal entry fee or admission fee. The amount of entry fee varies from one PACS to the other. The applications are usually submitted during the crop seasons i.e. Kharif (April to August) or Rabi (October to January) season as membership is mandatory for agricultural loan from PACS which has to be passed by the Board of Directors in the meeting. During each season, the Board of Directors meets at least thrice to discuss the membership issue. There is an agreement between the loanee and the society stating the amount of loan, the interest rate to be paid and the repayment period which has to be accepted by the loanee. This is known as "tomsuk". When the application is passed by the Board of Directors of the respective PACS, the applicant is to pay the membership fee which varies from one PACS to the other and is decided in the Annual General Meeting of PACS. The membership fee, different from entry fee is paid through purchase of share issued by the respective PACS. The value of each share is decided in the Annual General Meeting of PACS. But, a minimum of one share is to be bought for membership. No dividend is declared by PACS on shares. The loanee then submits the photocopy of 'land deed' or 'porcha' and the original copies of the same are to be produced to validate the ownership right. In case of a 'bargadar' or 'patta holder' the land record is considered as the document. The "bargadar" or "patta holder" receives 50% of the scale of finance as loan. Land, as the asset owned by a farmer acts as the collateral security for PACS. If the amount of loan is greater than Rs.5,000 then the land is registered in the name of the respective PACS known as 'mortgage carbonnama'. After this entire procedure is over and the person is considered eligible for loan facilities, the person opens a savings deposit A/C with the respective PACS if the person does not hold one and deposits a minimum of Rs. 50 in the account. This system of opening an account with the PACS has been effective only since the introduction of 'Kisan Credit Card' (KCC) scheme in 2002 in Hooghly. At this point, the KCC is issued in the name of the loanee. The loanee then fills in a 'voucher' with the details of his/her name, address, the KCC number and amount of the loan applied for. The voucher is signed by the loanee and two witnesses. The loan amount sanctioned is then transferred to the account as per the 'scale of finance'. The loanee becomes eligible to withdraw the entire amount of loan sanctioned or in installment according to the needs at different stages of cultivation.

The amount of loan sanctioned depends on the credit limit known as '3 Year Composite Credit Limit' scheme which is calculated with the help of the following simple formula -

Credit Limit = Scale of Finance * Amount of Land for Cultivation.

Scale of finance is different for different crops. It is determined by using the different cost of components of cultivation. It is calculated in the following way.

Scale of Finance = $f\,(C_S + C_M + C_F + C_{PPC} + C_L + C_I)$
where C_S = Cost of seeds, C_M = Cost of manures, C_F = Cost of fertilisers, C_{PPC} = Cost of plant protection chemicals, C_L = Cost of labour, C_I = Cost of Irrigation

Even though scale of finance depends on cost of different components required for cultivation, the entire amount is not provided as loan. But, for some crops like potato and vegetables the amount of loan sanctioned is greater than the cost of cultivation per acre of land. It is fixed for three years. But, if the cost of components increases during these three years then there is a provision of introducing supplementary credit limit even before the completion of three years. The table for scale of finance for paddy, potato, jute, vegetables and mango is provided in Table 1. Credit limit which is dependent on scale of finance is fixed by District Level Technical Committee under the Chairmanship of Principal Agricultural Officer (PAO) on the basis of one acre of land.[1]

Rural West Bengal is now dominated by small and marginal farmers whose size of land is less than 3 acres. So their requirement for agricultural credit is also small. Primary Agricultural Credit Society can fulfill their requirement of small credit which can be termed as micro-credit. PACS charge interest on agricultural loan which is fixed by the Government of India through NABARD. The rate of interest charged by PACS for agricultural loan from borrowers was 12.5%, in 2003 and that has dropped to 7% in recent years. This loan is now refinanced by the branch of the District Central Cooperative Bank Ltd. at the rate of 5% per annum. The loan is to be repaid within a year from the date of disbursement. If the cultivator is unable to repay the loan within the stipulated time period then an overdue of 2% is charged along with the existing rate of interest. Even though the repayment period is one financial year, yet the rate of interest charged during this period is not the same for all crops.[2]

Since the introduction of 'Kisan Credit Card' scheme the cultivator does not have to wait for the loan. The scheme aims at providing adequate and timely credit for the comprehensive credit requirements of farmers for taking up agriculture and allied activities. Even though agricultural credit is provided by commercial banks as well and at the same rate of interest as that of PACS yet, it has been experienced that people prefer to borrow from PACS because of the known environment. In addition to land, gold is also accepted as collateral by commercial banks. The employees of the respective PACS belong to the same village and thus the borrowers are at ease and more comfortable in borrowing from PACS. Ignorance and illiteracy also prevent the borrowers from approaching the commercial banks for agricultural credit where they find the process to be cumbersome and complicated. Sometimes, distance of the commercial bank from the village also hinders the borrower's eagerness to borrow from the commercial bank. Thus, the importance and operation of PACS in the rural areas in case of individual liability micro-credit contract is enormous.

Group Lending Program under PACS through formation of Self-Help-Group

The group approach on the contrary delegates the entire financial process to the group rather than the financial institutions, here PACS. These groups are in turn linked to a microfinance institution for sourcing of additional funds as well as depositing their savings. "Group liability" refers to the terms of the actual contract whereby individuals are both borrowers and simultaneously guarantors of other clients' loans (Gine and Karlan, 2007). A self-help group (SHG) is a small, economically homogenous and affinity group of the rural poor, voluntarily coming together to save small amount of money regularly, provide collateral free loans with terms decided by the groups and have collective decision-making. Under the cooperative-SHG linkage programme, groups can be formed directly by the different branches of Cooperative Banks or via PACS. Harper, Berkhof and Ramakrishna (2005) in their study found that the more successful a DCCB is at SHG linkage, the higher the proportion of SHGs linked to the PACS. The process of forming groups by PACS and the different branches of DCCBs are same and that is narrated below.

- A locality is chosen and the target group is selected. The women of the chosen locality particularly belonging to poor families are the target group.

- The target group is addressed by the staff from PACS or by employees of branches of DCCBs who are entrusted with the task of initiating the movement along with officers from NABARD and DCCB. Sensitisation camps and motivation programs are organised for the target group.

- The target group self-selects its members (at least five and not exceeding fifteen) having same economic status to form a self-help group.

- The members first decide a name for the group which will be a unanimous decision by all the members of the group in the first meeting.

- After the group name is decided, a leader and a deputy leader are selected from among the members. Usually a literate member is selected as the leader. If all members in a group are illiterate, the SHG supervisor helps them to maintain accounts and keep record of meetings.

- The amount to be deposited as savings on monthly basis is decided by the members of the group which varies from Rs. 10 to Rs. 50. The money must be given by the 10th of every month to the leader of the group.

- After the first month's collection the leader opens an account with the PACS or with the branch in the name of the group and deposits the amount collected from the members of the group. A passbook is issued in the name of the group. The money is deposited by the 10th of every month in the account with the society. The group deposit earns interest which is currently 4% per annum.

- The group has to maintain the following documents- a Minutes Book, a Cash Book, a deposit ledger and a loan ledger.

- The group has to save for six months. The group is constantly monitored by the SHG supervisor, an employee of PACS during these six months.

- Several training programs are arranged by PACS for the target group to create self employment opportunities for the target group. The different types of training programmmes include mushroom cultivation, production of vermi compost, tailoring, poultry, etc. Non-government organisations do not play any role in the nurturing of SHGs in these two blocks.

- After six months, the group becomes eligible for loan facilities. The group is sanctioned upto four times the amount deposited as loan. The loan is granted in the name of the group after which the loan is distributed among the members either depending on the need or equally which again depends on the unanimous decision of the group members. The loan is repaid to the group within a stipulated time period and along with an interest rate decided by the members of the group, usually 12% per annum. There are different reasons for which a group member may take a loan. Loans can be both for consumption as well as production purposes. Productive loans can be for self employment or for agriculture purposes.

- The loan is repaid by the members to the group which in turn is repaid to the PACS or the branch. The branch or the PACS charge some interest rate which again differs from one PACS to the other. The repayment period for the group is decided by the group unanimously. The repayment period for the branch or PACS is decided by the respective agencies. There is a maximum time limit within which the loan must be repaid to the agencies. It is observed that the group members are very eager to repay the loan in order to avail of the successive loan facilities.

The basic objective of our paper is to identify the factors which influence a rural household to link himself directly with PACS for credit contract under individual liability micro-credit contract or to take the initiative to join Self-Help Group under PACS so that if required he (she) can take credit under joint liability credit contract.

Sample Design and Sample Size

The sample is drawn from Hooghly district of West Bengal. Hooghly has been selected because it has the maximum number of self-help groups provided with bank loan which are formed by PACS and the amount of loan disbursed to these groups by the District Central Cooperative Bank is also the largest (Progress of SHG -Bank Linkage in India 2005-06, NABARD). The role of the Hooghly District Central Co-operative Bank Ltd. (HDCCB) in microfinance is also significant compared to the Cooperative Banks of other districts and has been considered as the role model for many districts and states. There were 8419 savings-linked SHGs out of which 8395 were under PACS of HDCCB as on 31.03.03. The total number of female SHGs was 8242. The total number of credit-linked SHGs was 5296 out of which 5087 were female SHGs. The amount of savings deposit mobilised by SHGs was Rs. 214.43 lakhs and the amount of loan disbursed was Rs. 666.67 lakhs. The repayment rate was 98%.

(Annual Report of Hooghly District Central Cooperative Bank Ltd.). Out of the eighteen blocks in Hooghly, two blocks have been selected for the survey and these two sample blocks are (i) Chinsurah-Mogra and (ii) Tarakeshwar. Chinsurah-Mogra and Tarakeshwar are chosen because both are tribal based communities with a considerable percentage of people lying below the poverty line. Chinsurah-Mogra has two PACS affiliated to Hooghly DCCB Ltd. - Digsui Union Large Sized Primary Cooperative Agricultural Credit Society Ltd. and Talandu Sech 'O' Samabyay Unnayan Samiti Ltd. The former is the oldest. This is also another reason for choosing Chinsurah-Mogra. This society was formed on 5th March 1957 at Digsui catering to the needs of 13 villages - Digsui, Khalsi, Gannegarh, Bagri, Daharchakulai, Mamudpur, Kabirhati, Naksha, Fatehpur, Taragun, Champarui, Aashphal and Rajarambati. Since 1996, SHG loan is also being provided by the society. The latter was formed on 26.12.73. It covers two villages - Talandu and Bharatpur. SHG loan has been introduced in this society since 1998. In Tarakeshwar there are eighteen PACS out of which one is chosen randomly and it is known as Vivekananda Samabyay Krishi Unnayan Samiti Ltd. Incidentally it has the maximum number of savings-linked and credit-linked groups. This society was formed on 17th September 1977. It covers five villages - Kanaria, Mohonbati, Nacchhipur, Tullyan and Champadanga. SHG loans are also provided by this society since 1999. All the three PACS provide agricultural credit through both individual and joint liability loan contract system. Other than crop loan, the societies also disburse SHG loan. The loan disbursed through SHGs was utilised both for agricultural purpose as well as for other purposes like consumption, construction and repair, business etc. But the information on the amount of loan used for agricultural purpose out of the total SHG loan is not available. As for Digsui Union Large Sized Primary Cooperative Agricultural Credit Society Ltd. other loans included education and medical loan. Similarly, Talandu Sech 'O' Samabyay Unnayan Samiti Ltd. also disburses term loan and SHG loan. The different types of loan disbursed by Vivekananda Samabyay Krishi Unnayan Samiti Ltd. were salaried loan, pledge loan and SHG loan along with crop loan. The rate of recovery varied between 80% and 90% for all the three PACS. The areas surveyed have double cropping pattern of agriculture with Aman and Potato being the largest choice. Since all lands in the sample have double cropping, the annual net return from one acre of land is almost identical.

The sample consists of two treatment groups and one control group or reference group. The number of individuals who joined individual liability loan contract in 2004 which is the base period (i.e., tth period) was first selected and then a sample was drawn from each of the three PACS. Considering all the three PACS, out of 160 members 115 were selected on the basis of availability and easy communication. The survey period was from August to November in 2005-06.[3] This period was chosen to minimise the recall period of each respondent. For joint liability loan contract system, all the groups that were formed in 2004 were not considered as sample. The total number of groups formed during this year in the three PACS was 57 and out of 57 SHGs, 47 were selected as sample SHGs. We considered all the members of the sample groups as respondents and total sample size under joint liability loan contract came to 276. So in our sample, the rural households of the same villages had the option of joining any of the loan contract systems or not become a member of any system. After the sample households were selected the socio economic conditions were studied in order to determine the factors that can influence an individual to join either individual liability or joint liability loan contract through formation of Self-Help Group with the help of a well framed detailed questionnaire. Thus, the sample had three categories:

1. Individuals who have taken direct membership of PACS in the tth period so that they can take credit directly from PACS under individual liability loan contract system. These individuals belong to Treatment Group-1
2. Individuals who have taken membership of self-help group in the tth period and plans to take credit in future when required from her respective group under joint liability loan contract. These individuals in our paper belong to Treatment Group-2.
3. Individuals, from almost identical socio-economic background who are not members of either loan contract systems in the tth period but have the eligibility to join any of the systems. These sample respondents belong to control group.

We have already mentioned that the total sample size is 491 out of which the first treatment group has 115 individuals while the second treatment group includes 276 individuals. The control group has 100 individuals who are chosen from the same sample villages having almost the same socio-economic background. During the time of drawing of the sample, care has been taken to see that no individual belonged to both the loan contract systems in 2004.

Identifying the Factors which influence the rural households to take either direct membership of Primary Agricultural Credit Society or indirectly through formation of Self-Help Group.

To identify the factors which can influence or increase the probability of a rural household to take direct membership of PACS to borrow in future from that formal credit institution either on individual basis or to form self-help group to borrow from that respective group under PACS on the basis of joint liability credit contract, we have to consider the following Multinomial Logit Regression Model.

$$Y_{jt} = \hat{a}_0 + \hat{a}_1 LAND_{jt} + \hat{a}_2 DRATIO_{jt} + \hat{a}_3 ICOMOH_{jt} + \hat{a}_4 EDU_{jt} + \hat{a}_5 AGE_{jt} + \hat{a}_6 OSBROWjt + u_j$$

where u_j is the disturbance term.

Here the dependent variable Y_j can be expressed as

$Y_{jt} = 1$ if the respondent has joined individual liability loan contract in the t^{th} period.

$Y_{jt} = 2$ if the respondent had joined joint liability loan contract through formation of self-help group in the t^{th} period.

Y_{jt} = 3 if the respondent did not join any of the loan contract in the t^{th} period.

The explanatory variables of the above model can be expressed in the following way:

Since land is the main asset possessed by these individuals in a rural economy and it acts as the collateral for PACS, the primary determinant of the above decision making factors is the size of land which is expressed here in terms of acres.

The other explanatory variables are- Adult Equivalent Dependency Ratio of the sample household in the tth period (DRATIOjt), Income from other sources in the tth period (INCOMOHjt), Education level of the sample respondent in the tth period (EDUjt), Age of the respondent in the tth period (AGEjt), and Borrowing from other sources by the respondent in the tth period (OSBROWjt).

Dependency ratio of a household is the ratio between total number of adult equivalent family members, and total adult equivalent earning member of that respondent household. Following Townsend to get adult equivalent family member we have considered 1 for any adult family member (both male and female), .25 for any member of that household up to six years of old and .50 for any member of the household between 6 to 14 years of old. Dependency ratio reflects the savings and loan repayment capability of the rural households. From the field survey it came out that household with higher dependency ratio spends their major earnings for consumption purposes and less amount is left for savings and if required for loan repayment. So this type of household can be treated as '*risky*' borrower and they may either prefer not to join in any type of micro-credit programme or under joint liability credit contract where the size of compulsory contribution is small and burden of loan repayment can be shared.

Here income of the sample respondents from other sources include wage income as agricultural labourer, earnings from selling milk products, working in potato stores, small business like grocery shop, cycle repairing shop and tea stalls, tailoring, wage income as labourers after being engaged in different activities as masons, carpenters, trolley drivers, providing tuitions and earnings from working in small firms. Income of a household represents its solvency. So a household with higher income may prefer to join microfinance system under individual liability loan contract or a household with comparatively less income may prefer to join group or household with very low income may prefer not to join in any type of microfinance programme.

Borrowing from other sources is treated as dummy variable. OSBROWjt = 1 if the respondent already has few borrowings from other sources other than PACS in the tth period mainly from professional money lenders or relatives or neighbours and = 0 if that did not happen.

Education as an explanatory variable is defined in our model in the following way.

Education level of a prospective member represents his/her analytical power. Education can help the prospective member to become aware of the pros and cons of two different types of microfinance system and can take informed decision before joining any microfinance programme. It came out from field survey that uneducated rural people in the sample villages are not so much willing to join any programme because they fear that their deposited money can not be recovered.

Illiterate	0
Class I-IV	1
Class V-VIII	2
Class IX -X	3
Class XI-XII	4
Graduate	5
More Than Graduate	6

Age of a rural person reflects his/her productive capacity because they mainly earn through physical labour. It is observed that among rural people who are more than 55 years of age are sometimes reluctant to join any type of microfinance programme, because, they think that at this age, they will not be able to 'adjust' themselves with other group members. Again under joint liability micro-credit contract through formation of self-help group, sometimes a group member has to wait to get credit longer time period even after repaying her first loan. This is a problem for an aged member. But, individual liability loan contract is free from this problem. They can interact directly with PACS and can demand credit any time when required.

Before going to the Multinomial Logit Regression results, initially we have to look at the summary statistics of the different explanatory variables which is shown in Table-1. Here we consider only the mean values and standard deviations are presented in the parentheses.

From the above table we can draw the following inferences:

1. There is no significant difference in average size of land between treatment group2 and control group. But average size of owned land of treatment group1 is significantly more than the average size of owned land by the rural households belonging to control group.
2. There is no significant difference in average size of adult equivalent dependency ratio between the households of any treatment group and control group.
3. Average income of the sample respondents from other sources belonging to control group is significantly more than the average income from other sources of the sample respondents who had just formed Self-Help Group. Statistically it is also established that there is no significant difference in mean value of average income

Table 1: Summary Statistics of the Explanatory Variables

Variables	$Y_j = 1$	$Y_j = 2$	$Y_j = 3$
$LAND_{jt}$ (acres)	1.56 (1.54)*	0.4 (0.75)	0.6 (.67)
$DRATIO_{jt}$	2.57 (0.79)	2.31 (0.94)	2.41 (0.97)
$ICOMOH_{jt}$ (Rs.)	2672.4 (2845.5)	2118.95 (1805.48)*	2647 (1565.7)
EDU_{jt}	2.39 (1.36)*	1.15 (0.99)*	2.08 (1.3)
AGE_{jt}	43.46 (8.76)*	31.43 (9.96)*	36.51 (9.4)
$OSBROW_{jt}$	0 (0)*	.08 (.27)	.18 (.39)
Sample size	115	276	100

* Significant at 1% level.

of the sample respondents from other sources belonging to Treatment group1 and of control group.

4. There is significant difference of average level of education of the sample households belonging to any treatment group and that of control group.
5. Average age of the sample households belonging to Treatment group1 is significantly more than that of control group. Similarly, average age of the sample households belonging to Treatment group2 is less than that of the sample respondents belonging to control group. So young women prefer to form Self-Help Group under PACS in the sample villages.
6. There is no significant difference in average borrowing from other sources between Treatment group 2 and control group. But significant difference is observed between Treatment group 1 and control group.

The results from Multinomial Logit Regression model mentioned above is shown in Table-2.

The above results can be interpreted in the following manner:

Table 2

REGRESSOR	$Y_j=1$	ODDS RATIO	$Y_j=2$	ODDS RATIO
Intercept	-3.799*		3.576*	
$LAND_{jt}$	.415*	1.515	-1.131	0.877
$DRATIO_{jt}$	0.209	1.232	0.181	1.199
$ICOMOH_{jt}$	-1.988E-04**	1	7.88E-05	1
EDU_{jt}	0.234	1.263	-.682*	0.505
AGEjt	6.745E-02*	1.07	-5.609E-02*	0.945
$OSBROW_{jt}$	-24.787	1.72E-11	0.129	1.138

Pseudo R^2: Cox and Snell= .464 and McFadden= .315
* Significant at 1% level
** Significant at 5% level

1. Higher the size of land, higher will be the possibility of a rural household to become a direct member of PACS so that they can take credit from that formal financial institution on the basis of individual liability loan contract. The value of Odds ratio which is more than one supports our inference. Actually, greater the size of land, more can be produced; hence capacity to repay the loan is also very high. Since amount of loan depends on the size of land and cost of cultivation, greater the land size more will be the credit limit. With more size of land, economic standing of households improves and individuals can borrow independently without any peer pressure and group dynamics. On the other hand, size of land does not play any significant role during the time of taking decision of forming Self-Help Group for joint liability loan contract because participants of this system are not so affluent and do

not possess large size of land and for those who possess land the size is so small that they cannot afford to borrow larger amounts of credit.

2. Adult equivalent Dependency ratio does not play any significant role during the time of taking decision to join PACS directly or indirectly through formation of self-help group.
3. With more income from other sources probability of a farmer to join PACS for agricultural credit under individual liability loan contract falls. More income from other sources can provide enough savings and hence lesser need to borrow. But this does not play any significant role in influencing anyone in joining a self-help group.
4. If individuals are more educated, then probability of joining self-help group decreases (as the value of the odds ratio is less than one). Actually from field survey it came out that homogeneity of the group is lost if someone more educated joins the group. It is feared that there shall be a tendency of the comparatively more educated members to overpower others who are less educated. Therefore, the other members are not interested in including such a member. On the other hand, level of education of the main member of the rural household does not play a significant role at the time of taking decision on joining PACS for taking individual liability loan contract in future.
5. Aged people have a tendency to join individual liability loan contract (value of odds ratio is more than one in case of the prospective members of PACS). They prefer individual liability because they do not want to wait for a loan which depends on the group's decision in case of joint liability. Therefore, for aged people, probability of joining a group falls and there is a tendency to become a non-member. Old-aged women are not motivated to undertake anyincome-generating activity because of their age and they are less interested in empowe-rment or social freedom and they prefer to fall back upon traditions and customs.

   The correlation between economic status and membership is potentially in accordance with theory of joint liability when following Ghatak (1999) safe and comparatively wealthy borrowers always form group with safe borrowers. The poor members are excluded from the group. But, it is observed that higher size of land and income from other sources does not improve the probability of a rural household to join self-help group mainly formed by PACS. So we can say, contrary to Ghatak, that poor members are considered during the time of group formation and there is no significant importance of income and any form of asset during the time of choosing co-group members.
6. Borrowing of the sample respondents from other sources in the t^{th} period does not influence an individual in their decision-making regarding joining either of the type of loan contracts.

Conclusions

Rural households with larger size of land are more prone to take direct membership of PACS so that when required they can easily take micro-credit from primary agricultural credit society under individual liability credit contract. But, ownership of land of a rural household and its size is not considered during the time of forming self-help group under PACS which proves that risky borrowers are not avoided during the time of forming group by Primary Agricultural Credit Society or by other rural households who also want to join that group. Higher income from other sources of the sample households decreases the possibility of a rural household to take direct membership of PACS but that factor does not play any role at the time of taking decision of forming self-help group. Again higher age and high education level discourage a rural household to join self-help group or they are not preferred as members by other co members. Actually, the opportunity and the ability to save in small amounts such as Rs. 10 per month motivate the individuals to join self-help group. The other reason is being able to borrow at much lower rates of interest without any collateral. But, there are individuals who do not want to face the peer pressure and group dynamics and hence prefer not to join joint liability loan contract even though there is an advantage of avoiding the crunches of professional money lenders and getting loans at lower rates of interest without collateral.

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End Notes

1 The Chief executive Officer of the District Central Cooperative Bank Ltd is the convener of the meeting of District Level Technical Committee. The other members of the Technical Committee are Principal Agricultural Officer of the District, Krishi Sech 'O' Samabyay Member of Zila Parishad, District Development Manager, NABARD, Lead District Manager, Chief Executive Officer of the District Central Cooperative Bank, Chairman of District Central Cooperative Bank, Assistant Registrar of Cooperative Societies of the Range and some seven to eight Progressive Cultivators of the District.

2. For example, for Aman paddy, the loan is sanctioned in April and the loan has to be repaid by 31st March of next year. For Boro paddy, the loan is sanctioned during January - February but till 31st July existing rate of interest is charged and beyond 31st July PACS charge an overdue of 2% interest rate along with the existing rate of interest. For potato, the loan is usually sanctioned during October and hence has to be repaid by 30th September of next year. But if the loan is repaid by 30th June then the existing rate of interest prevails. Beyond 30th June the rate of interest will be 2% more than the existing rate even though it is within the repayment period. This is because it is expected that cultivators are able to earn their revenue from the sale of proceeds by June. If the cultivator is unable to repay the loan by 30th of September then an overdue of further 2% rate of interest along with the already prevailing one is charged. Crop-wise repayment period prevailed before the introduction of KCC. The repayment period for Boro paddy, Aman paddy and potato are six months, eight months and four months respectively.

3. Actually our ultimate target was to identify the impact on rural participating households after joining micro-credit programme operated through PACS. If we want to study the impact, the time gap after joining the programme should be at least three years. Here we consider the time gap of four years. So the base period is 2004 where the sample respondents had joined either SHG under PACS to enjoy the benefit of joint liability credit contract in future or became direct member of PACS to enjoy credit under individual liability. We also had to take sample of the non-participants from almost same socio-economic community who are here treated as reference category. The survey was done on 2005-2006 to minimise the recall period.

Evaluation, Problems and Challenges of SHG Linked Microenterprise Development in India with Special Reference to Kudumbashree in Kerala[1]

- Vasanthakumari. P*

Abstract

Poverty is a world wide and multi dimensional phenomenon and it exists both in the developed and developing countries. Nearly 40%of the Indian population live below the poverty line. Alleviation of poverty is a major challenge for the development of a country like India. Self-Help Groups and microenterprises assume added significance in this context. Efficiency in microfinance can be achieved only if it is properly invested and this is possible only through micro enterprise development. Hence here an attempt is made to evaluate the performance of SHG linked microenterprise development in India and to assess how far they have succeeded in fulfilling the objectives with which they are formed. As the largest number of SHG linked group microenterprises are concentrated in Kerala in the South and microenterprises under Kudumbashree in Kerala is a novel attempt in this regard, Kerala has been selected. The study has revealed that, despite impressive contributions, microenterprises face formidable obstacles and their performance in financial and marketing management leaves much to be desired. As the basic objective can be achieved only through the survival and growth of these enterprises, commercial efficacy should be accorded priority. An insight into further

Efficiency in microfinance can be achieved only if it is properly invested and this is possible only through micro enterprise development.

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JEL Classification: G21, G10

1 This paper was earlier submitted for International Conference on Microfinance in India - Issues and Challenges

possibilities, identification of opportunities and mapping of expertise are required for these enterprises to flourish. Microenterprises primarily wish to tackle poverty and unemployment. One prominent issue will be how to make the development more effective at combating these pervasive threats. It is through a diversity of responses, suited to local and regional conditions that the future of microenterprises will ultimately be assured. The task for the government is not to micro manage the actions of microenterprises, but to ensure that the climate is favourable for them.

Part I

1.1. Introduction

Over the last five years, inspite of enhanced global wealth creation, the number of people living in chronic poverty has been on the increase. Between 320 and 443 million people are now trapped in poverty. In India, 260 milion people live below poverty line and around 300 million are earning just 1US dollar per day. Data indicate that the percentage of people below poverty line has been on adecline, at the rate of about one percent age point per annum. The Human Development Index in India is also low (0.619) when compared to other Asian Countries.

Alleviation of poverty is a major challenge for the development of a country like India. The crux of the poverty alleviation programme lies in the generation of employment leading to income generation. To address the issues of poverty reduction, creating employment and income opportunities Microenterprises Development Programme have been initiated. Poverty alleviation schemes based on micro-credit and micro enterprises have been implemented effectively in many developed and developing countries. Efficiency in the management of microfinance is fruitful only if it is properly invested and this is possible through microenterprises development.

Microenterprise embody an impressive array of initiatives, skills and talents, and if effective forms of assistance can be developed, have the potential to generate significant contribution to the economic growth.

Microenterprises commonly share certain characteristics like low fixed capital, low technology, low risk and a few workers. Microenterprises are coming in to existence through either market driven or non market driven forces. Market driven ones are managed and controlled by the entrepreneurs themselves. In non- market driven enterprises a government agency or a NGO plays an active role. Non - market driven microenterprises are fostered by Government or its agencies as a part of poverty alleviation. SHGs, SGSY, etc., fall under this category. The idea of starting microenterprises under this category has raised lot of hopes and expectations, particularly among women belonging to poor sections because more than 90% of microenterprises are owned and operated by women. It is expected that these enterprises would help them to take up and manage their own productive activities which could supplement their household employment and income leading to improved living standards.

The main objective of microenterprises is two fold. From the economic point of view, they increase employment opportunities, generate additional sources of income, augment productive capacity of the society by using local resources and available technology and accelerate the rate of capital formation in the country. From the social point of view, they can offer a distinctive status for women members as entrepreneurs or as owners.

Considering the prominent role of microenterprises in India in Industrial development and economic and social empowerment of women, the Central and State governments and financial institutions have introduced various developmental schemes for microenterprises owned by women such as revolving fund, managerial grant, subsidies, etc. Since the governments have invested large amounts in the women owned microenterprises formed as group enterprises, assurance of successful functioning of these enterprises is essential.

Considering the basic objectives of microenterprises, governmental assistance and congenial atmosphere available to them, the relevance of an enquiry into the present state of affairs of microenterprises requires no emphasis. The present study is an attempt to evaluate critically the micro enterprise programme in India with special reference to Kerala.

1.2 Objectives

The main objective of the study is to critically evaluate the functioning of microenterprises, identify the major problems and challenges and to suggest possible improvements. The specific objectives are:

1. To evaluate the viability of SHG linked microenterprises in India;
2. To assess the social and economic impact of the programme on beneficiaries by emphasising on entrepreneurship development and social and economic empowerment;
3. To identify the major problems and challenges of the enterprises; and
4. To suggest remedial measures for the better performance of microenterprises.

1.3 Hypotheses

1.3.1 There is significant impact on the economic and social empowerment of women in India because of the development of microenterprises.

1.4 Methodology

Microenterprises owned and operated by women formed as group enterprises and are linked with SHGs constitute the sphere of the study. The largest number of microenterprises in India are concentrated in the South. As detailed data on microenterprises are available only in Kerala in the South and microenterprises under Kudumbashree in Kerala are a novel attempt in this regard and won many national and international Awards, a case study of Kerala was conducted. 2040 group microenterprises under Kudumbashree in Kerala constitute the population of the study. These group enterprises were divided into 3 categories/sectors on the basis of activities / products, viz, agricultural sector, industrial sector and service sector and from each category a sample of 1% has been selected at random. Thus, 20 group microenterprises, i.e., 3 in agricultural sector, 8 in industrial sector and 9 in service sector, and their 328 beneficiaries have been taken for this study. Of the 328 beneficiaries, 55 are from agricultural sector, 115 from industrial sector and 158 from service sector.

For the present study, microenterprises are defined on the criteria of:

- Investment ranging from Rs. 5000 to Rs 2.5 Lakhs;
- Potential to generate at least Rs 1500 per member per month either by way of wages or profits or both;
- Owned, managed and operated by women belonging to families who have income below poverty line; and
- Minimum turn over of Rs. 1 lakh to Rs. 5 lakh which is 2 to 10 times of capital investment.

Both primary and secondary data were used for the study. The primary data were collected by using two sets of questionnaire, one for collecting details of microenterprises and the second for collecting details from beneficiaries.

Analytical tools like ratios, simple correlation, paired 't' test, empowerment/ entrepreneurship development index, etc., were used. Empowerment/ entrepreneurship development value is calculated by using 3 points likert scale.

Part II

2.1 Performance Evaluation of Microenterprises

Since the financial viability of a business unit is influenced and reflected by lucrativeness of the unit, an analysis of the financial performance and position of micro enterprises is found desirable. This part is an attempt to recapitulate the major findings on performance and position of these units based on the data from Profit and Loss Accounts and Balance sheets.

2.1.1 Findings on Performance Analysis

1) Among the three categories of microenterprises studied, service sector was comparatively most profitable and industrial sector was least profitable.

2) Total income and operating income were the same for all the units in three categories, i.e., non operating income for units in the three categories were zero.

3) Of the twenty units studied, only 7 units i.e., one unit in agricultural sector one unit in industrial sector and five units in service sector, showed net profits during the four year period (2004 - 05 to 2007 -2008) of study.

4) The only non- operating expense incurred by all the units in three categories consisted of interest on borrowings.

5) Average Operating Ratio (Ratio of operating expenses to net sales) for the entire period of study in respect of 6 units - 5 units in the industrial sector and one unit in the service sector - (Table I in the Appendix) was observed to be more than 100 percent. This indicates that operating expenses exceeds net sales. Reason for high operating costs can be traced to high material and labour costs. Purchase of materials in uneconomic quantities from local supplies and improper human resource management had resulted in high material and labour costs respectively.

6) Analysis of Debt Equity Ratio (Ratio of Debt capital to Equity Capital) revealed that the average debt- equity ratio of 6 units was found to be negative (Table 2 - Appendix). Negative debt- equity ratio was the result of negative equity capital. This was mainly due to erosion of capital by accumulated net losses and by excessive drawings. Poor financial back ground of the entrepreneurs never allows them to depend on financial institutions.

7) A cursory reading of data on short term solvency has revealed that current ratio (ratio of current assets to current liabilities) of only 4 units was found reasonable during the entire 4 years period of study. For majority of the units, this ratio was found high because of high closing stock and this leaves ground for doubt about the efficacy of working capital management.

8) To test whether the profitability and product categories are related, operating profit has been taken as the profitability measure as it is the best indicator of the operational efficiency of a business unit. Simple correlation between operating profit and turn over reveals that correlation between operating profit and turn over for the entire group was high. Category wise analysis reveals that correlation was low for agricultural sector. Correlation for industrial and service sectors was found to be high (Table 3). This indicates that by increasing turnover, operating profit can be increased.

Table 3: Result of correlation analysis between Profit and turnover

Sector	Correlation
Agri. Sector	0.415
Industrial sector	0.591
Service sector	0.556
Combined	0.643

Source: Survey Data

Part III

3.1 Measuring Entrepreneurship Development and Empowerment

3 point Likert Scale was the main tool used to measure the degree of entrepreneurship/empowerment. On the basis of a thorough and detailed study of the various dimensions and elements of empowerment/entrepreneurship development, 10 variables or elements indicating entrepreneurship development and 7 variables (elements) showing social empowerment were identified and analysed. For analysis, data were collected directly from 328 beneficiaries, i.e., 55 from agricultural sector, 115 from industrial sector and 158 from service sector. They were requested to mark their opinion about different variables. The options given for each element were (i) 'yes' (ii) 'To some extent' and (iii) 'No'. At one extreme there is a strong degree of empowerment ('yes') and at the other least degree ('No') and between them lie the intermediate point ('to some extent'). Each option carries a 'score' or 'point'. Response indicating 'Yes' was given the highest score or point, i.e., two, 'To some extent' was given the score 'one' and 'No' was given the least score, i.e., zero.

Individual scores were collected for different variables from 328 beneficiaries. Then the total score was divided by 328 as there were 328 sample beneficiaries. Thus, the average score for each variable was obtained. After getting the average score for all variables, the total was divided by the number of variables. Same method was followed for calculating the extent of entrepreneurship development for each category.

Since there are three scores or points, viz, two, one and zero, to analyse the extent of entrepreneurship development or empowerment, the following decision criteria were used:

Average score of below 0.67 - Low entrepreneurship development/empowerment.
0.67 to 1.33 - Moderate entrepreneurship development/empowerment.
Above 1.33 - High entrepreneurship development/ empowerment.

3.1.1 Entrepreneurship Development

SHG linked microenterprises, owned and operated by women below poverty line, can survive only by developing entrepreneurial skill among the entrepreneurs. Recognising this, an attempt is made to measure the extent of entrepreneurial skill development achieved by its beneficiaries. For this 10 variables indicating entrepreneurial skills were identified and analysed.

Table 4 shows that, among the ten variables, entrepreneurship development is more in the area of 'administrative ability' and less in the area of 'financial management'. The average score for 10 variable was 1.06 and hence one can conclude that the entrepreneurship development was only at a moderate level. If one analyses the variables individually one can note that only one variable, i.e., 'administrative ability'

Table 4: Entrepreneurship Development

Sl No	Variables	Agricultural Sector: No. of Respondents: Yes	To some extent	No	Total Score	Sverage Score	Industrial sector: No. of Respondents: Yes	To some extent	No	Total Score	Average Score	Service sector: No. of Respondents: Yes	To some extent	No	Total Score	Average Score	Total: Total Score	Average Score
1	Ability to promote new business	10	11	34	31	0.56	24	31	60	79	0.69	51	54	53	156	0.99	266	0.81
2	Administrative ability	28	20	7	76	1.38	61	38	16	160	1.39	76	70	12	222	1.41	458	1.4
3	Generate new ideas	15	23	17	53	0.96	36	56	23	128	1.11	52	63	43	167	1.06	348	1.06
4	Undertake risk & uncertainty	15	21	19	51	0.93	34	46	35	114	0.99	48	61	49	157	0.99	322	0.98
5	Plan, co-ordinate and control	23	22	10	68	1.24	52	50	13	154	1.34	71	46	41	188	1.19	410	1.25
6	Handle cash and bank transactions	24	20	11	68	1.24	51	43	21	145	1.26	63	61	34	187	1.18	400	1.22
7	Accounting	18	17	20	53	0.96	45	40	30	130	1.13	56	54	48	166	1.05	349	1.06
8	Conduct market survey	16	18	21	50	0.91	40	35	40	115	1	49	51	58	149	0.94	314	0.96
9	Time Management	18	22	15	58	1.05	44	50	21	138	1.2	58	62	38	178	1.13	374	1.14
10	Financial Management	8	18	29	34	0.62	23	43	49	89	0.77	36	54	68	126	0.8	249	0.76
	Total and Average Score				542	0.99				1252	1.09				1696	1.07	3490	1.06

Source: Survey Data

scored more than 1.33. Therefore, for this variable the skill development is said to be at a high level. For none of the variables was the score less than 0.67 and hence for all other variables, the extent of entrepreneurship development was at moderate level.

Category-wise analysis also shows the same trend, i.e, entrepreneurship development was at a moderate level. Among the sectors, the extent of entrepreneurship development was more in industrial sector (1.09) and less in agricultural sector (0.99). In agricultural and service sectors, only one variable 'administrative ability' shows high degree of entrepreneurship development. In industrial sector for two variables, viz, 'administrative ability' and 'ability to plan, co-ordinate and control', the degree of development was more than 1.33. None of the variables shows an average score of less than 0.67 in all the three categories. From this, one can infer that micro-enterprises have succeeded in developing entrepreneurship skill at moderate level among the beneficiaries. This shows that entrepreneurs can be moulded and entrepreneurial skill can be developed through proper motivation and creating confidence and organising need based training programmes. Microenterprises under Kudumbashree has proved it in respect of women entrepreneurs who are first generation entrepreneurs and lack experience and are below poverty line. But, effort should be taken to upgrade their skills through proper and effective training. In the long run, it would further improve the performance of entrepreneurs and thereby the enterprises.

3.1.2 Empowerment

Empowerment of women means creating economic independence, self confidence, self reliance, social and legal awareness and positive attitude among women. It enables women to face any situation and to participate in the developmental activities of the nation. The purpose of forming SHG linked microenterprises is said to be achieved only if its beneficiaries/ entrepreneurs are empowered. In this paper, empowerment is measured in the following aspects:

- Economic Empowerment
- Social Empowerment

3.1.2.1 Economic Empowerment

Here economic empowerment is measured by using one important economic indicater, viz, monthly income of the family.

A. Monthly income of the family

Monthly income of the family was analysed to ascertain whether there is any significant improvement in the income of the family after becoming a member of the unit. So a comparison was made between monthly income before and after becoming a member of the unit (Table 5 and Table 6).

Table 5 shows that before becoming a member of the unit, 32.2% families had no income, 49.1% had less than Rs. 500, 14.9% had between Rs. 500 to Rs. 1,000 and 3.7% had between Rs. 1,000 to Rs. 2,000. This implies that majority of the families had income below Rs. 500 and lowest number of families had income above Rs. 1000. No family had income above Rs. 2,000. Category-wise analysis shows the same pattern. Among the categories, before becoming a member, industrial

Table 5: Income per month of the family before becoming a member of the unit

		Category of Units			
Sl. No.	Income of the Family	Agrl. Sector	Indl. Sector	Service Sector	Total
1	Nil	16 (29.1)	39 (33.9)	51 (32.2)	106 (32.3)
2	< 500	24 (43.6)	48 (41.7)	89 -56.3	161 (49.1)
3	500 – 1000	13 (23.6)	24 (20.9)	12 -7.6	49 (14.9)
4	1000 – 2000	2 (3.7)	4 (3.5)	6 -3.9	12 (3.7)
	Total	55 (100)	115 (100)	158 (100)	328 (100)

Figures in brackets are percentages of Total.
Source: Survey Data

sector has the highest percentage of families (33.9%) having no income and agricultural sector has the lowest percentage. The highest percentage of families having income between Rs. 1,000 to Rs. 2,000 is in the service sector, though the variation is slight among different categories.

Table 6: Income per month of the family after becoming a member

Sl. No.	Income of the Family	Category of Units			
		Agrl. Sector	Indl. Sector	Service Sector	Total
1	< 500	—	—	—	—
2	500 – 1,000	21 (38.2)	23 (20)	26 (16.5)	70 (21.3)
3	1,000 – 2,000	24 (43.5)	41 (35.7)	48 (30.4)	113 (34.5)
4	> 2,000	10 (18.2)	51 (44.3)	84 (53.1)	145 (44.2)
	Total	55 (100)	115 (100)	158 (100)	328 (100)

Source: Survey Data

Table 6 reveals that, after becoming a member of the unit, the number of families having no income and income of less than Rs. 500 has decreased to zero. 21.3% have income between Rs. 500 to Rs. 1,000 and 34.5% have between Rs. 1,000 and Rs. 2,000. Percentage of families having income above Rs. 2,000 has increased from zero to 44.2%. After becoming a member of the unit highest percentage of the families are in the income group of above Rs. 2,000 whereas before becoming a member of the unit the highest percentage of families was in the income group of less than Rs. 500. The percentage of families having no income and less than Rs. 500 have decreased to zero, whereas considerable increase has been noticed in income group between Rs. 1,000 and Rs. 2,000 and above Rs. 2,000. It has increased from 14.9% to 34.5% for income between Rs. 1,000 to Rs. 2,000, 44.2% increase was reflected for income above Rs. 2,000. Among the categories, agricultural sector has the highest percentage of families having income between Rs. 500 to Rs. 1,000 and lowest percentage for income above Rs. 2,000. In service sector, 44.2% have income above Rs. 2,000. 83.5% of the families in the industrial sector earn income above Rs. 1,000 per month.

In order to test whether there is any significant difference in the income before and after becoming a member/ beneficiaries in microenterprises under Kudumbashree, paired't' test was used. This test was conducted on income of the beneficiaries for each category and for the entire group (Table 7). The test shows that average monthly income has increased from Rs. 337 to Rs 1,585 after becoming a member of the microenterprise.

Table 7: Result of paired t-test on income

Sector	Mean income before	Mean income after	t-value
Agri. Sector	332.45	1461.18	5.503
Industrial sector	343.04	1579.35	30.034
Service sector	334.65	1631.99	30.454
Combined	337.23	1584.89	29.383

Source: Survey Data

The test reveals that't' value was found to be significant at 1% level of significance for each category and for the entire units. This implies that monthly income of the beneficiaries after becoming a member in microenterprises under Kudumbashree was significantly higher than the income before becoming a member for each category and for

Table 8: Social Empowerment

Sl No	Variables	Categories																
		Agricultural Sector					Industrial sector					Service sector					Total	
		No. of Respondents					No. of Respondents					No. of Respondents						
		Yes	To some extent	No	Total Score	Sverage Score	Yes	To some extent	No	Total Score	Average Score	Yes	To some extent	No	Total Score	Average Score	Total Score	Average Score
1	Public speaking ability	13	15	27	41	0.75	31	62	22	124	1.08	53	80	25	186	1.18	351	1.07
2	Participation in election complaining	20	18	17	58	1.05	46	47	22	139	1.21	65	60	33	190	1.2	387	1.18
3	Utilize the opportunity to contest in elections	10	15	30	35	0.64	24	71	20	119	1.03	48	63	47	159	1.01	313	0.95
4	Express your own opinion in a meeting / in a discussion	20	26	9	66	1.2	52	51	12	155	1.35	81	48	29	210	1.33	431	1.31
5	Raise voice against in justice	15	30	10	60	1.09	38	61	16	137	1.19	51	81	26	183	1.16	380	1.16
6	Knowledge about the laws to protect and defend women	10	22	23	42	0.76	26	62	27	114	0.99	49	80	29	178	1.13	334	1.02
7	Travel alone even at night	12	25	18	49	0.89	28	52	35	108	0.94	46	63	49	155	0.98	312	0.95
	Total and Average Score				351	0.91				896	1.11				1261	1.14	2508	1.09
	Total and Average Score				542	0.99				1252	1.09				1696	1.07	3490	1.06

Source: Survey Data

the entire group. Hence the hypothesis that there is significant impact on the economic empowerment of the beneficiaries because of the development of microenterprises is accepted.

3.1.2.2 Social Empowerment

Eloquence, the ability to speak in public, the courage to raise voice against social injustice, knowledge about the laws to protect and defend women, etc., influence the position of women in the society. Hence an attempt is made to analyse the extent of social empowerment achieved by entrepreneurs of microenterprises. In order to measure the degree of empowerment, 7 variables were identified and analysed (Table 8).

Table 8 shows that individual average score ranges between 0.95 to 1.31 with an overall average of 1.09. Since the average score for the entire group was 1.09 one can infer that the degree of social empowerment achieved by beneficiaries was moderate. Since the average score for all the variables lies between 0.67 to 1.33, the degree of empowerment for all the variables was moderate. The highest average score (1.31) was earned by the variable 'express your opinion in a meeting or 'discussion' and the lowest (0.95) by two variables, viz., 'utilise the opportunity to contest in elections' and 'travel alone even at night'. The other variables in the order of degree of empowerment are 'participation in election campaigning' (1.18), 'raising voice against injustice' (1.16), 'public speaking ability' (1.07), 'knowledge about the laws to protect and defend women' (1.02). None of the variables scores below 0.67.

Category-wise analysis shows that average score for all the three sectors, was between 0.67 to 1.33 and hence the degree of social empowerment achieved by the beneficiaries are moderate. The average score for 7 variables was found to be highest for services sector (1.14) followed by industrial sector (1.11) and agricultural sector (0.91). One variable, i.e., 'express your own opinion in a meeting/discussion' in the industrial and service sector scored high degree of social empowerment. All other 6 variables in both these sectors show moderate degree of empowerment. In agricultural sector, all variables except one, show moderate degree of empowerment. One variable, i.e., 'utilise the opportunity to contest in elections', shows low degree of social empowerment.

Since the average score obtained was 1.09, the hypothesis that the development of microenterprises has had an impact on social empowerment of women in Kerala is accepted.

Analysis on empowerment showed moderate degree of entrepreneurship development and moderate social empowerment. Economic empowerment measured on the basis of monthly income of the family showed significant improvement in the monthly income after becoming an entrepreneur. Hence the hypothesis that there is empowerment of women because of the development of microenterprises is accepted. Since all the beneficiaries of sample units are taken, it is hoped that the result will be more reliable and realistic.

Part IV

4.1 Major problems and challenges faced by Microenterprises in India

Here an attempt is made to identify and analyse the major problems and challenges faced by microenterprises in India. The sample units were requested to mark out their major problems according to the order of severity and rank the nature of each problem from the options given. Then weights were assigned to each rank in such a way that the highest points were assigned to the highest rank.

Analysis reveals that marketing is their major problem and all units studied have this problem, 12 units indicating this as their most severe one. Finance is their second major problem and it scored 60 points (31.9%). Though all the units face this problem, only 8 units indicated it as their major problem. Raw materials is the next severe problem and all the units in agricultural sector and industrial sector and 4 units in the service sector face this problem. No unit indicated either raw materials or technical and managerial as their major problem. Marketing was found to be the major problem for units in the industrial and service sector whereas finance was the major problem for agricultural sector (Table 9 - Appendix).

4.1.1 Finance

Analysis of financial problem has disclosed that shortage of working capital (33.7%) is the severe one followed by shortage of fixed capital (29.6%), high rate of interest (19.9%) and meagre assistance from government and delay in its procurement (16.8%) (Table 10- Appendix). Incidence of high closing stock and high credit period allowed to debtors are found to be the main reasons for working capital problem. Poor equity base is the main reason for shortage of fixed capital. Funding agencies provide only short term loans.

Category wise analysis showed that all the units in the agricultural sector and 4 units in the industrial sector have marked shortage of working capital as the most acute problem. For service sector, shortage of fixed capital is the major financial problem as these units require more fixed capital for the acquisition/ replacement of fixed assets.

4.1.2 Raw Materials

Analysis of nature of the problem of raw materials (Table 11 - Appendix) has revealed that high prices (46.7%) is the severe problem followed by high transportation cost (29.4%) and poor quality of raw materials (23.9%). As these units purchase materials in uneconomic quantities, they can not take advantage of economy in purchase or in transportation. Discussion with the respondents reveal that high transportation cost force these units to resort to localised purchases even if the quality of materials is not up to the standard.

4.1.3 Marketing

Marketing is the most severe problem faced by microenterprises in India. Low competitive strength and weaknesses of microenterprises are most felt in the field of marketing. The problems in marketing in the order of their severity are competition from other units (29%), High prices (28%), lack of advertisement (17%), poor quality (13.5%) and packing and branding (12.5%) (Table 12 - Appendix).

Analysis reveals that microenterprises are not strong enough to face stiff competition from small, medium and large scale industries. Financial resources are not adequate enough to implement effective marketing strategies. Microenterprises are not in a position to adopt modern techniques of production which creates hurdles in marketing their products. These units are observed to be reluctant in getting feed back from customers.

Category wise analysis reveal that high prices of the product is the major problem for units in the agricultural and industrial sector. For service sector enterprises competition is the problem mostly felt. These enterprises are quite unfamiliar with the concept of sales promotion. Though 3 units in the service sector are engaged in the marketing of durable goods, they are not aware of the concept of 'after sales services'.

4.1.4 Technical and Managerial

Among the managerial and technical problems, obsolete technology (35.9%) is the most severe one followed by lack of management expertise (32.4%) lack of management training (26.2%) and commitment (5.5%) (Table 13 - Appendix). Inadequate financial resources and lack of need based training are the major reasons for their problems. These put restrictions on replacement of existing assets which are outdated and to adopt modern modes of production.

Category wise analysis reveals that obsolete technology is the major problem for units in the industrial and service sector as the performance of these sectors depend on the type of technology used.

Study on the problems of microenterprises shows that their problems differ from category to category and from place to place. By tacking these problems, the performance of microenterprises can be improved considerably.

Part V

5.1 Suggestions

5.1.1 Collective purchasing by microenterprises located in the same area and engaged in the same line of activity is suggested to reduce the raw material costs considerably.

5.1.2 Labour costs can be reduced by the formation and implementation of an effective human resource management policy. Measures such as diversification of activities, effective performance appraisal and its feed back to employees would make human resources management effective.

5.1.3 Financial assistance at concessional rate of interest for meeting working capital requirements and strengthening of equity base would reduce the financial problems considerably.

5.1.4 Ensuring expertise and competency should have been the first step to sanction the commencement of the unit and of various schemes of incentives and subsidies. For this, sufficient and successful training prior to the commencement of the business should be made mandatory.

5.1.5 88.7% of sample beneficiaries have attended training. Even then, they expressed the need for further training in the areas of accounting, marketing, entrepreneurship development, etc. Need based training to members and modern techniques of production and management, organising a management wing consisting of management experts at district level would solve technical and managerial problems to some extent. Regular monitoring of performance of microenterprises should be done by this team.

5.1.6 Measures such as making the product (especially food products and readymade garments) more dynamic by introducing meaningful segmentation and different features for the products, branding the products, strengthening informal marketing network through NHGs and government departments, adoption of effective and less costly advertisement method, door to door sale, promoting the products of these units by State Women's Industries Association, etc. would make the marketing practices of microenterprises more effective.

5.1.7 A single window system, i.e, convergence of all programmes meant for women empowerment is necessary to motivate and create confidence among women entrepreneurs to go for innovative programmes.

5.1.8 For viable and sustainable development of microenterprises, group enterprises must be encouraged and the group must be homogeneous which may help to reduce the drop outs from the group. The size of the units must be small which would help the functioning of the group activities smoothly.

5.1.9 The women micro entrepreneurs should be given training for developing managerial and leadership skills to carry out their responsibilities effectively. The leaders should be rotated normally once in a year and this would help in leadership development among all entrepreneurs.

5.1.10 A favourable climate should be created in the enterprises for decentralised decision making and sustainability of group action.

5.1.11 Promoting agencies should give attention to the availability of backward/ forward linkages and marketing facilities for the products of members. This would lead to their economic empowerment.

5.1.12 As there is only a small proportion of women in the professional area, care should be taken to promote professional education among them.

5.1.13 Educated women in these enterprises can be formed into a voluntary group to educate the children and illiterate women in the poor families to eradicate illiteracy from the country.

5.1.14 As there is under utilisation of funds set apart for women development, proper care should be taken to entrust this duty with some voluntary agencies like NGOs and to ensure that it is fully utilised in the right direction.

5.1.15 Steps should be taken for the immediate enactment of law for reservation of seats in the Parliament and Legislative Assemblies to empower women in the political sphere.

5.1.16 Proper punishment should be given to crimes against women. Non-enforcement of laws protecting women should be taken care of. This would encourage women to work at odd hours and to travel alone even at night.

5.1.17 Education of female children in the school going age must be made mandatory in all States.

5.1.18 The dual role of women prevent them from participating in social and political activities. This participation can be enhanced through creating awareness about the importance of participation of women in these activities and by providing facilities to reduce their burden through child care facilities, facilities for leisure, recreation and good health.

5.1.19 The idea of women empowerment should be taught through curriculum so that the vision of future generation may be one of gender equality and leads to their psychological empowerment.

Conclusion

This study is an attempt to evaluate the performance of SHG linked microenterprises in India, to identify the major problems and challenges faced by these enterprises and to assess the impact of microenterprises on entrepreneurship development and on empowerment. The study has revealed that, microenterprises have succeeded in developing entrepreneurial skill and improving their status to some extent. Even then, their basic objective of eradicating poverty is yet to be realised. Despite impressive contributions, microenterprises face formidable obstacles. Their performance in financial and marketing management leaves much to be desired. They need to experiment with more market stimulating techniques. The time has come for a burst of innovation to forge a new identity for microenterprises that will enable them to confront the daunting challenges that await them. A sustainable future cannot be secured without an aggressive effort to combat poverty and meet basic social needs. It is through a diversity of responses suited to local and regional conditions that the future of microenterprises will ultimately be assured.

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Appendix

Table 1: Profitability Ratio

	Units	2004-05		2005-06		2006-07		2007-08		Average	
		*NP Ratio	*OE Ratio	NP Ratio	OE Ratio	NP Ratio	OE Ratio	NP Ratio	OE Ratio	NP Ratio	OE Ratio
Agricultural Sector	I	-0.72	100.72	4.79	95.21	1.82	98.18	10	90	3.97	96.03
	2	13.45	84.33	0.92	98.16	3.28	96.71	0.21	99.8	4.47	94.75
	3	10.11	83.43	15.06	84.7	-0.54	97.91	-3.76	103.76	5.22	92.45
Industrial Sector	4	-.4.19	103.1	-121.39	226.17	-149.43	279.93	-103.9	211.81	-94.7	205.3
	5	-105.02	194.5	-10.6	105.1	0.65	94.18	-1.3	96.3	-29.1	122.5
	6	-20.9	116.2	-96.2	186.3	54.9	42.5	26.3	72.4	8.9	104.4
	7	-16.01	112.6	0.58	97.7	-9.1	107	-16.1	113.6	-10.2	167.7
	8	-20.4	117.1	-35.17	131.7	-5.4	102.9	2.6	94.4	-14.6	111.5
	9	54.7	44.4	44.4	54.5	37.5	61	38.4	60.1	43.6	55
	10	5.9	75.6	0.6	99.4	-5.3	105.3	0.21	99.8	0.35	95
	11	1.87	86.2	9.31	84.1	1.6	90	-9.4	101.5	0.8	90.1
Service Sector	12	-48.1	129.4	5.2	88.4	19.5	78.3	23.3	73.8	-0.02	92.5
	13	35.6	63.3	86.1	13.04	86.6	13.5	89.4	10.21	74.4	25.05
	14	13.7	82.3	19.5	79.4	-26.3	122.1	-2.6	100.9	1.2	96.2
	15	5.8	91.2	-4.6	101.2	-3.3	101	-1.9	98.1	-1	97.9
	16	-125.6	210.1	21.2	74.9	19.7	78.1	15.6	79.8	-17.3	110
	17	6.7	84.4	60.2	38.4	39.5	86.9	10.7	82.6	29.3	73.5
	18	7.6	92.2	12.5	87.1	9.9	89.9	10.2	89.5	10.1	89.7
	19	23.7	72.9	24.7	72.2	26.4	71.7	33.7	63.8	27.1	70.2
	20	26.2	72.1	19.8	78.9	19.9	79	22	77	22	76.8
Total	Average	-3.8	98.5	2.67	95.4	4.5	96.01	5.51	93.05		

Source: Survey Data

Table 2: Solvency Ratios

	Units	2004-05		2005-06		2006-07		2007-08		Average	
		*CR	*DER	CR	DER	CR	DER	CR	DER	CR	DER
Agricultural Sector	1	9.7	0.7	5.8	0.65	13.5	0.66	2.6	0.64	7.9	0.66
	2	10.4	1.3	2.2	1.8	3.79	1.19	3.1	2	4.9	7.6
	3	3.08	0.9	4	1.1	7.3	0.97	1.3	0.94	3.92	0.98
Industrial Sector	4	5.1	0.91	10	0.76	9.4	0.61	9.9	0.55	8.6	0.71
	5	1.3	-1.1	1.03	-1.05	2.2	-1.33	1.2	-1.18	1.4	-1.17
	6	2.9	-2.17	2.71	-1.84	2.97	-2.01	1.41	-1.3	2.5	-1.83
	7	3.5	7.4	4.1	9.2	4.9	-29.1	6.8	23.4	4.8	2.73
	8	8.1	32.4	6.3	-3.9	6	-3.9	5.9	-3.3	6.6	5.3
	9	21.4	0.54	19.2	0.25	20.2	0.1	19.3	0.1	20	0.25
	10	19.8	-6.8	14	-3.9	12	-3.4	8.4	-2.6	13.55	-4.18
	11	7.5	0.5	5.8	0.55	4.7	0.7	2.6	1.1	5.2	0.7
Service Sector	12	0.48	2.1	6.7	2.9	0.6	-2.6	2.5	-5.9	2.6	-8.8
	13	0.67	-20.2	5.1	0.9	9.7	0.1	9.3	0.1	6.2	-4.8
	14	7.7	10.2	8.7	3.9	7.8	9.4	5.1	-18.8	7.3	1.2
	15	5.9	-3.5	4.7	-1.7	3.3	-1.5	3.6	-1.5	4.4	-2.1
	16	5.7	3.6	5.1	3.5	5.6	9.8	4.1	-6.9	5.1	2.5
	17	1	4.3	2.3	0.3	0.4	0.3	0.6	0.25	1.1	1.3
	18	12.5	1.1	9.5	0.4	6.1	0.9	7.5	0.3	8.9	0.7
	19	5.5	4.7	4.4	4.2	2.9	1.8	2.5	1.1	3.8	2.9
	20	6.1	2.7	4.4	4	4.9	1.9	11.8	0.84	6.8	2.4

Source: Survey Data
CR - Current Ratio
DER - Debt Equity Ratio

Table 9: Major Problems

		Category															Total	
		Agricultural Sector					Industrial Sector					Service sector						
		Ranking of the Problem					Ranking of the Problem					Ranking of the Problem						
Sl. No	Problems	I	II	III	IV	Weighted Score	I	II	III	IV	Weighted Score	I	II	III	IV	Weighted Score	Weighted Score	Rank
I	Finance	2	1	3	Nil	11 (36.7)	3	2	2	1	23 (28.8)	3	3	2	1	26 (33.3)	60 (31.9)	2
2	Raw Materials	Nil	Nil	3	Nil	6 (20.0)	Nil	2	6	Nil	18 (22.5)	Nil	2	2	Nil	10 (12.8)	34 (18.1)	3
3	Marketing	1	2	Nil	Nil	10 (33.3)	5	3	Nil	Nil	29 (36.3)	6	2	1	Nil	32 (41.0)	71 (37.8)	1
4	Technical & Managerial	Nil	Nil	Nil	3	0.3 (10.0)	Nil	1	Nil	7	10 (12.4)	Nil	2	2	Nil	10 (12.9)	23 (12.2)	4
	Total					30 (100)					80 (100)					78 (100)	188 (100)	

Figures in brackets are percentages of Total.
Source: Survey Data

Table 10: Financial Problems

Sl. No	Nature of the Problems	*Category*															Total	
		Agricultural Sector					Industrial Sector					Service sector						
		Ranking of the Problem					Ranking of the Problem					Ranking of the Problem						
		I	II	III	IV	Weighted Score	I	II	III	IV	Weighted Score	I	II	III	IV	Weighted Score	Weighted Score	Rank
I	Shortage of fixed capital	Nil	1	2	Nil	7 (23.3)	2	3	1	2	21 (26.3)	5	2	2	Nil	30 (34.9)	58 (29.6)	2
2	Shortage of working capital	3	Nil	Nil	Nil	12 (40)	4	3	1	Nil	27 (33.8)	2	5	2	Nil	27 (31.4)	66 (33.7)	1
3	High rate of interest	Nil	1	1	1	6 (20)	1	1	4	2	17 (21.2)	1	1	2	5	16 (18.6)	39 (19.9)	3
4	Meagre govt. assistance and delay	Nil	1	Nil	2	5 (16.7)	1	1	2	4	15 (18.7)	Nil	1	3	4	13 (15.1)	33 (16.8)	4
	Total					30 (100)					80 (100)					86 (100)	196 (100)	

Figures in brackets are percentages of Total.
Source: Survey Data

Table 11: Problem of Raw Materials

Sl. No.	Nature of the Problems	*Category*												Total	
		Agricultural Sector				Industrial Sector				Service sector					
		Ranking of the Problem				Ranking of the Problem				Ranking of the Problem					
		I	II	III	Weighted score	I	II	III	Weighted score	I	II	III	Weighted score	Weighted score	Rank
I	High Cost	3	Nil	Nil	9 (50.0)	4	3	1	22 (43.1)	3	1	1	12 (52.2)	43 (46.7)	1
2	Poor Quality	Nil	2	1	5 (27.8)	1	3	4	13 (25.5)	Nil	1	2	4 (17.4)	22 (23.9)	13
3	Transportation Expenses	Nil	1	2	4 (22.2)	3	2	3	16 (31.4)	1	2	Nil	7 (30.4)	27 (29.4)	32
	Total				18 (100)				51 (100)				23 (100)	92 (100)	

Figures in brackets are percentages of Total.
Source: Survey Data

Table 12: Problem of Marketing

Sl.. No	Nature of the Problems	*Category*																			
		Agricultural Sector						Industrial Sector						Service sector						Total	
		Ranking of the Problem						Ranking of the Problem						Ranking of the Problem							
		I	II	III	IV	V	Weighted score	I	II	III	IV	V	Weighted score	I	II	III	IV	V	Weighted score	Weighted score	Rank
I	Poor Quality	Nil	1	1	1	Nil	9 (22.0)	Nil	Nil	2	4	2	16 (13.3)	1	Nil	1	3	Nil	14 (10.9)	39 (13.5)	4
2	High Price	2	1	Nil	Nil	Nil	14 (34.1)	4	3	1	Nil	Nil	35 (29.2)	2	3	2	2	Nil	32 (25.0)	81 (28.0)	2
3	Packing & Branding	Nil	Nil	1	1	1	6 (14.6)	Nil	1	1	2	4	15 (12.5)	Nil	2	1	1	2	15 (11.7)	36 (12.5)	5
4	Competition	1	1	1	Nil	Nil	12 (29.3)	4	2	1	1	Nil	33 (27.5)	5	2	2	Nil	Nil	39 (30.5)	84 (29.0)	1
5	Lack of advertisement	Nil	Nil	Nil	Nil	Nil	0	Nil	2	3	1	2	21 (17.5)	1	2	3	3	Nil	28 (21.9)	49 (17.0)	3
	Total						41 (100)						120 (100)						128 (100)	289 (100)	

Figures in brackets are percentages of Total.
Source: Survey Data

Table 13: Technical and Managerial Problem

		Category																
		Agricultural Sector					Industrial Sector					Service sector					Total	
		Ranking of the Problem					Ranking of the Problem					Ranking of the Problem						
Sl. No	Nature of Problems	I	II	III	IV	Weighted Score	I	II	III	IV	Weighted Score	I	II	III	IV	Weighted Score	Weighted Score	Rank
I	Obsolete 1 Technology	Nil	1	1	7	6 (26.9)	2	Nil	Nil	30	3 (37.0)	1	Nil	Nil	15	52 (31.5)	1 (35.9)	
2	Inexpertise Management	1	2	Nil	Nil	10 (38.5)	3	3	2	Nil	25 (30.9)	1	2	1	Nil	12 (31.6)	47 (32.4)	2
3	Lack of Managerial Training	1	1	1	Nil	9 (34.6)	1	2	4	1	19 (23.4)	Nil	1	3	Nil	10 (26.3)	38 (26.2)	3
4	Lack of Commitment	Nil	Nil	Nil	Nil	0	Nil	1	2	Nil	7	Nil (8.7)	Nil	Nil	1	1	8 (2.6)	4 (5.5)
	Total					26 (100)					81 (100)					38 (100)	145 (100)	

Figures in brackets are percentages of Total.
Source: Survey Data

Impact of the Group based Microfinance on Rural Household Savings: Empirical Findings from India

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Abstract

This study was conducted in Orissa state of India to measure the impact of group based microfinance interventions on the savings of the participating households. A multi-stage stratified random sampling technique was used to select 800 crossectional samples from four districts of Orissa. The impact of microfinance on saving was measured by a comparison between the target group and a selected control group. Descriptive statistics, z-test under the significant tests and non-linear logit model under the econometric models were engaged to analyse the data and arrive at the results. The study came out with strong evidence of positive impact of the group based microfinance on rural household savings. Also the study found out that the microfinance intervention had developed saving habits among the members apart from greater saving mobilisations.

The microfinance intervention had developed saving habits among the members apart from greater saving mobilisations.

1 Introduction

The group based Microfinance programmes had acted as a tool for rural development and poverty alleviation in many developing countries, especially after the initiation of structured and customised credit lending models like Joint Liability Groups (JLGs), Self-Help Groups (SHGs), Village Banking, Rotating Saving and Credit Associations (ROSCAs), Financial Cooperatives (FCs), Credit Unions (CUs), Community Bankings (VBs) etc. (Ledgerwood, 1999). These group based microfinance had

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addressed the poor rural households across various socio-economic characteristics like income and consumption enhancement, increased saving, reduction of unemployment and migration, increased decision makings, improved micro-enterprises etc. apart from increasing access of customised credits to unbankable and vulnerable poor households. However the fundamental definitions of group based microfinance programmes converge on the provision of the savings and credit to the poor and unbankable section of the society (Panda, 2009).

In the Indian context, the Self-Help Group based microfinance programmes have triggered up, especially after the SHG-Bank Linkage Programme (SBLP) initiated by National Bank of Agriculture and Rural Development (NABARD) in 1992. This Programme was considered as one of the biggest microfinance interventions in the world and was adopted as part of the rural finance in India (Ansari, 2008). This programme had reduced the transaction cost and transition period in the provision of the financial products to the poor Indian households. In the SHG-Bank linkage programme, 3.2 million SHGs were linked up to commercial banks by benefiting 40 million clients by the year 2008 in India (Harper, 2008). The increased momentum of this programme had led to rapid proliferation of the Self-Help Groups, especially the women groups.

2 Review of Literature

The Indian Self-Help Groups were not too much different from other credit-lending groups of other countries excepting few parameters. Many of the academic studies and applied research were conducted across various countries to assess the impact of group based microfinance programmes on the participating households. Haque and Yamao (2008) in Bangladesh reported that the mean monthly saving of the participants of microfinance groups was 155.67 Bangladeshi taka. Also they found that the extreme poor and moderate poor had negative saving as the consumption was exceeding the income. Reddy (2008) in his study on the Self-Help Group (SHG) in Andhra Pradesh found that 90% of the clients had regular savings under the microfinance interventions. Singh and Singh (2008) in their study in Utter Pradesh concluded that 50% of SHG members had a monthly saving of Rs. 20 to Rs. 50 followed by 35% of SHGs who had monthly saving of Rs. 50 and above. But, they observed that about 15% of SHGs had saved Rs. 10 to Rs. 20 per month. Also they reported that about 85% of savings fell in the range of Rs. 20 to Rs.100. Panda (2008) in his study in Orissa concluded that the SHG members had accumulated a sizeable amount of saving by their monthly saving mobilisations. The same members had absolutely no savings before the microfinance interventions. Patra (2008) studied on 75 Self-Help Groups (SHGs) in Orissa and found that the total saving of Self-Help Groups had ranged from Rs. 50, 000 to Rs. 3, 00, 000 during a period of 6 months. Jayaraj and Irimpan (2008) from Tamil Nadu noticed that more than 70% of microfinance clients had savings of more than Rs. 2500 and the different sources of savings of these microfinance clients were

SHGs, banks, insurances and chit funds.

The group based microfinance interventions had led to increased savings as a results of the income effect due to the micro-enterprise development (Toppo and Nayak, 2008; Panda, 2005). Evidence of increased household savings by 600% was also traced out from India (Brook, Hillyer and Bhuvaneshwari, 2008). These savings under the SHG based microfinance programmes had developed a habit of saving among participants (Patra, 2008; Kalyanwala and Sebstad, 2006; Barbora and Mohanta, 2001).

Most of the studies, especially in India had focused on the savings of the entire microfinance group i.e. SHGs rather than the individual members or the household of the participating members (Narayanaswamy, Manivel and Baskar, 2005; Athavale, Sharma and Mishra; 2001; Awasthi, Rathi and Sahu, 2001; Srinivasan, Varadharaj and Chandrakumar, 2001). Apart from that, it is also important to understand how the participation of a family member in the microfinance group impacts the entire household savings and their sources of savings. Moreover most of the past studies had tried to show the positions or situation of the clients or the microfinance group after a microfinance intervention, like present savings of clients or group, but did not attempt measure the impact of the microfinance on savings as a result of intervention or participation. In this direction this present study tried to capture the impact ofmicrofinance on the savings of the clients' households in the Orissa state of India.

3 Conceptual Framework

This study was conducted in four districts of Orissa state of India. A multi-stage stratified random sampling technique had helped in the selection of 800 cross sectional samples. In the first stage, four districts i.e., one from Coastal Orissa (Puri District), one from Eastern Orissa (Mayurbhanj District), one from Western Orissa (Bolangir District), and one from Central Orissa (Nayagarh District) were randomly selected. These four selected districts had represented the four regions of the state, i.e., Coastal Orissa, Eastern Orissa, Western Orissa and Central Orissa. Two blocks from each district were randomly selected in the second stage. In the third stage, 5 villages, where microfinance programmes were continuing, were selected by random sampling method; and 10 households for target group and 10 households for control group were randomly selected in the fourth stage. However, selection of control households was done by random sampling technique after the matching method. In a total 400 households for target group and 400 households for control group were selected. The sample households were again stratified based on two major livelihood patterns (i) agriculture & allied activities and, (ii) trading & microenterprise. So, under the target group, 200 households each for agriculture & allied activities and, trading & micro-enterprise activities; and similarly under the control group, 200 households each for agriculture & allied activities and, micro-enterprise & trading activities were selected for the sample study. This study was conducted based on the primary data collected from the field. Data collection was done through a structured pretested household interview schedule.

The impact of microfinance interventions can be measured at the client level, household level and microenterprise level (Panda, 2009). Many studies had focused on the household level as their main unit of measuring impact of microfinance programmes (Panda, 2008; Amin, Rai and Topa, 2003; Evans, 1999; Park, 2001; Pitt and Khandkar, 1996; and Zewde and Tollens, 2008). Again, in group based microfinance interventions, the impact of participation on savings can be measured at the client level focusing on the individual group savings. But this particular study is interested in assessing the impact of microfinance on the saving amount and saving habit of the participating households instead of individual client savings. So the "household" was fixed as the unit of analysis. The household schedule was structured pertaining to the objectives of this current study.

In the absence of baseline information, it would be difficult to measure the impact of microfinance by a comparison between pre-intervention and post-intervention (White, Sinha, and Flanagan, 2006). So a comparison between the target group with a selected control group has been made. The target group (factual) consisted of households who participated in the group based microfinance programmes i.e. SHGs; and the control group included households having all possible similar characteristics that of the target group except participation. All possible attempts were taken in the selection of the control households having similar characteristics of the target households, except the participation in microfinance groups. This method was found suitable as it is the best among the quasi-experimental design (Barker, 1999). The means of the target group and control group against the selected variables were tested for significance through z-test because of its suitability and large sample size (Chandel, 1999).

To refine the results of this impact study, the logit model under the econometric model was used. It is observed that the probability participation in the microfinance group is a function of income, savings, consumption and family size in the household. Since saving is a choice of not consuming under a fixed income, so income and consumption cannot be taken together in the regression model. So, the participation in the microfinance groups or SHGs became a function of income, savings and family size. Under the model, the participation in group based microfinance is a dichotomous variable of a binary choice, so it is 1 for participation and 0 otherwise.

4 Findings and Analysis

The annual average savings per household in target group was significantly higher than that of the control group. Table-1 reveals that the annual average saving of the target group was Rs. 2446.22 and that of the control group was Rs. 1592.55. The target household recorded 53.60% higher saving than that of the control group which was significant at 1% level (z value: 5.598). This result broadly falls in line of the findings of Panda (2009a), Patra (2008), Jayaraj and Irimpan (2008), Toppo and Nayak (2008), Brook, Hillyer and Bhuvaneshwari (2008), Edwinraj (2007), Hannover (2005), NABARD (2005), Panda (2005), Narayanaswamy, Manivel and Baskar (2005), Athavale, Sharma and Mishra (2001), and Mishra and Hossain (2001).

The average household savings of the target micro-entrepreneurs was found significantly higher than that of the controlled micro-entrepreneurs (55.06%). At the same time the target farming households had recorded 51.72% more savings than that of the control farming households (which was statistically significant at 1% level). Even though the target farming and micro-entrepreneurial household had highly significant higher annual savings than that of their respective control households, but a higher graduation in savings was observed in case of target micro-entrepreneurial households than that of the target farming households. This consequence was due to the nature and outcome of the occupation of the households. From Table-1 it can be noticed that the coefficient of variation was less in case of target households as compared to the control households. Also the study revealed that the coefficient of variation was less in case of target households than that of the control households in both the occupational pattern i.e. agricultural & allied activity and micro-enterprise & trading activity. In the target group, the coefficient of variation was lesser in case of micro-entrepreneurial households than that of the farming households. The higher coefficient of variation in both target group and control group was due to the presence of extreme values in the samples.

Table 1: Average annual saving per households of target group and control group

Occupation	Sample Size	Average annual savings per households (Rupees)		Percentage Difference over control group
		Target Group	Control Group	
Agriculture & allied activity	200	2114.73 SD: 2246.93 CV: 106.25	1393.8 SD: 1747.62 CV: 125.38	51.72 (z value: 3.581***)
Micro-enterprise & trading activities	200	2777.7 SD: 2554.90 CV: 91.97	1791.31 SD: 1928.31 CV: 107.64	55.06 (z value: 4.358***)
Total	400	2446.22 SD: 2425.65 CV: 99.15	1592.55 SD: 1848.62 CV: 116.07	53.6 (z value: 5.598***)

SD: Standard Deviation
CV: Coefficient of Variation
* Significant at 10 per cent level
** Significant at 5 per cent level
*** Significant at 1 per cent level

It was observed that the per annum household savings were increased by 53.60% from target group to the control group. But Brook, Hillyer and Bhuvaneshwari (2008) in their study found out that the microfinance intervention led an increase of 647%

in the Hubli-Dharwad region of India. So this increase in the annual household saving in the present study was lesser as compared to the above mentioned study, but it broadly matches the results of Sarkar (2007).

However it is difficult to judge the impact of group based microfinance intervention on savings of households taking the absolute saving values. So the saving forms and saving habits of target group and control groups are need to be focused. This study found three forms of savings in the target group while the control groups had only two forms of savings as mentioned in Table-2. Similar sources savings were also found from the study conducted by Jayaraj and Irimpan (2008). The microfinance participating households were saving very small amount of money every month in the group which was called as monthly saving. The monthly saving amount was varied from Rs. 10 to Rs. 20 from group to group. Some groups had monthly saving of Rs. 10 where as some other groups had monthly saving of Rs. 15 or Rs. 20 but the saving amount for members was fixed in any particular group. Similar finding was noticed from the study made by Awasthi, Rathi and Sahu (2001).

From Table-2, it can be understood that the average annually saving of members in the microfinance group or SHG was Rs. 130 which means that there were some defaults in the monthly savings. However this saving source was missing in control group which means there was a positive impact of microfinance on household savings. The concept of "saving before credit in the group" in the group based microfinance had positively impacted in saving mobilisation from target households.

Table 2: Different forms of savings of target group and control group

Forms of Saving	Target Group (Rupees)	Control Group (Rupees)	Difference (Rupees)	Percentage Difference over control group
Savings with microfinance group (Rupees)	130.77	0	130.77	100
Savings with commercial Banks (Rupees)	2087.62 SD: 2365.94 CV: 113.33	1379.52 SD: 1812.01 CV: 131.35	708.1	51.33 (z value: 4.75***)
Savings with other sources (Rupees)	227.82 SD: 455.73 CV: 200.04	213.03 SD: 421.06 CV: 197.65	14.79	6.94 (Z value: 0.476)
Total Saving (Rupees)	2446.22 SD: 2425.65 CV: 99.15	1592.55 SD: 1848.62 CV: 116.07	853.67	53.6 (z value: 5.598***)

SD: Standard Deviation
CV: Coefficient of Variation
* Significant at 10 per cent level
** Significant at 5 per cent level
*** Significant at 1 per cent level

Data presented in Table-2 reveals that the savings of the target households had more savings with commercial banks and other sources than that of the control households. The target microfinance households had recorded 51.33% higher savings with commercial banks than that of the control households and it was statistically significant at 1% level. But the difference in saving with other sources between the target group and control was very less i.e. the target group was found with 6.94% more savings with any other sources than that of the control group (not significant at 10%). The higher coefficient of variation in target group and control group in case of saving with commercial banks and other sources shows the uneven saving among the clients and presence of extreme values. Even though the control households had also savings with commercial banks and other sources, but they lacked the "group saving" component. This group saving was an additional improvement in saving in target group.

The significant higher saving amounts of the target group over that of control group and the creation of additional group savings in the target group confirm that the microfinance interventions had a positive impact on the savings of the households. From Table-3, it can be inferred that the more number of target households had savings in commercial banks as compared to that of the control households. Above 84% of target households had savings with commercial banks while 64.25% control households had saving with the same sources. The number of target households having savings with commercial banks was 31.51% more than that of the control households. Since more number of target households had savings with commercial banks than that of the control households, so it led to more amount of savings of the target households with commercial banks.

The concept and operations of the group based microfinance programme reflects that the monthly savings of the members were pooled together and deposited in a commercial bank. Since the microfinance groups had continuously translated the above practice, so it led to a regular visit and regular transaction with the commercial banks. Kundu et al (2001) and Singh, Khatkar and Kharinta (2001) also found similar results in their study in Haryana where the Self-Help Group intervention had developed a saving habit among the members. Even Rao (2001) in his study in Andhra Pradesh and Karnataka found that one of the major reasons behind joining the group based microfinance was regular savings. The present study confirmed that the compulsory group saving had led to increased savings among the microfinance households and this result corroborates the findings of Weiss and Montegomery (2004), Datta and Raman (2001), Kundu et al (2001), Awasthi, Rathi and Sahu (2001), Sethi and Atibudhi (2001), Singh and Sehrawat (2001), Tilekar, Naikade, Deshmukh and Patil (2001), and Vatta and Singh (2001).

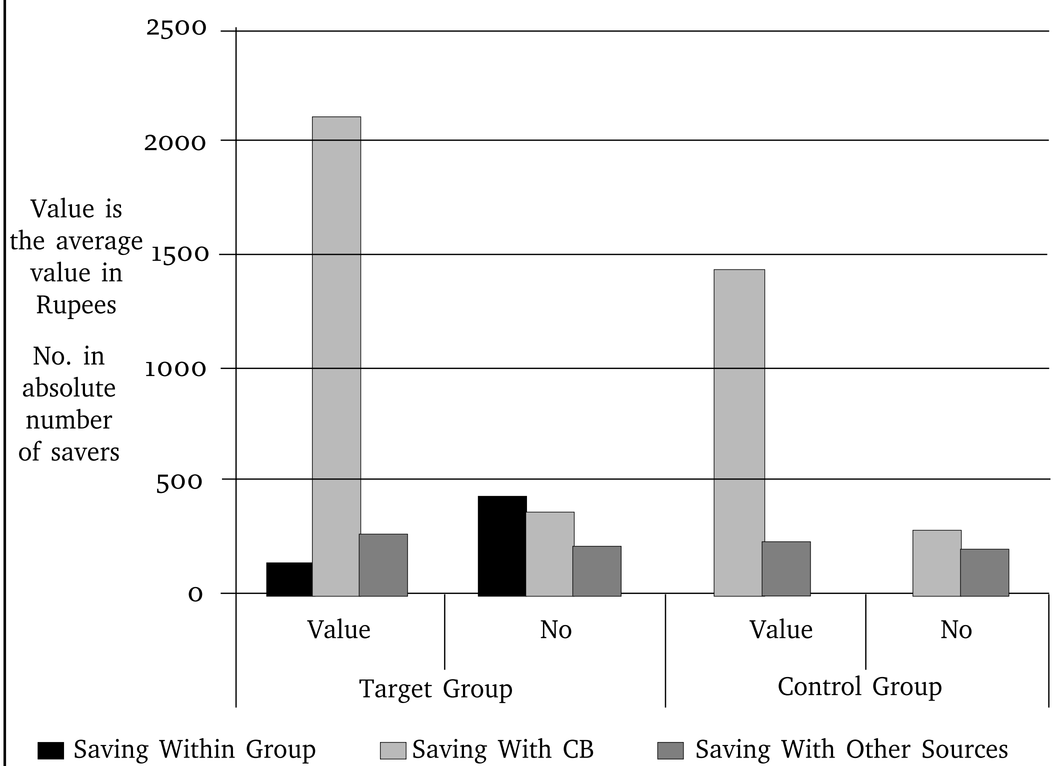
The linkage building between commercial banks and microfinance clients was probably one of the major reasons behind the increased number of target households having savings with commercial banks. The higher amount of saving in the commercial banks by the target group as compared to that of the control group was due to higher frequency and size of the savings which was of course due to the saving habits cultivated

Table 3: Saving habit of target group and control group					
Saving Forms	Number of saving household				Percentage difference over control group
	Target Group		Control Group		
	Number	Percentage	Number	Percentage	
Savings with microfinance group	400	100	0	0	100
Savings with commercial Banks	338	84.5	257	64.25	31.51
Savings with other sources	173	43.25	166	41.5	4.22
Savings with commercial banks and/or other sources	370	92.5	327	81.75	13.15

as a result of continuous practice of monthly member savings with the microfinance group or Self-Help Group.

The gap between the target group and control group was found less (4.22%) in case of other saving sources because most of the control households had saving with other sources like post office, chit fund, own houses and non-formal sources like friends, neighbours and relatives. Since the microfinance intervention had helped

Figure 1: Saving Details of Target Group and Control Group



the target households to link up to formal banking sources, so there was no improvement in the case of target households in saving with other sources. Again the number of households had savings with commercial banks and/or other source under the target group was 13.15% more than that of the control households. This clearly signified that the number of households having saving in different sources was more in case of target group than that of the control group. Also it was confirmed that the saving habit was more in case of target group than that of the control group. Again from Table-3, it can be observed that the households having their saving "either commercial banks or other sources" was lesser in case of control group as compared to that of the target group. Saving was higher in the target group under the occupation of microenterprise and trading over over the occupation of agriculture and allied activities as the micro-entrepreneurial households derived sustainable incomes from their occupational patterns. This result corroborates the findings of Indira Kumari and Sambasiva Rao (2001).

The region-wise saving details reflected that the highest growth of average annual saving of target group over that of the control group was noticed for Eastern region followed by Coastal region, Western region and Central region respectively. In the Eastern region, the target group had recorded 64.56% higher annual saving over that of the control group (statistically significant at 1%). Similar growth in the annual savings was found out in the Coastal region where target group had achieved 62.38%

Table 4: Region-wise savings of target and control group

Occupation	Sample Size	Average annual savings per households (Rupees)		Percentage increase over control group
		Target Group	Control Group	
Puri (Coastal Orissa)	100	3749.47 SD: 2178.63 CV: 58.10	2309.12 SD: 1954.81 CV: 84.65	62.38 (z value: 4.92***)
Mayurbhanj (Eastern Orissa)	100	2174.4 SD: 2422.12 CV: 111.39	1321.3 SD: 1597.26 CV: 120.88	64.56 (z value: 2.94***)
Bolangir (Western Orissa)	100	2476.6 SD: 2619.17 CV: 105.75	1737.6 SD: 2107.05 CV: 121.26	42.53 (z value: 2.19**)
Nayagarh (Central Orissa)	100	1384.4 SD: 1819.38 CV: 131.42	1002.2 SD: 1412.32 CV: 140.92	38.14 (z value: 1.65*)
Total	400	2446.22 SD: 2425.65 CV: 99.15	1592.55 SD: 1848.62 CV: 116.07	53.6 (z value: 5.598***)

SD: Standard Deviation
CV: Coefficient of Variation
* Significant at 10 per cent level
** Significant at 5 per cent level
*** Significant at 1 per cent level

higher annual saving than that of the control group, which again highly significant (Table 4). About 42.53% higher annual savings was noticed in case of target households as compared to that of the control households in Western region (significant growth at 5%). However in the Central region, the target households had 38.14% higher annual savings than that of the control group (statistically significant at 10% level). From Table-4, it can be seen that the coefficient of variation was lesser in target group than that of the control groups in all the regions of the states which shows a positive impact. Among all the regions, the Coastal region had reported least coefficient of variation as compared to the respective control households which shows the least inconsistency in savings of the target households over that of the control households in Coastal region among all the four regions of the state. Although all the regions had experienced a significant growth on savings of the target households over that of the control households but the impact was observed higher in Coastal region and Western region of the state.

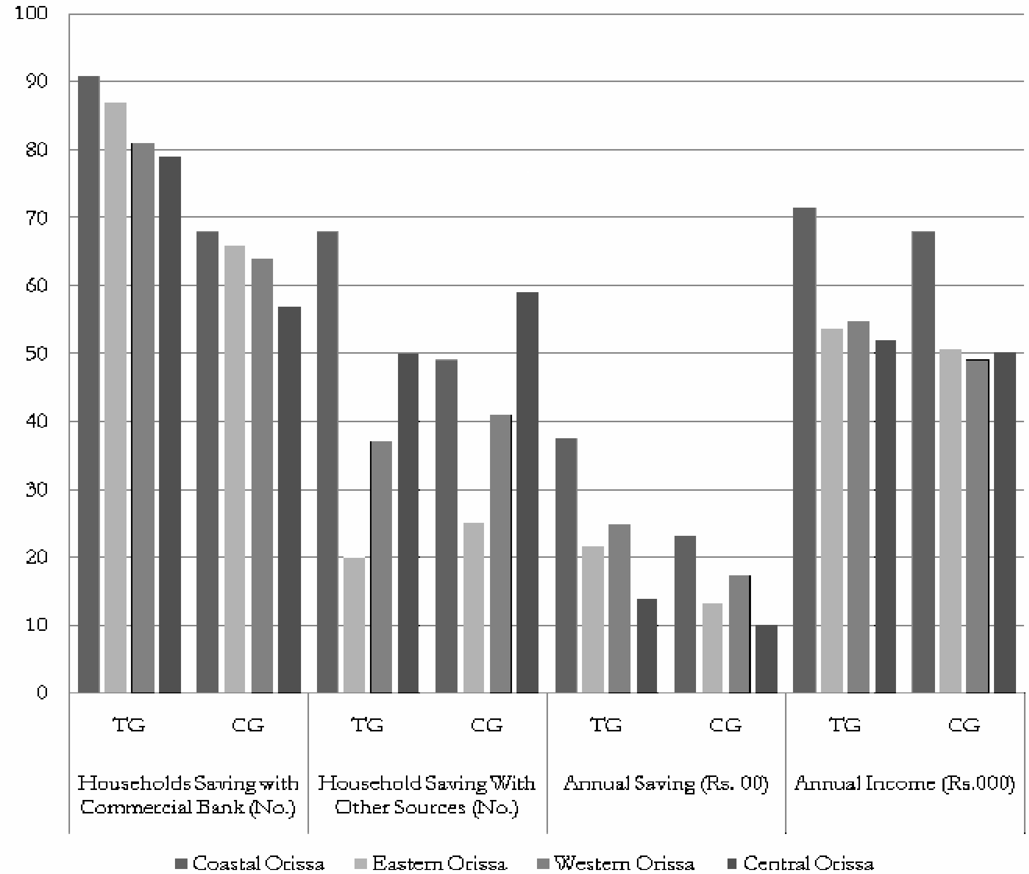
From Table-4, it was found that the Central region had experienced with less growth on the annual average savings per household, but at the same time Table 5 shows that the number of households having savings with other sources was decreased from control group (59 households) to target group (50 households), and the number of households having savings with commercial banks was increased from control group (57 households) to target group (79 households), which shows that that the microfinance intervention had led a shift of target households' savings from other sources to commercial banks in the Central region. So the impact was of different kind in Central region where microfinance interventions had encouraged the microfinance households to have their savings with commercial banks rather than any other sources. Also same impact was observed in Eastern region and Western region. The increased SHG- Bank linkage had increased the savings of the

Table 5: Region-wise saving habit of target group and control group

Sources of Savings	Region-wise percentage of saving households							
	Puri (Coastal Orissa)		Mayurbhanj (Eastern Orissa)		Bolangir (Western Orissa)		Nayagarh (Central Orissa)	
	TG	CG	TG	CG	TG	CG	TG	CG
Savings with microfinance group	100	0	100	0	100	0	100	0
Savings with commercial Banks	91	68	87	66	81	64	79	57
Savings with other sources	68	49	20	25	37	41	50	59
Savings with commercial banks and/or other sources	99	87	91	75	93	84	87	81

group members with commercial banks. Finally it can be inferred that the microfinance intervention had three distinct kinds of impact on target households and those impacts were (i) having regular monthly savings with the microfinance

Figure 2: **Region-wise Saving Details of Target Group and Control Group**



group, (ii) increasing in the saving amount, and (iii) having more savings in commercial banks both in amount and number of accounts.

The logit estimate results presented in Table-6 shows that the probability participation in the group based microfinance programme had a positive relationship with annual household saving and household annual income, and negative relationship with the number of household members as explained by the sign of the coefficients. Again it can be further observed that the probability of participation is more if the annual household saving is higher and the probability of participation is significantly determined by household savings. In other words it can be explained that the participation in the microfinance group significantly enhances the household savings. This the logit model could able to explain only 32% of the relationship between the dependent variables and independent variables since the adjusted R squared was 0.326.

Table 6: Logit estimate results

	Coefficient	Standard Error	t-ratio	p-value
Dependent Variable: Participation in the microfinance groups				
Constant	0.240857	0.388926	0.6193	....
Income	2.66399e-06	5.21051e-06	0.5113	6.65982e-07
Saving	0.000190340	4.27332e-05	4.454	4.75837e-05
Family Size	-0.139810	0.0591763	-2.363	-0.0349516
Mean dependent variable: 0.500000				
S.D. dependent variable: 0.249994				
R-squared: 0.333887				
Adjusted R-squared: 0.326673				
Log-likelihood: -535.7268				

Explanation of variables:
Participation in the microfinance groups: 1 for participation, 0 otherwise
Income: Annual average income per household in Rupees
Saving: Annual average savings per household in Rupees
Family Size: Number of family members in the household

5 Conclusion

The group based microfinance interventions had led to a highly significant increased savings of the target group over that of the control group. Target households had compulsory savings in their respective microfinance groups, which was broadly a monthly saving of Rs. 10 to 20. In fact this compulsory saving had led to a saving habit among the target household, which in turn led to increased savings among the microfinance households. A higher increase in savings per household in target group over control group was found in households primarily engaged in micro-enterprise & trading than that of the agriculture and allied activities.

Also it was found that the target households had a highly significant higher savings in commercial banks than that of the control group, and it was primarily due to the increased saving habit and increased income due to the microfinance interventions. All the participants in microfinance groups were the savers by default but the same was not seen in case of control households. The number of savers with commercial banks was also higher in the target group over that of the control group. As high as 85% of the target households were the clients of commercial banks whereas 64% control households were the commercial bank clients. The group based microfinance interventions had increased the per annum household savings, developed regular saving habits among the beneficiaries and increased the number of savers with commercial banks. Among the four regions of Orissa under this study, the highest increases in the savings in the target households than that of the control households were traced in the Eastern Region (64.56%), followed by Coastal Region (62.38%), Western Region (42.53%), and Central Region (38.14%) respectively. The probability of participation in the microfinance groups was significantly determined by household savings. Being a study of quantitative nature and engaging only primary close ended questions through interview schedule, this study could not answer "why" factor of the impact but only able to measure "what" factor of the impact under group based microfinance interventions. So this study encourages more research focusing "why" and "how" factor of impact of the group based microfinance programmes on participating households and clients.

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Lending Operations of Self-Help Groups: A Study of Microcredit Availed, Usage and Repayment by SHG Members in Goa

- Elizabeth J Henriques* and Rekha R Gaonkar**

The provision of micro-credit through the SHGs to the 'small' borrower has enabled the poor not just to avail instant financial accommodation to cushion their immediate consumption needs but also in the long run to take up various income generating activities and build their livelihoods.

Abstract

The SHG-Banking pioneered and promoted by NABARD has emerged as a primary Microfinance service mechanism for the unbanked poor in India. Microfinance refers to the provision of financial services in the form of thrift, credit, insurance etc to that section of society which hitherto was bypassed by the formal credit delivery system. In recent years micro-credit has come to be perceived as an effective tool to bring about 'financial inclusion' of the marginalised sections of society. The Self-Help Groups are the medium through which small loans are made available to the members. While the outreach of banking services widened post bank nationalisation, the prevalent banking policies, procedures, systems, products and instruments were ill suited to the needs of the poor who had no option but to access funds from the money lenders at usurious rates of interest. The provision of micro-credit through the SHGs to the 'small' borrower has enabled the poor not just to avail instant financial accommodation to cushion their immediate consumption needs but also in the long run to take up various income generating activities and build their livelihoods. In this research paper based primarily on field data, an attempt has been made to understand the socio-economic background of the SHG members and to highlight the various procedures and norms adopted by the SHGs in sanctioning credit to their members, emphasising, on the loan usage and repayment habits of the SHG members.

Key Words: Goa, Microcredit, Income Generating Activities, Non-Income Generating Activities. Swarnjayanti Gram Swarozgar Yojana, NGOs.

JEL Classification: G21, G28

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Introduction

Microfinance is defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards." (Task Force on Microfinance). The concept of microfinance is inclusive of micro-credit. While micro-credit is purely 'credit', microfinance is 'credit plus'.

In recent years micro-credit has come to be perceived as an effective tool to bring about 'financial inclusion' of the marginalised sections of society. The Self-Help Groups are the medium through which small loans are made available to the members. In India the origin of microfinance can be traced to the establishment of the SEWA Bank in Gujarat. The next important initiative in this field was the setting up of SHGs by MRYDA. However the microfinance movement in the country got a boost with the intervention of the NABARD, which, through its pilot project in 1992 linked the existing SHGs to the formal banking system. The SHG-Bank Linkage programme gained in momentum. As of March 2008, nearly 3.40 million SHGs have been provided with bank credit of over Rs.2223.30 crores. Almost 90% of these groups are women groups. Over 44,000 bank branches of 47 Commercial Banks, 91 Regional Rural Banks (RRBs) and 342 Co-operatives were involved in financing these groups. Attempts are being made to expand the outreach of the micro-credit programme. The SHG programme has over the years brought about a positive change in the lives of millions of poor in the country.

Review of Literature

A large number of impact studies have been carried out both in India and other countries to gauge the impact of micro-credit on its recipients. Many such studies have thrown light on the loan usage by members of SHGs. Shivkumar (1995) points out that SHGs have enabled the poor to avail instant financial accommodation for both production and consumption purposes. Gopala Krishnan (1998) in his study reveals that a substantial percentage of loans (84%) were availed by members for consumption purposes but there were no default in payments. Kumaran (2002) noted that irrespective of the promoting agency, be it banks or NGOs, demand for consumption loans among SHG members was more than the demand for loans to meet production needs. On the other hand a study on Microfinance Institutions (MFI) conducted by **EDA Rural Systems (2005)** which attempted to document the impact of microfinance services at the end user level found that micro-credit is being used primarily for direct investment (63%) in both farm and non-farm sectors while 37% of the loans were utilised to finance household purchases on health, education, marriages etc. Goetz & Gupta's (1994) studies on women's control of credit in Bangladesh indicate that most women borrowers have partial control over loans or have relinquished all control to male members of the family. Hulme & Mosley (1998) highlight the fact that loans to the 'not so poor' had a more positive effect on income than loans to the very poor. This paper makes an attempt to look at the various procedures and norms adopted by the SHGs in sanctioning credit to their members and also throws light on the loan usage and repayment habits of the SHG members.

Objectives of the Study

1. To detail the norms and procedures governing micro-credit disbursal
2. To highlight the loan usage by the beneficiaries of micro-credit
3. To study the repayment habits of micro-credit borrowers.

Methodology

The research paper is an attempt to study SHGs in the State of Goa and is based on both primary and secondary data sources. For the purpose of gathering primary data, interview schedules were administered to the SHG members. Furthermore, only those SHGs that have been in existence for a period of over three years were randomly selected. The selected sample includes SHGs promoted by NGOs and also the Government under the Swarnjayanti Gram Swarozgar Yojana. While the latter groups comprise of respondents who are included in the BPL list of the State, the former essentially comprise of non BPL respondents. A 'before SHG' and 'after SHG' approach has been adopted in the collection of field data. Besides, field data, the paper is also based on material sourced from secondary data sources such as journals, publications and the internet. The SPSS package has been utilised in the analysis of data.

Selection of SHGs

The State of Goa comprises of two Districts namely the North Goa District and the South Goa District. While the former district comprises of six talukas - Pernem, Bicholim, Tiswadi, Ponda, Sattari and Bardez, five talukas - Mormugoa, Salcette, Quepem, Sanguem and Canacona make up the landscape of the latter taluka. A total of 80 SHGs i.e. 40 SHGs from each of the two districts have been selected for the present study. Of the forty SHGs selected in the North and South Goa districts, 20 SHGs each have been formed by the NGOs and by the Government under the Swarnjayanti Gram Swarozgar Yojana respectively. Self-Help Groups from all of the eleven talukas are represented in the study.

Selection of SHG Members

The average size of the selected SHGs was 14. For the purpose of the study, it was decided to select a total of five members of each of the 80 SHGs. While four of the respondents selected were ordinary members of the SHG, one member was a SHG leader/office bearer at the time of collection of field data. Thus a total of 400 SHG members of the 80 selected SHG in both of the districts of the State of Goa were interviewed. While 200 of these respondents belonged to SHGs formed under the SGSY, the other 200 respondents were members of SHGs promoted by various NGOs.

The study findings are based on the responses elicited and discussions held with these respondents.

Socio - Economic Profile of the SHG Members

The 400 respondents drawn from 80 SHGs belong to different age and caste groups. A majority of the respondents (42.2%) are in the age group of 35-45 years. The respondents predominantly belonged to the Hindu faith (96%) while 4% were Catholics.

A majority of the respondents (81.5%) were married, while 44 respondents were widows. Most of the respondents owned their houses with just 4.5% living in rented premises. With respect to the caste profile of the respondents, the study findings reveal that 44.8% of the respondents belong to the General category, while 39.2% are members of the Other Backward Classes. Scheduled Tribes and Scheduled Castes comprise 14.5% and 1.5% of the sample respectively.

As far as the educational qualifications of the respondents is concerned, the findings indicate that while 89.3% of the respondents are literate with majority of the members having educational qualifications of class 8th to S.S.C, forty three respondents are illiterate and do not possess the ability to read and write.

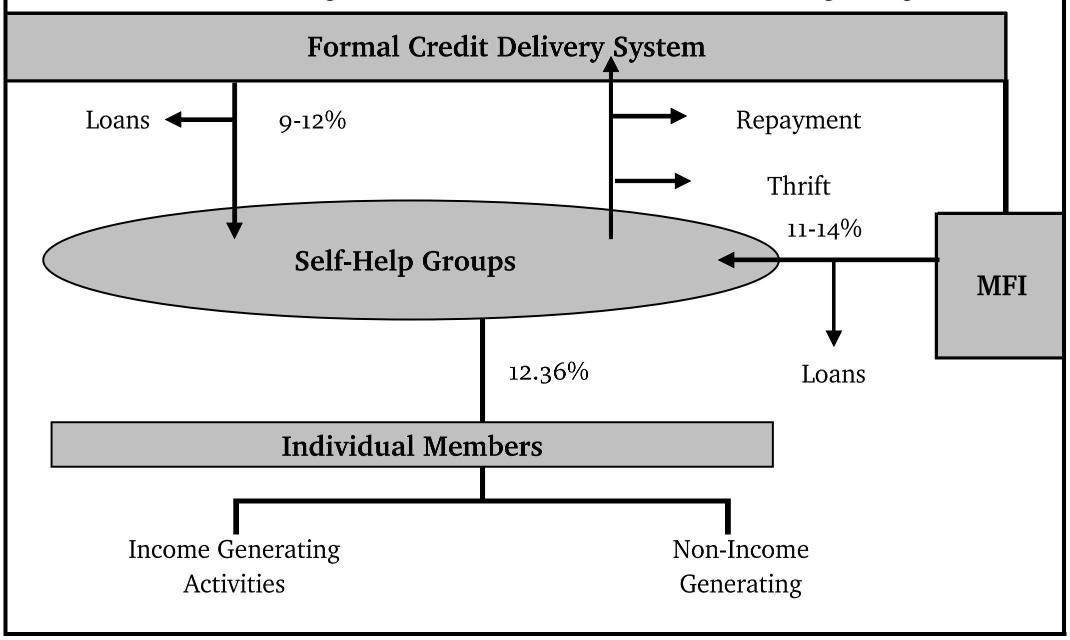
The SHG-Bank linkage programme has had a positive impact on employment. It has enabled the respondents to take up some form of income generating activities. Prior to becoming members of the SHGs, 58.5% (234) of the respondents were housewives and were not involved in any economic activity whatsoever. While 13.5% were self-employed, a total of 12 respondents were actually regular salaried employees working in the private and public sector. A significant percentage of the respondents were agricultural labour whose employment was seasonal. Post SHG membership, there has been a significant change in the employment status of the respondents. While 336(84%) of the respondents had taken up some income generating activity, just 64 respondents (16%) continued to confine themselves to housework. The respondents were involved in diverse economic activities such as agriculture, horticulture, dairy farming, handicrafts, sale of fresh and dried fish, coconuts, oil, fruits, flowers, vegetables, tailoring, manufacture of brooms, patrawadis (leaf plates), candle making, taking cashew crop in auction, catering, mid-day meal scheme etc.

Main Findings of the Study

I] Norms of loan Disbursal

The SHGs constitute the core of the micro-credit system. They serve as the conduits through which credit is accessed by the SHG members. The Flow Chart throws light on the financial flows involved in the SHG-Bank linkage programme.

Flow Chart indicating Financial flows in the SHG-Bank Linkage Programme



The Flow Chart is also indicative of the two models of the SHG-Bank linkage programme. While in the first model the SHGs borrow from the formal banking system for the purpose of on-lending to the SHG members. The credit linkage is however conditioned by the savings maintained by the groups in the bank. On the other hand, in the second model, the Microfinance Institutions (MFIs) lend monies borrowed from the banking sector to the SHG for further lending to individual members for financing both consumption and production needs. While the first model of credit delivery dominates the micro-credit programme, Microfinance Institutions are non-existent in the State of Goa.

Responses elicited from the SHG leaders/office bearers indicate that different SHGs adopt different criteria and procedures while granting loans to the SHG members. By and large loan disbursal is need based and priority driven. Generally each member is entitled to one loan at a time. The second loan is disbursed only on repayment of the first. Furthermore, the past performance of the member with respect to repayment is checked before a second loan is granted. If a SHG member has defaulted in the past, no additional loan is sanctioned to the member. Attempts are made to ensure that every member's credit requirements are met. Priority and repayment capacity condition loan disbursal. While a majority of the SHGs grant loans only to members, a few SHGs loan funds to non-members as well but at relatively higher rates of interest. The quantum of loan sanctioned depends on the size of funds available with the SHG. In the case of SHGs that are credit linked, members are permitted to avail both bank credit via on-lending as also loans from the thrift fund simultaneously. It is found that in three of the SHGs studied, all members have been asked to compulsorily avail of credit.

Procedure for Loan Disbursal

Generally, grant of credit to the SHG members is a consensus decision. The demand of a given member for credit from the SHG is put up for discussion in the meeting and the decision to grant the loan is decided upon at the meeting itself. The procedure adopted by the SHGs while disbursing credit from the thrift fund differs among SHGs and in some cases is determined by the Self-Help Group Promoting Agencies. While in some SHGs, the office bearers insist on security in the form of two guarantors, other SHGs make signing of promissory notes mandatory. In most cases, loans are granted without any collateral or security. Credit linkage with the formal banking system is sought after much deliberations among the members and the approval of the Self-Help Group Promoting Agency. Most of the SHGs studied do not engage in group activity. Members generally operate micro-level business on an individual basis.

Therefore the urgency of credit linkage, the quantum of savings with the group, the repayment capacity and the past performance of the members desiring the bank loan, the purpose for which the loan is sought etc condition the decision to go in for such bank linkage.

Interest rate structure

The study indicates that loans are disbursed at interest rates ranging from 0% to 36%. The cost of borrowing depends on whether the loan availed is from the thrift fund or by way of on-lending from the bank. Bank credit is relatively cheaper than the credit availed from the thrift fund. The study findings indicate that while the interest rates in the case of the former range between 9% to 12%, in the case of the latter, the cost of borrowing ranges between a minimum of 0% and a maximum of 36%. (Table 1.1) The disparity in the rates of interest stems from the fear of default. In the case of loan from the thrift fund, any delay or default can be made good from out of the monthly contribution made by the member towards the fund. However if even a single member defaults in the repayment of the bank loan, the group as a whole is held responsible, jeopardising the financial status of the group itself. The emphasis therefore is to ensure that the loans granted via on-lending are as cheap as possible to ensure prompt repayment. The study findings also reveal that one of the SHGs grants credit to the members from out of the thrift fund at nil rates of interest.

These usurious interest rate obligations make credit costly for the poor and marginalised borrowers. Ironically a person securing credit directly from a financial instituition can avail of financial accommodation at relatively lower costs. This reality blurs the distinction between moneylender and micro-credit, both being exploitative.

Table 1.1: Interest Rate Structure

Sr. No.	Interest Rates	Frequency	Percentage
1	0	2	0.5
2	5	8	2
3	9	6	1.5
4	9.5	5	1.25
5	10	6	1.5
6	12	77	19.25
7	18	50	12.5
8	24	180	45
9	36	15	3.75
10	Total	349	87.25
11	Loan not availed	51	12.75
12	Total	400	100

Source: Field data.

II Loan Usage by SHG Members

Under the SHG-Bank linkage programme formal credit is made available to the SHG members by the banks themselves or indirectly via Microfinance Institutions. The study reveals that, of the total 400 respondents, 349 (87.2%) availed of credit from the SHG while 51 (12.8%) respondents did not feel the need to access the SHG for funds. Lack of desire to engage in any economic activity, adequacy of finances at home, fear of indebtedness, lack of repayment capacity, stringent norms adopted by the SHG are some of the factors which can be attributed for the considerable number of respondents failing to access credit from the SHG. A majority of the respondents (67.2%) had borrowed for a period of one to three years. Respondents had also sought repeat loans. A total of 194(58.4%) respondents had availed of financial accommodation on more than one occasion. Table 1.2 details the usage of micro-credit by the respondents.

Table 1.2: Micro Credit Usage by Respondents

Sr.No.	Purpose of Loan	Frequency	Percentage
1	Income Generating Activity	91	22.8
2	Non-Income Generating Activity	179	44.8
3	Both	79	19.8
4	Total	349	87.2
5	Loan not availed	51	12.8
	Total	400	100

Source: Field data

A perusal of Table 1.2 indicates that the respondents had utilised the loans availed for both income generating and non-income generating purposes. While 91 (22.8%) respondents had availed of micro-credit for purely income-generating purposes, 179 (44.8%) members had employed the loan availed exclusively for non-income generating purposes. Seventy-nine respondents had used the loan amount for both income and non-income generating purposes. It can be inferred from the data that a larger percentage of SHG members borrow funds for consumption/Non Income Generating Activities (73.93%) rather than production/Income generating Activities (48.71%).

Figures 1 and 2 detail the quantum of micro-credit sourced by the respondents both from the thrift fund and by way on on-lending from the banks as also the amount utilised towards income and non-income generating activities since their entry into the SHGs.

Figure 1: Quantum of Micro Credit Sourced from the Thrift Fund and Banks

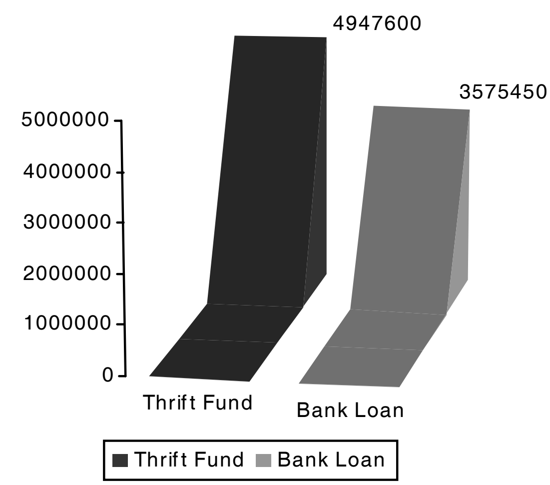
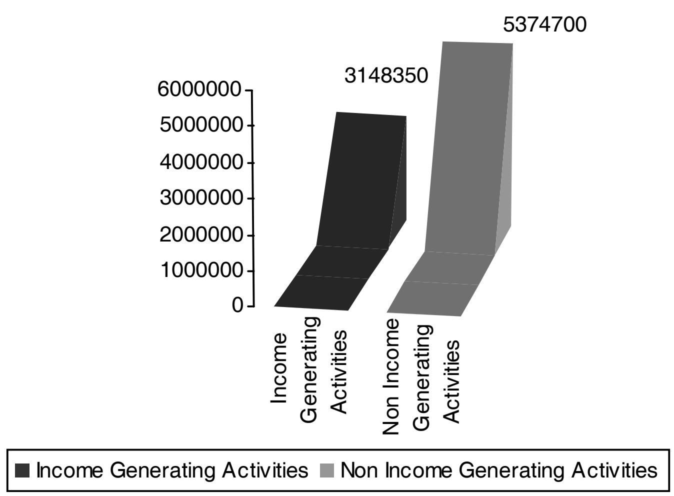


Figure 2: Quantum of Micro Credit Utilised for Income and Non-Income Generating Activities



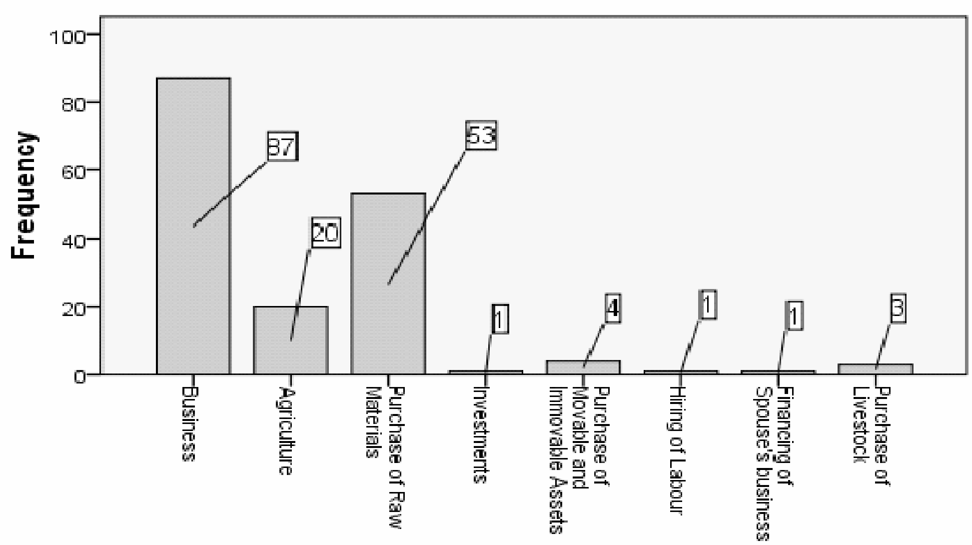
It can be inferred from the data presented in Figures 1 and 2 that the respondents' borrowings from the thrift fund exceed the loans availed from the banks by way of on-lending. This can be attributed to the fact that not all of the SHGs selected for the study are actually credit-linked. Just 41 of the 80 SHGs selected have obtained credit from the formal banking system. Several reasons can be attributed for the relatively low SHG-Bank credit linkage. (1) Lack of group affinity, (2) No desire to borrow, (3) Above Poverty line (APL) membership of the group, (4) No initiative to set up a micro-entreprise (5) Heterogeneous character of group (6) Groups have sufficient funds of their own (7) Fear of indebtedness (8) Sometimes office bearers of the SHG under the mistaken belief that they will be held individually responsible in the case of default in repayment, do not allow members to seek bank credit (8) Non-co-operation by Banks etc. Moreover, members prefer to borrow from the thrift fund in the belief that they are borrowing their own money and in the event of failure in repayment their contribution towards the thrift fund can be used to make good the loan installments.

With respect to the usage of micro-credit it has been found that while 36.9% of the total credit availed had been employed in income generating activities, 63.1% of the micro-credit disbursed had been utilised by the respondents for non-income generating activities. The study findings thus indicate that the usage of micro-credit to finance non-income generating activities is greater than the usage for income generating activities. This finding finds resonance in studies by Gopalakrishnan (1998), Kumaran (2002), Jerunabi (2006). The minimum and maximum loan availed by the respondents for income generating activities is Rs.500 and Rs.1,00,000 while in the case of non-income generating activities the least and highest quantum of loan availed stands at Rs.1000 and Rs.3,35,000 respectively. It can be inferred from the field study and discussions with the respondents that members of the selected SHGs belong to households that are financially sound. The extent of poverty in Goa is relatively low. Just about 4.4% of Goa's population lives below the poverty line (Economic Survey-2008). While 24% of the sampled SHG households had average annual income of upto Rs.50,000. A little over 36% of the SHG households annual income ranged between Rs.50,001 to Rs.1,00,000. The remainder of the households had annual income in excess of Rupees one lakh, with highest income earned being Rs.6,72,000. Given the 'non-poor' status of the SHG households it has been found that a significant number of respondents sought membership of the SHG as it provided them easy, instant and hassle free access to interest free funds. Furthermore, it was also noted that the spirit of entrepreneurship was sorely missing among majority of the respondents. Members largely perceived the SHG as just another channel to augment their purchasing power and finance superfluous consumption rather than a catalyst to capital formation - both material and human.

Figures 3 and 4 highlight the usage of micro-credit availed for various income and non-income generating purposes.

Figure 3 details the various income generating purposes for which respondents utilised the credit availed. It can be inferred from the figure that a majority of the respondents (87) had employed the loan for business purposes. Loans were used to

Figure 3: Income Generating Activity

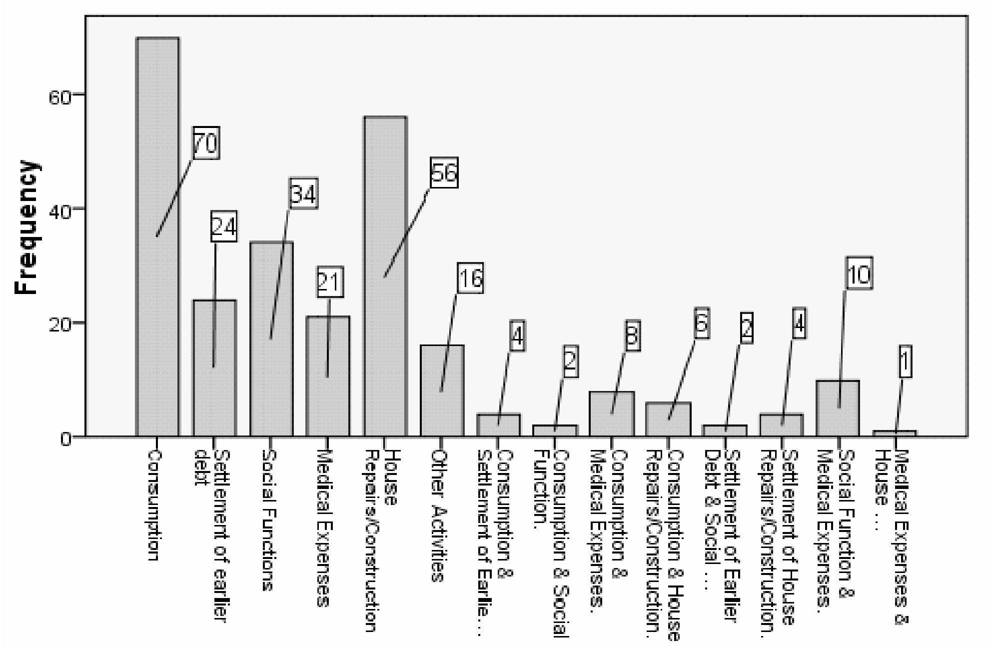


start micro level enterprises such as grocery, handicrafts, manufacture of papads, pickles and bottled products, phone booths, pandal decorators, catering business. Furthermore a considerable number of respondents (53) had also employed the loan availed to purchase stock/raw-material. Besides, respondents had sought credit for other productive purposes such as purchase of movable and immovable assets for business purpose, financing of spouse's business and purchase of livestock. It was noted that one of the respondents had accessed funds from the SHG which she then lent to others through the 'Confre'(An indigenous and traditional form of micro-credit system prevalent in the State of Goa) she operated at comparatively higher rates of interest. While this can be construed as misuse of SHG funds, the respondent opined that for her it was just a 'business venture and a form of investment.'

Figure 4 indicates that respondents have borrowed funds from and via the SHG to finance more than one non-income generating activity. A majority of the respondents have employed the credit availed to finance their consumption requirements. House construction and repairs is another area given priority in the usage of micro-credit. Besides, it has been observed that the respondents have employed micro-credit in times of ill health, in the servicing of debt and celebration of social functions and festivals.

The study finds a bias in favour of non-income generating activities not just in the quantum of micro-credit used but also in the number of respondents utilising the same.

Figure 4: Non-Income Generating Activities



Promoter Wise Usage of Micro-credit

An attempt has also been made to study the micro-credit usage by respondents of SHGs promoted by the Government and those promoted by various NGOs.

It can be inferred from the data presented in Table 1.3 that 11% and 14.5% of the respondents belonging to SHGs promoted by the Government and the NGOs have not accessed credit from or through the SHG. Furthermore 98(55.06%) and 117(65.73%) of the respondents belonging to government formed groups under the SGSY have utilised credit for income and non-income generating purposes respectively. On the other hand, vis-à-vis NGO formed groups, it is observed that a total of 72(42.11%) and 141(82.46%) respondents have employed credit obtained for income and non-income generating activities. Given the distinctive economic status of the respondents belonging to SHGs formed by the these two promoting agencies (i.e SHGs formed by the Government under the SGSY comprise of members who are included in the

BPL list while the NGOs generally promote SHGs with members who are not necessarily poor), it can be inferred that there is a greater tendency on the part of the non-poor to use micro-credit for consumption and non-income generating purposes than among the poor. For the relatively non-poor who populate SHG membership of the groups formed by the NGOs, the SHGs provide an easy access to instant and non-interest bearing loans. The poor on the other hand, given their financial constraints and burdened by the pressure of repayment, exercise care and caution in the usage of micro-credit.

Table 1.3: Micro-Credit Usage by SHGs formed by the Government and the NGOs

	Promoting Agency	Frequency	Percentage
Government	Income Generating Activity	61	30.5
	Non-Income Generating Activity	80	40
	Both	37	18.5
	Total	178	89
	Loan not availed	22	11
	Total	200	100
NGOs	Income Generating Activity	30	15
	Non-Income Generating Activity	99	49.5
	Both	42	21
	Total	171	85.5
	Loan not availed	29	14.5
	Total	200	100

Source: Compiled from field data

Correlation between Age of SHG and Micro-credit Usage

An attempt has been made to examine whether the usage of micro-credit is dependent on the age of the SHG. The selected SHGs have been classified into two broad categories on the basis of their year of formation. While 255 (63.75%) of the respondents belonged to SHGs that have been in existence for a period of five years and below, 145 (36.25%) of the respondents have been members of groups that have been operational for a period greater than five years.

It can be inferred from the data that there is a positive relationship between the age of the SHG and the percentage of members availing credit. While in the case of SHGs that have yet to complete five years, 16.1% of the respondents had not availed of any loan, only 6.9% of the respondents belonging to the SHGs which are above five years have refrained from taking a loan from the SHG. With respect to usage of micro-credit it is observed that that a larger percentage of respondents (71.70%) belonging to SHGs above 5 years have utilised

Table 1.4: Micro-credit Usage in SHGs Below and Above Five Years

	Year of Establishment	Frequency	Percent
Below 5 Years	Income Generating Activity	60	23.5
	Non-Income Generating Activity	111	43.5
	Both	43	16.9
	Total	214	83.9
	Loan not availed	41	16.1
	Total	255	100
Above 5 Years	Income Generating Activity	31	21.4
	Non-Income Generating Activity	68	46.9
	Both	36	24.8
	Total	135	93.1
	Loan not availed	10	6.9
	Total	145	100

Source: Computed from field data

credit for non-income generating activity compared to respondents of SHGs which are below five years of age (60.40%). Like-wise micro-credit usage for income generating activities is marginally higher among respondents of SHGs that are older. 40.40% and 46.20% of the respondents of SHGs below and above five years have employed loans availed for income generating activities respectively.

III Repayment of Loans by SHG Members

The norms of repayment are determined by the Self-Help Group Promoting Agency or at times the members of the group itself. A majority of the SHGs insist on repayment of the loan in regular monthly installments, a few however permit flexibility in repayment and allow members to repay loans in lump sum. Fines are imposed if the debtor members fail to repay the installment in time. Of the 80 SHGs considered in this study, just 5 SHGs do not impose any fine. The amount of fine ranges between Rs. 5 and Rs.25. It has been found that of the 349 respondents who had availed of credit from the thrift fund, two respondents failed to make regular repayments, the rate of default being 0.6%. The high rate of repayment can be attributed to several factors such as peer pressure, the need to avail a second loan, loss of face and prestige among group members, the small size of loan availed, existence of repayment capacity, imposition of fine, an increase in the interest obligation if the member fails to repay in time, group support etc. Instances wherein respondents have willingly paid up the loan installment of other members facing financial difficulties have also been reported. It has also been observed that while respondents may delay in the repayment of loans availed from the thrift fund, no delay is accepted in the case of repayment of bank loan installment. This is so as default if any in the case of the former can be adjusted from out of the concerned member's contribution towards the thrift fund whereas in the case of the latter, the SHG as a whole is held responsible for any defaults by members, thereby jeopardising the financial status of the group.

Furthermore while 116 of the respondents paid the loan installments from out of their own earnings, in 109 cases, the loan repayment was done by the spouse. In a few cases, members due to scarcity of finances were forced to borrow from friends or even the 'Copri' to make timely payments.

Conclusion and Suggestions

The SHGs have become important conduits through which credit is made available to small borrowers. With the help of these loans, the SHG members have been able to finance their consumption as also production expenditure. By providing access to funds, the SHGs have enabled the members not only to build livelihoods through establishment of micro level enterprises but also in the long run brought about an improvement in their standard of living. With respect to the usage of micro-credit it is evident that the usage of micro-credit for consumption and non-income generating activities is proportionately higher. The study indicates that SHG members prefer to borrow from the thrift fund than avail of credit from the banks by way of on-lending although the cost of credit in the case of the former is higher than in the case of the latter. With respect to the usage of micro-credit it can be concluded from the study findings that a larger segment of the SHG members utilise credit for non-income generating activities. However it has been observed that it is the poor rather than the non-poor who exhibit a greater tendency to employ micro-credit for productive and income generating activities. It is further observed that while there is a direct relationship between the age of the SHG and the number of members availing credit.

There are however certain grey areas which need attention. Appropriate measures if adopted would ensure better realisation of the basic philosophy of the SHG-Bank linkage programme.

Suggestions:

1. The usurious interest rates and the strict rules of credit disbursal make it difficult for poor members to actually seek and avail credit from the SHG. Since the interest rates are determined by the groups themselves, a rethink on the interest rate so as to make access to credit easy and affordable for the poor members is needed.
2. Given the fact that SHG members have a tendency to utilise micro-credit more for consumption rather than production, it becomes imperative for the various Self-Help Group Promoting Agencies to motivate the members to utilise the loans availed towards more productive and income generating purposes.
3. Emphasis needs to be given to providing appropriate training to the SHG members so as to equip them with the necessary skills needed to set up micro level enterprises.
4. Entrepreneurship development programmes and stress on capacity building will go a long way in motivating the members towards productive usage of micro-credit.
5. The government needs to play a more pro-active role in streamlining the functioning of the SHGs and the Self-Help Group Promoting Institutions at the State level. The government should take the lead in forming a nodal agency (Federation) which would act as an umbrella organisation which could be entrusted the task of monitoring the working of the SHG programme in the State.

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Microfinance and Women Empowerment: A Case Study of Punjab

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Empowerment is the process of enabling or authorising an individual to think, behave, take action and controlling work in an autonomous way. Thus women empowerment gives power or authority to challenge submissive social condition or status of the women.

Abstract

The development of the country is possible only if women also participate in thedevelopment process. It has been observed that the social, economic and political status of women in rural areas remains very weak. Recently, microfinance programme has been introduced for the poor targeting especially the women. The programme has diversified the economic activities of the participants, increased their employment, income and participation in household financial decision-making. The present paper studies the impact of microfinance on empowerment of women. For this purpose, a Composite Empowerment Index is constructed with the help of 21 indicators of women empowerment. A multiple regression technique is applied to find out the determinants of women empowerment.

The results of the study show that microfinance programme has empowered women economically, socially, psychologically and politically. The regression analysis shows that education of the participants, maturity of the group, employment level, household income and mobility are the significant variables that to determine empowerment of the participants. It is also found that the mature group participants are more empowered as compared to the young and middle age group participants. The paper also discusses the limitations confronting the efficient functioning of microfinance activities in order to enhance their impact on women empowerment.

Key Words: Microfinance; Self-Help Group; Women Empowerment; Composite Empowerment Index.

JEL Classification: G21,G29

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Introduction

The unique feature of microfinance programme is that it focuses on women for development. Most of the development programmes started in the past had gender bias. However, the emphasis of the microfinance programme is right because in most of the developing countries women have a low socio-economic status. They are the most disadvantaged, poverty stuck and vulnerable section of the society characterised by lack of access to the resources and education. As a result, women remained laggard and less participative in the development process of the country. Empowerment is the process of enabling or authorising an individual to think, behave, take action and controlling work in an autonomous way. Thus, women empowerment gives power or authority to challenge submissive social condition or status of the women.

Microfinance programme has been formally introduced in India in the year 1992. This programme has been emerging as a powerful instrument for empowering women and eliminating poverty. There is no dearth of studies conducted in Bangladesh which has given evidence that microfinance has helped in the empowerment of women. However, there are a few impact studies of microfinance in rural areas of India.

The present paper is an attempt to study the impact of microfinance on women empowerment in rural Punjab. The specific objectives of the study are:

1) To discuss the impact of microfinance on economic, social, psychological and political empowerment.
2) To find the impact of group maturity on the level of women empowerment.
3) To prepare a composite index of empowerment.
4) To find out the determinants of women empowerment.

Women Empowerment: Meaning and Review of Literature

Microfinance programme, pursued through Self-Help Groups (SHGs), helps in making women self-sustained, independent and capable of taking enterprise, family, economic and other decisions themselves. The concept of women empowerment is highly complex and contentious which needs an explanation. According to Kabeer (1998), empowerment should be seen as the possibility of making choices that previously were denied. In another study Kabeer (2001) says that empowerment signifies increased participation of women in decision-making and it is the process through which women feel themselves to be capable of making decisions and the right to do so. In other words, the empowerment is a process which gives confidence to women for getting out of the existing setup of the society to make their lives better, effective and independent.

Rowlands (1997) is of the view that empowerment is "the ability to obtain an income that enables participation in economic decision-making". Individuals become empowered when they obtain "the right to determine choices in life and to influence the direction of change, through the ability to gain control over material and non-material resources". Microfinance is associated with empowerment of the women by providing means to the borrower to engage in the income generating activities. It makes possible the relative physical mobility, economic security, ability to make various purchases, freedom from domination and participation in domestic decisions of women.

The measurement of the impact of microfinance on empowerment is somewhat a tedious exercise. It is mainly because of the fact that collection of both qualitative as well as quantitative data is difficult to handle. Most of the studies point towards caution of taking care of drawing conclusions towards the level of empowerment of the women. Hashemi et.al. (1996) concluded that credit contributes significantly to the magnitude of the economic position of women. It is observed that asset holdings in the name of women had increased; they had money with them to spend and their political and legal awareness had also increased. The access to credit had increased the levels of mobility, political participation and involvement in 'major decision-making'.

Basically, microfinance is more than a credit programme and the process of forming SHG, savings, group meetings, investment decisions, etc. develops the personality of the participant of the microfinance programme. Kabeer (1998) in a study of microfinance programme found that the women as the members of SHGs felt changes in the form of increased self-worth. Since woman started contributing economically at the household level, she became an important member in the family who improved her status and position. Women often reported the feeling of an increase in affection and consideration within the household with longer program membership.

The involvement of women in the microfinance programme has also given them non-economic benefits such as increased status in the family/society, increased self-confidence, decreased domestic violence and increased participation in domestic decision making. MkNelly and Dunford (1998) in a study of Bolivia and Ghana indicate that programme participation led to increase in self-confidence in women and improved status within the community. Participants in Ghana played a more active role in community life and community ceremonies, while participants in Bolivia were actively involved in local governments.

Microfinance in India and Punjab

In India microfinance is provided through the SHG-Bank Linkage Model and Microfinance Institution (MFI) Model. The SHG-Bank Linkage Model has been developed by NABARD in 1992. In this model, the informal SHGs are credit linked with the formal banking system. In the MFI model, the MFIs provide financial services to the individuals or to the groups like SHGs, Joint Liability Groups (JLGs) and Grameen groups. However, the SHG- Bank Linkage Model is widely prevalent throughout the country.

SHGs form the basic constituent unit of the microfinance movement. An SHG is a group of a few individuals, usually poor and generally women, who pool their savings into a fund from which they can borrow as and when necessary. Such a group is linked with a bank - a rural bank, co-operative or commercial bank where they maintain a group account. Over the time the bank begins to lend to the group as a unit, without collateral, relying on self-monitoring and peer pressure within the group for repayment of these loans.

In Punjab different agencies are involved in promoting the microfinance programme. These are Child Development Project Officer (CDPO), District Rural Development Agency (DRDA), Chief Agriculture Officer, National Cooperative Union of India (NCUI), Forest Department, Milk Union and Department of Soil & Water Conservation (DSWC). Almost all these agencies are government or government-sponsored agencies. As a result, the role of MFIs is almost negligible in the process of promoting microfinance scheme in Punjab. Microfinance State of the Sector Report 2008 by Srinivasan shows that in Punjab microfinance is provided only through the SHG-bank linkage programme and there is no MFI client.

NABARD has been playing a pivotal role in this movement of self-help groups. In India there were 2.2 million Self-Help Groups credit-linked as on 31st March 2006 (NABARD, 2006) and their number increased to 2.92 million along with a bank loan of Rs.180.41 billion as on 31st March 2007. The number of credit linked self-help groups further increased to 3.48 million along with bank loan of Rs.222.27 billion up to 31st March 2008 (Srinivasan, 2009).

In Punjab there were approximately 12,000 Self-Help Groups up to March 2006, out of which 4,561 were provided with bank loans of Rs. 238.86 million (NABARD, 2006). The number of credit linked groups increased to 6,454 along with a bank loan of Rs.357 million as on 31st March 2007. This number further increased to 8,965 with a bank loan of Rs. 620 million up to 31st March 2008 (Srinivasan, 2009). These groups are mainly financed by the public sector commercial banks and co-operative banks. The role of regional rural banks (RRBs) is very limited. Fifty percent of the total credit linked groups get loans from commercial banks, 38% from co-operative banks and just 12% of the credit linked groups are financed by the RRBs (NABARD, 2006).

Methodology

The present study measures the impact of SHG-Bank linkage programme on women empowerment in the rural area of Punjab. The impact is determined by comparing two groups: participant women of the programme (henceforth called as participants) and non-participants. Participants are the members of the SHG who have been benefited from the scheme and are credit linked up to March 2006. Non-participants are those households in the same areas who have joined the SHGs but their groups did not receive bank loans up to the time of the survey i.e. October 2007-

March 2008. As per the NABARD guidelines SHGs are provided bank loans only after the active existence of the groups for about six months after the time of their inception. So the non-participants belonged to the groups which were less than six months old at the time of survey and did not receive any benefit of the programme.

The study is based on primary data, collected from participant and non-participant sample households. A multistage random sampling method is used. The administrative division of Punjab is divided into 20 districts. In the first stage Punjab is divided into three parts:

1. Alluvial Plains

   It comprises the districts of Amritsar, Jalandhar, Kapurthala, Nawashahr, Ludhiana, Patiala, Fatehgarh Sahib, Taran Taran, Sangrur and Batala tehsil of district Gurdaspur.

2. Hilly Sub-Mountainous Strip

   This is north-eastern region of Punjab which includes Hoshiarpur, Gurdaspur, Ropar and Mohali districts.

3. Sandy Region or South Western Region

   South Western region of Punjab is sandy and dry. This part includes districts of Bathinda, Mansa, Faridkot, Moga, Muktsar, Ferozepur and Barnala.

One district is selected from each region having sufficiently large number of credit linked SHGs under the microfinance programme. As a result, Jalandhar district from alluvial plains, Hoshiarpur district from sub-mountainous region and Bathinda district from sandy region is selected for the purpose of study. In the second stage, 5% of the credit linked self-help groups in these three districts are selected and in the last

Table 1: Sample Frame for the Study

S. No.	*Region*	*Selected District*	*No. of groups surveyed*	*Block Selected*	*Total No. of SHG*	*Surveyed*	
						SHGs	*Participants*
1	Alluvial Plains	Jalandhar (595)	30	Jalandhar East	163	11	33
				Jalandhar West	156	11	33
				Nakoder	125	8	24
				Total	444	30	90
2	Hilly Sub-Mountainous Strip	Hoshiarpur (492)	25	Garhshankar	123	11	32
				Hoshiarpur-1	104	9	27
				Bhunga	49	5	15
				Total	276	25	74
3	South Western Region	Bathinda (184)	9	Nathana	77	5	14
				Sangat	38	3	9
				Bathinda	21	1	3
				Total	136	9	26

Figures in the parentheses show total no. of credit linked SHGs in respective districts stage three members from each group are interviewed randomly. For the purpose of selection of sample households, three blocks from each of these districts are selected where there are the highest number of credit linked SHGs (Table-1). Sample households are selected proportionately from these blocks. The detail of the sample is shown in the table.

It is clear from the Table that 90, 74 and 26 participants are surveyed from Jalandhar, Hoshiarpur and Bathinda districts, respectively. Matching number of non-participants of the programme are selected randomly from the same areas. The data is collected with the help of a schedule specially prepared and pre-tested for this study.

The basic objective of this paper is to find out the impact of microfinance on the empowerment of women. Therefore, empowering activities are recorded during the collection of data, which are divided into economic, social, political and psycho-logical. These activities are assigned different values (see Appendix Table-1). On the basis of these values a composite empowerment index (CEI) is prepared both for participants and non-participants of the programme. Chi square ($\chi 2$) test and't' test are used to find out the significance of the difference between the values of participants and non-participants.

The data collected from the field are compiled and presented in tables. Simple average and percentage are used to summarise the data. A multiple regression technique is applied to find out the determinants of women empowerment. The following regression analysis is used to measure the effect of key indicators on CEI.

$$CEI = b_o + b_1 AGE + b_2 EDU + b_3 GAGE + b_4 PROLOAN + b_5 EMPL + b_6 HHINC + b_7 MOBTY + u_i$$

Where: CEI = Composite empowerment index
AGE = Age of the participant in years
EDU = Education level of the participant
GAGE = Group age to know the maturity of the group
PROLOAN= Amount of loan used for productive purpose in rupees
EMPL = Employment in person days in Post SHG
HHINC = Household income of the participant in rupees
MOBTY = Level of mobility of the participant

It is observed from the above equation that independent variables are measured at different units. Therefore, there is need to standardise the regression coefficients to compare the strength of the relationship between dependent and independent variables. This is done by standardising the coefficients with the help of the formula $â_i = b_i * SD_{xi}/SD_y$, where b_i are the unstandardised regression coefficients; $â_i$ are the standardised coefficients; SD_y is the standard deviation of regression equation; and SD_{xi} are the standard deviation of the independent variable. These standardised coefficients will help in comparing directly to determine which variable has the largest impact on the dependent variable.

Results and Discussion

General Characteristics of Microfinance Programme

In Punjab most of the SHGs are formed and supervised by the village Aanganwadi workers under the overall supervision of Child Development Project Officer (CDPO) at block levels. These workers are not specially trained for the process of group formation. They are also not following any particular criteria for selecting women as SHG members. Table-2 shows the general characteristics of microfinance programme in the study area.

In the present study 190 members from 64 SHGs are interviewed to study the impact of the programme on women empowerment. The perusal of the table shows that on an average, each group has approximately 14 members. The average amount of saving by each member (participant) is Rs.100 per month and the average amount of loans received by the individual participant is Rs.17,638.

It is also observed that out of 190 participants surveyed just 60 participants are actively involved in group functioning i.e., maintaining accounts, attending meetings with higher officials, visiting to the banks to receive and repay the group loans etc.

Table 2: General Characteristics of Groups under Microfinance Programme

Total no. of SHGs surveyed	64
No. of participants surveyed	190
Average membership of the group	14
Total amount of loans availed by surveyed participants (Rs.)	33,51,300
Average amount of loans per participant (Rs.)	17,638
Average amount of savings (Rs. per month) per participant	100
No. of participants actively involved in group functioning	60

General Characteristics of the Sample Households in Study Area

Age is a crucial variable for adopting a programme. If a person is young, he/she can take the risk and initiative to adapt the innovative programme. The present study shows that more than 60 % of the participants belong to less than 40 years of age. However, the non-participants of the programme also belong to the same age group.

The perusal of Table-3 shows that most of the poor in rural areas belong to the scheduled caste category. It shows that microfinance programme in the study area has been helping greatly scheduled caste and backward class women.

Most of the participants of the programme are married. The table shows that 89% participants are married. It has been observed that for stability of membership, unmarried girls are not selected as group members. It is also observed that 73% of the participants and 66% of the non-participants are literate. The table shows that 67% of the participants and the 59% of the non-participants have studied up to matric

Table 3: General Characteristics of the Sample Households

Characteristic	Category	Participants				Non-participants			
		Jal.	Hsp.	Bti.	Pun.	Jal.	Hsp.	Bti.	Pun.
Caste-wise distribution of sample units	S.C.	66 (73)	46 (62)	11 (42)	123 (65)	79 (88)	55 (74)	14 (54)	148 (78)
	B.C.	7 (8)	5 (7)	4 (16)	16 (8)	4 (4)	8 (11)	4 (15)	16 (8)
	General	17 (19)	23 (31)	11 (42)	51 (27)	7 (8)	11 (15)	8 (31)	26 (14)
Age-wise distribution of sample units	Below 25	6 (7)	2 (3)	-	8 (4)	13 (15)	11 (15)	7 (27)	31 (16)
	26 to 40	50 (55)	43 (58)	15 (58)	108 (57)	53 (59)	38 (51)	13 (50)	104 (55)
	41 to 60	32 (36)	28 (38)	9 (34)	69 36)	22 (24)	22 (30)	5 (19)	49 (26)
	Above 60	2 (2)	1 (1)	2 (8)	5 (3)	2 (2)	3 (4)	1 (4)	6 (3)
Marital status	Married	79 (88)	65 (88) (88)	26 (100)	170 (89)	69 (77)	63 (85)	23 (88)	155 (81)
	Widow	7 (8)	8 (11)	-	15 (8)	9 (10)	5 (7)	-	14 (8)
	Unmarried	4 (4)	1 (1)	-	5 (3)	12 (13)	6 (8)	3 (12)	21 (11)
Level of education	Illiterate	24 (27)	11 (15)	16 (61)	51 (27)	28 (31)	22 (30)	15 (58)	65 (34)
	Up to middle	34 (38)	42 (56)	7 (27)	83 (44)	34 (38)	33 (44)	5 (19)	72 (38)
	Matric	27 (30)	16 (21)	1 (4)	44 (23)	19 (21)	16 (22)	5 (19)	40 (21)
	Above Matric	5 (5)	6 (8)	2 (8)	12 (6)	9 (10)	3 (4)	1 (4)	13 (7)

Figures in the parentheses are percentages
Legends: Jal. = Jalandhar Bti. = Bathinda Hsp. = Hoshiarpur Pun. = Punjab

level. Most of the participants as well as non-participants are illiterate in Bathinda district. Most of the beneficiaries of the programme in Jalandhar and Hoshiarpur districts belong to scheduled castes.

Nature of Economic Activities Undertaken by the Participants

Microfinance programme has helped the participants in adopting various economic activities. Table-4 shows a comparative picture of economic activities undertaken by the participants and non participants of microfinance programme.

Table 4: Nature of Economic Activities Undertaken by Microfinance Programme

S.No	Activity	Participants				Non-participants			
		Jal.	Hsp.	Bti.	Pun.	Jal.	Hsp.	Bti.	Pun.
1	Milch animals	13 (14)	20 (27)	9 (34)	42 (22)	5 (6)	8 (11)	9 (35)	22 (12)
2	Stitching & embroidery	9 (10)	14 (19)	0 (0)	23 (12)	1 (1)	5 (7)	-	6 (3)
3	Rope/Garland making	1 (1)	8 (11)	2 (8)	11 (6)	1 (1)	1 (1)	1 (4)	3 (1)
4	Petty shop	10 (11)	6 (8)	6 (23)	22 12)	1 (1)	1 (1)	-	2 (1)
5	Labour/ Domestic aid	5 (6)	5 (6)	2 (8)	12 (6)	9 (10)	11 (15)	3 (11)	23 (12)
6	Agriculture	2 (2)	2 (3)	-	4 (2)	-	-	-	0 (0)
7	Service	4 (4)	2 (3)	-	6 (3)	5 (6)	3 (4)	3 (11)	11 (6)
8	Dairy/ STD/PCOs	2 (2)	2 (3)	2 (8)	6 (3)	-	-	-	0 (0)
9	Football Sewing	12 (14)	-	-	12 (6)	21 (23)	-	-	21 (11)
10	Soap/ Surf Making	12 (14)	-	-	12 (6)	1 (1)	-	-	0 (0)
11	Others	-	1 (1)	-	1 (1)	-	2 (3)	1 (4)	4 (2)
	Total	70 (78)	60 (81)	21 (81)	151 (79)	44 (49)	31 (42)	17 (65)	92 (48)
12	Not involved in any activity	20 (22)	14 (19)	5 (19)	39 (21)	46 (51)	43 (58)	9 (35)	98 (52)
	Total	90 (100)	74 (100)	26 (100)	190 (100)	90 (100)	74 (100)	26 (100)	190 (100)

Figures in the parentheses are percentages

The perusal of the table shows that rearing of milch animal is a popular activity with the sample households. Twenty two% of the participants and 12% of the non-participants are engaged in raising milch animal with the sole purpose of selling milk. The main reason of choosing this activity may be that most of the households are already engaged in this activity and at the same time it does not require any special skill.

Stitching and embroidery is the second popular activity in which 12% of the participants are engaged. Some of the participants are involved in stitching of the school bags, traveling bags, bed covers, etc. which has a good market in the village itself. The discussion with the participants shows that the reason of adopting and expanding these traditional and less profitable activities is the lack of marketing support to sell other non-traditional products.

It is observed that 27% of participants are occupied in manufacturing and small business activities like petty shops, dairy, garland making, rope making, surf making, running STD/PCOs etc. as compared to just 2% non-participants. The adoption of non-conventional activities by participants of microfinance has been mainly because of some skill training and motivation provided to them under this programme. The table also shows that none of the non-participant and just 2% of the participants are involved in agriculture. It may be because of the fact that most of the participants and non-participants are landless households. The table clearly shows that microfinance programme has contributed in diversification of economic activities in rural areas of Punjab.

The impact of microfinance programme on women empowerment can be observed from the comparison of occupational difference of participants and the non-participants. It is observed during the field survey of Jalandhar district that the football sewing is an activity where workers are paid very low wage against their hard work. Eleven% of the non-participants are involved in this occupation as compared to 6% of the participants. It is also found that only 6% participants are engaged in domestic aid as compared to 12% of non-participants. Domestic aid is considered to be a menial and socially degraded job and participants with the availability of micro loans want to get rid of it. With the help of loans they start micro enterprises of their own. This has given them economic independence. However, 21% of the participants and 52% of the non-participants are not involved in any economic activity.

Economic Empowerment of Women and Microfinance Programme

Microfinance through SHGs has linked poor rural women with formal credit delivery system and has encouraged them to start micro enterprises. This programme has helped in increasing economic prospects of the beneficiaries and economically empowered them. The increase in level of the employment and income of the participant are good indicators of economic empowerment.

Impact on Employment

The study shows that the microfinance programme has helped the participants in increasing employment, particularly self-employment. The perusal of Table-5 shows that 79% of the participants and 48% of non-participants are engaged in some income generating activities at the time of the survey.

It is not only that the participants are employed, but they are also engaged in the job throughout the year. The perusal of Table-6 shows that the average employment of the participants is 160 person-days per annum, whereas the non-participants

Table 5: Employment Status of Participants and Non-Participants

Employment	*Participants*				*Non-participants*			
	Jal.	*Hsp.*	*Bti.*	*Pun.*	*Jal.*	*Hsp.*	*Bti.*	*Pun.*
Employed	70 (78)	60 81)	21 (81)	151 (79)	44 (49)	31 (42)	17 (65)	92 (48)
Unemployed	20 (22)	14 19)	5 (19)	39 (21)	46 (51)	43 (58)	9 (35)	98 (52)
Total	90	74	26	190	90	74	26	190

Figures in the parentheses are percentages.
Chi-square (χ^2) = 20.72 and Table value at 5% and 1% with 1 d.f. = 3.84 and 6.63, respectively.

are employed only for 78 person-days per annum. It may be concluded that microfinance programme has generated 82 days of additional employment per annum for the programme parti-cipants. To measure the significance of difference between the ave-rage employment level of the parti-cipants andnon-partici-pants, t-test is applied. The test shows that the differences in the level of employment of participants and non-participants are very significant.

Table 6: Number of Person Days Employment Generated in a Year

District	Average employment generated		Increment	Value of t
	Participants	Non-Participants		
Jalandhar	163	85	78 (92)	5.10*
Hoshiarpur	153	61	92 (151)	6.25*
Bathinda	166	99	67 (68)	2.40**
Punjab	160	78	82 (105)	8.19*

Figures in the parentheses are percentages.
* Significant at 1% level of significance;
** Significant at 5% level of significance

Training enhances skill and interest of the participants which increases their level of employment. Table-7 shows that the trained participants are employed for 192 person days per annum while untrained participants are employed for just 145 person days only.

Table 7: Impact of Training on Employment

Type of the participants	Number of participants	Average employment in Person Days
Trained	56 (29)	192
Untrained	134 (71)	145

Figures in the parentheses are percentages

Impact on Income

Microfinance programme has helped the women participants to increase their contribution to the household income. Table-8 shows that various income generating activities have increased the income per month of participants. Average income of the participants is Rs. 1746 per month as compared to Rs. 638 of the non-participants. As a result, microfinance programme has generated additional income of Rs.1108 per month for the programme participants. There is a substantial increase in income of the participant women due to adoption of the programme. The contribution to the family income helps women to become economically independent and a decision maker in the household expenditure.

To measure the significance of difference between the average income level of the participants and non-participants, t-test is applied. The test shows that the difference in the level of income for all the three districts is significant at 1% level of significance.

Table 8: Average Income Generated Per Month (in Rs.)

District	*Average Income*		*Increment*	*Value of t*
	Participants	*Non-Participants*		
Jalandhar	1557	646	911 (141)	4.889*
Hoshiarpur	1952	573	1379 (241)	4.707*
Bathinda	1813	799	1014 (127)	2.905*
Punjab	1746	638	1108 (174)	7.344*

Figures in the parentheses are percentages.
* Significant at 1% level of significance

Role of Microfinance in Decision-Making

In this male dominant society, female is on the recipient end because she is considered to be economically passive. However, microfinance programme has raised the status of women from mere a consumer to a producer and from economically dependent to independent.

The perusal of Table-9 shows that 21% of the participant women and only 11% of non-participants dominate in household financial decisions. This shows that microfinance programme has helped women in increasing their economic empower-

Table 9: Role of Women in Household Financial Decision-Making

Financial decision making	*Participants*				*Non-participants*			
	Jal.	*Hsp.*	*Bti.*	*Pun.*	*Jal.*	*Hsp.*	*Bti.*	*Pun.*
Self - dominate	21 (23)	19 (26)	-	40 (21)	11 (12)	8 (11)	2 (8)	21 (11)
Husband - dominate	4 (5)	3 (4)	3 (12)	10 (5)	12 (13)	7 (10)	4 (15)	23 (12)
Jointly by self & husband	63 (70)	52 (70)	23 (88)	138 (73)	63 (70)	55 (74)	19 (73)	137 (72)
Other members dominate	2 (2)	-	-	2 (1)	4 (5)	4 (5)	1 (4)	9 (5)
Total	90	74	26	190	90	74	26	190

Figures in the parentheses are percentages.
The value of Chi-square (χ^2) = 8.67 which is significant at 5% level.

ment and as a result they have started taking some household financial decisions independently. However, in a majority of cases, both husband and wife jointly take the household financial decisions. The Chi-square ($\chi 2$) test also shows a significant difference between participants and non-participants in household financial decision-making.

Banking Habits

Microfinance programme has also developed the banking habits of Self-Help Group members who contribute to the group savings fund in fixed installment at regular intervals. This develops the habit of thrift and banking.

The perusal of Table-10 shows that 54% of the participants have saving account with banks as compared to only 37% of the non-participants. It is observed from the table that 30% of the participants deposit money regularly in their saving bank account as compared to 18% of the non-participants.

Table 10: Banking Habits of Participants and Non-participants

Indicator		*Participants*				*Non-participants*			
		Jal.	*Hsp.*	*Bti.*	*Pun.*	*Jal.*	*Hsp.*	*Bti.*	*Pun.*
Saving bank account	Yes	56 (62)	36 (49)	10 (38)	102 (54)	36 (40)	28 (38)	7 (27)	71 (37)
	No	34 (38)	38 (51)	16 (62)	88 (46)	54 (60)	46 (62)	19 (73)	119 (63)
Deposit in bank regularly	Yes	25 (28)	24 (32)	8 (31)	57 (30)	12 (13)	19 (26)	4 (15)	35 (18)
	No	65 (72)	50 (68)	18 (69)	133 (70)	78 (87)	55 (74)	22 (85)	155 (82)

Figures in the parentheses are percentages

Chi-square (χ^2) = 5.84 and 3.94 and the Table values at 5% and 1% with 1 d.f.=3.84 and 6.63, respectively

Social and Psychological Empowerment

Confidence in Traveling

The Self-Help Groups encourage and offer an opportunity to their members to visit to other places for getting skills, training and exhibiting their products in various fairs and exhibitions. They have to purchase raw material and sell their final products of their micro enterprise in the market. Exposure of the members in the programme increases their confidence in traveling to other places. However, some of the women are hesitant and do not take these activities themselves.

Table-11 shows the confidence of Self-Help Group members to visit a city, nearest town and another village. It has been observed that only 46% of the participants are more confident to visit a city. However, 79% participants are confident to visit the nearest town as compared to 69% of non-participants. It is clear from the table that the gap between participants and non-participants regarding confidence in traveling is very low because Punjab is a progressive state where traveling is very common.

However, participants of the programme are more confident in visiting cities and towns than non-participants. Chi-square test shows very significant differences among participants and non-participants regarding their confidence in traveling to city.

Table 11: Confidence in Traveling to Various Places

Confidence Level		*Participants*				*Non-participants*			
		Jal.	*Hsp.*	*Bti.*	*Pun.*	*Jal.*	*Hsp.*	*Bti.*	*Pun.*
Traveling to city	More Confident	39 (43)	43 (58)	6 (23)	88 (46)	11 (12)	12 (16)	3 (12)	26 (14)
	Less confident	30 (33)	22 (30)	5 (19)	57 (30)	56 (62)	36 (49)	9 (34)	101 (53)
	Can't go	21 (24)	9 (12)	15 (58)	45 (24)	23 (26)	26 (35)	14 (54)	63 (33)
Traveling to nearest town	More Confident	72 (80)	66 (89)	12 (46)	150 (79)	65 (72)	52 (70)	15 (58)	132 (69)
	Less confident	16 (18)	6 (8)	9 (35)	31 (16)	23 (26)	18 (24)	8 (31)	49 (26)
	Can't go	2 (2)	2 (3)	5 (19)	9 (5)	2 (2)	4 (6)	3 (11)	9 (5)
Traveling to another nearest village	More Confident	86 (96)	71 (96)	24 (92)	181 (95)	84 (93)	65 (88)	21 (81)	170 (89)
	Less confident	3 (3)	2 (3)	1 (4)	6 (3)	4 (5)	6 (8)	5 (19)	15 (8)
	Can't go	1 (1)	1 (1)	1 (4)	3 (2)	2 (2)	3 (4)	0 (0)	5 (3)

Figures in the parentheses are percentages

Chi-square (χ^2) =24.86, 3.06 and 2.668 for traveling to city, town and village, respectively and the Table values at 5% and 1% with 2 d.f. =5.99 and 9.21

Confidence in Dealing with Other Members of Society

It is very important to conduct oneself confidently in a group. The Self-Help Group members have to arrange meetings weekly or fortnightly, visit other villages, interact with important local people, go to banks and meet various government officials. This requires a good level of confidence in dealing with officials, group members and other members of the community.

Table-12 shows that 74% of the participants and just 27% of the non-participants are more confident in dealing with the other members of the society. There is very significant difference among participants and non-participants regarding their confidence in dealing with other members of the society.

Table 12: Confidence in Dealing with Other Members of Society

Level of Confidence		Participants				Non-participants			
		Jal.	Hsp.	Bti.	Pun.	Jal.	Hsp.	Bti.	Pun.
Dealing with	More Confident	64 (71)	62 (84)	15 (58)	141 (74)	26 (29)	18 (25)	8 (31)	52 (27)
other persons	Less confident	26 (29)	11 (15)	10 (38)	47 (25)	64 (71)	55 (74)	18 (69)	137 (72)
Can not say	-	1 (1)	1 (4)	2 (1)	-	1 (1)	-	1 (1)	

Figures in the parentheses are percentages.

Chi-square (c^2) = 44.66, the Table values at 5% and 1% with 2 d.f. =5.99 and 9.21

Political Empowerment

Self-confident and conscious women are capable of taking part independently in election process and village polity. The study shows that along with the economic and social empowerment, microfinance programme has also led to the political empowerment of the women participants. The participants feel they are in the mainstream of the village life; therefore, they play an important role in village polity.

The perusal of Table-13 shows that both participants and non-participants are aware of local polity. It is found that almost all the participants and non-participants are aware of their voting rights and the name of their village sarpanch. However, when participants are asked to name the chief minister of Punjab and prime minister of India, 52% of the participants know the name of chief minister of the state and 34% know the name of prime minister as compared to 39 and 13% of non-participants, respectively.

Table 13: Political Indicators of Empowerment

Indicator		Participants				Non-participants			
		Jal.	Hsp.	Bti.	Pun.	Jal.	Hsp.	Bti.	Pun.
Casting votes in village, state and centre elections independently	Yes	90 (100)	73 (99)	26 (100)	189 (99)	89 (99)	74 (100)	25 (96)	188 (99)
	No	-	1 (1)	-	1 (1)	1 (1)	-	1 (4)	2 (1)
Know the name of sarpanch & development activities going on in village	Yes	87 (97)	67 (91)	24 (92)	178 (94)	83 (92)	71 (96)	24 (92)	178 (94)
	No	3 (3)	7 (9)	2 (8)	12 (6)	7 (8)	3 (4)	2 (8)	12 (6)
Know the name and recognise the state chief minister	Yes	51 (57)	38 (51)	10 (38)	99 (52)	44 (49)	23 (31)	8 (31)	75 (39)
	No	39 (43)	36 (49)	16 (62)	91 (48)	46 (51)	51 (69)	18 (69)	115 (61)
Know the name and recognise the prime minister of India	Yes	32 (36)	26 (35)	6 (23)	64 (34)	14 (16)	7 (9)	3 (12)	24 (13)
	No	58 (64)	48 (65)	20 (77)	126 (66)	76 (84)	67 (91)	23 (88)	166 (87)
Attend and participate in panchayat meetings	Yes	52 (58)	47 (34)	12 (46)	111 (58)	40 (44)	31 (42)	10 (38)	81 (43)
	No	38 (42)	27 (36)	14 (54)	79 (42)	50 (56)	43 (58)	16 (62)	109 (57)

Figures in the parentheses are percentages

The study also tried to find the role of women in panchayat meetings for decisions regarding village development. The respondents, participants and non-participants, are asked whether they attend the panchayat meetings and participate in them. Fifty eight% of the participants respond positively as compared to 43% of the non-participants.

Composite Empowerment Index

The impact of microfinance programme on women empowerment can be better understood by preparing a composite empowerment index (CEI). Therefore, a composite index based on 21 indicators of empowerment is prepared. The index combines both quantitative and qualitative data relating to empowerment. The indicators and their score used for the study are given in Appendix Table-I. The scores of these 21 indicators are added together. The participants who score between 0-10 are classified as not empowered. Similarly, the scores between 11-20, 21-30 and 31-40 are classified as low, medium and highly empowered, respectively. The results of CEI of both participants and non-participants are given in Table-14.

The perusal of the Table-14 shows that 76% participants are in the range of medium and highly empowered, whereas only 48% non-participants are in this category. The Chi-square ($\chi 2$) test shows a significant difference between the empowerment of the

Table 14: Composite Empowerment Index (CEI) of Participants and Non-participants

Level of Empowerment	*CEI Score*	*Participants*				*Non-participants*			
		Jal.	*Hsp.*	*Bti.*	*Pun.*	*Jal.*	*Hsp.*	*Bti.*	*Pun.*
Highly empowered	(31–40)	23 (26)	21 (28)	6 (23)	50 (26)	4 (4)	4 (5)	1 (4)	9 (5)
Medium empowered	(21–30)	43 (47)	44 (60)	8 (31)	95 (50)	39 (43)	34 (46)	8 (31)	81 (43)
Less empowered	(11–20)	23 (26)	8 (11)	9 (35)	40 (21)	42 (47)	29 (39)	13 (50)	84 (44)
Not empowered	(0–10)	1 (1)	1 (1)	3 (11)	5 (3)	5 (6)	7 (10)	4 (15)	16 (8)
	Total	90	74	26	190	90	74	26	190

Figures in the parentheses are percentages
Chi-square (χ^2) = 25.16 and the Table value at 5% and 1% with 3 d.f. = 7.81 and 11.3, respectively

participants and non-participants of the microfinance programme. Therefore, it can be concluded that microfinance programme has helped in women empowerment.

Impact of Group Maturity on the Level of Women Empowerment

Empowerment is a slow and continuous process and the mere joining of SHG does not lead to empowerment. It takes some time to get the full benefits of the programme. Table-15 shows the impact of group maturity on the level of women empowerment. In order to measure the impact of group maturity, the SHGs are divided into three categories based on the age of the group. These three categories are named as young groups (less than 3 years), middle-aged groups (3 to 6 years) and mature groups (more than 6 years). Composite Empowerment Index is used to study the impact of group maturity on the level of women empowerment.

Perusal of table shows that 56% of the participants in young groups, 83% in middle age groups and 98% of the participants in the old groups are in the high and medium empowered category. However, there are 38, 16 and 2% of the young, middle aged and mature group participants are less empowered, respectively. It is also found that 6% participants of young groups and 1% participants of middle age groups are not empowered. None of the participants in mature groups is in 'not empowered' category. This shows that after availing the benefits of microfinance programme for some years almost all of its participants have achieved some level of empowerment. The Chi-square ($\chi 2$) test also shows that the maturity of the group is significantly influencing the level of women empowerment.

Table 15: Level of empowerment according to group maturity

Empowerment Level on the Basis of CEI Scores	Group Age: Young Group (<3 yrs)				Middle Age Group(3-6 yrs)				Mature Group (>6 years)			
	Jal.	Hsp.	Bti.	Pun.	Jal.	Hsp.	Bti.	Pun.	Jal.	Hsp.	Bti.	Pun.
Highly empowered	05 (14)	02 (09)	01 (07)	08 (11)	10 (26)	07 (26)	02 (25)	19 (26)	08 (53)	12 (46)	03 (75)	23 (51)
Medium empowered	15 (42)	13 (62)	04 (29)	32 (45)	21 (54)	17 (62)	04 (50)	42 (57)	07 (47)	14 (54)	-	21 (47)
Less empowered	16 (44)	05 (24)	05 (43)	27 (38)	07 (18)	03 (11)	02 (25)	12 (16)	-	-	01 (25)	01 (02)
Not empowered	-	1 (5)	3 (21)	04 (06)	01 (02)	-	-	1 (1)	-	-	-	-
Total	36	21	14	71	39	27	8	74	15	26	4	45

Figures in the parentheses are percentages.
Chi-square (χ^2) = 73.65 and the Table values at 5% and 1% with 6 d.f. = 12.59 and 16.81, respectively

Determinants of Empowerment (Regression Analysis)

A linear multiple regression is used to determine the variables influencing women empowerment. The results are shown in Table-16.

The measure of best fit, i.e. ,the coefficient of determination (R^2) shows that the variables selected for the study explain 78% of the variations.

The results of the table show that all the coefficients have positive values except variables of age and loan used for productive purposes in Bathinda. The coefficients of regression variables, e.g., age, education, group age, household income, employment, amount of loans used for productive purposes and spatial mobility of the participants are playing an important and significant role in women empowerment. Education is one of the most important variables of women empowerment. It provides more knowledge, confidence and awareness to the participant of the

Table 16: The Determinants of Women Empowerment

Variables	*Standardised Coefficients*: *Jalandhar*	*Hoshiarpur*	*Bathinda*	*Punjab*
Constant	1.606	0.683	9.263	2.291
AGE	0.058 (1.026)	0.109 (1.401)	(-)0.201 (2.088)**	0.021 (0.550)
EDU	0.459 (7.686)*	0.355 (4.362)*	0.216 (1.967)**	0.374 (8.910)*
GAGE	0.113 (1.877)	0.238 (2.990)*	0.02 (0.156)	0.153 (3.775)*
PROLOAN	0.059 (1.040)	0.089 (1.223)	(-)0.115 (0.968)	0.063 (1.641)
EMPL	0.192 (2.984)*	0.205 (2.465)**	0.249 (2.019)**	0.196 (4.611)*
HHINC	0.135 (2.453)**	0.057 (0.763)	0.266 (2.036)**	0.107 (2.797)*
MOBTY	0.467 (8.932)*	0.309 (5.280)*	0.581 (4.888)*	0.476 (12.499)*
R-Square	0.799	0.717	0.854	0.78

The figures in parentheses are t-values.
* Significant at 1% level. ** Significant at 5% level

programme to make better and timely decisions. The maturity of the group (Group age) is also an important factor. As the group grows older, the participants develop more confidence, mutual faith, co-ordination and credibility of getting loans. The mature groups also spend their loans for productive purposes. The household income provides a financial base for contribution in group saving as well as to start micro-enterprises. The spatial mobility opens new vistas, increases the opportunities for betterment of the participants and helps in decision making which are important factors for empowerment. It is intriguing to note that this variable is highly significant. Employment in the post-SHG is also very important variable. If a participant is employed for more number of days, she will be earning more income, confidence and respect in the family and the society, thus contributing significantly to women empowerment. However, participant's age is a positive coefficient in Jalandhar and Hoshiarpur districts but not statistically significant. However, in Bathinda district the variable of age is showing negative sign and is statistically significant.

Summary and Conclusion

Microfinance programme is an innovative method of providing collateral free micro-credit to the poor rural women. Microfinance through SHGs can contribute to women empowerment. The present study shows that microfinance programme has empowered women economically, socially, psychologically and politically as compared to the non-participants. The participants of the programme have higher levels of employment, income and participation in household financial decision-making, leading to their economic empowerment. It is found that the participants of the programme are more confident in traveling and in dealing with other members of the society. They are more participative in the social development activities and are more politically aware as compared to non- participants. It is also found that the mature group participants are more empowered as compared to the young and middle aged group participants. The regression analysis shows that education of the participants, maturity of the group, employment level, household income and mobility are the significant variables to determine empowerment of the participants.

The study also reveals that impact of the microfinance programme on the participants is not fully realised because of the non-involvement of NGOs. In Punjab, this programme is run by the government and government functionaries mainly through Aanganwadi workers. These workers are not specifically trained in the process of group formation and to select poor women as SHG beneficiaries. Therefore, this programme seems to be just like many other schemes run by the government. It has been observed that skill development training to the participants leads to more employment, but only 29% of the participants are provided this type of training. The entire thrust is on formation and bank linkage of the SHGs and a little attention is paid towards their sustainable functioning. Lack of proper guidance, supervision, skill training and marketing facilities has restricted the impact of the microfinance programme on women empowerment.

Recommendations

a) In order to achieve higher levels of women empowerment the group loans must be backed by the guidance to start profitable activities, skill training, regular supervision, marketing support and performance appraisal.
b) The local level officials involved in the process of group formation must be fully trained in the process of group formation and its sustainable functioning. The NGOs having unselfish record must be encouraged to support this programme.
c) As the group maturity contributes positively in increasing women empowerment, the efforts should be made to run the groups successfully for longer time periods and stabilise the group membership.
d) As per the regression results, initiatives must be taken by promoting agencies to improve women's education, mobility, group leadership and easy availability of large amounts of loans for productive purposes.

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APPENDIX TABLE
Empowerment Indicators and their Scores

S.No	Empowerment Indicator		Score
1	Woman's monthly contribution to the H.H. income (in Rs.)	No income	0
		Up to 1000	1
		1000 - 2000	2
		2000 - 3000	3
		3000 - 4000	4
		Above 4000	5
2	Woman's participation in H.H. decision making	No Participation	0
		Joint participation	1
		Independent in decision making	2
3	Woman owns house	No	0
		Yes	1
4	Woman owns land	No	0
		Yes	1
5	Maintaining HH records	No	0
		Yes	1
6	Visit market to make small purchases	Not confident	0
		Less confident	1
		More confident	2
7	Having a saving bank account in her own name	No	0
		Yes (irregular deposit)	1
		Yes (regular deposit)	2
8	Recognise & read numbers	Not able	0
		Some difficulty	1
		No difficulty	2
9	Able to do basic calculations	Not able	0
		Some difficulty	1
		No difficulty	2
10	Able to fill bank forms	Not able	0
		Some difficulty	1
		No difficulty	2

(Continued...)

APPENDIX TABLE
Empowerment Indicators and their Scores *(Concluded)*

S.No	Empowerment Indicator		Score
11	Able to understand basic banking operations	Not able	0
		Some difficulty	1
		No difficulty	2
12	Ability to keep A/C of loans received and repaid	Not able	0
		Some difficulty	1
		No difficulty	2
13	Participation in *gram-sabha/ gram-panchayat* meetings	No	0
		Yes	1
14	Helping others in resolving conflicts	No	0
		Yes	1
15	Casting votes in *gram-panchayats* & state elections	No	0
		Yes	1
16	Knowledge of local polity	No knowledge	0
		Know village *sarpanch* name	1
		Know *sarpanch* and CM name	2
		Sarpanch, CM and PM name	3
17	Confidence in dealing with members of the society	No confidence	0
		Less Confident	1
		More confident	2
18	Confidence in traveling	Can't go outside	0
		Can visit another village	1
		Can visit other village and Nearest town	2
		Can visit other village, Nearest town and city	3
19	Reading newspaper	Never	0
		Occasionally	1
		Regularly	2
20	Able to write name	Not able	0
		Some difficulty	1
		No difficulty	2
21	Husband became helpful after joining SHG	Remained same	0
		Help Increased	1

Status of Bank-Linked Self-Help Groups (SHGs) in Rajasthan: Findings from A Survey

- Navin Bhatia*

Microfinance is being adopted as a major strategy for reaching out to the most marginalised sections of the community. In India, the dominant model used for purveying microfinance has been through the medium of Self-Help Groups (SHGs).

Abstract

The mechanism of lending through Self-Help Groups (SHGs) has gained wide popularity during the last two decades and has been adopted by banks as an important strategy for lending to the poor. Despite tremendous growth in the number of SHGs linked to banks, their sustainability has not been subjected to detailed analysis. This paper is based on a State-level study conducted during 2005-06 to review the present status of SHGs, which were linked to banks till March 1998 under the SHG bank linkage programme. The study covered 96% of the eligible SHGs and was based on primary data collected from 44 SHGs, 12 bank branches, 65 group members and 5 Non Governmental Organisations (NGOs). Findings portray the present status of SHGs on parameters such as continued existence, meetings held, leadership, savings made, loans obtained, loan utilisation and repayment thereof. Just less than half of the SHGs continued to exist, their membership had declined by about a fifth and there had been only cosmetic changes in leadership. On an average, SHGs that continued to exist had taken loan on 2.7 occasions amounting to Rs 1.73 lakh. While members reported multiple utilisations of loans, one third of the SHGs had significant problems in repayment.

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Key Words: Micro-credit, Microfinance
JEL Classification: G21, G29

Introduction

Microfinance is being adopted as a major strategy for reaching out to the most marginalised sections of the community. In India, the dominant model used for purveying microfinance has been through the medium of Self-Help Groups (SHGs). Starting as a modest pilot project in 1992, the SHG bank linkage programme has expanded enormously over the years. At the end of March 2008, there were 50.10 lakh SHGs maintaining Rs 3,785.39 crore in savings accounts with banks. Further, 36.26 lakh SHGs had outstanding loans of Rs 16,999.90 crore from banks (NABARD: 2008).

Despite its wide outreach, making it the largest microfinance programme in the world, the SHG bank linkage programme continues to suffer from certain concerns. First, the focus on achievement in terms of numbers has resulted in the qualitative aspects of the SHGs not getting the deserved attention. Second, despite the share of southern states declining in recent years, there still remains a strong regional bias towards these states. Third, the quantum of loan granted per SHG continues to be rather low. And fourth, the issue of sustainability of SHGs has also not been highlighted. (World Bank: 2004, Basu and Srivastava: 2005, RBI: 2007). A review of existing literature has revealed that there has been no constant and systematic evaluation of the performance of the existing SHGs and little is known about the sustainability of SHGs, how long they last, and how they and the scale of their transactions change over time. (Kropp and Suran: 2002; Fisher and Sriram: 2002). In the light of the above concerns, it was felt that there is a need to revisit the SHGs linked by banks in the past and to study their present status.

The study is extremely relevant at the present time, when the pace in the SHG bank linkage programme is slowing down and the need for consolidation of the existing SHGs is imperative. The present status of the SHGs linked to banks in the past has been determined in relation to various parameters, such as continued existence, membership and leadership, savings made and loans availed and utilisation of loan amounts and their repayment.

Methodology

The present study was designed to study the status of SHGs, which were linked to banks till March 1998. The study was limited to a single state. As the southern states have the maximum number of SHGs and have been the most studied, these were excluded for the purpose of selection of the state. The state of Rajasthan was purposively selected for the study as it is the largest state of the country and had the maximum number of SHGs among all the states of the northern region.

At the end of March 1998, 245 SHGs were linked to banks in Rajasthan (NABARD: 2000). These SHGs were spread over 12 districts of the state. However, 96% of these

SHGs (235) were from seven districts, namely, Hanumangarh (95), Udaipur (74), Alwar (30), Ajmer (10), Sawai Madhopur (10), Jodhpur (8) and Chittorgarh (8). The remaining five districts accounted for only 10 SHGs amongst them. Therefore, it was decided to cover 235 SHGs in the above seven districts for the study.

The study was based on both primary and secondary data. The secondary data were obtained from Jaipur Regional Office of NABARD, controlling offices of concerned banks and NGOs. Initial data revealed that the position regarding promotion of SHGs and their linkage to banks was qualitatively different in different districts. While in one district (Hanumangarh), all SHGs had been promoted and financed by a single branch of one bank, in another district (Chittorgarh), a single NGO had promoted all SHGs which were linked to a single bank branch. In another district (Alwar), while all SHGs had been promoted by a single NGO, these were linked to many branches of many different banks. In two districts (Sawai Madhopur and Udaipur), there were multiple NGOs that had promoted the SHGs which were linked to multiple banks and their branches. Hence, the methodology for the study varied from district to district, the objective being to get a representative sample of banks, NGOs, SHGs and their members for detailed study. Multi-stage sampling was used for the purpose, depending upon the profile of the district.

The study is based on primary data collected from 44 SHGs, 12 bank branches, 65 SHG members and 5 NGOs. Data collection was carried out between December 2005 and April 2006 through pre-designed schedules and personal interviews with bankers, SHG members and chief functionaries of NGOs.

The findings of the study are presented in the following section.

Major Findings

(a) Status of linkage

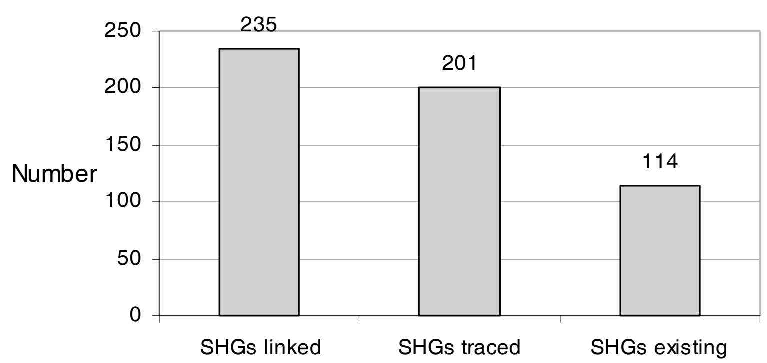
Women's groups formed less than half (46%) of the SHGs linked to banks by the end of March 1998, as compared to a share of 78% at the national level. A majority of the SHGs (58%) were formed by NGOs and linked to banks (termed as Model 2). The remaining SHGs had been formed by a bank and linked to its branch (termed as Model 1). As against a national share of only 18% of the total SHGs linked, Model 1 of linkage occupied a share of 42% in the state.

The spread of SHGs as well as existence of NGOs varied greatly among the districts. While there was an established NGO and a formal SHG federation in existence in Alwar district, in Ajmer district, there were no NGOs. In Hanumangarh district, all SHGs had been promoted and financed by a single bank under the Model 1 of linkage while Model 2 was adopted for linkage by banks in all the remaining districts. In Hanumangarh district, there was a preponderance of male groups while female groups dominated in all other districts. The nature and linkage of groups in this district was also different from other SHGs: each group comprised of five members, there was no internal lending, loans were granted in the names of individuals and members were not required to visit the bank branch.

(b) Number of SHGs traced and existing

Out of the 235 SHGs linked to banks, the records of only 201 SHGs (85.5%) could be traced out. Despite best efforts, details of the remaining SHGs were not available, either with NABARD or banks. There is a strong possibility that these SHGs have ceased to exist. For all practical purposes, these SHGs are no longer on the records of the banking system. Further, out of the total SHGs linked to banks, 114 (48.5%) were still in existence at the time of the study. The position is depicted graphically in Chart 1.

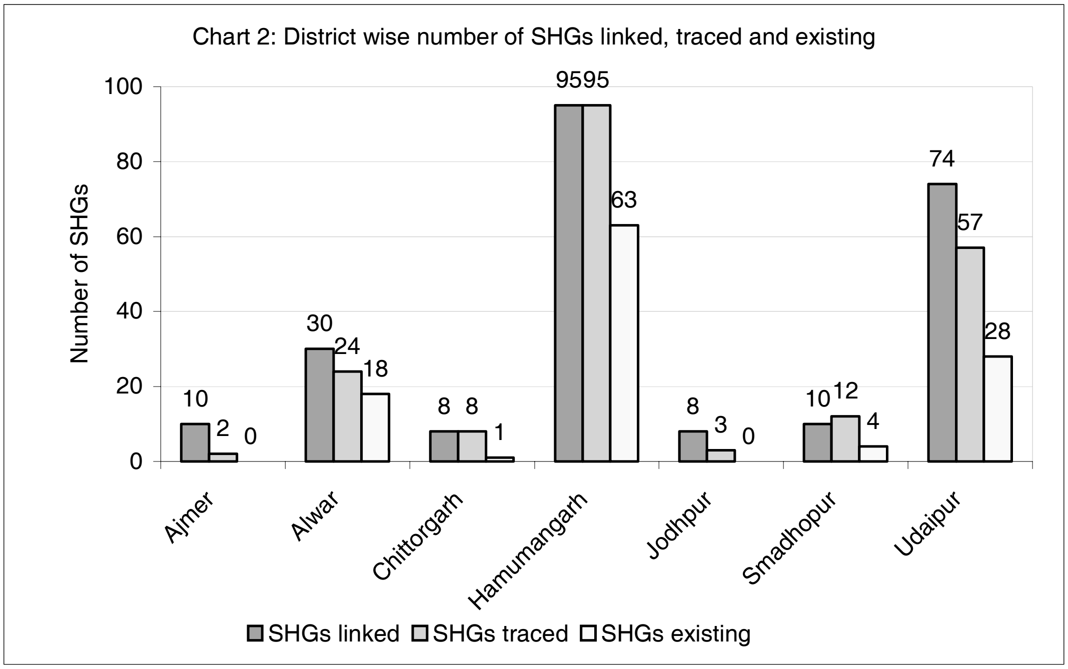
Chart 1: Number of SHGs linked, traced and existing at the time of the study



It may be seen that at the state level, just less than half of the SHGs that were linked up to March 1998 continued to exist. However, significant differences were noticed at the district level, both in terms of SHGs traced and SHGs existing. While in Alwar, Hanumangarh and Sawai Madhopur districts, all the linked SHGs could be traced, on the other hand, in Ajmer district, only 20% of the SHGs could be traced. Similarly, in Hanumangarh and Alwar districts, while 66 and 60% of the SHGs were found to be still in existence, no SHG of the period selected for the study was found existing in Ajmer and Jodhpur districts.

The district-wise position of SHGs linked, traced and in existence is depicted in Chart 2.

The reason for the high rate of presence of SHGs in Hanumangarh and Alwar districts was the presence of a strong support system of the promoting organisations. The bank that had promoted the SHGs in Hanumangarh district was itself the financing institution and kept a constant watch on them through its system of weekly meetings.



In Alwar district, while the NGO that had promoted the SHGs had withdrawn from the area, an SHG federation had taken over its functions. Regular meetings of the federation contributed in providing guidance and continuity to the SHGs.

The main reasons for disintegration of groups related either to group dynamics or were external to the group. Among the reasons relating to group dynamics were internal conflict and rivalry between members, leadership issues, inability to conform to group discipline, members in a hurry to obtain loans and more loans taken by members as compared to their repaying capacity. The principal external reasons were migration from the villages due to drought, inadequate support provided by the promoting NGO and winding up of the promoting NGO itself.

It was observed that where the promoting NGO was sincere and committed, the groups showed greater tendency to sustain. However, where the NGO itself lacked the vision and long-term relationship with the SHGs, the groups disintegrated.

(c) Sex-wise composition of SHGs traced and existing

The sex-wise analysis of data pertaining to SHGs traced and existing, given in Table 1 and Chart 3, reveals that there was practically no difference between the sex-wise distribution of SHGs traced and existing.

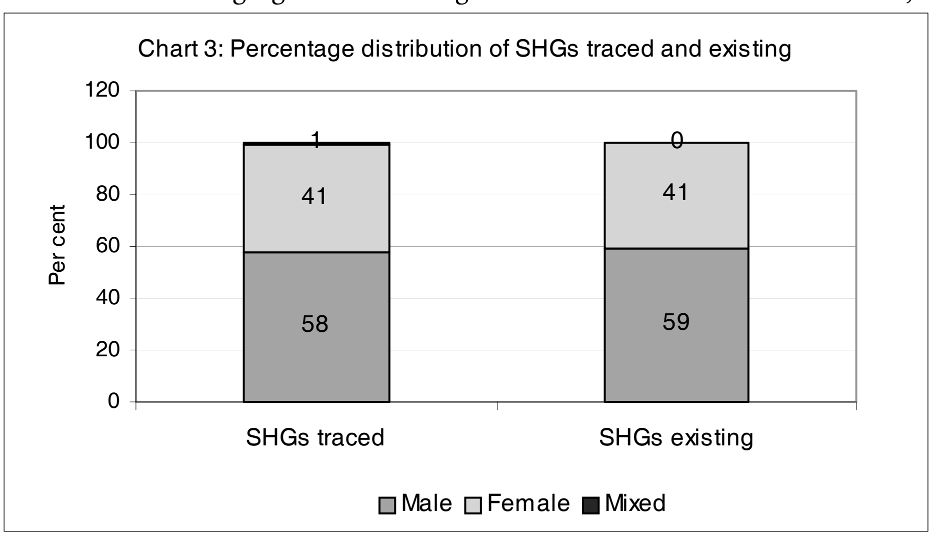
In both the cases, female groups formed 41% of the total SHGs. At the state level, there was almost no difference between the sex-wise existence of SHGs as a percentage of SHGs traced. This may lead to the inference that there was no difference on account of sex in the existence of groups over a period of time. However, the same was not borne by closer analysis of data and field interactions during the study.

It was noticed that Hanumangarh district, with its almost all male groups, led to distortion of the picture somewhat. If SHGs other than those belonging to Hanumangarh district are taken into account, it was found that only 24% of the traced male groups continued to exist. The corresponding figure for female groups was 57%. Thus, by excluding Hanumangarh district, while there was no change in the percentage for female groups, the percentage for male groups showed a significant decline. This position is shown in Chart 4.

Table 1: Sex-wise composition of SHGs traced and existing at the time of the study

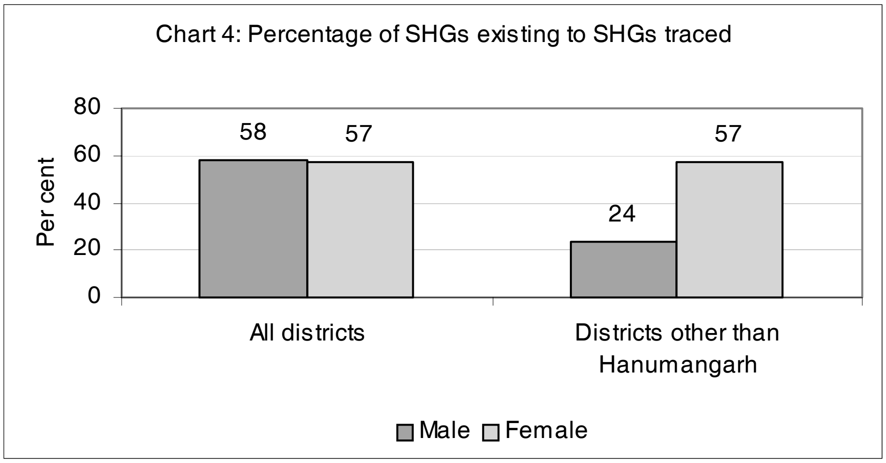
Name of district	Number of SHGs traced				Number of SHGs existing			
	Male	Female	Mixed	Total	Male	Female	Mixed	Total
Ajmer	-	2	-	2	-	-	-	-
Alwar	-	24	-	24	-	18	-	18
Chittorgarh	1	7	-	8	-	1	-	1
Hanu'garh	91	4	-	95	61	2	-	63
Jodhpur	-	3	-	3	-	-	-	-
S'Madhopur	3	9	-	12	2	2	-	4
Udaipur	21	34	2	57	4	24	-	28
Total	116 (58)	83 (41)	2 (1)	201 (100)	67 (59)	47 (41)	-	114 (100)

Note: Figures in parenthesis show percentage to total number of SHGs



These figures reveal that, barring Hanumangarh district, male SHGs had a greater mortality rate than female SHGs. This feature was highlighted most significantly in Udaipur district where male, female and mixed groups were all in existence. In that district, the mortality rate was cent% in case of mixed groups, 81% in the case of male groups and only 29% in the case of female groups.

Hanumangarh district proved an exception as all the SHGs linked were under



Model 1 of linkage, where the bank promotes the groups and also links them. Since this district also accounted for the largest number of SHGs at that time, it resulted in a masking effect on the figures.

The study revealed that male SHGs required greater supervision than female SHGs. Since that level of supervision was in-built in the Hanumangarh model, the male SHGs promoted in that district sustained to a greater extent over a period of time. In the case of other SHGs, which had been promoted by NGOs, the same level of supervision and monitoring provided to all SHGs resulted in a greater survival rate of female SHGs. The functionaries of NGOs confirmed the above perception in field interactions. It was also revealed that NGOs were in the process of gradually moving away from male SHGs and devoting increasing attention to female SHGs.

(d) Membership of SHGs

Under the SHG bank linkage programme, the number of members in a group is usually kept between 15-20 members, while under the Grameen model of lending, the number of members is pegged at five. Both models were in existence in the state. The study revealed a decline in the membership of SHGs over a period of time. It was found during the study that in Hanumangarh district, only 48% of the groups had the same number of members as at the time of their formation. The average membership of the 63 SHGs functional at the time of the study had come down from 5.0 to 4.1. Interestingly, the decline in membership resulted in two 'SHGs' being left with a lone member each while four others were left with only two members each. Thus, these entities, although appearing as SHGs in bank records, were no longer groups in the true sense.

Data obtained from selected SHGs of Alwar, Sawai Madhopur and Udaipur districts, which is presented in Table 2, also reveals decline in membership. Data reveals that while there was a decline of 18% in the membership of SHGs in Hanumangarh district, the decline was 22% in the membership in the three other districts. Thus, over a period of time, the membership of SHGs had come down by about a fifth of their original numbers.

Table 2: Average membership of SHGs, initially and during the study

Name of district	Number of SHGs	Average initial membership	Average membership during the study
Alwar	5	15	11.8
Sawai Madhopur	3	18	16.1
Udaipur	18	17.7	13.4
Total	26	17.2	13.4

While a decline in the number of members of a group may not by itself be seen as a negative feature, it definitely reveals chinks in the solidarity of the group. This reflects on the quality of the group, which is again dependent on the credentials of the promoting organisation. The lesser decline in the number of members in case of SHGs in Hanumangarh district could be attributed to the fact that the bank had promoted these groups while the SHGs in other districts were promoted by various NGOs. The closer monitoring in case of Hanumangarh district, largely due to the weekly meeting system, could be responsible for the lesser decline in membership. It was observed that there was a practice of replacement of members of SHGs in all the districts. New members were often included in place of members who had dropped out. However, even this could also not curb the decline in membership over a period of time.

(e) Meetings held and attendance

The position of meetings held and attendance therein was collected for the 44 SHGs, which were still in existence during the study by interacting with some of their members. In 40 of the 44 SHGs (91%), it was reported that the meetings were being held regularly without fail. The remaining SHGs reported that sometimes a few meetings were being skipped or two or three meetings combined into one. The meetings were being held at a fixed place and time. The venue was generally the house of one of the SHG members, generally among the office bearers, or at a public place like a school compound. In Hanumangarh district, the meetings were taking place on weekly basis. In other districts, fortnightly or monthly meetings were being held.

The attendance at meetings varied over time. While most members attended the important meetings, at certain times (such as marriage season, harvest time, etc) the attendance was lower. The position of average attendance at the SHG meetings held over the last one year is presented in Table 3.

Table 3: Average attendance during the last one year at meetings of SHGs

(N = 44)

Attendance at meetings	Number of SHGs	Percentage
Over 90 per cent	5	11
Over 75 and upto 90 per cent	30	68
Over 60 and upto 75 per cent	7	16
Upto 60 per cent	2	5

It may be seen that in over three-fourths of the SHGs, the average attendance at meetings was over 75%. It was observed that a practice of proxy attendance was in vogue in several SHGs. A member who was unable to attend a meeting would send his saving amount and loan instalment through another member and would be treated as present for the meeting.

In 35 of the SHGs (80%), there were provisions for levying penalties for not attending the meetings. The amount of penalty was generally Rs 5 to Rs 10 per person for not attending a meeting. The fines were being imposed in most SHGs.

The reasons given by members for not attending the meetings were being out of the village for work or business, being busy with household activities, religious or other functions in the family, and nothing much being done at the meetings.

(f) Leadership

Conceptually, the SHGs should provide for grooming for leadership skills among the members. In Hanumangarh district, where the SHGs comprised of only five members, the issue of leadership was not found to be of much relevance. It was learnt that at the time of formation of groups, the leadership issue was important as the group leader was to get the last priority in obtaining loan from the bank. With the passage of time and after several loan cycles, the issue was not relevant to the members.

In the remaining districts, there had been only marginal and cosmetic changes among leaders of SHGs. In most SHGs, the leaders at the time of the study were the same as at the time of formation of groups. Even where there was a change in the leader, the same was largely cosmetic such as the secretary becoming the president or the treasurer assuming designation of secretary. In general, the group leadership had remained vested in the same two or three persons among the group during this time span. Perhaps the time span of seven to ten years was not enough for new leadership to emerge.

The members stated that their leaders were generally performing well and they felt no need to change them. Although anecdotal evidence referred to misuse of position by leaders in several groups leading to collapse of groups, the existing group members seemed relatively complacent in this regard. Perhaps the implicit faith in leadership by the group members was one of the factors responsible for sustaining the groups. Further, among the reasons mentioned for disintegration of groups, leadership issues figured prominently. Hence, SHGs with leadership disputes would have either ceased to exist or the dissatisfied members would have broken away to form new groups.

Group leaders generally had a higher status in the groups and often belonged to relatively well-off families as compared to other members. They were also more articulate, possessed higher education level and had more exposure to the outside world than the other group members. Some had participated in fairs, workshops or exposure visits conducted by their respective NGOs or NABARD.

(g) Group savings

Regular saving by group members is among the core principle of SHGs. The group members were generally adhering to the saving principle in all the SHGs. In 38 of the 44 SHGs (86%) regular savings were being made as prescribed. In the remaining SHGs, savings were being made but not at the prescribed periodicity with occasional cases of members depositing savings in lump sum.

At the time of formation of groups, the individual savings varied from Rs 5 to Rs 10 per week in Alwar and Hanumangarh districts and from Rs 10 to Rs 50 per month in the remaining districts. The present rate of savings by members varied between Rs 10 to Rs 50 per week and from Rs 50 to Rs 200 per month in the respective districts.

Provision for fines in case of non-payment of prescribed savings existed in 35 SHGs (80%). The range of fine for default varied from Rs 5 to Rs 10. In most SHGs, the fines were generally being collected. Although the fine amounts were rather low and not a deterrent for not depositing the savings in time, there was a degree of social stigma attached to not depositing the saving regularly; hence about 90% of the members generally made their savings in time.

In the SHG concept, the savings of members are supposed to be deployed towards internal lending amongst the group members. However, under the Grameen model being followed in Hanumangarh district, the savings of members are deposited in the bank and members are not supposed to withdraw the amount. As a result, group members had built up respectable savings over a period of time. As soon as the group savings reached Rs 5,000, the bank made fixed deposits of Rs 1,000 each in the names of the individual members (assuming that all members had saved equally). In the process, the total savings of the 63 SHGs existing at the time of the study with the bank had accumulated to Rs 22.21 lakh. The average deposit per member worked out to Rs 8609.

In other districts, where the group savings were being utilised towards internal lending among group members, some SHGs had built up savings bank deposits in the range of Rs 20,000 to Rs 40,000. Most SHGs were withdrawing the entire amount at periodical intervals and distributing the same in proportion to the savings made by the members. Since the amounts were being withdrawn whenever required, it was not possible to get figures for aggregate savings made by SHGs. However, interactions with field functionaries of NGOs revealed that as a rough estimate, a member saving Rs 50 per month for eight years would have saved Rs 4,800 and a group having 15 such members would have had a total saving of Rs 72,000 during this period.

It was observed that the group savings acted as a source of strength and confidence for the members. Several members expressed pride and happiness at the savings habit that they developed as a result of their becoming members of SHGs. The accumulated savings possessed by the SHG in their accounts were in many cases of an amount that they had never imagined would be possible in their lifetime.

(h) Repeat finance to SHGs

One of the critical issues in sustainability of SHGs is their access to repeated doses of finance. It is generally supposed that over a period of time, the SHGs would access and absorb larger doses of credit. In Hanumangarh district, individual group members were the recipients of the loans from the bank. Therefore, the position regarding the number of times loans were availed was obtained for selected individual members. In other districts, banks disbursed the loans in the names of SHGs; hence the position of repeat finance was considered for the SHGs.

The position regarding number of times individual SHG group members obtained loans from banks in Hanumangarh district is shown in Table 4.

It may be seen that over 70% of the members had taken loans on three or more occasions from the bank. As all SHGs covered in the study had been in existence for nearly a decade, the coverage of loans could be considered adequate. It was observed that over half of the members who reported having taken loan once or twice were those who had joined the SHGs at a later date.

Table 4: Number of times SHG members in Hanumangarh district availed loans from banks

(N=28)

Number of times loan availed	Number of persons	Percentage to total
Once	3	11
Twice	5	18
Thrice	14	50
More than thrice	6	21

The position regarding the number of times SHGs in the remaining six districts obtained loans from banks is indicated in Table 5.

Table 5: Number of times SHGs availed loans from banks

Name of district	Number of SHGs	Number of times loans availed			
		Once	Twice	Thrice	More than thrice
Ajmer	2	1	1	-	-
Alwar	24	5	13	5	1
Chittorgarh	8	7	1	-	-
Jodhpur	3	3	-	-	-
Sawaimadhopur	12	5	1	4	2
Udaipur	57	20	15	9	13
Total	106 (100)	41 (39)	31 (29)	18 (17)	16 (15)

Figures in parenthesis indicate percentage to total number of SHGs

It may be seen that the largest number of SHGs (39%) had taken only a single loan from the banks while nearly a third of the SHGs (32%) had taken loans on three or more occasions.

However, the figures in Tables 4 and 5 are not strictly comparable as data in respect of Hanumangarh district pertains to individual SHG members and not SHGs themselves. Further, all members selected in Hanumangarh district belonged to SHGs that were in existence at the time of the study whereas the data for SHGs in other districts relates to those traced during the study. It is but natural that those SHGs that had continued to exist would have obtained loans on more occasions than SHGs that ceased to exist.

The data presented in Table 5 has been disaggregated in Tables 6 and 7 according to whether the SHGs had ceased to exist or whether they continued to exist respectively.

Table 6: Number of times loans availed by SHGs that have ceased to exist

Name of district	Number of SHGs	Number of times loans availed			
		Once	Twice	Thrice	More than thrice
Ajmer	2	1	1	-	-
Alwar	6	2	3	1	-
Chittorgarh	7	7	-	-	-
Jodhpur	3	3	-	-	-
Sawaimadhopur	8	5	1	2	-
Udaipur	29	18	8	3	-
Total	55 (100)	36 (65)	13 (24)	6 (11)	-

Figures in parenthesis indicate percentage to total number of SHGs

It may be seen that out of the SHGs that ceased to exist, nearly two-third (65%) had taken only one loan from the banking system. On the other hand, out of SHGs that continued to exist, more than half (55%) had obtained loans on three or more occasions.

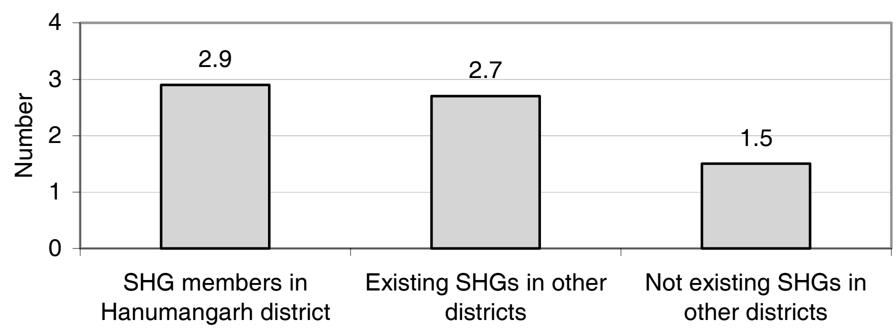
Further analysis revealed that on an average in Hanumangarh district, a member

Table 7: Number of times loans availed by SHGs that continued to exist

Name of district	Number of SHGs	Number of times loans availed			
		Once	Twice	Thrice	More than thrice
Ajmer	-	-	-	-	-
Alwar	18	3	10	4	1
Chittorgarh	1	-	1	-	-
Jodhpur	-	-	-	-	-
Sawaimadhopur	4	-	-	2	2
Udaipur	28	2	7	6	13
Total	51 (100)	5 (10)	18 (35)	12 (24)	16 (31)

Figures in parenthesis indicate percentage to total number of SHGs) had taken loan 2.9 times. In other districts the average number of times an SHG that had ceased to exist took loan from a bank worked out to 1.5 while the average number of times an existing SHG availed loan from the bank worked out to 2.7. The position is graphically depicted in Chart 5.

Chart 5: Average number of times loan obtained by SHG members/ SHGs



Field interactions indicated that there was a greater tendency on the part of the SHGs to crumble during the first two years of their existence. The first loan from the bank was a milestone in the life of an SHG. While in some SHGs that the bank loan acted as a binding agent, spurring the members towards greater cohesion and solidarity, in other SHGs, it worked as an instrument of discord resulting in infighting among the members. If the SHG could resolve the issues, which arose subsequent to the first loan from the bank, it would have taken a big stride towards stability.

(i) Quantum of loan taken

One major concern in the context of financing to SHGs has been that the quantum of loan availed has remained rather low.

In Hanumangarh district, there was a ceiling of Rs 5,000 for the first loan and Rs 25,000 for subsequent loans. Since almost all members had taken repeat loans, their present loans were in the range of Rs 8,000 to Rs 25,000. While over half the members (58%) had present loans between Rs 20,000 to Rs 25,000, another 21% had present loans between Rs 15,000 to Rs 20,000. The average present loan amount came to Rs 19,600 while the average total loan amount came to Rs 31,500.

In other districts, the amount of first loan availed by an SHG generally ranged from Rs 5,000 to Rs 40,000, save a solitary instance where a loan of Rs 89,700 was granted to an SHG in 1995.

Repeat loans were generally of higher amounts than first loans. The district-wise distribution of SHGs according to the total loans availed by them till the date of the study is shown in Table 8. It may be seen that over a half of the SHGs had availed of loans of up to Rs 50,000. There were only four SHGs that had so far taken loans of over Rs 5 lakh. The maximum total loan availed by an SHG during its existence was Rs 8.84 lakh, availed by an SHG in Udaipur district.

Table 8: Distribution of SHGs according to the amount of loan received

Name of district	Number of SHGs	Amount of loan availed (Rs lakh)				
		Up to 0.50	0.50-1.00	1.00-2.50	2.50-5.00	Over 5.00
Ajmer	2	2	-	-	-	-
Alwar	24	9	8	7	-	-
Chittorgarh	8	8	-	-	-	-
Jodhpur	3	3	-	-	-	-
Sawaimadhopur	12	6	1	4	1	-
Udaipur	57	28	10	9	6	4
Total	106	56 (53)	19 (18)	20 (19)	7 (6)	4 (4)

Figures in parenthesis indicate percentage to total number of SHGs

However, if the figures of SHGs that had ceased to exist and SHGs that continue to exist are studied separately, they throw up different results, which are shown in Tables 9 and 10 respectively.

The figures show that over four-fifth of the SHGs that ceased to exist (82%) had received loans of up to Rs50,000. On the other hand, only about a fifth of the SHGs (21.5%) that were in existence had availed of loans of that amount. Over half of the

Table 9: Distribution of SHGs that ceased to exist according to the amount of loan received

Name of district	Number of SHGs	Amount of loan availed (Rs lakh)				
		Up to 0.50	0.50-1.00	1.00-2.50	2.50-5.00	Over 5.00
Ajmer	2	2	-	-	-	-
Alwar	6	3	3	-	-	-
Chittorgarh	7	7	-	-	-	-
Jodhpur	3	3	-	-	-	-
Sawaimadhopur	8	6	-	2	-	-
Udaipur	29	24	5	-	-	-
Total	55 (100)	45 (82)	8 (14)	2 (4)	- -	- -

Figures in parenthesis indicate percentage to total number of SHGs

SHGs in existence (57%) had received loan amounts of over Rs 1 lakh. It is clear that the SHGs that continued to exist received higher amounts of loans than those that ceased to exist.

Table 10: Distribution of SHGs that continued to exist according to the amount of loan received

Name of district	Number of SHGs	Amount of loan availed (Rs lakh)				
		Up to 0.50	0.50-1.00	1.00-2.50	2.50-5.00	Over 5.00
Ajmer	-	-	-	-	-	-
Alwar	18	6	5	7	-	-
Chittorgarh	1	1	-	-	-	-
Jodhpur	-	-	-	-	-	-
Sawaimadhopur	4	-	1	2	1	-
Udaipur	28	4	5	9	6	4
Total	51 (100)	11 (22)	11 (22)	18 (35)	7 (14)	4 (8)

Figures in parenthesis indicate percentage to total number of SHGs

The average loan amount received per SHG in all the three categories revealed wide variations in different districts. District-wise figures in this regard are shown in Table 11. It may be observed that the average loan amount availed by an SHG worked out to Rs 62,136. Further, the average loan for an SHG that continued to exist was nearly three times higher at Rs 1,73,813. The total average loan amount of existing SHGs as compared with the savings made by these SHGs, indicated that the quantum of loan was roughly 2.4 times of their cumulative savings.

Table 11: Average loan amount received per SHG in different districts

Name of district	Average loan amount received per SHG (Rs)		
	All SHGs	SHGs ceased to exist	SHGs existing
Ajmer	20,000	20,000	-
Alwar	86,625	42,500	101,333
Chittorgarh	9,375	9,375	-
Jodhpur	25,000	25,000	-
Sawai Madhopur	94,167	51,876	178,750
Udaipur	137,649	37,517	241,357
Total	62,136	31,045	173,813

Out of the 65 members contacted during the study as many as 63 (97%) reported getting of loan from the bank loan obtained by the SHG. The average loan availed by members who had obtained bank loans in different districts is given in Table 12. It may be seen that the average loan amount was highest in Hanumangarh district and least in Chittorgarh district. The average loan availed per person from the banks at Rs 15,630 was quite low considering that

Table 12: Average loan amount received per member in different districts

Name of district	Number of members	Average loan amount (Rs)
Alwar	13	14,300
Chittorgarh	3	3,750
Hanumangarh	28	31,500
Sawai Madhopur	6	12,900
Udaipur	13	15,700
Total	63	15,630

they had been members of the SHG for around a decade. However, members in districts other than Hanumangarh had also borrowed from the internal savings of the groups on several occasions.

(j) Utilisation of loan

Members reported utilisation of the loan for multiple purposes. Table 13 shows the district-wise position in this regard.

It may be seen that an overwhelming majority (91%) of members reported loan utilisation for productive purposes. Among the production purposes, dairy was the most preferred activity and purchase of buffaloes and goats was most common. This was followed by availing finance for various types of shops, kirana shops and cycle repair shops being most common. Nearly half (47%) of the members reported utilising loan amounts for consumption purposes such as medical needs, wedding of family members, utensils and jewellery.

Table 13: Purpose-wise utilisation of loans by SHG members in various districts

Name of district	Number of members	Purpose of loan utilisation			
		Production	House/ shop	Consumption	Debt
Alwar	13	10	7	8	2
Chittorgarh	3	-	1	1	1
Hanumangarh	28	28	15	9	4
SawaiMadhopur	6	6	2	4	1
Udaipur	13	13	3	8	3
Total	63 (100)	57 (91)	28 (44)	30 (48)	11 (17)

Figures in parenthesis indicate percentage to total number of members)

A very large number of members (44%) utilised loan amounts towards construction or repair of house or shop. Although construction or repair of shop would qualify for production purposes, it was shown clubbed with construction or repair of house as the nature of utilisation of loan was basically different. Further, some members were running their shop or business from the same location as their residence; hence construction or repair of one of those could not be treated separately. Over one-tenth (17%) of the members reported using the amounts towards repaying earlier debts.

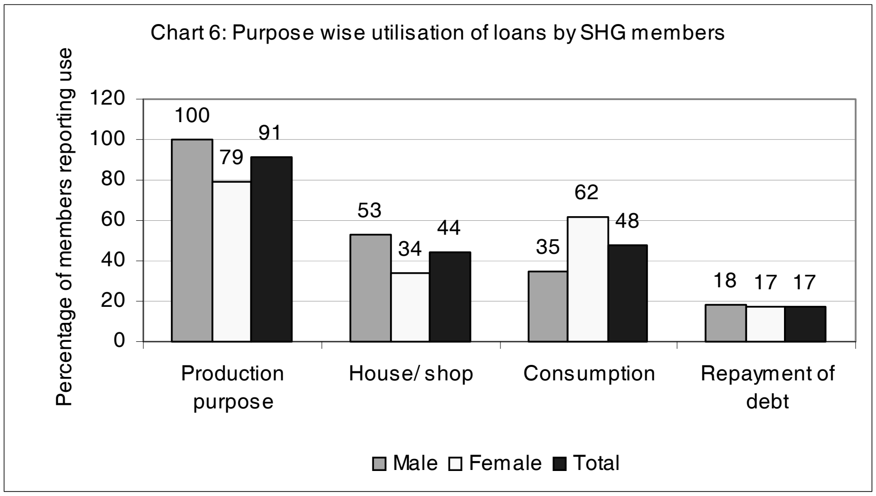
The data on utilisation of loans, classified on the basis of sex, is shown in Table 14.

It is interesting to note that while all male members reported utilising the loans for productive purposes, only 79% of the female members did so. Further, while only 34% of men reported utilising loans for consumption purposes, as many as 62% of the

Table 14: Purpose-wise utilisation of loans by SHG members classified on the basis of sex

Sex	Number of Members	Purpose of loan utilisation			
		Production	House/ shop	Consumption	Debt
Male	34	34 (100)	18 (53)	12 (35)	6 (18)
Female	29	23 (79)	10 (34)	18 (62)	5 (17)

Figures in parenthesis indicate percentage to total number of members of the respective sex women reported so. The position regarding utilisation of loans by SHG members is depicted in Chart 6.



Field interactions with SHG members brought out the fact that many women indulged in purchase of jewellery for themselves or their children. They treated jewellery not only as a cosmetic but as security, to be drawn upon in times of crisis.

(k) Repayment of loans

Timely repayment of loans is generally considered in respect of lending to SHGs. Repayment rates of above 90 to 95% have been widely reported. It was observed that in Hanumangarh district, the repayment record was good. There was no default in the current loan accounts of all the 28 members contacted during the study. However, a perusal of the records of the bank revealed that in about 5% of the cases, repayments were not forthcoming as per schedule and the accounts were overdue.

In Alwar district, out of the seven SHG loan accounts still continuing with the original branches, four accounts (57%) were overdue and NPA. In Udaipur district, out of the 21 SHGs continuing to have loan accounts with banks, 9 accounts (43%) were irregular and overdue. Of these were two accounts where the SHGs had ceased to exist and their loan amounts were yet to be repaid. Further, out of 36 SHG accounts, which were closed at the time of the study, recovery had been irregular and delayed in 8 accounts (22%). Even the repayments in some of these accounts had to be re-phased during the period of loan. In Sawai Madhopur district, out of the 12 SHGs that had been credit linked, the accounts of four SHGs (33%) had become NPA. Only two of these SHGs were still in existence. In Chittorgarh district, out of eight SHGs linked, one account (12%) was NPA; the concerned SHG had ceased to exist. In Jodhpur district, out of the three SHG accounts that could be traced, in two of them (66%) the accounts had become NPA before they were settled and closed. In Ajmer district, the repayments in both the SHGs that could be traced had been regular before the accounts were closed.

The consolidated position in respect of 89 SHGs spread over six districts indicated that in 28 SHGs (31%), there were problems relating to repayment of loans. In respect of the existing SHG accounts, 15 out of 33 accounts (45%) showed problems in repayment. Thus, the picture of repayment in respect of SHGs linked to banks up to March 1998 could not be considered satisfactory.

Conclusions and Emerging Issues

The study has revealed the large-scale disintegration of SHGs over a period of time, which portends to be a threat to the SHG bank linkage programme. In this context, the quality of groups assumes prime importance in regard to their sustainability. As the quality of groups depends to a large extent on their promoters, group promotion should be handled in a professional manner by trained personnel. With Government agencies having ventured into group formation in big way, it is essential that their functionaries are also sensitised about group quality and sustainability. At the apex level, NABARD could pay increased attention to the promoters of SHGs. At bank level, due diligence of the promoting organisations should be done before releasing funds to SHGs. An initial guideline enunciated by NABARD at the time of launching the Pilot Project stated that the group members should have a feeling of mutual help and should not have come together only for the sake of getting bank finance. This should not be lost sight of in the race to achieve the targets for forming SHGs.

The study brought out the decline in the size of groups over time. This should necessitate a rethinking in regard to size of SHGs. With the five-member Grameen-type groups having a good track record, the desirability of SHGs with 10-12 members could be explored.

The SHGs had built-up considerable savings over time. This was an immensely empowering tool in the lives of the members, who had never imagined having access to such amounts earlier. The amount of loans availed by individual members may appear to be low but it varied between two to three times of their total savings. For the poor persons exposed to bank finance for the first time in their lives, this amount could be considered adequate. However, for SHGs that continue to sustain beyond a certain time period, say five years, the amount of loan should increase considerably to enable members to graduate to the economic activity stage. NABARD may formulate a suitable policy for matured SHGs. Members of mature SHGs who desire to graduate to higher levels should have access to guidance and finance to enable them to increase the scale of their operation. Smaller groups of up to five persons, out of the original SHG could be considered separately for financing within the scope of SHG lending.

Contrary to expectations, the study brought out widespread problems in repayment, which should be a cause of concern. Since the amounts involved at the individual bank level were small, banks were not taking serious note of the matter. However, banks need to exercise caution while dealing with SHGs as in the case of other borrowers. Besides conducting personal visit to the SHG and due diligence of the promoting NGO before sanctioning loans, post-sanction monitoring should also be done.

The better performance of groups in one district (Hanumangarh) on several parameters could be attributed to more intensive monitoring through weekly meetings in the presence of the banker. If the banks and promoting organisations also resort to similar monitoring, the performance of SHGs could show an improvement. For this, banks and promoting organisations would have to step-up group monitoring, which would increase their costs. NABARD could share a part of this cost through the recently set up Financial Inclusion Fund.

There is a need to set up and maintain a systematic life cycle data-base of all SHGs covered under the SHG bank linkage programme. This could be done at district/ state level offices of NABARD.

The life cycle of an SHG needs to be understood in detail. The granting of first loan to the SHG should not be viewed as the culmination of the process of linkage (as happens in many cases) but as the first step in the progressive maturing of the group. The present reporting system and the target oriented approach give undue importance to this aspect, resulting in complacence on the part of the promoting agencies as well as the banker. This often results in the early signs of problems within the group getting ignored. In order to monitor the progress of SHGs that have been linked to the banking system, all SHGs may be rated, based on parameters already identified by NABARD. Only SHGs securing top ratings may be considered for repeat finance. A similar rating system may also be introduced for the promoting organisations.

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The Poverty Impact of Microfinance in India: Issues and Challenges

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Abstract

This paper selectively reviews the empirical evidence on the poverty impact of micro-credit to bring out the different channels through which this impact works. Using the data from the national Family Health Survey-III, an attempt has been made to analyse the regional variations in women's access to micro-credit programme in India as well as its various socio-economic correlates. The study reports a mismatch between the regional concentration of poverty and micro-credit participation. The participation of women in a micro-credit programme may not necessarily lead to empowerment of women and gender equality within the households.

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Introduction

Microfinance is considered as an effective mechanism to reduce poverty and vulnerability in rural areas. It is also seen as a mechanism through which women empowerment can be fostered. However, the linkages between women empowerment, household poverty and Micro-credit are complex and multi-layered. The proponents of micro-credit argue that targeted credit can be used as an instrument for enhancing poorer women's existing socio-economic conditions and thereby altering the relations between gender and class, in their favour. On the other hand, critics say that while a marginal increase in income and assets can enhance well-being and economic security, the increase could be too little to affect the pervasively entrenched political and economic relations. This paper

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selectively reviews the empirical evidence on the poverty impact of micro-credit to bring out the different channels through which this impact works. Using the data from the national Family Health Survey-III, an attempt has been made to analyse the regional variations in women's access to micro-credit programme in India as well as its various socio-economic correlates. In section-I, the literature on the effect of micro-credit programme on poverty have been summarised. The overall scenario of Micro-credit programmes in India has been discussed in section-II. The relationship between microfinance and poverty has been analysed in section-III. Key findings of the study have been presented in the concluding section.

I. Microfinance as an Instrument for Poverty Reduction

The limited access to formal credit by the poor has long been cited as a major reason for the inability of the poor to utilise opportunities to enhance their capabilities. The persistence of informal credit in rural areas has been attributed to four complementary reasons--the limited supply of formal credit, limits in state capacity to implement its policies, the political and economic segmentation of local markets, and the institutional weaknesses of many microfinance programs (Tsai, 2004). Improving the financial access of the poor was one of the stated objectives of the development planning initiatives in a number of developing countries, but these programmes were severely criticised for their limited impact on poverty reduction, high administrative and transaction costs and leakages of various kinds as well as for their dependence on subsidies.

It is now widely accepted that micro-credit has the potential to act as an effective tool for poverty reduction. Lack of access to credit has been found to be one of the significant reasons behind chronic poverty. Very often poor households borrow money from the money lenders with high rates of interest for consumption purposes and, because of their low capacity for repayment, enter into a debt trap. Micro financial services not only help the poor by reducing their financial dependency upon informal sources but also reduce chronic poverty and vulnerability by enhancing their livelihood resources.

The questions of sustainability, outreach, scale of microfinance and the ways and means for targeting the poorest of the poor continue to be important issues facing the practitioners of microfinance. It is sometimes argued that microfinance institutions should include non-poor to achieve economies of scale on the basis that this financial provision can cross-subsidise outreach to the poor. This is because in the absence of access to any financial services, there is probability that the vulnerable non-poor may be reduced to poverty (Wright et.al, 2003). But the implications of such widening of the membership base on the poorer members have not yet been fully resolved. Rene Chao-Beroff (1997) argues that if primary objective would be to make MFIs profitable then the poorest will be marginalised automatically. In other words, the linkages between poverty and microfinance remain a controversial issue. There is a need to synthesise the existing evidence to look at the processes underlying poverty reduction through micro-credit as well as to bring out the conditions under which microfinance works.

The impact of microfinance has been seen through expansion of markets, poverty reduction and social changes. The issue of mis-targeting is a significant one. On the one hand microfinance institutions may commit Type-I error by excluding poorest of the poor from the financial services (exclusion errors) and Type-II error by including non-poor by providing easy access to credit which aggravates the already existing inequality within the society (inclusion errors). On the other hand, Self-Help Groups are expected to be more effective instrument in serving the poorest of the poor households. But due to certain rigidities and discipline in the group formation these households have been self-excluded from the microfinance services. Thus, micro-credit intervention can be seen as a tool of poverty eradication only when it is seen as a means for empowerment of the poor in general and that of poor women in particular. Study on anti poverty programmes show that policies which help households to smooth income can dramatically reduce transitory poverty. But in the long-term, only large and sustained growth in household incomes will reduce chronic poverty (McCulloch, and Baulch; 2000).

Micro-credit is expected to reduce vulnerability and poverty (Hashemi and Morshed; 1997) through many routes, viz. asset creation (Chowdhury et al. 1991), opening up of new livelihood opportunities, skill-formation and collective bargaining through group initiatives. The effect of micro-credit programme on households has been observed through increase in income (Elizabeth, 1999) and/or consumption, employment in general and empowerment of women in particular (Seibal, 2005; Tankha, 2002; Khandker, 2001; Hasemi et al, 1996; Mustafa et al., 1996; Hossain, 1988). In a study on Bangladesh Rural Advancement Committee (BRAC) Chowdhury et al.(2003) have found that within a period of ten years the per capita annual income in the micro-credit participant households has increased significantly. However, a comparative study on SEWA bank in India, Zambuko Trust in Zimbawe and Mibanko in Peru found that average borrowers had a net income gains only in India and Peru. In Zimbawe, there were no measurable increases in average incomes relative to those in control groups (Snodgrass and Sebstad, 2002).

By using MHSS data of Bangladesh, Hoque (2004) found that of the total loan 54.7% was invested in productive purposes while 45.3% went into unproductive uses (which is taken to be an indication of poverty) and also the demands of households for crisis management. Sharma (2008) in his study on Himachal Pradesh found that within internal borrowing, the proportion of households borrowing only for consumption purposes was maximum followed by those who borrowed for multipurpose. On the other hand, through bank linkage, the most important use of micro-credit was purchasing livestock followed by consumption requirements. Timely and easy access to loan as has been reported by the members as the most important benefits of group formation. Another important benefit for the members of SHGs is access to formal financial institutions result in freeing themselves from the influence of money lenders (Reddy et al., 2005). Series of loans with increasing amount in subsequent loans to the members and assurance for getting future loans are the causes of high amount of investment in assets creation and income generating activities (Reddy et al., 2007). Spending micro-credit for consumption purposes reduces the livelihoods enhancing effects of these loans, but from the point of view of poverty reduction, such consumption loans are not entirely 'unproductive', as these loans act as a security mechanism against dependence on high-interest informal loans. Secondly, there could be a sequential change from consumption loans to loans for income generating purposes (Seibal, 2005).

Employment generation is considered to be another route out of poverty. By calculating the number of person-days in employment of the BRAC member and non-member in Bangladesh, Chowdhury et al. (2003) show that total amount of employment was 19 percent higher for the SHG members than for the control group. At the same time the group members could hire labour three times more often than the opposite group. The activity ratio (proportion of the population of working age who are in employment) of the former group was found to be higher than that of the later group. This study also reveals significantly higher number of person days of employment for females than males within the group. Micro-credit and other financial services help economically active people in improving household and enterprise management, increase productivity, smooth income flows and consumption costs and diversify their micro business (Robinson,2001).Though very small, the spill over effects of micro-credit programme on local economy have also been observed in Bangladesh (Khandker,2001).

Others have argued that the secondary income and employment effects of providing services to the vulnerable non-poor and the 'missing-middle' helps the poorer people more effectively than requiring all to become business people. Mosley (1999) in his study on Latin American MFIs suggested that secondary income and employment effects were beginning to come through. Similarly, evidences from the villages of Bangladesh suggest that the poorest can negotiate for better wage rates and get higher daily wages due to MFIs activities (Holcombe, 1994; Khandker and Chowdhury, 1995).

The evidence about the poverty reduction impact of micro-credit programmes in Bangladesh remains controversial. While Khandker's (1998) study based on household surveys argues the potentiality of micro-credit to reduce poverty significantly, by using the same data but a different method of estimation, Morduch (1998) found no evidence to support claims that Micro-credit programs increased consumption levels of the participant households compared with non-participating households. This is because many borrowers may have used their loans to purchase land rather than the proposed activities (Todd, 1996). By using 1996 MHSS survey Hoque (2004) have estimated the determinants of poverty reduction performance for households in rural Bangladesh. Taking together BRAC and non-BRAC households he observed that micro-credit had a negligible impact on the reduction of poverty. In India, in Andhra Pradesh where SHG-bank linkage programme is very prominent in the past two and half decades, experienced a steep decline in rural poverty rates by 16.46 percentage points between 1983 and 2004-05 in comparison to 12.08 percentage points in urban areas. One of the reasons may be due to SHG-bank linkage programme which primarily serves the rural people (APMAS, 2007), but this relationship needs to be studied in greater detail. By using a quasi-experimental technique on a panel data set of Peru, Tedeschi (2008) has found that loans from microfinance organisations have helped micro-entrepreneurs.

Key to the question of the overall impact of microfinance on poverty is the participation of the poorest of the poor in such programmes. Those who support micro-credit programme argue that it serves the poorest of the poor. According to them this holistic approach of financial services include the people of most disadvantage section of the society those who are excluded earlier from the formal financial credit provision. The small size of the loans acts as a screening devise to exclude the non-poor. Evidences show that participants having more entrepreneurial ability have joined the microfinance programme. Thus relatively better off borrowers may have experienced larger micro-credit impact due to initial income levels, entrepreneurial ability, and use their power to obtain larger loans than others. Navajas et al.(2000) in their study on five microfinance organisations in Bolivia have found that most often the organisations do not reach the poorest of the poor but rather those just above and just below the poverty line. The poverty impact tends to be greater for those closer to the poverty line than for those further away (Hulme and Mosely, 1996; RamenYi and Quinoneas, 2000). Sharma (2008) reports that in Himachal Pradesh, India despite of being poor a significant proportion (51%) of non-member households did not join the groups as they were unable to deposit a fixed amount of monthly savings because of low and irregularity in income. Apart from that low economic status, lack of consensus within the households, as well as lower caste status are the obstacles restricting participation in micro-credit programmes. Again, in some instances members have dropped out due to pressure and threatening from group members and MFI staff. In other cases inability to repay loans on time causes physical violence and social confrontation which even lead to female suicides.

It is a fact that MFIs are not reaching the poorest of the poor even in more micro-credit friendly and population-dense environment like Bangladesh due to limited opportunity of productive use of loans, risk of loan repayment on weekly basis as well as time-consuming weekly meetings which the poor can not afford (Wright, 2000). The opportunity cost of the time spent on group activities could be very high for the poor. It cannot be said with certainty that micro-credit always turn out favourable results for the poor working in low return activities in saturated markets that are poorly developed and frequently faces environmental and economic shocks (Hulme, 2003). Coleman (2006) in his study on Thailand has found that wealthier villagers are significantly more likely to participate than the poor and be the programme committee members. The former very often borrow substantially more than the later 'rank-and-file' members. The study also shows differential effect (positive effect of the programmes on the household welfare of committee members and insignificant impact on poor rank-and-file members) of micro-credit between these two classes of borrowers. Very often the provision of microfinance services have poor match with clients need (Hulme, 2003).

Microfinance and Empowerment of Women

The pathways out of poverty through micro-credit, broadly, consist of two separate but interrelated sets of interventions. Firstly, the livelihoods promotion aspects of micro-credit essentially work through the strengthening and expanding the asset-base of the households. Participation in the micro-credit programmes, for example, may result in greater access to livelihoods options through development of micro-enterprises of diverse kinds. The other set of impacts work through the direct and indirect benefits of collective action (MkNelly and Dunford, 1999). The process of group formation, collective efforts aiming at management of the groups' activities results in empowerment of the members through enhancement of self-perceived and socially-perceived status. As a result of their increasing solidarity and collective bargaining efforts, the access of the poor women to the state institutions could increase or they may be less vulnerable to unfair treatments by more powerful members of the rural society.

In India, empirical studies have reported social empowerment as a result of improvement in access of credit by the women groups. Todd (2001) in his study on Andhra Pradesh has observed that the duration of membership reduced women's reliance on casual wage labour and increased their engagement in more profitable forms of self-employment, including animal husbandry. It is observed that not only economic activity and quality of works among the poor self-help group members have been changed but also they are diversifying their activities. Murthy et al. (nd.) in their study on Andhra Pradesh have also found that over a period of time employment opportunities among the group members have increased. Apart from that women have got better quality and new non-traditional activities.

Murthy et al. (nd.) in their study on Andhra Pradesh have observed improvement in regularity of meals, levels of child nutrition and lower levels of infant mortality in the past five years among the members of the SHGs. The social impact of micro-credit program, to some extent, has encompassed gender disparities within the households. They also report that disparities in food distribution and severe malnutrition among the girl children and female infant deaths have declined in the past year.

Thus, getting loans from credit programme women have positive and significant effect for girls than boys. In a 'quasi-experimental' study on household and intra household impact of Grameen Bank and other credit programmes, Pitt and Khandker (nd.) found that credit provided by Grameen Bank had the greatest positive impact on variables typically associated with household wealth and women's power and independence than credit from any other programme sources. They report substantial improvement in the well-being indicators of SHG members. Grameen bank credit to women, according to them, had the largest impacts on girls' schooling, women's labour supply and total household expenditure, while Grameen bank credit to men had the largest impact on fertility. Another study found that Bolivian women have significantly improved their health and nutrition knowledge and practice and significantly increased their personal savings as a result of participation in micro-credit programmes (Dunford, 2003).

In a study on the poverty alleviation programme for low-income women of United States, Ehlers et al.(1998) have observed that micro enterprise development is more detrimental and problematic than it is proclaimed mainly due to two reasons; firstly, gender constraints mean women tend to choose small scale, undercapitalised and barely profitable "pink-collar" business, largely home-based operations based on work that the women are already doing as part of their gender-specific roles; and secondly, microenterprise training programmes reinforce this business and instead emphasising the personal growth of individuals. The result is that women are encouraged to maintain their economic vulnerability and social peripheralisation, rather than becoming part of the mainstream business world. Helms (2003), in his study on micro entrepreneurial women, indicates that more often than not, the purpose of a micro-entrepreneurial woman's business is not to grow, capitalise, or create employment. Instead, the small business allows the woman to invest her earnings, not in her business, but in other asset-building activities such as children's education, fixing a leaky roof, better nutrition, dealing with emergencies etc. Helms also suggests that the female micro-entrepreneur may not want her business to grow because she is simply too busy with the other every day household responsibilities. Thus, lower investment in the small business after client graduation, may translate into lower profits and daily income to the micro entrepreneur, as profits and accumulated savings are invested in assets other than her business. This, however, is not a criticism of micro-credit programme per se, rather the study points out the limitations of micro-credit programme working within the patriarchal structure of the society. Again, Micro-credit programme in general has increased work loads, higher social pressure to ensure loan repayment. Women often employ unpaid family members (daughter and daughter-in-laws) and their by increase their workload. "Participation in credit schemes can lead to indebtedness that is unmanageable, simply because there are no sufficiently profitable income-earning activities in which to invest. In this situation, women may end up being even more dependant that they were before" (ILO,n.d). Though it can reduce vulnerability, micro-credit programmes have been criticised for not lifting women from abject poverty as it cannot transform social relations and the structural causes of poverty.

Women from poor and very often socially excluded groups participate in micro-credit programmes. It is argued that the SHGs have potentiality to address inequality and to make differences in the lives and the 'strategic gender interests' of poor women through empowerment (Kabeer, 2005). Hasemi et al. (1996) on a study on Bangladesh have found that women's participation in a credit programme raises her empowerment level in the household. Rahman (1999) has observed that out of 120 women borrowers, 18% claim a decrease and 70% emphasise an increase in violence and aggressive behavior in the household because of their involvement with the Bank. According to Kabeer (2005) bringing about social change through collective action is more difficult for the women of marginalised section of the society. Thus economic well-being or access to financial service does not necessarily lead to social well-being. Again, women's enhanced status due to access to the financial institutions and economic empowerment does not necessarily reduce domestic violence within households[1]. Raju (2005) has observed that 'many dedicated empowering projects have succeeded in changing women's collective bargaining powers in public spheres, but have failed miserably to impact upon their lives in personal domain'. Reservations have been expressed regarding the capacity of micro-credit to question and change entrenched patriarchies (Kabeer, 2005).

In a study of three microfinance programmes, Goetz and Sen Gupta (1996) have found that 63 percent of women having loans from the programmes have exercised 'partial, very limited or no control' over the use of loan and have little voice in the household decision making process. Kabeer (2001) in her study on Bangladesh has observed that the economic agency exercised by women loan holders varied with household wealth, with women from better off households having greater access to decision-making in loan supported activities than poor women. However, wives of male loan holders were found to exercise the lowest levels of economic agency. There are various social issues like access to financial resources, women's mobility and interactions with outside world etc. which are linked to the outcome of the micro-credit programme, but the members of self-help groups are often unable to address the larger issues of women empowerment and social and gender equity (Nirantar, 2007). A study on Narathiwat, Thailand shows multiple aspects of self-help groups developing in a phased process starting with economic enhancement, leading to empowerment at the individual level, and then moving on to collective action at the community level but with the support of various government bodies. However, these initiatives will not be able to bring about social transformation in the aggregate unless issues of control and ownership of the production process, linkages with a broader market and greater decision-making at the political level are tackled.

II. Scenario of Micro-credit Programme in India

Poverty is broadly viewed as a problem of the poor earning, little income and consequently consuming too little to attain socially acceptable standard of living, and possessing few assets to protect themselves against unforeseen problems. Increasingly microfinance is being seen as an important tool for poverty reduction in India, not just by the NGOs, who pioneered this kind of intervention, but also by the government and the private sector[2] (Ghate, 2007). In India out of 240 million people living below poverty line without any formal financial service and only 33.6 million clients had received some kind of financial access by 2007-08 (Sa-Dhan,2009) of which 14.1 million were served by MFIs. In another study Srinivas (2008) has estimated 100 million clients outreach and over 90 million low-income households are still unserved by any financial institutions. But micro-credit programme serves a very insignificant proportion of women in the country. According to NFHS-III (2005-06) only 4% of women in India have taken loan from such credit programme, although the number of women beneficiaries in rural areas is more than double than that of urban areas (Table-1). Again, the high proportion of women beneficiaries are from middle and fourth quartile of the wealth group. Generally it is considered that women belonging to SC and ST households are among the poorest of the poor. Even now the access to bank or other formal financial is severely limited for many scheduled caste/scheduled tribe women in rural India. Of the total beneficiaries, 4.8% belong to the other backward caste (OBC) followed by SC (4.7%) and ST (3.1 %) categories (NFHS-III). Thus, as of now, microfinance in India probably does not reach the poorest of the poor households.

Table-1 also shows the share of women beneficiaries among various age groups which increases from 0.8 percent (15-19 years) to 6.0% (30-39 years) and declines marginally after that. It also indicates the maximum participants of women are between 25 to 49 years of age. Thus, ages of women influence their participation in the credit programme. Apart from that, higher proportion of women having five and 5-7 years of schooling have taken loans from micro-credit programme than the women without any education. After that, as expected, the share of women borrowers decline with the upward education ladder. Thus micro-credit programmes do not fulfil the need of poor uneducated women.

SHG-bank Linkage model of India is one of the most popular credit programmes across the country. It has experienced exponential growth since 1992-93 with large regional disparities. The entire SHG movement has been concentrated in southern region and still continues to lead in terms of share in client out reach, loan disbursement and outstanding while limited progress observed in the north and north-eastern region[3] (Srinivasan, 2009). The inter-regional variations are even larger in case of bank linkage groups (Reddy et al., 2007). It is clear that such a pattern of regional distribution of SHGs does not match with the pattern of regional

Table 1: Percentage of Women Access to Money and Credit

Background	Women's access to money		Women's Knowledge and use of Microcredit Programme		Number of Women
	Percentage of women Decide to use it	Percentage of women Having accounts in Bank they themselves use	Percentage of women Know about Microcredit programme	Percentage of women Taken loan from Microcredit programme	
Rural	40.9	10.7	35.8	4.4	83568
Urban	52.1	23.9	44.2	3.2	40817
All India	44.6	15	38.6	4	124385
15-19	35	7.2	30.8	0.8	
20-24	41.6	10.9	37.5	2.5	
25-29	46	15.7	40.3	4.4	
30-39	49.1	19.4	41.4	6	
40-49	50.1	20.8	42.4	5.9	
Marital Status	38.6	12.1	37.8	1	
Never Married					
Currently married	44.9	15.3	38.5	4.7	
Divorced/Separated/ Widowed / Deserted	65.5	23.4	44.2	6.6	
No Education	43.1	7.4	26.3	3.8	50487
<5years complete	37.9	10.9	43.7	6.7	9918
5-7yrs. complete	41.1	12.1	40.6	4.9	18820
8-9 yrs complete	41.1	15.1	44.9	3.7	17383
10-11yrs complete	48.1	22.3	50.2	3.6	12887
12 or more years complete	59.7	40.9	57	2.7	14882
Employed	50.2	16.2	40	6	53208
Employed, For cash	54.8	19.7	45.9	7.3	35626
Employed, not for cash	40.8	9	28	3.5	17582
Not Employed	40.4	14.2	37.6	2.5	71121
ST	43.1	11.6	38.1	4.7	23125
SC	38.2	9	30.1	3.1	10119
OBC	45.6	13.3	38.5	4.8	48880
Others	45.8	20.5	41	3	41207
Wealth Groups					
Lowest	38.9	3.7	25.1	2.8	21718
Second	40.2	7.1	33	4	23616
Middle	41	10.5	39.4	5.9	25088
Fourth	45.1	16.3	43.1	4.9	26106
Highest	55.5	33.6	48.8	2.5	27856

Source: NFHS-III, 2005-06.

concentration of poverty in India.[4] Rajasekhar and Madheswaran (2005) in their study of the project areas of two NGOs in Karnataka and Andhra Pradesh noted that economic benefits of the programme are region specific. While better support by the NGOs in linking the banks and SHGs resulted in higher loan dispersal and better income in Karnataka, high opportunity cost of switching occupations led to lower rates of success in Andhra Pradesh. Further, they found that microfinance benefits were not significant in case of members belonging to the landless and SC/ST categories.

Table 2: State-wise Percentage Distribution of Women's access to Money and credit, 2005-06

States	Women's access to Money		Women's Knowledge and use of Microcredit Programme		Percentage of women allowed to go to three specified places alone[1]
	Percentage of women Decide to use it themselves use	Percentage of women Having accounts in Bank they programme	Percentage of women Know about Microcredit programme	Percentage of women Taken loan from Microcredit	
North					
Delhi	43.2	30.3	29	1	36.6
Haryana	35.5	12.4	36.8	0.6	40.7
H.P	28.8	22.2	20.2	2.2	64
J & K	55.4	21.9	13.1	0.2	51
Punjab	26.5	14.6	40.8	0.9	39
Rajasthan	32.7	7.5	12.3	0.6	31.6
Uttaranchal	36.1	20.1	13.7	1.6	42.8
Central					
Chhatishgarh	34.3	8.1	29.1	1.3	17.8
M.P	36.8	8.9	30.6	1	25.7
U.P	59.9	13.2	14.1	0.4	23.4
East					
Bihar	58.6	8.2	27	1	25.2
Jharkhand	60.2	14.4	25.5	1.9	36.6
Orissa	36.2	9.8	69.4	6.9	18.7
West Bengal	37.4	14.1	41.4	2.7	32.3
N.E.					
Arunachal	38.7	19	31.4	2.5	40.2
Assam	26.9	11.7	41.7	1.4	35.3
Manipur	32	8	65.1	4.2	53.5
Meghalaya	35.3	16.9	22.8	1.5	28.1
Mizoram	19.5	8.1	7.8	0.7	75.4
Nagaland	36.5	7.4	23.8	1.3	25.4
Sikkim	36.9	20.9	18.3	0.8	50.9
Tripura	26.9	18.7	38.7	2.3	36.8
West					
Goa	56.7	42.3	56.6	2.5	56.8
Gujarat	57.8	19.9	45	1.7	47.3
Maharashtra	40.8	20.3	35.5	2.1	40.2
South					
A.P.	48.6	18	59.6	16.3	37.3
Karnataka	60.3	22.1	55	9.2	30.6
Kerala	20.7	27	82.6	8	34.7
Tamil Nadu	25.4	15.8	79	13.4	54.2

[1] To the market, to the health facility, and to places outside the village/community.

Table-3 shows the concentration ratio[5] of microfinance clients of all the major states with respect to persons below poverty line. Region wise it is observed that the concentration ratio is more than 3 in the southern region, which implies that microfinance clients are proportionately more than that of the people below poverty line. Again, Andhra Pradesh has got highest concentration ratio 7 followed by Himachal Pradesh, Tamil Nadu, Karnataka and Kerala which have concentration ratio more than 2. On the other hand, among the poorest states (except Orissa) Bihar, Jharkhand, Madhya Pradesh and Uttar Pradesh have low concentration ratio(less than 1) which implies that spatial distribution of microfinance clients does not follow a similar pattern as that of the poor population. In north eastern region except Nagaland, Meghalaya and Manipur all other states are having concentration ratio above 1. Nonetheless, there is no systematic evidence to show that macroeconomic and demographic factors can explain regional unevenness in microfinance services/institutions (Sriram and Kumar, 2007). Adaptation to local environment and necessary changes in action might have been the key to the success of micro-credit programme.[6]

Table 3: Proportion of Microfinance Clients and Persons Below Poverty Line

States	Concentration Ratio of Microfinance Clients	Proportion of People Below Poverty Line
HP	3.22	6.70(28)
Rajasthan	0.45	17.50(11)
Haryana	0.32	9.90(26)
Punjab	0.53	5.20(29)
J&K	0.08	4.20(30)
Delhi	0.18	10.20(25)
Northern Region	0.48	
Assam	1	15.00(15)
Meghalaya	0.32	14.10(18)
Tripura	1.4	14.40(17)
Sikkim	2.1	15.20(14)
Manipur	0.51	13.20(20)
Arunachal	1.32	13.40(19)
Nagaland	0.09	14.50(16)
Mizoram	1.07	9.50(27)
North Eastern Region	0.95	
Orissa	1.16	39.90(1)
Bihar	0.16	32.50(3)
Jharkhand	0.23	34.80(2)
W.Bengal	1.53	20.60(9)
Eastern Region	0.72	
M.P.	0.25	32.40(4)
Chhatisgarh	0.57	32.00(5)
UP	0.15	25.50(7)
Uttarakhand	1.68	31.80(6)
Central Region	0.27	
Gujarat	0.28	12.50(21)
Maharashtra	0.78	25.20(8)
Goa	0.83	12.00(22)
Western region	0.68	
Andhra Pradesh	7.51	11.10(24)
Karnataka	2.43	17.40(13)
Kerala	2.22	11.40923)
Tamilnadu	2.73	17.80(11)
Pondicherry	0.91	18.20(10)
Southern region	3.83	

Sources: Author's calculation based on Srinivasan, 2009, Poverty estimates 2004-05, Planning Commission, Govt. of India.

Table-4 brings out the mismatch between the proportion of BPL persons and percentage of women taken loan from micro-credit programme on the basis of NFHS-III data. States like Bihar, Madhya Pradesh and Uttar Pradesh, where proportion of BPL is very high less than 1% of women have taken credit from the micro-credit programme. On the other hand share of women in the credit programme in Andhra Pradesh, Tamil Nadu, Karnataka and Kerala is very high despite of having moderate proportion of BPL persons.

Table 4: Proportional Share of Persons Below Poverty Line and Women Taken Loan from Micro-credit Programme

Percentage of women Taken loan from Micro-credit programme	Status of States in BPL		
	High (BPL above24%)	Medium (BPL12%-24%)	Low BPL (<12%)
High (16.3- 8%)		Tamil Nadu, Karnataka,	Kerala, Andhra Pradesh,
Medium (1.1-8%)	Orissa, Jharkhand, Chhattisgarh, Uttaranchal, Maharashtra	West Bengal, Gujarat, Assam, Arunachal Pradesh, Manipur, Nagaland, Tripura, Meghalaya,	Goa, Himachal Pradesh
Low (< or equal to1%)	Bihar, M.P., U.P.,	Rajasthan, Sikkim,	Delhi, Haryana, Punjab, J&K., Mizoram

III. Interrelationship between Poverty and Microfinance

Women's empowerment can be measured by using indicators such as levels of mobility, purchasing power as well as political and legal awareness. By analysing NFHS-III data of 29 states of India it is found that there is a positive and insignificant correlation between proportion of women who have taken loan from micro-credit programme and the proportion of women allowed to go to three specified places alone (the market, to the health facility, and to places outside the village/community) (Table-5). But there is an inverse relationship between percentages of women who decide to use their money and proportion of women who have taken loan from micro-credit programme. This is in tune with the contention that participation of women in a micro-credit programme may not necessarily lead to empowerment of women and gender equality within the households. Our study also reveals negative correlation between states having higher percentage of people below poverty line and proportion of women borrowers. On the basis of the available data this study is sceptical about the outreach of micro-credit to the poor households at the regional level.

Thus, the participation of women in micro-credit programmes is not only mediated through individual and household characteristics, but also through the regional disparities in the incidence and growth of such programmes. There is an increasing tendency to repackage the micro-credit programmes essentially as 'banking services at the bottom of the pyramid', rather than an instrument for poverty reduction.

Table 5: Correlation Matrix

	Taken loan from microcredit programme	women allowed to go three places	Percentage of persons below poverty line	percentage of women decide to use money
Taken loan from micro-credit programme	1			
Women allowed to go three places	.007	1		
Percentage of persons below poverty line	-.027	-.577**	1	
percentage of women decide to use money	-.027	-.218	.236	1

Note: Correlation is significant at the 0.01 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

For making micro-credit an effective tool for poverty reduction, however, a better targeting is required, not only at the household and individual levels, but also at the regional level.

Conclusion

The empirical evidences on the impact of micro-credit on poverty is not clear, although a number of studies suggest that access to credit has the potential to significantly reduce poverty. The evidence on reducing vulnerability is somewhat clearer. The provision of micro-credit has been found to strengthen crisis coping mechanisms, diversify income-earning sources, build assets and improve the status of women. Microfinance has almost been alleviated to the status of a 'magic bullet' to cure poverty and empower women (Kabeer, 2005). But to reduce poverty a multipronged and multilevel approach that includes social safety nets, effective education and health services etc is needed. It needs to be remembered that lack of access to credit is a significant, but not the only constraint faced by the poor. Moreover, both the livelihoods of the poor as well as the gendered access to livelihoods resources differ across regions. Hence, the microfinance and other poverty-alleviation programmes are complementary rather than substitutes. Micro-credit programme would impact on women and the poor in the long-run if the credit could be used in productive and income generating activities. But, the regional mismatch between concentration of poverty and that of access to micro-credit needs to be addressed in future policy initiatives.

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Notes

1 By analysing NFHS-II Sahoo and Raju (2007) have found that violence is more in rural areas as compared to urban areas and that SC and ST women face more domestic violence as compared to women belong to other category, which may be due to under reporting. Studies show that there exists a positive association between work status and autonomy levels as paid work allows women a certain degree of freedom to act independently. If that is the reason working women face more violence may be because of unacceptability of questioning embedded power equations in an otherwise traditional setup by men.

2 Three major microfinance approaches have emerged in India: a) MFIs emerged specially to serve the poor by providing retail loans directly to the poor and through wholesale loans to NGOs those particularly serving the poor, b)many apex organisations to provide funds and institutional support such as training and technical assistance to NGOs and non banking institutions those lend to poor, c) massive government sponsored programme through NABARD to create and link self-help groups to banking institutions.

3 The cumulative number of SHGs, as of March 2006, over 40% is in Southern region followed by the Central (21.46%) and Eastern (18.76%) regions. The northern region accounts for only 5% and north eastern region accounts for less than 4% of total SHGs.

4 So far as spatial distribution of SHG and SHG credit is concerned Dasgupta (2005) has found that eastern and central region accounted for more than 60% of SGSY credit in proportion to the poor, the southern region accounted for 63% of SHGs and 79% of SHG credit in 2004 with only 15.4% of the poor. Within the southern region, Andhra Pradesh accounts for 35.79% of SHG and 44.32% of SHG credit followed by Tamil Nadu, which account for 14% of SHGs and 24% of SHG credit. In contrast, Assam, Bihar, MP and UP account for a much less share of SHG and SHG credit vis-à-vis the share of poor. Southern states are termed as SHG-developed states while Bihar and Madhya Pradesh as SHG-backward states. Thus, SHG movement is more active where poverty is less whereas the opposite is expected.

5 Concentration ratio= Proportion of microfinance Clients(both SHGs and MFIs)in each state to total microfinance Clients in the country /proportion of person below poverty line in each state to total persons below poverty line.

6 Another aspect of regional concentration of SHGs is differential models of SHG Credit. In Model I SHGs are formed and extended credit by the banks; in Model II SHGs are formed by the NGOs but credit extended by the banks; in Model III NGOs in addition to forming SHGs, avail bulk loan from banks for lending to SHGs. At the aggregate level Models I, II and III account for 20, 72 and 8% of SHGs and 14, 81 and 5% of SHG credit respectively. Southern and northern regions depend less on Model I and more on Model II (Dasgupta,2005). In contrast other four regions especially north-east and east depend more on Model I.

Rural Credit and Microfinance Regulation: Scope and Issues

- S. K. Sarma*

Abstract

Microfinance is newest wonder tool of poverty alleviation. It has been receiving significant amount of attention all over the world, especially in developing countries as filling the gap in formal rural credit sector to reach out to the 'poorest of the poor'. India has one of the largest networks of financial institutions (about 1.6 lakh) but unfortunately majority of the population, particularly the poor were left out of the purview of these institutions. This gap has been filled by the proliferation of diverse strategies, organisation and methods.

With such rapid growth of the sector, issues like depth of outreach, interest rates and other relevant concerns have sprung up in recent years. The situation got aggravated by the infamous Andhra Pradesh crisis, when the State Government had to take legal action against some MFIs. It was an eye opener for the State, and followed by a rush, to regulate the sector. The 'Micro Financial Sector (Development and Regulation) Bill, 2007 was introduced in Parliament on 20th March 2007. Although the Bill is still pending with the Standing Committee on Finance, When it is passed, it is expected to have an impact on the way the sector is operating. This paper explores the emergence of microfinance sector and complexity of issues involving the regulation of the microfinance sector.

Microfinance has been receiving significant amount of attention all over the world, especially in developing countries as filling the gap in formal rural credit sector to reach out to the 'poorest of the poor'.

Key Words: Microfinance, Rural Credit
JEL Classification: G21, G24

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Introduction

The rural credit scenario in India has never been a heartwarming story and is rather characterised by heavy dependence of the poor on exploitative money lenders. The credit market is often inflicted by asymmetric market information and imperfect market conditions, along with inadequate rural credit policies. The problems in rural credit scenario show a strange continuity in the last hundred years characterised by a failure of the state and a dominance of moneylenders. Post independence, there did come a few policy initiatives to expand rural credit facilities to the larger sections of society and to create formal credit institutions to meet the credit need. However, most of the credit initiatives could not perform well due to several reasons including corruption, political interference, etc. Apart from creating credit intuitions like Cooperatives, and Regional Rural banks, Government also introduced several developmental interventions like Integrated Rural Development Programme (IRDP), to meet credit needs of rural poor for income generating purposes. Since credit is widely recognised as a critical ingredient for economic development, experiments like SHG-Bank linkage programmes were also introduced to make credit accessible to the poorest strata of society at the right time and at an affordable cost. With the growing success of SHG-Bank linkage programme, rural credit market now attracts increasing number of investors to invest in the emerging microfinance sector. With more and more Microfinance Institutions (MFIs) joining the sector, it has grown rapidly and today more than 50 million households are covered by the sector '(Ghate: 2007)'. Although the microfinance sector has the potential to meet the financial requirements of the disadvantaged, rapid commercialisation has made this sector prone to several malpractices as well. It is therefore high time to introduce regulations in the microfinance sector. Accordingly, government had introduced the Micro Financial Sector (Development and Regulation) Bill in 2007. The bill is still pending with Standing Committee of Finance but it has definitely created a strong debate regarding the implications of the bill. This paper makes an attempt to discuss the emergence of microfinance sector and the regulatory issues in the sector.

Rural Credit History

During the late 1940s the focus was on Cooperatives. Cooperatives Planning Committee in 1945 stated that a large number of cooperatives were struggling with poor recovery status and in spite of their presence for 50 years their share in rural credit was less than 5% '(Shah:2007)'. Money lender, landlords and traders still remained the largest provider of rural credit. So the stress was given on reviving cooperative credit structures. A large network of Cooperative Credit Structures (CCS) was established to increase the share of cooperative in rural credit. However, in spite of having enormous potential to cater to rural credit need, the cooperative credit structure could never achieve its dream status. In fact over the years it has become defunct with increasing government interference, recurring deposit losses, and growing domination by rural elites and other political bodies.

While the expansion of cooperative credit structure was the major thrust for policy makers during the 1950s, by the end of 1960s the need for enhancing the role of commercial bank in rural credit was felt and this led to the nationalisation of banks. The growing demand for credit in agriculture could not be met by cooperatives alone and to augment the supply of rural credit 14 major commercial banks were nationalised in 1969. With the nationalisation of banks, new bank branches started opening up in areas where no banks were previously available. As a result of this, the rural offices of scheduled commercial banks increased from a mere 1,860 in 1,969 to a peak of 35,396 in 1994 '(Patil:2005)'. The nationalisation of banks was done to serve a larger social goal and to reduce the average population served by a bank branch. It was an attempt to reduce the disparity of banking presence across the states and the bank expansion were targeted more towards unbanked and under-banked areas. The attempt to cover a large section of population with adequate banking services were visible with the average population served by a bank reducing from 1,40,000 in 1961 to 15,000 in 2000 '(Shah:2007)'. The control of government over the banking and thereby directing the credit disbursement was considered to be a way of addressing structural inequalities. However post liberalisation the share of commercial bank in agricultural lending has been reducing gradually. After nationalisation of banks, a large number of Regional Rural Banks (RRB) was also set up across the states in 1976. RRBs are state-sponsored rural-oriented commercial banks with a special focus on the weaker sections of society and are designed to suit the needs of rural population as well as to meet the cost of banking the unbanked in a profitable manner. However, unionised staff culture, reluctance to lend and the approach of narrow banking have made RRBs ineffective over the years.

In order to meet the of credit demand of agriculture and allied economic activities, National Bank for Agriculture and Rural Development (NABARD) was set up in 1982. Since then NABARD has played a prominent role in facilitating credit flow to rural areas through refinancing to RRBs, commercial banks, cooperatives banks and other financial institutions. Similarly, to direct the lending of commercial banks towards priority sectors like agriculture and small scale industries, National Credit Council in 1968 suggested focusing on priority sector lending by banks. Accordingly, in 1972, Reserve Bank of India (RBI) came up with a definition of priority sector lending and target for banks were set up in subsequent years. RBI also introduced Differential Rate of Interest (DRI) scheme in 1972 to benefit the disadvantage population and to help them to engage in economic activities. The various Government impetuses over time helped in expansion of banking to unbanked population and many opines, also helped to reduce the economic inequality to a great extent. However, it is important to note that although a lot of policy initiatives were taken to make rural credit accessible to the poor, all of them were controlled and guided by government. As such a number of initiatives could not deliver as per expectation because of the inherent structural hurdles present in government intervention like lack of flexibility, bureaucratic orientation, political interference, lack of accountability etc.

The biggest blow to rural credit scenario came in the form of Integrated Rural Development Programme (IRDP). The subsidised credit and target-oriented nature of IRDP resulted in rampant corruption and mindless credit distribution. IRDP, due to adverse selections, made millions of poor bank defaulters with no apparent fault on the part of debtor. It alone accounted for 40% of losses incurred by commercial banks in rural lending in 1988 '(Shah:2007)'. By the late 1980s, the non performance of public sector banks and poor recovery were considered as serious problems. It became evident that the costs of lending and loan losses were higher for banks than their earnings in rural areas. Moreover, the banking services were also seemed to be captured by rural elites only.

Emergence of Microfinance

Considering the consistent poor performance of banks in rural sector, RBI set up a committee for financial reform in 1991. The Narasimham Committee suggested that commercial banks would no longer cross-subsidise loans to rural sector with earnings from urban sector. The committee recommended a reconsideration of policy on directed investment and directed credit. As an implication of such liberalisation, lending in the agriculture sector reduced drastically in next few years and in a way created a vacuum in the rural credit sector. In 1991, 40.9% of net bank credit was advanced to priority sector and 16.4 % was the total credit to agriculture sector. By the end of March 2003, the agricultural advances amounted to only 11% of net public sector bank credit '(Dasgupta: 2004)'. This gradual decrease in formal credit to rural sector post liberalisation led in a way to the emergence of microfinance.

The delivery model taken up by banks and other government credit schemes were mainly focused on individuals approach till NABARD came up with a group approach to make credit accessible to rural poor. After some successful experimentation with MYRADA in late 1980s, NABARD launched the SHG-Bank Linkage programme in 1992. The SHG-Bank linkage programme was important in a way because it was implemented at a time when banks started withdrawing from rural credit and RBI had suggested commercially viable banking in place of social banking as the new motto of financial reform. NABARD started the SHG model as an alternative model of delivering finance to rural population. The main objectives of SHG- Bank linkage programme were to (1) evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with strength of administrative capabilities and financial resources of formal financial institutions ; (2) to encourage banking activity in a segment of population that the formal institutions usually find it difficult to reach; and (3) to improve the credit flow to rural poor with reduced transaction cost '(Satish:2001)'.During this period of liberalisation it was felt that there was a need for fresh approach towards rural credit and countries like Bangladesh, Sri Lanka, Bolivia etc had already started adopting a new approach for financial inclusion. One of the reasons for universal popularity of this approach was that the repayment rate was as high as 95% or more. Apart from the high repayment rate the group lending approach had several other advantages which were absent in the conventional model of rural finance like the low cost in credit evaluation as it was done by community members, the provision of peer monitoring pressure to induce productive uses of loans and nudging the borrower to give extra effort to make timely repayment so as to preserve valuable social ties '(Bansal: 2003)'. Looking at the success of SHG-Bank linkage model, Government of India also launched the "Swarnajayanti Grameen Swarozgar Yojna" (SGSY) in 1999. Meanwhile, development agencies started experimenting with some other delivery models like Grameen to make credit accessible to the rural poor.

Over the years, two broad categories of Microfinance institutions (MFI) have come up in India. They can be categorised as Mainstream MFIs and Alternative MFIs. The first category of MFIs includes formal financial institutions like NABARD, SIDBI, HDFC, RRBs, commercial banks and other formal financial institutions. The Alternative MFIs are those organisations that came up to meet the demand and supply gap of microfinance sector and they include Non Government Organisation (NGOs), Non Banking Finance Company (NBFCs), etc '(Wanchoo:2007)'.

One of the significant rationales for emergence of microfinance is the role of microfinance as a tool for poverty alleviation. The timely availability of credit with a low cost can help the poor to enhance their financial productivity and can lead to overall improvement in living conditions. There are studies to show that access to credit through microfinance has brought in improvement in health conditions and educations apart from augmentation in income in many poor families across the world. The access to financial services has helped women to become self-sufficient in economic terms and lead a step ahead towards empowerment. The initial experience with microfinance has established two important claims, the first one is about the credible bankability of poor and the second one is that women are creditworthy. In a different light, the emergence of microfinance can also be looked as a failure of state and market to cater to the need of the disadvantaged '(Shylendra:2005)'.

The regulatory development from time to time

The SHG-Bank linkage programme was implemented by NABARD in the year 1992 to promote financial access to formal institution by the rural poor. The operating guidelines issued by NABARD related to SHG-Bank linkage programme (SBLP) offered complete flexibility to banks so far as lending norms are concerned. Looking at success of the SBLP, the project was extended to RRBs and Cooperative Banks, apart from commercial banks in 1993. In the year 1995, RBI set up a working group on NGOs and SHGs to look into the various aspects of the linkage between informal SHGs and Banks. As per recommendations of the working group, RBI issued instructions to banks to treat SHG-Bank linkage model as a part of their mainstream lending. Lending to SHGs directly or to NGOs for on- lending are considered part of directed lending. This gives a much-required boost to the SHG-Bank linkage model because as per the RBI norms, directed lending should consist of 40% of net bank credit, and considering the high repayment in SHGs a lot of bank came forward to promote the SHG-Bank linkage. Another important contribution of the working group was allowing SHGs to open bank account which in a way gave recognition to the informal organisations like SHGs and also boosted the confidence of rural people.

One of the defining contributions in regulation of microfinance sector was made by the task force of NABARD formed in 1998. During the period of mid-90s, organisations like BASIX, SKS Microfinance, etc. entered the microfinance sector and there was a strong need felt for regulation of the sector and the formation of a suitable national policy. In order to address some of the issues in the rapidly growing microfinance sector, at the instance of RBI, a 'Task force on Supportive Policy and Regulatory Framework for Microfinance' was set up by NABARD. The task force had representation from Government of India, RBI, NABARD and Chief Executives of various NGOs executing microfinance model in the country. For the first time the task force came up with an agreeable definition of microfinance. The task force categorised the MFIs in three broad categories:

1. Not for profit MFIs,
2. Mutual benefit MFIs, and
3. For profit MFIs.

The major recommendation of the task force can be divided into four broad heads:

- Mainstreaming of MFI and other MF structure, which are related to scaling up of SBLP, operational issues, rating norm for SHGs, MFI and Bank linkage, etc.,
- Regulation and supervision of MFIs-The task force had suggested formation of a Self-Regulatory Organisation (SRO), so as to registrar and classify MFIs for regulation, prudential accounting norms, etc.
- Organisational aspects relating to MFIs- the task force suggested registered bodies for intermediate level in microfinance sector, while ground level groups can be informal for various practical and operational advantages, and
- Capacity building needs- the task force suggested capacity building at the level of SHGs, NGOs and banks for effective scaling up of the SHG-Bank linkage programme.

The task force recommended setting up of a microfinance development fund with a starting contribution of Rs.100 crore from the Government of India.

Considering the growing importance of the microfinance sector, RBI had set up a microfinance cell in 1999. However the approach of cell towards to rural credit is somewhat different from the conventional subsidised approach of Government. The cell believes that microfinance needs to be commercialised and all patrons - microfinance providers, intermediaries and ultimate clients- must be compensated appropriately. However, what would be the appropriate compensations for all the patrons, how the compensation would be decided and what would be the effect of such commercialisation of sector are some of the issues which became relevant in subsequent years. In a way, the cell talked for a market-driven financial service where the financial viability of the service provider would be the primary concern. Such a market-driven approach has its own set of advantages in terms of increasing efficiency of the service provider, but at the same time it can totally by-pass the ultra poor of our country.

There are a number of working groups formed from time to time by RBI to design some sort of regulatory framework in the microfinance sector. One recommendation from such working groups is related to a separate category of non deposit taking NBFCs with a low capital requirement of 2.5 million. Another recommendation is that the NGOs and federations of SHGs should either to wind up their saving business and transform into Section 25 companies or transform into NBFCs or Mutually Aided Cooperatives (MAC) '(Bhattacharjee:2004)'.

In 2002, RBI took additional some steps to promote microfinance sector- It made exemption to not-for-profit "section 25 companies" engaged predominantly in the business of micro-lending, but specifically not engaged in deposit mobilisation, from the registration requirements introduced for NBFCs in 1996. RBIs also allowed NBFCs to obtain foreign equity investment and allowed commercial borrowing for MFIs. Additionally, RBI provided NABARD with a fund of Rs 1 billion to finance skill development, provide institutional support and capitalise microfinance initiatives '(Sinha:2007)'.

The promotional policies of RBI in microfinance sector attracted a large number of investors including commercial banks and venture capitalists. Most of these investors consider the microfinance sector as a lucrative business opportunity because of stability and high rate of return. Post 2000, some of the NGO-MFI transformed themselves to NBFCs or to microfinance companies. Such transformation of NGO-MFI also continued to Section 25 companies. The transformation of NGO-MFIs to NBFCs has taken place mainly to take advantages of market capital. Moreover, the decision of RBI to consider the lending towards MFI as a priority sector lending played a significant role in establishing linkage between commercial banks and MFIs. However, with growing competition to scale up operation, MFIs started resorting to several lending practices which are considered as unethical and therefore the Consultative Group to Assist the Poor (CGAP) in their financial guideline had to define the term 'abusive' in a clear way so as to put some restriction on such practices. The competition took an ugly shape and the final blow came to the microfinance sector in the form of the infamous Andhra Pradesh (AP) crisis. The crisis highlighted an emerging issue of consumer protection in the sector. It is interesting to note that most of the policy initiative taken by the Government for the microfinance sector before the crisis was more of promotional in nature, allowing more and more players to join the sector with less stringent regulations. The role played by regulation was more of facilitating in nature enabling the players to realise their potential.

Andhra Pradesh Crisis - The wakeup call

On March 8, 2006, the district administration of Krishna district sealed about more than 57 branches of two leading MFIs in the country- Spandana and SHARE. The district authority accused the MFIs of charging usurious interest rates and harassing their clients. The whole incident earned a bad name for the microfinance sector and it exemplifies the ill effect of mindless competition and the craving for rapid growth. The AP crisis was a sequence of following events - the MFI staff were encouraged to disburse more and more loans to increase the gross loan portfolio and client coverage; the sizes of loans were increased in order to disburse more and more funds; Individual clients were lent by more than one MFI and in order to enforce 100% repayment, staff of MFIs resorted to abusive practices like locking the houses of defaulters, etc. Such abusive practices were reported to the district administration by the clients and the district authority which is responsible for protecting the interest of consumers, decided to take action against the MFIs by shutting down their branches in the district. The whole incident was covered by the media in a negative way and it tarnished the image of microfinance sector.

While there are many reasons that lead to the AP crisis, some of them are more obvious. There is an intense rush to grow among the MFIs competing with each other, and the fascination for numbers in term of loan portfolio, client coverage and profitability has led many MFIs to stress on quick loan disbursement by their staff. Such pressure leads to adverse selection of clients by the staff and ultimately results in delinquent loans. In such cases, the MFI had to resort to several unethical practices to ensure recovery of their loan. Such practices of forcible collection by MFIs increased customer dissatisfaction and resulted in complains against MFIs. Charging high interest rate is another reason that fuelled the crisis. Because of the deceptive interest rate charged by the MFIs, the 'usurious interest rate and hidden cost' of MFIs are highlighted as one of the reasons for closure of the branch offices by district administration. The issue of deceptive interest rate brought to the fore the need for transparent pricing practices by MFIs. Another feature of microfinance sector that got highlighted through the crisis was the issue of overlending. The practice of dumping huge amount of money on borrowers overlooking their capacity to repay resulted in delinquency.

Response to the crisis

The repercussion of AP crisis was seen in strong actions of state governments against MFIs operating in various districts. In Andhra Pradesh, the MFIs were pressurised to reduce their interest rate to the level of 15%. In states like Karnataka and Orissa, the government questioned the interest rates charged by MFIs. As a damage control measure Sa-Dhan, a network of MFI, came up with internal code of conduct and asked for regulating the sector to protect the interest of consumers. The code of conduct prepared by Sa-Dhan emphasised on avoiding over-financing to same household, making interest rate more transparent, ensuring that staff do not use abusive language while collecting repayment from consumers, and staying in touch with government authority and media to update them on the happenings in the sector. Like in most of cases of financial crisis, this crisis of Andhra Pradesh was also followed by reform. The initiative to reform took place in the form of Microfinance (Development and Regulatory) Bill placed before the parliament during March 2007.

The Microfinance (Development and Regulatory) Bill 2007

The microfinance bill was placed in the lower house of parliament on 20th of March, 2007. Till now no decision has been taken on the future of the bill, but whatever may be the outcome of the bill, it's definitely going to affect the way in which the sector is operating. Although the need for a well defined regulatory framework was felt long back, the bill was introduced at a time when the microfinance sector had already earned a bad name due to the crisis of AP. Consequently, the bill seemed to be introduced more as a way to control the sector than to promote the sector.

The microfinance sector in India is characterised by the presence of a wide range of organisational formats. Some of them are NBFCs, Section 25 Companies, Societies, Trusts, Cooperatives, etc. The proposed bill covers Societies, Trusts and Cooperatives under the microfinance regulation. It has excluded NBFCs and Section 25 Companies from the purview of the bill. The present regulatory format of Trusts and Societies are not conducive enough to facilitate financial activities, so they are brought under the purview of the bill. However, the same logic is not applied to the Cooperatives as they are already undertaking credit activities under State Cooperative Acts.

The rationale for exclusion of NBFCs from microfinance regulation may be because NBFCs are already regulated by RBI. But this does not explain the exclusion of Section 25 Companies from the purview of the bill. The idea of legal view of the sector would be somewhat distorted when looked through the microfinance bill- NBFCs are regulated by the RBI; NGO-MFI and Cooperatives are regulated by NABARD and Cooperatives are also regulated by Registrar of Cooperative Societies, but Section 25 Companies remain unregulated. The bill proposed NABARD as the regulator of microfinance organisations but it was criticised on two counts. First, that in presence of RBI there should not be any strong reason for appointment of NABARD as a regulatory body. Second, since NABARD is also promoting microfinance though their SHG-Bank linkage programmes, there is clear conflict of interest with its multiple role as promoter and regulator '(Ramji:2008)'.

The legal and regulatory framework of a country influences the degree of and access to financial services available to low-income rural households and their small businesses. The first core principles of a sound legal and regulatory framework are to offer level playing field to participants in the provision of range of financial services (World Bank: 2005). The proposed bill intends to cover only NGOs and Trusts under its jurisdiction and thus it may not be possible for the proposed regulatory framework to offer the same ground for all the players like NBFCs and Section 25 Companies. The second core principle is to allow the institutional transformation of non-traditional and non-regulated MFIs into specialised, regulated, and licensed rural finance and microfinance intermediaries. The existing regulatory framework in the country is not resistant towards transformation of NGO-MFIs to specialised NBFCs as such, except that the initial capital requirement for NBFC is too high to allow many small NGO-MFIs to transform into special financial vehicle. The third core principle talks about promoting transparency in financial accounting. The proposed bill talks about the quarterly financial reporting to a regulatory body like that of NABARD by the MFIs that are registered with them. However, the financial accounting of NBFCs is done through RBI only. The fourth core principle of a sound legal framework for microfinance suggests sharing of credit histories of borrowing clients. The proposed bill has not emphasised, as such, on any such issues so as to avoid some critical operational issues like double lending, etc.

The first purpose of a regulatory framework is to build regulated and unregulated institutions of all types that can provide services on uniform, common, and shared performance standards. However, the proposed MF bill, by its exclusive nature, may not be able to create a standard performance measure for the whole sector. The eligibility of clients of MFIs is restricted to members of any groups formed for the purpose of microfinance. But there are many MFIs, both NGOs as well as NBFCs, who are offering microfinance services to individual clients. So, it may not feasible for such agencies to create same performance standards. The second important purpose of regulatory framework is to encourage the regulatory authority to develop appropriate prudential regulation and staff capacity that are tailored to the institutions' operational and risk profiles. Looking at the performance in terms of spending of funds by NABARD for capacity building in microfinance sector, the expected role of NABARD as a regulatory body for staff capacity building may not be up to the expectation.

Another significant issues raised by the bill is that of saving mobilisation. It allows mobilisation of savings by NGO-MFI and thereby increases the range of financial services to be offered by such institutions. However the bill still restricts mobilisation of deposits from public and only encourages deposits from the member or clients of an MFI. The mobilisation of savings from consumer would help the MFIs to become less dependent on external borrowing and thereby would reduce the cost of lending. However, the saving is being defined narrowly in the bill as it only indicates to saving of group member on a regular basis. But there are a large number of studies to indicate that the disciplined and regular savings may not be possible for the poorest in society. Rather, it would be convenient for them to save small variable amounts with variable frequency. So, in a way, such a stringent saving mechanism may lead to many poor families opting out of microfinance services.

The bill excludes a major bulk of the sector by debarring NBFCs and Section 25 Companies from the purview of the bill. NBFCs and Section 25 Companies take up approximately 80% of outstanding microfinance loans as well as of the client base in the sector. This essentially means that the bill is relevant only for the remaining 20% of MFIs. Although it is said that NBFCs are regulated under RBI guidelines the microfinance sector is not one of the ten recognised categories of NBFCs. So, in a way, RBI is also not well equipped to regulate NBFCs engaged in microfinance activities. The eligible client is defined in the bill as anyone who is a member of a self-help group or of any other group formed for providing microfinance services. This indicates that when a person, who may be a marginal farmer requires small agricultural loan, he or she cannot access microfinance services if he or she is not a member of a self-help group or any other such groups. There are many instances when the poor cannot become members of such a group because of some stringent regulation like that of uniform regular savings and hence such poor would be not be covered by the bill. The microfinance sector report of 2007 suggest that the microfinance sector is making strong progress towards the goal of extending financial inclusion to fourth-fifth of the population who do not receive credit from the banks, while on the other hand slower progress is being made in reaching out to the poor households '(Ghate:2007)'. In such a scenario, it is important to have a more inclusive targeting if microfinance has to play the role of a tool in poverty alleviation.

As mentioned above, the bill covers mainly two categories of microfinance organisations - NGOs and Cooperatives. But because of its exclusion of other categories of MFIs, it is criticised for being focused more on institutions rather than on activities. Such an institution-based regulation is more relevant to control the sector in a directed way and to promote a certain category of institutions. Considering the microfinance need in the country, no one category of institution can be recommended solely for the sector. Moreover, such an institution-based regulation may not be successful in establishing a common set of performance standard for the whole sector as there would be other institutions outside the purview of regulations. There is also the risk that exclusive focus on a particular institutional form may cramp innovation and competition, encourage regulatory arbitrage, or impede the integration of microfinance into broader financial sector. Based on such considerations, some policy makers argue that the regulation should focus on microfinance more as a set of activities, regardless of the type of financial institution carrying them out and less on particular institutional forms '(Christen:2002)'. By focusing only on NGOs and Cooperatives, the bill attempts to shift the burden of social banking away from commercial banks to civil society institutions '(Shylendra:2007)'.

The timing of the regulation is also significant especially when the bill is proposed to regulate NGO-MFIs. One of the arguments in favor of going slow in regulation in such cases is that of lack of experiences in regulation of NGO-MFIs. The NGO-MFIs need to run profitably before they are brought under any kind of financial regulation. In the present microfinance sector scenario in the country, there are a very few NGO-MFIs who have been able to pass the test of profitability. Until profitability is not achieved, one can actually wait to see how many NGO-MFIs can run and scale up their operating profitably.

The bill has also prescribed non-prudential objectives of promoting orderly growth of the microfinance sector. Some of the measures that it has suggested include facilitating the development of credit rating norms, specifying accounting and auditing standards, supporting sector-related research, documenting and disseminating information relating to the fair practices, and promoting consumer education. Such non-prudential regulations would help the bill to promote a consumer protection regime which, in a way, is the need of hour.

The Scope for the bill

Although the proposed bill has been a significant step towards regulating the sector there are a few areas which it has left untouched. One of the important areas where the bill did not touch upon in detail is that of deregulation of interest rate. Considering the high rate of interest charged by MFIs even after becoming financially viable, and also because the high rate of interest charged to clients being one of main cause of discontent during the Andhra Pradesh crisis, the bill should have been more specific on the issue of interest deregulation.

The bill has proposed to create a national database in the public domain. The idea is to disseminate it through a national dissemination network. To create this database, the microfinance organisations are required to submit audited returns at regular intervals. The creation of such a database would be a stepping stone towards sharing of data within the sector. However, the bill could have spelt out the details of the database and also could have suggested creation of credit bureaus. Credit bureaus are businesses that collect information on the payment habits and current debts of individuals. They gather this information from financial institutions and various other sources (such as utility companies, retailers, consumer creditors, tax authorities, governments, etc.) and organise it in a database. Access to the database is then offered to creditors for a fee '(Isern: 2002)'.

As already discussed, the growing competition among MFIs in the microfinance sector has been cited as one of the underlying causes for the crisis in Andhra Pradesh. When the bill was placed under such a backdrop, it was expected that the bill would lay down some measure to handle unhealthy competitions like restricting number of MFIs operating in same geographical area, penalising MFIs for overlending or lending to the clients of other MFIs, etc. But the bill remains silent over the issue of fierce competition in the microfinance sector.

The rural credit policy is aimed for financial inclusion and microfinance is considered as an alternative financing model which can contribute in a strong way towards this goal. But the present group-based targeting proposed through the bill will leave many poor outside the sector.

Conclusion

The proposal to formulate a legal framework through microfinance bill is an indication of the significance of the sector. But whether microfinance can become the alternative finance is still a debatable issue and the future of microfinance is yet to be decided. The recent experiment of several banks, under the National Pilot Project for Financial Inclusion, to cover entire population of Union Territory under banking services is a unique step towards financial inclusion. The various services offered by the banks under such project includes- opening of saving accounts for all willing individuals between the age group of 18 to 70, sanctioning of overdraft from a minimum of Rs 500 to a maximum of Rs 5000, issuing of General Credit Card with a maximum limit of Rs.2.00 lakh, and giving credit to SHGs and insurance products. Such an attempt, if successful, can limit the use of microfinance, as people would be able to access the formal financial services in a convenient way through banks. In that case, the future of microfinance as alternative finance may need to be reconsidered. Such an experiment with banking services, and the regulation of microfinance for orderly growth, seems to bring about a conflict of interest in future, and the policy direction of government in the area of rural credit look more confusing. Whatever may be the fate of the microfinance sector, a lot of debate need to take place before the bill in its present form gets approved in the parliament.

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Microfinance in India: Issues in Sustainability

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Abstract

This paper delves into the concept of sustainability of microfinance and factors threatening it. It is argued that sustainability is a broader concept than is normally discussed in literature. Challenges that microfinance face are its ability to maintain its unique features, institutions and systems to remain focused while ensuring sustainability. There are several deviations from the desirable practices promoted by members as well as other programme partners that threaten its sustainability. A complex set of incentives operates pushing the programme to lower standards. The very fundamentals of the programme such as informality, member-orientation and member education and empowerment are being diluted by attempts to implant target orientation, urge to get projected, over-cautiousness, archaic systems, procedures and rules from the mainstream finance and rural administration machinery as also non-governmental sector. Proper education of SHG members and refraining from making unhealthy interventions (policy or otherwise) is crucial for the sustainability of microfinance.

The findings of this paper have implications for growth of microfinance in a healthy and sustainable manner. They are important due to adoption of SHG mode of delivery under different government schemes. Moreover, if the SHG movement is to be prevented from following the path of a large number of moribund co-operative credit institutions, this is the right juncture to inculcate in them the best practices to make them sustainable.

Proper education of SHG members and refraining from making unhealthy interventions is crucial for the sustainability of microfinance.

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The Focus

Microfinance has made tremendous inroads into the Indian society, creating perceptible impact on the lives of the rural poor. As it grew in scale and scope, it left several footprints behind. At all junctures in its evolution, critics and fans have equally expressed concern about its sustainability. However, the issues of sustainability have attracted lesser attention than they deserved compared to the issues of socio-economic impact, scaling up, forming federations, innovations, regulation, etc. However, sustainability issues are very important and should be addressed right at the design stage itself. Otherwise, there is a danger of the movement imploding.

Of late, there is an added interest in the sustainability of the microfinance (see for example, Mahajan, 2008; and Srinivasan, 2008). Sustainability has a tradeoff with the outreach. Improving outreach, which is an avowed goal of any microfinance intervention, and building a sustainable organisation need to be balanced. Sustainability has different connotations for different stakeholders when applied to microfinance. Depending on the connotation, one has to measure it and ensure it. Sustainability of institutions is often measured using the Subsidy Dependence Index (SDI) (Yaron, 1992). SDI indicates the percentage increase in interest rate needed to make an institution free from subsidies and other concessional support. Hence, it gives only one facet of the problem of sustainability. Many studies have concentrated on the organisation and financial sustainability, ignoring other important dimensions.

In this context, we examine, in this paper, the concept of sustainability as applied to microfinance in its various dimensions and identify practices that threaten it.

The Approach

The paper is based on the information collected during different field visits to some of the districts of Andhra Pradesh, especially, Nizamabad, East Godavari and Medak. Further, we have made use of relevant literature on microfinance to present the issues in the right perspective. Our focus was to understand sustainability and identify the factors that threaten sustainability and to highlight the best practices. Unsafe practices may be internal to the microfinance architecture or may impact from outside. For example, a government policy change may adversely affect the SHG functioning even when SHGs continue to follow safe practices. This paper identifies internal as well as external factors, which may not be safe for the microfinance at large.

Understanding Sustainability

The concept of sustainability means different things to different interest groups. Sustainability, in microfinance literature, generally refers to the ability of MFIs to repeat loans over time. In other words, the income generated from business operations should be able to cover the costs incurred. The simple rule of sustainability is that income should be greater than or equal to costs. That is:

Income from loan portfolio + other income ≥ cost of borrowing + other expenses

This is referred to as substantial financial sustainability, i.e., ability to cover costs - start-up as well as management costs - through profits and subsidies. Financial self-sustainability, on the other hand, has to be achieved without recourse to the subsidies (grants and soft loans). This approach does not consider subsidies desirable in microfinance. An MFI has 4 types of costs:

1. Operational costs,
2. Inflation costs,
3. Loan loss provisions and currency risk loss provisions, and
4. Financial costs.

Financial self-sufficiency is of three types depending on the extent of coverage of different costs of an MFI. An MFI is considered *Operationally Self-sufficient* if its revenues cover operational costs. A *Fully operationally self-sufficient* MFI has revenues that can cover costs at Sr. No. 1 to 3 listed above. If an MFI can cover all the 4 costs mentioned from its revenues, then, it is a *Fully Financially Self-sufficient* one (Vento, 2007).

Sustainability per se does not mean anything unless it is combined with the performance of the microfinance programme. An important performance indicator of a microfinance programme is its outreach. Literature on microfinance is replete with the debate on sustainability vs outreach. The proponents of the outreach as the primary goal of the microfinance programme, known as poverty camp, argue in favour of covering the poorest of the poor and do not mind subsidies. The sustainability camp, on the other hand, is in favour of covering a full spectrum of the poor and does not favour subsidies. This camp advocates role of private sector equity in the growth of microfinance. The crux of the debate appears to be on the question of subsidies (Rhyne, 1998).

There are several dimensions of outreach. Depth refers to the social value of supplying microfinance services to particular clientele (e.g., the poor). Quality reflects the value of a given microfinance product to the client, to be compared to the cost of the product to the client. Breadth refers to the number of clients of a given depth reached with a product of a given quality and cost. Variety refers to the range of products supplied by the micro finance organisation (MFO). Length defines the time frame over which this happens (Navajas et al., 1998). The last dimension is, in fact, about sustainability. That is, sustainability can also be viewed as one of the dimensions of the outreach of a microfinance programme. The acrimonious debate on sustainability vs. outreach was largely due to lack of appreciation of this aspect. There is only one objective of microfinance- outreach. Sustainability is but the means to achieve it.

In fact, everyone involved in microfinance shares a basic goal of providing credit and savings to thousands or millions of poor people in a sustainable way (Rhyne, 1998). Sustainability, in simple terms, means the ability to reach goals in the short term without impairing the ability to meet goals in the long term. Thus, two dimensions of sustainability emerge - length of flow of services from an MF programme and the elimination of subsidies (i.e., coverage of full costs out of revenues).

Mahajan (2008) discussed the sustainability in greater detail in Indian context. According to him there are four dimensions of sustainability.

a. Sustainability in demand,
b. Financial sustainability,
c. Organisational sustainability, and,
d. Sustainability of the mission of MFIs.

Sustainability of demand for the microfinance services is threatened due to high rates of interest charged by them in comparison to formal credit. It is often argued that the rates of return from petty activities financed by MFIs are much higher justifying higher interest rates. However, the scale of operation of such activities is very low yielding a meagre income for the households that is not enough to push them above poverty line. Thus, the demand for microfinance cannot be sustainable without greater economic development of the households (Mahajan, 2008). Sustainability from supply side also is important in this context. If average loan per SHG member has to treble from present levels of about Rs 3000, would banks be willing to commit huge chunk of resources to meet the demand (Srinivasan, 2008)?

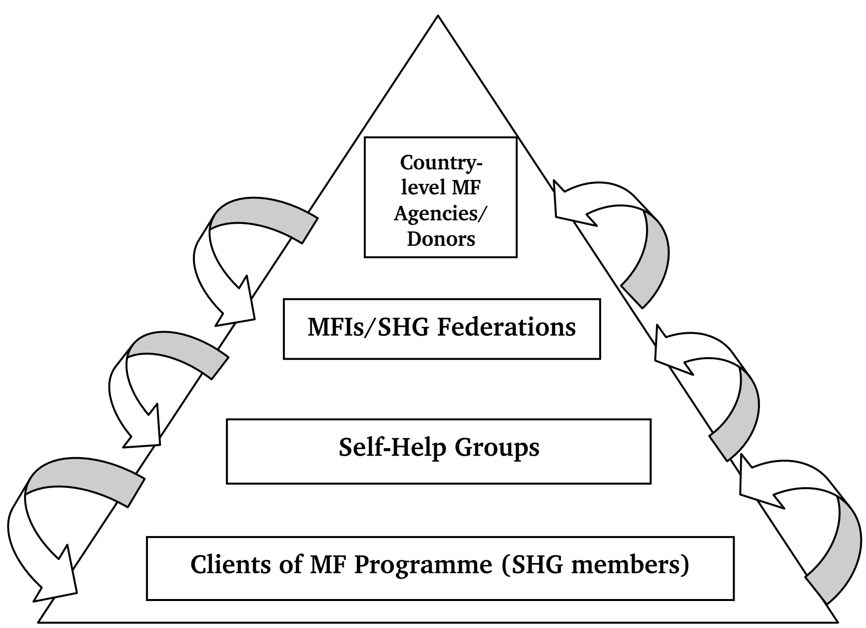
The other justifications for charging higher rates of interest are that demand for microfinance is inelastic and that clients are willing to pay higher interest rates if access is assured. This high interest rate policy may boomerang as it happened in Andhra Pradesh in 2006 where the state government took serious action against two prominent MFIs on charges of usury and wrong recovery practices (Shylendra, 2006). Three factors must be mentioned here. First, the demand may not be inelastic anymore as there are better alternatives for sourcing credit, especially in Andhra Pradesh. Second, the hiatus between rates charged by MFIs and by banks under 'pavalavaddi' (cheaper credit policy of AP government) increased causing heartburn among clients of MFIs. In such circumstances, it is difficult to expect people to stick to ideology and philosophy of MFIs. Third, MFIs enamoured by the neoliberal thinking imported from abroad that full financial sustainability has to be achieved by all means and conduct operations without subsidies charged high rates of interest ignoring the local market realities (Shylendra, 2006). The fact remains that it is hard to achieve full financial sustainability in the strict sense (Vento, 2007).

Financial sustainability, the second dimension, has been discussed earlier and has to do with controlling costs and minimising bad debts. Though charging higher interest is often advocated for attaining financial sustainability, cutting down costs can be an alternative option (Jayaraman, 2001). Controlling costs may be possible through adoption of information and communication technologies, as some experiments in the field have demonstrated. However, due to prohibitive capital costs of such technology, their adoption requires very high scales of operation. It is a formidable task in itself. Group mode was adopted either through SHGs or Joint liability Groups (JLGs) for cashing on peer pressure to reduce the loan default. The USP of micro-credit programme is its excellent repayment performance. Resorting to force to recover loans by MFIs in Andhra Pradesh is an issue for introspection on whether the peer pressure has lost its magic or not properly built in the groups due to adverse selection of the group members. Important parameters to be considered here are the type of institution or entities that are to be subjected to the litmus test of financial sustainability and the time frame for achieving it (Jayaraman, 2001).

The third dimension according to Mahajan is the organisational sustainability of MFIs that is influenced by the ownership, governance and management patterns. As the MFI grows in scale and attracts capital from mainstream investors, the focus may get shifted from the poor. Bancosol's dilemma, once it achieved significant expansion, can be cited as a case in point.

The fourth dimension is the sustainability of mission of MFIs, the loss of which is described in literature as 'mission drift.' That is, MFI should pursue its original mission of helping the poor with financial access without the temptation for profiteering, if it were to be sustainable on this count.

Figure: Schematic Representation of the Structure of Microfinance Programme



In the literature, discussion on the sustainability of SHGs and their members who form the base of the entire microfinance programme is rare with the possible exception of a few like Srinivasan (2008) who talked about sustainability of SHGs. In fact, the sustainability of the Self-help movement should be the focus. The structure of the microfinance programme in the country can be represented in the figure (P.160).

The arrows represent fund and information flows. The diagram shows clearly that unless the funds and information flow is smooth and balanced the entire structure cannot be sustainable. Clearly, there are conflicting interests among various tiers/ segments wherein attempting to be sustainable at a given level, say MFIs, is bound to disturb the outreach and sustainability at other levels. Different models of SHG linkages are co-existing and each offers different cost structure. Many studies assessed the comparative cost of loans to borrowers under different models of SHG linkage (Yadav and Kumbhare, 2008). Further, a sustainable MFI does not mean anything if it is doing business with a host of sick SHGs and troubled clients.

It may be mentioned here that Fernandez (2006) has dealt with the sustainability concept in a different perspective. According to him, MYRADA always focussed on the sustainability of impact on individual members of Self-help Affinity Groups (SAGs) and not on the sustainability of SAGs themselves. SAGs are expected to fulfil current needs of members and, thereafter, remain and evolve to meet emerging requirements under changing circumstances or dissolve having served their purpose. Sustainability of SAG is understood in terms of its effective performance for 6 to 8 years - which is the period that is required for capacity building and empowering processes to be personally experienced by each member, having gone through 5 to 6 loan cycles with progressive loan amounts. Sustainability of SAG is not mere continuation of its operation through several years, but maturing over time so as to get transformed into a well managed transparent, democratic and professional institution. The expectation that SHGs may graduate from consumption groups to a group of micro-entrepreneurs may be a reflection of this. Hence, sustainability implies growth and differentiation.

To sum up, covering costs from revenues with or without subsidies is sustainability though targeting zero subsidies is considered ideal, as it would minimise the opportunity cost for the society. This would enable the microfinancing agencies to extend their services to the clients for many years. Sustainability of MFIs is important but it covers only one rung of the entire microfinance structure. Besides, sustainability of the impact on SHG members is an equally important aspect. Ensuring sustainability across different levels of the microfinance edifice, however, has internal tradeoffs and overall sustainability needs a balancing effort. Microfinance literature is replete with concerns about and studies on subsidy dependence and financial sustainability of MFIs (Jindal and Sharma, 2001). But, microfinance is not just about financial assistance. Hence, financial sustainability is but one of the necessary conditions. Sustainability of the institutions and the systems that help the microfinance programmes keep ticking is a sufficient condition for ensuring continuation of microfinance. But studies on sustainability of the movement from a broader sense are very few and far between.

Threats to sustainability of Microfinance

The discussion in the remaining part of this paper is based on the perceptions of the authors during their field visits in connection with studies on SHGs, SGSYs and other aspects. Wherever needed, findings of other studies have been used to reinforce certain issues. We highlight the best practices observed as also warning signals perceived. At places, the warning signals may appear to be blown out of proportion, but it is not so; for an unhealthy practice even if found in a single member/group has the potential to trigger a domino effect.

During the implementation and scaling up of the microfinance in the country, several anomalies occurred that were not in tune with the fundamentals of the microfinance. We appreciate that during the process of scaling up of the microfinance programme and formation of more and more new SHGs, original quality and purity of the programme and of the first generation SHGs cannot be maintained. This is true for any other similar programme where pilot runs well and replication does not meet with the same degree of success. One reason is that the officials/personnel running the pilots would have adequate idea about the programme due to training received and their commitment to the cause. But, during the scaling up process, it is difficult to get enough manpower with adequate commitment and understanding of the programme. The programme promoters cannot wait longer for quality manpower due to their compulsions to achieve targets. Similarly, norms and rules would be relaxed due to pressures to perform. Understandably, MYRADA renamed their groups as SAGs to keep them distinct from the SHGs formed under target oriented microfinance programmes. The private/ NGO sector as well as government agencies have their own set of incentives for such relaxations. This is, however, not to disparage the sincere efforts put in by various well-meaning microfinance workers. The idea is only to highlight the forces that, however unintended they may be, the stakeholders unleash during the implementation of the microfinance programmes.

Group formation, Organisation and Linkage

In Andhra Pradesh, DRDA is the major SHPI involved in formation of groups, their nurturing and linking to banks. Commercial banks and RRBs also played active role in SHG-Bank linkage programme. Thanks to the combined efforts of different agencies and the state patronage, the progress of linkage is good putting the state high in the SHG movement in the country (Shylendra, 2006). Mixed groups consisting of a few Hindu and a few Muslim members are active and well organised with healthy group dynamics. This is counter-intuitive, as we normally tend to believe that homogeneity in terms of caste or religion leads to success of the groups.

Group cohesion and sense of belonging was observed in about 60% of the groups visited. Leadership is effective in many groups in a limited sense as members expressed faith in their leaders and vice-versa. Other best practices/features observed in SHGs in Nizamabad district were active involvement of DRDA, GRAM (Gram Abhyudaya Mandali, an NGO) and banks, 'demonstration effect' in motivation of people, compact groups of 10 to 20 members (mostly 10-14 members), 'homogeneity' of groups in terms of class/caste and living place, adequate and simple record format that obviates need for multiple books, adoption of systems for dealing with indiscipline in some groups through imposing fines and expelling the members.

Some of the practices in group formation and organisation that threaten sustainability are listed below:

- Feeling among members that forming groups is another scheme or gateway for more govt. schemes.
- Wrong intentions behind forming groups with subsidy/revolving fund in mind.
- Impatience among a few members about delay in accrual of benefits – expectations about quick/higher returns.
- Absentee membership in some groups.
- More than one member from the same family in many groups. This has serious implication as members may collude to create information asymmetry.
- Non-rotation of leadership and feeling among members that leader has to do all the group work. Rotation of leadership is very important, as each member will understand responsibilities and rights fully after serving as leader (Satyasai, 2003). It was a pity to see an octogenarian woman SHG leader in a bank serving as leader of her group for several years as 'no one else was willing to waste her time' by being a leader.
- Stronger attachment and dependence on NGO/Bank/DRDA staff even after several years of being in SHG.
- Functioning of groups as mere loose association of individuals without the required cohesion and feeling of self and mutual help.
- Members' expectations about subsidy-linked loans and interest waiver, etc., did not augur well with the spirit of self-help.

Record Maintenance

Sneha leaders - volunteers identified in the village mostly maintained the records. They were allowed to accept Rs.30 per month from each group. After launching Velugu programme, a poverty reduction programme implemented through World Bank assistance, these Sneha leaders were trained as animators and a new set of book keepers were identified for maintaining records of up to 40 groups each. Already, a cadre of book keepers has been created in Andhra Pradesh.

In some groups, leaders were maintaining them with the help of their family members. Parallel accounts in small notebooks and obtaining crude demand promissory notes from borrowing members were also observed in some groups. Members were able to keep track of their transactions with the group either mentally or by maintaining accounts in a notebook/reverse side of the calendar.

Records are needed to keep group transactions transparent for members as well as bankers. Since SHG members are not educated enough, the system of records should be so simple that even a villager with basic skills should be able to maintain. Over time, there have been many attempts to bring innovations and sophistication in book keeping system. Three case studies have been reported in Meissner et al (2008), including one where computerised system was adopted. Though such innovations adopted in microfinance delight us, they will not take the movement any further. In fact, they may become counterproductive by creating an obsession for records than microfinance itself.

One important aspect observed in the records of groups was that purposes for which members took loans were mentioned, though members were not aware of it. Nor did they use the loan for the purpose mentioned by book keepers. On further probe, some book keepers confessed that they were doing so on the suggestion of their supervisors as it was considered a good practice. Thus, a conclusion about group transition from consumption to production activities based on such records is misleading. General purpose for which group members take loan, as often reported, is agriculture. This, as luck would have it, came as a blessing in disguise for SHG members as they could become eligible for debt waiver under the Agricultural Debt Waiver and Debt Relief Scheme. The point is books of account are primarily for the members' use. Hence, simpler the record keeping, the better it is.

A few other observations on record maintenance in the groups are as follows:

- Lack of access to services of book keepers and 'Sneha' leaders for several groups mostly due to high groups-to-'Sneha' leaders ratio and partly, due to low mobility of the 'Sneha' leaders.
- 'Sneha' leaders reported lack of training as one reason for not being able to properly educate the groups and maintain records.
- Husbands of group leaders were working as book keepers and minute-recorders

in the meetings – not a healthy practice.

- Records were often not properly maintained and kept up-to-date though many groups were writing their own records, which was a desirable feature.
- Meeting proceedings and loan details recorded at the convenience of the group leaders and 'Sneha' leaders/book keepers, long after the meeting.
- It was reported that new set of detailed records/formats were being introduced and book keepers would have to be engaged for maintaining them.
- In a village in East Godavari district, books were kept with one influential lady (non-member) and not available with the leaders.

Financial Aspects

In general, the groups were saving at the rate of Rs.30 per month, while some groups enhanced it to Rs.50 over time. There were also groups that were collecting even Rs.100. A noteworthy feature was the flexibility in fixing monthly saving rate depending on the season and members' paying capacity. Operation of savings and loan accounts with the banks was regular every month in majority groups.

About 3/4th of the groups received Revolving Fund (RF), which was often shared among the members and, thus, the corpus in the RF was virtually non-existent. In fact, getting RF and subsidy-linked loans appeared to be the ultimate aim for many groups. There were allegations by some groups of being discriminated against due to their political affiliations. Two questions often posed to us were regarding their turn for revolving fund and/or subsidy and about the availability of schemes for activities like milch cattle. Even members of those groups that obtained Rs.10,000 of bank loan per member enquired if loans would be available for milch cattle. This brings us to the question of system of borrowing and internal lending.

One-fourth of the groups interviewed in Nizamabad district received multiple doses of bank loan. Loans were recycled several times only for consumption and loan amount was equally shared. This did not give adequate loan to any member for taking up any income generating activity except for small/petty trade. Easy availability of money leads to higher consumption and higher doses of credit leads to strain in repaying such loans in the absence of additional income. While availing loans for consumption is understandable, especially in the initial years, graduating to production-oriented groups is desirable. There was been no change in the activity of members. Beedi workers and agricultural labour, for example, remained in the same occupation even after several years of being members of the groups. However, the example of some of the Mentrajpally village groups in Nizamabad district may be worth emulating. These were very old groups of 10 years or so and while continuing their beedi making activity, the members supported their husbands and sons to go for activities like kirana shops, auto rickshaw, etc.

A word about enhancing loan limits to SHGs in successive loan cycles would be in order here. During our interactions with bankers in Medak district recently, a couple of observations came to the fore. Firstly, due to recent policy of swapping of loans from private lenders with institutional loans, banks have enhanced loan limits to groups. It was reported that mandal level functionaries were encouraging SHGs to utilise maximum limits; SHGs may find it difficult to repay such loans to banks. Also, they may get into the fold of moneylenders again. Secondly, SHGs are repaying promptly with the hope of getting enhanced loan limit. Once the bank is unable to sanction enhanced loan limits, recovery would suffer.

Unhealthy features/practices observed during the field study in financial dealings are given below:

- Collection of monthly contributions, repayments and loan disbursements outside of meetings and without any witness.
- Irregular operation of savings and loan accounts in some groups.
- Separate identity of borrowings from bank and group corpus is maintained
- Equal sharing of bank loan and revolving fund; relending to needy members and/or non-members often at 36% (normal internal lending rate: 24%)
- Sharing part of or full group corpus, especially revolving fund, instead of augmenting lendable resources
- Some groups remained pure 'money lender' groups using SHG loans for lending to outsiders
- Most groups remained consumption groups. However, members of older groups have borrowed from group for farming needs, RNFS activities, etc.
- Faster repayment by groups due to expectation of higher quantum and local conditions. Some bankers we contacted recently pointed to two aspects in this regard. Firstly, on account of swapping of loans from private moneylenders with bank loans being done as part of government's policy, some SHGs availed of very high doses of loans up to Rs. 5 lakh. Higher the loan amount, greater are the chances of default, as most of the group members do not have suitable income generating activities with favourable rates of return. Secondly, SHGs have been prematurely repaying loans due to the promise of higher doses of loans during next loan cycle. Once the banker makes the groups ineligible for availing loans beyond a limit, the groups' repayment becomes doubtful.
- No monthly repayment discipline for loans taken from group funds. Not even interest was collected monthly. This was the situation in some groups and once

relaxed for one or two members, credit indiscipline becomes the rule.

- All groups were ignorant of the philosophy of SHG approach and enquired about when they would become eligible for loans from banks for different purposes such as milch animals. This was largely true for most SHGs under all models. During a recent interaction with a group of women trained in tailoring under non-farm sector promotional programme, these women enquired about possibility of getting loan for sewing machine under some scheme or the other. They did not want to use loans obtained from the group for this purpose. Nor did they want to take separate loans from banks on group guarantee. A telling comment on the effectiveness of inculcating self-help philosophy among them.

Subsidy - linked loans

Under Swarna Jayanthi Swarojgar Yojana (SGSY) subsidy-linked loans are given to groups and individuals with primary focus on the former. The success of SHGs prompted adoption of group approach in this government-sponsored programme. Dairy was the preferred activity under SGSY followed by kirana. Milch animals (buffaloes) were preferred even under individual loans. Tie and dye, auto rickshaw, small transport vehicle and carpentry were other activities supported. Though loans were given to the group, activities were undertaken individually, leaving group mode of lending redundant. Subsidy was shared immediately and responsibility of repayment of loan shifted to member(s) operating the unit. As a result, units were facing problems of under-investment and working capital shortage. In most cases, the activity of the borrowers was not the same for which they had been trained. Thus, SGSY groups manifested forced cohesion among a group of individuals with common activity but without a common purpose.

Refreshingly enough, as against popular misconceptions, best practices were observed in case of SGSY and other subsidy-linked loans too. For example, in Vellutla village, five individual SGSY borrowers pooled their buffaloes in a single shed and shared the work in a true group spirit reaping the synergy. Similarly, in another village near Kotgir, 6 individual borrowers were pursuing tie and dye work in group spirit. In Bheemgal village (Nizamabad district), one animator had guided her groups in using the subsidy-linked loans effectively. Subsidy loans (such as 'Swarnima') were given to one individual who had to run some activity and pay back loan and subsidy but at 12% per annum instead of usual 24% rate. After full repayment, when the group corpus increased, another member was given substantial financial assistance. Similarly, in one group, two members had their own activities, viz., beauty parlour, kirana shop, at the time of the field study. The same group was then set to run cloth business as a group activity with equal sharing of profit/loss and with a provision of wage payment to the managing member.

Agency related and other issues

Banks were in general upbeat about the linkage programme. Firstly, they were happy to deal with smaller number of accounts but at the same time covering larger clientele base. Secondly, recovery was excellent at around 90%. Some of the branch managers could get back sticky loans given earlier to the family members of SHG members, who exerted right kind of pressure on the defaulters. In case of loans given to SHGs, DCCB branches were recording purpose and getting an undertaking from the members that they would use the loan for the given purpose. This was against the SHG principle that identification of purposes and internal loan allocations should be the prerogative of the members. For example, in one case, the loan purpose was buffaloes and the bank obtained undertaking from the group that they would go for murrah buffaloes. Banks fixed their own norms of loan period and repayment period without following any scientific approach.

Certain practices, followed by financing and other agencies concerned, cutting across schemes and programmes are highlighted below. Some of these practices are definitely not in tune with the spirit of the schemes and, hence, may have to be corrected.

- Banks sanctioned loans to SHGs disregarding loan-to-savings ratio norm. To the extent the loan amount was fixed by the branch manager based on his intimate assessment of the group, it may be understandable, although in was violation of prescribed norms. Bankers should understand the direct relation between leverage and financial risk.
- Part of the bank loan was withheld by some commercial banks in the form of fixed deposits. This was not warranted since this reduces lendable resources available with the group. Even some MFI were indulging in this practice besides other undesirable practices like charging flat rate and withholding first instalment from the loan disbursed.
- RRB insisted on guarantee from local people with property and the DCCB took on hypothecation the land of one of the members for subsidy-linked group loans. This is against basic tenets of group guarantee, Self-Help and peer pressure of SHG movement.
- Loan sanctioned to groups was set off against dues outstanding in the name of the family members of one or more group members instead of showing tact in utilising 'peer pressure' element in getting back old and sticky dues from family members of SHG members
- Release of subsidy by DRDA was getting delayed even after grounding the units under SGSY. Some banks were debiting interest on subsidy also in such cases.

- Involvement of PACS in SHG programme was notably non-existent. This issue needs careful consideration.
- Some units in Nizamabad DWCRA Bazaar were closed and outstanding dues were shown against various shop keepers in the Bazaar. While recovery of dues may not be a problem as asserted by DRDA and RRB staff, reasons for closure should be explored for learning lessons.
- *Apna Bazaars* were established in Nizamabad district through involvement of SHGs (through MACS) and this needs caution in view of doubts about demand due to availability of ample number of retail shops across the district and 'elite' orientation of *Apna Bazaars*. Though these bazaars were intended to provide market for packed foodgrains and other products of SHGs in the district, the concept of '*Apna*' (own) is difficult to find in this venture as bazaars were involved in selling '*paraya*' (other's) products especially those produced outside the district on commission. It remains to be seen whether local products can be subjected to quality control and at what cost to enable them to be sold through these bazaars. In fact, proximity to Hyderabad is a plus point for products of this district.
- Members who got training were willing to take activities such as agarbathi, papad expressed that they felt hesitation in taking their product to different retailers. Networking supply units and outlets are important in this context. It is noteworthy that DRDA gave brand names to their district products to give them an edge in marketing. However, such efforts failed to give a boost to these local products due to lack of continued interest of DRDA as a result of frequent transfers of the top officials. These efforts need to be sustained for real benefits to occur to SHG members.
- Members are used for political rallies and other public demonstrations.

Infrastructure and Marketing Support

For any programme like microfinance to succeed, proper and adequate infrastructure is a must, especially, when groups are graduating into group of micro-entrepreneurs. The crucial one is marketing support. Realising this, district administration in different districts has been giving support to SHGs in different forms. In East Godavari district, DRDA implemented two projects one for textiles and the other for coir products. SHG members could engage in ready-made garments making and coir rope and mat making activities. The DRDA extended backbone support to the groups in terms of state-of-the-art training, sewing and coir rope making machines, common facility centres, marketing outlets, marketing agents and so on. Detailed analysis of these projects can be seen in NABARD (2005). These two high profile projects were short lived in spite of their potential to channelise the energies of SHG members in a positive way. A few shortcomings of the projects are:

1. The interested members from the existing groups were organised into Mutually Aided Cooperative Societies (MACS) with federations at higher levels with a governing board of representatives of MACS at district level. Interview with the District-level Board Chairman of textile project revealed that the entire management was handled by DRDA and the women at the top did not have any idea of how to manage the work. Similar things happen even when NGOs are associated with such projects. This develops a dependency syndrome, mostly mutual, which is not conducive to the capacity building of the groups.
2. As some members could do well subsequently, others left behind in the original SHGs developed jealousy. Even among those involved in the textile project, there were complaints that some of them were trained in paying skills like cutting while the others were not.
3. There were expectations from the members, who should have displayed self-help, that their taking up the activity is for DRDA and hence, were expecting the latter to supply raw material and take back the products.

SHG Federations

SHG federations have been formed in different parts of the country as way of imparting sustainability to SHG operations (Pereira, 2006). As a routine, federations were formed everywhere and from our interactions with SHG members, their justification and effectiveness is not enthusing. As Harper (2003) rightly opined, creating an additional layer has its own problems and is not warranted unless it adds more to the value than to the cost. Definitely, federations are going to add to the cost to the borrowers and experience with cooperatives in the country does not support federations. Further, good network of banking institutions to provide finance to the groups discourages formation of another set of institutions for the same purpose. We have enough of them.

Concluding Comments

The discussion in the paper reveals that sustainability has to be understood in a broader framework than mere financial sustainability of MFIs alone. A balance has to be struck in targeting sustainability of institutions at different levels of the microfinance network as it can have impact sustainability at other levels. Further, microfinance needs to maintain its unique features, institutions and systems to remain focused. There are several deviations from desirable practices observed in the field that threaten sustainability of SHG movement as a whole. Members as well as other programme partners promote the deviations. A complex set of incentives operates everywhere to push the programmes to lower standards. The very fundamentals of the programme such as informality, member-orientation and member education and empowerment are being diluted by attempts to implant target orientation, urge to get projected, over-cautiousness, archaic systems, procedures and rules from the mainstream finance and rural administration machinery as also non-governmental sector. One often gets doubt as to whether groups exist for the promotional machinery or vice-versa. Women organised into SHGs generated lot of hope and expectations in the country and in practice what is happening is corrupting their discipline intentionally or unintentionally. Right education of SHG members and restraining from making unhealthy interventions (policy or otherwise) is crucial for sustainability of microfinance.

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