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The microFINANCE REVIEW

Journal of the Centre for Microfinance Research

- MICRO-FINANCE AND FINANCIAL INCLUSION
- MICRO-FINANCE AND WOMEN EMPOWERMENT
- SUSTAINABILITY OF MICRO-FINANCE OPERATIONS AND OTHER ISSUES

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LUCKNOW, INDIA

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Message from Shri. Umesh Chandra Sarangi, IAS*

There is a need to make the broader picture of the sector, clearer and sharply focussed for the stakeholders, policy makers, investors, bankers, practitioners.

The last decade has witnessed exponential growth in the microfinance sector of our country. However, the micro-Finance sector as a whole in India is highly decentralised and fragmented and the growth in this sector is witnessing increased diversity in terms of operating models, legal forms, outreach to clients, regional imbalances, etc. A lot of literature, documentation as also research findings are available on the microfinance sector. Yet, there is a need to make the broader picture of the sector, clearer and sharply focussed for the stakeholders, policy makers, investors, bankers, practitioners.

In the above context, a Centre for Microfinance Research (CMR) was set up within Bankers Institute of Rural Development (BIRD), Lucknow during 2008 to take up research activities in the field of microfinance for facilitating policy initiatives and improvements in design and delivery system of microfinance services.

I am happy that the CMR, BIRD has come out with the inaugural issue of its six-monthly Journal 'The microFINANCE REVIEW' containing research based articles on a wide range of topics in the arena of microfinance. I am sure that the articles in the Journal will be immensely useful to Policy Makers, Bankers, Practitioners, and Researchers in the field of microfinance.

Wishing all the best.

(Umesh Chandra Sarangi)

* Chairman,
NABARD, Mumbai

*Message from Dr. K.G. Karmarkar**

I am delighted to note that BIRD proposes to publish "The microFINANCE REVIEW", a half yearly journal on microfinance. The growth of the microfinance sector in India since 1995-96 is testimony to its efficiency and outreach in tackling the problems of the rural poor and it is now universally recognised as a model for financial inclusion and also a support provider for poverty alleviation. However, despite the best efforts of the RFIs and the MFI sector, the magnitude of financial exclusion is truly staggering. One of the key challenges being faced by policy makers today is to ensure that the growth process is made more inclusive.

The solution may lie in moving away from traditional instruments/processes of credit delivery towards more innovative methods. The microfinance sector today is facing challenges in the areas of upscaling capacity building, upscaling accounts maintenance and financial management. BIRD has set up the Centre for Microfinance Research (CMR) which has started conducting action oriented research. This journal will be a logical step in identifying and addressing solutions to many of these challenges. It will also help in generating informal discussions among scholars, researchers and policy makers on emerging trend and issues. The need to ensure quality articles on a consistent basis, in every issue will be met, by strict quality checks and standards.

I congratulate BIRD on taking this initiative and wish the journal all success.

With best wishes

(Dr. K. G. Karmakar)

This journal will be a logical step in identifying and addressing solutions to many of the challenges in the areas of upscaling capacity building, upscaling accounts maintenance and financial management.

* Managing Director, NABARD, Mumbai

CONTENTS

The microFINANCE REVIEW

Objective of the Journal

The objective of the Journal is to promote studies on issues related to the microfinance sector in India and abroad in order to sensitise the policy makers, donors, researchers and others who are associated with the sector. The journal proposes to identify key problems and encourage debate in the microfinance sector on issues such as socio-economic empowerment, institutional arrangements and innovations in microfinance products with special focus on rural clients.

Emerging Issues in Rural Credit

- Dr. K.G. Karmakar[1] and Shri N.P. Mohapatra[2]

As banking services are in the nature of essential public services, availability of banking, funds transfer and payment services to the rural population without discrimination, is the prime objective of public policy.

Introduction

From the mid-sixties onwards, various attempts have been made to address the issue of endemic poverty in India. Inspite of various efforts, poverty alleviation still remains an elusive goal. The infamous Bengal famine or Naanka famine still haunts the memory of affected States such as Bengal, Bihar and Orissa. In the KBK (Koraput, Bolangir and Kalahandi) region as well as other tribal areas, even the sale of children remained at times a means to the survival of families in times of famine due to natural calamities. In Bastar and Kanker areas of Chhattisgarh, the barter economy still exists as the tribals exchange baskets of fruits for salt and kerosene. Inspite of a wide net work of banks and other formal and informal credit systems, it is estimated that 70% of the population are excluded from the financial system. This paper attempts to study the initiatives taken over the last 60 years in the country to ensure outreach of the banking system for the last mile clients.

The Committee on Financial Inclusion, 2007 (Dr. Rangarajan Committee), defined Financial Inclusion as 'the process of ensuring access to timely and adequate credit and financial services by vulnerable groups such as weaker sections and low-income groups at affordable costs'. Financial inclusion thus enables delivery of banking services at affordable costs to the vast sections of disadvantaged and low-income groups. Unrestrained access to financial services is one of the advantages of an open and efficient society. As banking services are in the nature of essential public services, availability of banking, funds transfer and payment services to the rural population without discrimination, is the prime objective of public policy.

2 Financial Inclusion in India

The rural households were estimated at 147.90 million,

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2 Assistant General Manager, Financial Inclusion Department, NABARD.

The views expressed here are of authors' own and not necessarily of the organisation they belong to.

out of which 89.35 million (60.4%) were farmer households. Only 48.6% of the farmer households were included either through institutions (Banks, Cooperative Societies, Government) or through non-institutional sources (Agricultural/professional moneylenders, traders relatives, friends, doctors, lawyers, etc.). The most important source of loans in terms of percentage of outstanding loan amount was from banks at 36% followed by moneylenders at 26% and cooperatives at 20%.

From the region-wise data on inclusion of farmer households, it is very clear that there is inclusion disparity between various regions of the country. Inclusion is higher than the National average (48.6%) for the Southern Region [72.7%], Western Region [53.8%] and Northern Region [51.4%]. In the case of Eastern Region [39.9%] and Central Region [41.7%], inclusion is less than the modest National average of 48.6%. It is the lowest for the North-eastern Region [19.7 %]. Thus, there is a clear divide between Southern, Western and Northern regions on the one side and Central North-eastern and Eastern region on the other. A similar trend is witnessed if we consider only institutional inclusion with the Northeastern region having only 21.1% inclusion. This region continues to be the most neglected region under the institutional credit regime.

Many poverty alleviation programmes like IRDP, PMGSY etc. have been launched by the Government of India since 1967. Besides the above measures of the Government of India/RBI, banks have, over the years, developed a number of innovative products and services to provide credit and financial services to the rural poor. The two important initiatives, which were developed, piloted and successfully up-scaled during the last ten years, were "SHG Bank Linkage Programme" and "Kisan Credit Card" (KCC). The Kisan Credit Card, which was introduced in 1998, envisaged delivery of cost effective and hassle free credit by providing production as well as investment credit under a single window. RRBs and Cooperatives have been advised to identify and bring into the KCC fold all farmers, including defaulters, oral lessees, tenant farmers, etc. By the end of February 2007, 650.09 lakh KCCs had been issued, with the Cooperative Banks accounting for the largest share (50%), followed by Commercial Banks (37%) and RRBs (13%). Similarly, the microfinance movement initiated by NABARD in 1992, as an Action Research project, has so far, brought 27.11 lakh groups within the credit fold by 31 March 2007 and has enabled an estimated 395.90 lakh poor households in the country to gain access to microfinance facilities from the formal banking system.

3 Credit Delivery Gaps

However, the country faces many constraints in rural credit delivery. Various supply side constraints such as lack of rural orientation of staff, concern for viability of branches, weaknesses of the Cooperative Credit System, legal impediments, physical outreach, low levels of loan recovery, high transaction costs for banks and demand side bottlenecks such as lack of financial information, lack of awareness, low literacy levels and lack of entrepreneurship, effective cost and pricing of financial products, dearth of suitable credit product, risks faced by borrowers, lack of adequate infrastructure, lack of extension services have come in the way of effective credit dispensation. Various innovations for inclusion of small/marginal farmers, women, weaker sections of society etc. have been tried and the SHG-Bank Linkage programmes, the Joint Liability Group experiments, the micro-enterprise model, microfinance institutions, etc., are all successful models leading to inclusion. These experiments have also emerged as strong models for poverty alleviation. Various cycles of credit injected in ever-increasing doses alone can lead to poverty alleviation for the rural poor, in a sustainable manner. Poverty alleviation is possible only if serious issues like rural livelihoods, entitlements, agro-processing, land/water rights, underemployment issues, supplementary income sources, etc. are given priority. Only then, can a serious assault on rural poverty be possible. These issues need to be tackled and not swept away under the carpet.

4 Extending Financial Services

The broader framework for poverty alleviation can be considered in order to give a bigger canvas for financial inclusion. The strategy to extend financial services to small and marginal farmers as well as vulnerable groups is to be identified, planned and executed. Similarly, the institutional changes required for financial inclusion can be considered which include revamping of Commercial Banks, Regional Rural banks and Coop Credit Structures in India. Issues related to manpower planning, recruitment, transfer and placements, promotion opportunities, incentive for performance, necessary training for change in attitude for financial inclusion need to be focused. Similarly, modernising institutional operations and resolving problems at operational level, need to be examined involving a common technology platform, which need not be on line but could be off-line for RRBs and Cooperative banks.

5 Financial Inclusion And Poverty Alleviation – Twin Approaches

The interventionist approach to banking since August 1947 and in particular the post-nationalisation banking progress since 1969, continued until the end of the 1980s, with adequate attention given by all banks in accelerating the process of socio-economic development in India. The financial sector reforms since 1992 and the emphasis on implementation of prudential norms, i.e., income recognition, asset classification, provisioning norms and Capital Risk Weighted Assets Ratio (CRAR), were instrumental in compelling the commercial banks to concentrate on financial efficiency and economic viability through rationalisation of their operating system, consolidation of their branch network, which resulted in relocation of many bank branches, concentrating on core strengths, reducing surplus staff as also computerisation of operations.

(i) Overall Credit Flow

Over time, the flow of credit to the agriculture and rural sectors has expanded impressively. The ground level credit flow had registered an increase (in real term with 1993-94 prices) from Rs. 13,915 crore in 1991-92 to Rs. 49,401 crore in 2003-04 and further to Rs. 92,125 crore in 2005-06. The estimated annual compound growth in credit to the agriculture sector in real terms was 14.5% (with 14.1% growth in production credit and 14.9% growth for investment credit during the above period). While the annual growth rate in production and investment credit flow (in real terms) during 1991-92 and 2003-04 were 11.5% and 10.5% respectively, their respective growth rates during 2003-04 and 2005-06 were 31.3% and 45.1%. However, the maximum growth in agricultural credit flows were registered during 2004-05 and 2005-06 when agricultural credit was doubled over two years instead of the targeted three years.

(ii) Agency-Wise Credit Flow

An analysis of agency wise credit flow indicates that cooperative banks were the major source of agriculture credit in 1991-92 constituting 53.7% of the total ground level credit flow of Rs.13,915 crore (in real terms with 1993-94 prices) followed by commercial banks at 41.2% (Rs.5,731 crore) and regional rural banks at 5.1% (Rs.712 crore). Though rural credit cooperative banks dominated agriculture credit supply during the early reform period, commercial banks and RRBs also recorded impressive growth rates. As a result, in 2005-06, the share of cooperative banks in the total institutional credit flow receded to 21.9% while that of commercial banks advanced to 69.7%.

Although the quantum of disbursement by cooperative banks increased, it could not keep pace with commercial banks in enhancing credit flow due to several reasons including poor financial health, dual controls, lack of internal controls and poor corporate governance norms besides excessive dependence on other financial institutions.

The reasons for the massive increase in the credit flow for commercial banks and regional rural banks could be attributed to the linkage of self-help groups (SHG) with banks since 1992, introduction of the scheme of Kisan Credit Cards (KCC) in 1998, formulation of the Special Agricultural Credit Plans (SACP) of the public sector banks since 2004-05, and monitoring under the scheme of doubling of credit in 2004-05.

(iii) Size-Wise Credit Flow

Despite impressive growth in direct credit to farmers from scheduled commercial banks between 1991-92 and 2003-04, contrary to expectations, credit disbursement to small and marginal farmers has not been encouraging. However for small farmers and other farmers respectively, the number of accounts increased from 44.4 lakh and

36.7 lakh in 1991-92 to 48 lakh and 43.8 lakh in 2003-04. The percentage of loans to marginal farmers to total farmers came down from 42.8 in 1991-92 to 39.8 in 2003-04, while the same for other farmers increased from 25.9 to 28.7. Further, the average annual growth rate in the number of accounts and the amount of credit outstanding during the period between 1991-92 and 2003-04 was low at 0.62% and 6.2% respectively. One important observation from the above findings is that the credit amount per account had increased without any increase in the number of accounts. Further, increase in credit flow favoured the richer farmers. These disturbing trends need to be checked.

(iv) Region-Wise Credit Flow

While analysing the pattern of credit flow, it is observed that the proportions of bank deposits and credit shares have moved in favour of the Southern, Western and Northern regions. While the share of loans in the total disbursement of credit for agriculture and allied activities was the maximum for the South region (47.9% in 1990-91 and 43.7% in 2001-02), it was minimum for North-east region (0.4% in 1990-91 and 0.5% in 2001-02). The population per rural branch, which was estimated at 16,335 and 16,402 in the North-east and East regions in 1991, increased to 22,158 and 21,208 respectively in 2005 reflecting enhanced inaccessibility to rural branches by the rural population. Further, when the number of savings accounts for every 100 persons in rural areas of the North-east region had shown a marginal rise from 16.1 in 1991 to 16.4 in 2005, during the same period, the number of savings accounts in the Eastern region had declined from 17.7 to 16.9. Similarly, in the case of number of credit accounts for every 100 persons in rural areas, the numbers reduced from 4.4 and 7.2 in North-eastern and Eastern regions in 1991 to 3.2 and 4.2 respectively, in 2005.

(v) Advances to Priority Sector

Although with the rise in net bank credit, credit flow for the priority sector by the scheduled commercial banks had increased in percentage terms, it has remained stagnant at around 36% over the last 14 years. While the net bank credit of the scheduled commercial banks increased from Rs.1,45,250 crore (in real terms at 1993-94 prices) in 1991 to Rs.5,75,090 crore in 2005 at an annual compound growth rate of 10.3%, the advances to priority sector increased from Rs.53,125 crore to Rs.2,05,000 crore at an annual compound growth rate of 10.1%. As a result, the credit flow gap between these two sectors has been widening. Further, the zig-zag trend, i.e., downward during 1991 and 1996 and upward during 1996 and 2005, of the priority sector lending as a percentage to the net bank credit of the banks during the period between 1991 and 2005, shows that no consistent effort has been made to step up advances in favour of the priority sectors. With the new norms for the priority sector announced by RBI in 2007, it is expected that many commercial banks would be able to achieve the targets fixed.

(vi) Credit-Deposit Ratio

The credit-deposit ratio (CDR), which is an important indicator of deployment of resources of the bank, had been showing a downward zig-zag movement during the last 14 years. The deposits and credit of the scheduled commercial banks in rural areas, which were Rs.36,961 crore and Rs.22,168 crore (in real terms at 1993-94 prices) in 1991, increased to Rs.1,09,005 crore and Rs.56,254 crore respectively, in 2005. Thus, the credit-deposit ratios had declined from 60% in 1991 to 51.6% in 2005.

However, the credit-deposit ratios of the banks in urban areas had increased from 62.3% in 1991 to 68% in 2005. When the pattern of the credit-deposit ratios for rural and urban areas are observed, we find that the CDR of the banks operating in urban areas are positioned above the overall CDR and that of rural areas are positioned well below the overall CDR.

While the credit-deposit ratio of the rural branches of the scheduled commercial banks declined during the period between 1991 and 2004, that of urban offices had shown improvement, though somewhat fluctuating during the same period. However, the credit-deposit ratio for rural and urban areas increased from 43.6% and 60.4% in 2004 to 51.6% and 68% respectively in 2005. During the period between 1991 and 2005, while the annual growth rates in the volume of deposits and credit for urban areas were 10.2% and 10.9% respectively, the same for rural areas were 8% and 6.9% respectively. Thus, while in urban areas, the growth rate of credit was higher than that of deposits, in rural areas, the growth rate in deposits was higher than that of credit. This is suggestive of diversion of rural savings into urban areas for lending and investments.

(vii) Branch Expansion

The Indian banking system has acquired a wide outreach capability, judged in terms of expansion of branches and the growth of deposits and credit. The expansion of the branch network peaked in the social banking phase during the 1970s and 1980s. Although the Narasimham Committees had recognised the need for continuing with the expansion of banking infrastructure in rural areas, in the process of executing financial reforms, the importance of rural financial infrastructure has got neglected and the number of branches of the scheduled commercial banks declined steadily in rural areas and increased in urban areas. For instance, in 1991, there were 35,206 rural branches out of the total 60,220 branches of the scheduled commercial banks. But in 2006, while the total number of branches of the scheduled commercial banks was 69,471, the number of rural branches had been reduced to 30,579. Thus, the financial system has become increasingly urban-centric. Urbanized staff members of commercial banks perceive rural postings as a punishment and serve out their mandatory rural postings of 2-3 years rather grudgingly. The Voluntary Retirement Scheme (VRS) in commercial banks has also ensured that rural branches remain under-staffed. Rural postings are avoided because of poor infrastructural facilities, lack of communication, poor transport facilities, lack of good educational opportunities and also due to reduction in perks and allowances.

The trend analysis and stylised facts presented above brings out the fact that financial inclusion by way of credit to rural sectors as also small and marginal farmers is a distant dream and demands evolution of appropriate strategies. This aspect has drawn the attention of the Government, RBI and NABARD in recent years and a series of interventions have been initiated to enhance credit flow in favour of priority sectors and the disadvantaged sections of the society including tribal people. Some of the initiatives have been enumerated in the next section.

6 Recent Initiatives

(a) Government of India and Reserve Bank of India

In order to increase credit flow to the agriculture sector, the policy of doubling of agricultural credit in three years was introduced in 2004-05. In 2004, the Central Government constituted a Task Force to revive the rural cooperative credit institutions under the Chairmanship of Prof. A. Vaidyanathan. In order to expand the outreach of the banking services, banks made available basic banking 'no-frills' account with low or nil minimum balances as well as low or no charges in 2005. The regional rural banks were also specifically advised to allow limited overdraft facilities in 'no-frills' accounts without any collateral or linkage to any purpose.

For opening accounts with banks, procedures have been simplified by introducing the concept of 'Know Your Customer (KYC)' drill. In January 2006, banks were permitted to utilise the services of Non-Governmental Organisations (NGOs), Self-Help Groups (SHGs) and other Civil Society Organisations (CVOs) as intermediaries in providing financial and banking services through the use of Business Facilitator (BF) and Business Correspondence (BC) models. The BC model allows banks to do 'Cash in – Cash out' transactions at the location of the business correspondent and also permits branchless banking. With the objective of providing revolving credit to the rural people, banks in rural and semi-urban areas have been advised to provide a General purpose Credit Card (GCC) facility. For all borrowers having a principal amount of less than Rs.25,000 and whose accounts have become Non Performing Asset (NPA), banks have been requested to offer a One Time Settlement (OTS) Scheme. It is expected that such a provision will restore credit lines and foster a borrowing relationship for small borrowers from the formal credit system and thereby obviates the need to go back to the informal system. In June 2007, a multi-lingual website in 13 Regional languages on all matters concerning banking, was launched by RBI for credit counselling and financial education. In 2007-08, two Funds, i.e., Financial Inclusion Fund (FIF) for promotional interventions and Financial Inclusion Technology Fund (FITF) for meeting cost of technology adoption, have been established with the NABARD.

(b) NABARD

Complementing its core financing and developmental functions in tune with the emerging challenges, NABARD has been pioneering innovative rural interventions for ensuring sustainable development and prosperity. In its long journey towards development of the farm and non-farm sectors through credit and other support services, initiatives such as Potential Linked Credit Plans (PLPs), District Development Offices, Participatory Watershed Development Programme, Non-Farm Sector promotional programmes, Self-Help Group – Bank Linkage programmes, Rural Infrastructure Development Fund (RIDF), Kisan Credit Card (KCC), Swarojgar Credit Card (SCC), Consultancy Services, Tribal Development programmes, Farmers' Clubs, etc have contributed immensely. The initiatives of the Bank centre around (i) exploring innovative investment opportunities, (ii) investing partners for Financial/Technical assistance, (iii) creating infrastructure base, (iv) developing leadership, entrepreneurship and capacity building, (v) educating the rural masses, (vi) building sound network of rural financial institutions, (vii) continuous innovations in rural credit delivery procedures and systems, (viii) credit planning and (ix) supporting Research and Development activities in the areas of agriculture and rural development. In order to augment much needed institutional credit, NABARD included financing of housing in rural areas as an eligible activity for extension of refinance under investment credit to financial institutions since 1 April 2001 subject to a maximum of Rs.5 lakh for a rural dwelling unit. Major initiatives of NABARD, which have had a direct impact on the rural credit delivery mechanism and touched and transformed the lives of millions of rural people, are as follows:

(i) SHG-Bank Linkage Programme

The SHG-Bank Linkage programme, which evolved as a corporate strategy in 1992, aims at improving access of the weaker and other sections of the society to formal financial institutions. It has been built around a simple but basic aspect of human nature – 'the feeling of self-worth'. The ability of people to pool their micro-savings, provide collective social collateral for banks to lend against and add to the SHGs' funds and the collective utilisation of funds to meet emergent credit needs of the SHG members at rates which reflect risks and management cost of funds, are the unique features of this movement which has enabled banks to assist in meeting the credit needs of very poor people without sacrificing their funds and has helped rural women especially to empower themselves both economically and financially. Over the last 15 years, the microfinance initiative of NABARD has passed through various stages like Pilot testing (1992-95), mainstreaming (1996-98) and expansion (1998 onwards) and has assumed the shape of a microfinance movement in the country by linking around 30 lakh SHGs with the formal banking system by March 2007. Further, the programme has enabled an estimated 394 lakh poor households to gain access to funds from the formal banking system. Studies conducted by various experts reveal that the programme has indeed helped in the social and economic empowerment of rural folk, especially women, causing significant up-scaling of social capital while at the same time delivering crucial and much-needed financial services at low transaction costs for both banks and poor borrowers. Today, it has expanded to become the largest microfinance programme in the World in terms of its outreach and has extended financial services to people hitherto under-served by the formal banking system.

(ii) Joint Liability Groups (JLGS)

Inability to provide adequate collateral security is a major hurdle for landless/ tenant farmers in securing bank loans. The inability of this section of farmers to provide collateral often excludes them from the purview of formal credit cover. Keeping this in view, a pilot project on financing Joint Liability Groups (JLG), was initiated for developing effective credit products for such clients, which reduce risk and transaction costs for the banks and also introduce a greater degree of flexibility for the credit user to determine their credit needs and priorities. Joint Liability Groups (JLG), to be established under the pilot project, will be a group of 5-10 member clients who are together informally recognised by the bank as a group. The group members offer an undertaking to the bank that enables them to jointly receive such amounts as deemed eligible by the bank for pursuing any activity, individually or jointly, as found suitable by the group. The group serves as collective guarantor for loans extended to individual members by executing joint liability agreements, making them severally and jointly liable for repayment of loans to the group. Although the JLG credit model was pilot-tested for mid-segment farmers, the concept has been extended to tenant farmers/ oral lessees/sharecroppers also.

With a view to promoting the scheme on a large scale, banks are allowed to adopt "Agency Model" by involving civil society organisations, NGOs, Farmers' Clubs, Village Knowledge Centres, Panchayats, various User Groups such as Water Users' Associations, etc. Their services could also be made use of for performing various non-financial functions for the bank such as borrower identification, preliminary appraisal, promotion, loan recovery and nurturing of JLGs, etc.

(iii) Financing Rythu Mitra Groups

An approach similar to TFGs or JLGs was also adopted in Andhra Pradesh, with the initiative of the State Government. The programme called Rythu Mitra Groups, which envisages bringing about holistic development in the lives of small/marginal/ land less farmers through collective action. RMGs are expected to serve as a conduit for technology transfer, facilitate access to market information and markets, assist in carrying out activities like soil testing, training, health camps, assess input requirements, etc., for its members. NABARD provides resource and grant assistance for conducting training and capacity building initiatives for different stakeholders. During 2007-08, 4437 RMGs were financed by 18 commercial banks, 9 RRBs and 9 DCCBs involving ground level credit flow of Rs. 28.11 crore. About 62,000 farmers have been assisted under the pilot project.

(iv) Kisan Credit Card Scheme

During the year 1998-99, NABARD introduced the Kisan Credit Card (KCC) Scheme in conjunction with cooperative banks, commercial banks and regional rural banks to smoothen and strengthen the credit delivery system and more particularly, to make available timely and hassle-free crop loans to the farmers. As on 28 February 2007, 665.6 lakh KCCs had been issued by the banking system. Of the total 665.6 lakh cards, the cooperative banks accounted for the largest share of 49% followed by commercial banks (38%) and regional rural banks (12%). Recognising it as an accepted mechanism for delivery of credit to farmers, the banking system has been routing crop loans through the Kisan Credit Cards. To cover the KCC holders against accidental death/permanent disability and partial disability upto Rs.50,000 and Rs.25,000, respectively, an insurance scheme was formulated by the General Insurers' (Public Sector) Association of India (GIPSA) in close co-ordination with the NABARD. Banks have been implementing the scheme with effect from the Kharif 2001 season. All the KCC holders are required to be covered under the scheme by payment of a nominal premium amount. With a view to making KCC more user-friendly and comprehensive, NABARD has further enlarged the scope of the Scheme to cover long-term loans and consumption loans along with crop loans.

The joint studies conducted by NABARD and the financing banks on implementation of the KCC Scheme have confirmed that the Scheme was well received both by farmers and bankers and the flexibility in operations has resulted in improved loan recoveries. For many banks, some ground level constraints like adoption of selective approach in identifying beneficiaries, reluctance to extend KCC facility in mono-crop areas, levy of costly service charges and levy of stamp duty by some of the State Governments for issuing loans under KCCs, were observed.

(v) Swarozgar Credit Card (SCC) Scheme and other Card

The Swarozgar Credit Card scheme was introduced in 2003 for facilitating hassle free availability of credit for meeting investment and working capital requirements of self employed and rural micro-entrepreneurs. As on 31 March 2007, the banking system had issued 6.79 lakh cards involving credit limits of Rs.2,700 crores. However, offtake is low. Pilot studies on the family credit requirements through the General Credit Cards (GCC) and the Tatkal scheme by Reserve Bank of India (RBI) and NABARD, have had limited success and need to be suitably upscaled.

(vi) Rural Infrastructure Development Fund

With the objective of quicker completion of ongoing rural infrastructure projects, the Rural Infrastructure Development Fund (RIDF) was set up with NABARD during 1995-96 with an initial corpus of Rs.2,000 crore. In the Union Budget for 2006-07, the XII tranche for RIDF was announced with an allocation of Rs.10,000 crore raising the aggregate allocation to Rs.60,000 crore. As on 31 March 2007, the cumulative number of projects sanctioned rose to 2,44,025 while the amount sanctioned increased to Rs.61, 539.87 crore. Although initially it was meant mainly for incomplete projects in irrigation, rural roads and rural bridges, its scope has now been extended to cover major infrastructure projects in various sectors like irrigation, roads, bridges, power, market yards, go-downs, cold storages, information technology, primary education and health systems.

7 Issues and Concerns

(i) Financial Exclusion

The Situation Assessment Survey[1] (NSSO, 2003) indicated that out of the total 89.3 million farmer households in the country, 84% (750 million) households were small and marginal farmers and more than half (51.4%) of the total households were non-indebted. Further, out of the total 43.4 million indebted households, 20.3 million (46.8%) households had availed of financial services from informal sources. The inference of these findings is that inspite of a large branch network of the institutional credit system, it has not been able to adequately penetrate the rural financial markets and non-institutional sources continue to play a dominant role in purveying the credit needs of people residing in rural areas. The results of the All-India Debt and Investment Survey (AIDIS, 2002) also indicate that the share of non-institutional sources in the total credit of the cultivator households, had increased from 30.6% in 1991 to 38.9% in 2002.

(ii) Slow Down of Credit Flow to Rural Areas

The ratio of rural lending to total lending has been steadily declining during the 1990s. In 1991, the total credit of the scheduled commercial banks, in nominal terms, had increased from Rs.1,21,865 crore, to Rs.15,13,842 crore in 2006. However, the share of rural areas in the total deposits and credit of the scheduled commercial banks, which were 15.5% and 15% respectively in 1991, decreased to 10.8% and 8.3% respectively in 2006, reflecting the inability of rural areas to absorb or generate comparable level of funds for developmental purposes.

(iii) Declining Flow of Credit for Agriculture Sector

While studying the flow of institutional credit to agriculture sector during the period between 1991-92 and 2005-06, an impressive growth in both production and investment credit has been observed. However, the pace of sectoral growth had definitely been accelerated during the operation of the scheme of doubling of credit. Production credit, which was 60.7% of the total credit flow of Rs.13,915 (real terms) in 1991-92, had declined to 58.5% of the total credit flow of Rs.92,125 crore (real term) in 2005-06. It is also a concern that although the cooperative banks are in close proximity with the rural people, the share of cooperative banks in the total credit flow for agriculture sector had declined from 53.7% in 1991-92 to 21.9% in 2005-06. Further, the share of the regional rural banks in the total credit flow had increased from 5.1% in 1991-92 to only 8.5% in 2005-06, when with the existing branch network of over 14,494 branches, they could meet the credit needs of 25% of the rural areas.

(iv) Neglect of Small and Marginal Farmers

During the period between 1991-92 and 2003-04, while the number of accounts for marginal, small and other farmers had increased at annual rates of 0.03%, 0.65% and 1.48% respectively, the credit flow to the respective categories of farmers had increased at 6.71%, 6.73% and 5.7%. Overall, during 1991-92 and 2003-04, while the annual increase in the number of accounts was 0.62%, the increase in the amount of credit outstanding of farmers was 6.2%. Thus, during the last 10 years, although there is no meaningful increase in the number of accounts in favour of farmers, there has been a meaningful increase in the volume of credit outstanding of the farmers. Further, during the period between 1991-92 and 2003-04, the percentage of the number of accounts with marginal farmers had been declining and that of other farmers had been increasing. For instance, the share of marginal, small and other farmers in the total number of accounts, which were 42.8%, 31.3% and 25.9% respectively in 1991-92, reduced to 39.8%, 31.5% and 28.7% for the respective category of farmers in 2003-04. Thus, over time, while credit deepening has taken place, credit widening has not yet been effectively addressed. Alternatively, it could be stated that farmers have become more prosperous, migrating to the better off categories.

(v) Falling Advances to Priority Sector

Over the years, priority sector lending as a proportion of net bank credit has been falling. For the public sector banks, priority sector lending as a percentage to net bank credit had decreased from 41.8% in 1991 to 40.3% in 2006. In the priority sector itself, the shares of agriculture and small-scale industries had decreased from 40.7% and 39.1% in 1991 to 37.7% and 20.1% respectively in 2006. While in 1989, it had been stipulated that all banks need to provide 18% of their net bank credit for the agriculture sector, by March 2006, only 10 public sector banks and one private sector bank had achieved it. Similarly, only 8 public sector banks and one private sector bank had met the sub-target of 10% of the net bank credit for weaker sections.

(vi) Reduction in Rural Bank Branches

In spite of the process of financial reforms in the country, the total number of bank branches of the scheduled commercial banks had increased from 60,220 branches in 1991 to 69,471 branches in 2006, at an annual rate of 0.96%. While the number of bank offices in urban areas had increased from 25,014 branches in 1991 to 38,892 branches in 2006 at an annual rate of 2.99%, the number of branches in rural areas had declined from 35,206 branches in 1991 to 30,579 branches in 2006 at annual rate of 0.93%. The influence of the declining trend of the bank branches in rural areas had been felt in marginalisation of the disadvantaged sections from accessing institutional credit, especially in the underdeveloped regions of the country. This has to some extent been offset by the SHG-Bank linkage programme, which provided credit to very poor people, especially poor rural women.

(vii) Credit Flow vs. Productivity

Although credit for the agriculture sector has recorded an impressive growth between 1991-92 and 2005-06, no significant change in the value of output has been observed during this period. The relationship between the value of input and the value of output over the last decade has remained more or less the same with the output being less than five times the value of input. It is relevant to note that even at the highest level of production, credit forms around 11% (in real term, at 1993-94 prices) of the total output value. Thus, expecting credit with so little a share in the output value to have any significant impact on the output or productivity values may not be in order.

(viii) Effect of Vaidyanathan Committee On Revival Of Coop Credit Structure

The revival package announced by GOI based on the report of Task Force for Short term Rural Cooperative credit structure (STCCS) had estimated an outlay of Rs. 13,596 crores. Financial assistance was to be provided for cleansing of balance sheets of STCCS (as on 31 March 2005), capital infusion to ensure CRAR of 7%, technical support for capacity building training, development and introduction of common account and management Information Systems and their computerisation. Release of financial assistance was contingent upon certain legal and institutional reforms. So far 18 State Govts have executed MoUs with GoI and NABARD taking the total number to 18 as on 31 March 2008. This covers 95% and 93% of PACS and DCCBs respectively in the country. NABARD released 1307.04 crores as GOI share towards recapitalisation of eligible PACS. Based on the Task Force appointed by GOI for revival of Long Term Cooperative Credit structure Credit structure a draft package has been circulated, prior to finalisation/implementation. For the N.E. Regions, an improved package is being implemented.

(ix) Debt Waiver and Debt Relief Scheme and Its Impact on The Rural Credit Delivery System

An amount of Rs. 65,000 crore has been waived by all banks under the current debt waiver scheme. Out of the above, banks are to take a load of approx. Rs. 7,000 crores and rest is to be provided by GOI. However, even if the farmers have become eligible for fresh loans, agricultural credit disbursement has not been picking up as per expectations. The economic crisis and other credit risks have made bankers more cautious and most of them have preferring the investment route. The Agricultural Rural Debt Relief Scheme, 1990 had affected rural credit flow and it took time for the rural credit delivery system (and two Narasimhan Committees in 1991 and 1998) to adjust by 2000, a long 10 years! The objective of the ADWDR, 2008 in ensuring fresh finance for farmers and restoring choked credit lines, is yet to be met.

8 Emerging Challenges

There has been a long history of concern regarding rural credit flow. The increase in share of institutional credit has been rather slow. The dependence of small and marginal farmers is still very high on non-institutional sources. Besides, the developed regions have greater access to credit as compared with less developed regions.[2] Therefore, the key issue now is to ensure that rural credit from institutional sources achieves wider coverage and expands financial inclusion. As the credit-off-take depends on the willingness and ability of the client to avail of loans (which is a function of perceived returns to investments) and the willingness of the banker to lend (which is contingent on bank's perception and assessment of lending risk), there is a need to address the problems from both the supply side as also the demand side.

While distance from the bank branch, branch timings, cumbersome documentation and procedures, unsuitable products, communication and staff attitudes are some important supply side constraints, lack of awareness, low income/assets and small-sized loan demands are some of the demand side constraints. Further, large number of villages (more than 6 lakh villages), lack of rural infrastructure, vast geographical spread, high transaction costs and poor loan recovery are some other problems faced by banks. In the absence of any alternative, the poor and other weaker sections of rural society depend on the unorganised financial system, which utilises local knowledge, offers credit for a wide variety of purposes and operates quite flexibly, though at high costs and often ends in an exploitative relationship.

One strategy that has achieved great popularity and wide acceptance is that of microfinance. The banks need to involve microfinance agencies and other financial intermediaries, as business opportunities. They must understand, recognise and streamline different activities like retail activities, service sector initiatives, and construction and rural housing that take place in the rural economy, in addition to financing agriculture. However, this needs innovations in risk assessment, reduction in transaction costs, search for new credit channels and the use of cheaper information technology.

Technology is another option. It can be a vital component in integrating strategies for achieving inclusive growth. Its use can be critical in building up a reliable credit information system and database on customers, reducing transaction costs and facilitating better pricing of risk, improving the efficiency of the financial system, and thereby increasing the access of un-banked rural people in an efficient manner. It can reduce the transaction costs sharply and time taken by banks in processing applications, maintaining accounts and disbursing loans. It has the potential to address the issues of outreach and credit delivery in rural areas, in a cost effective manner. But how the IT platform will provide a variety of financial services to the rural clients at affordable costs and in time, needs to be examined.

Access to information is the key to ensure wider participation of all in the process of development. The challenge lies in ensuring easy flow of public information to rural clients. The growing list of innovations in the use of information communication technologies have opened up a new era of information dissemination. Credit counseling, awareness creation and financial education regarding the benefits of financial inclusion are important for effective expansion of financial services in rural areas. To do this, banks may utilise the services of non-governmental organisations, village youth clubs, village Panchayats, farmer clubs and self-help groups.

Banks need to develop an array of financial products and services that are adapted to the needs of the majority of rural people at affordable prices. Interest rate is an important component of cost to agricultural producers and will become more important as backward and forward linkages are strengthened. As per the current interest rate policy of RBI, the interest rate on loans for the agriculture sector by commercial banks are linked to the size of the loan. While commercial banks have reduced interest rates on crop loans up to Rs. 50,000, to 7%, some cooperative banks, for various reasons, have not been able to bring down their rates of interest on lending to any appreciable extent. To ensure competitiveness of Indian agriculture produce in the world market, various Committees have suggested several measures of reducing cost of funds, transaction costs and the risk costs.

Risk management is another option. While farmers suffer from a wide variety of risks like climate risk, price risk, technology risk, etc., bankers suffer from the problem of increasing non-performing assets and losses. These risks emanate from a host of factors including failure of investments, willful defaults, weather aberrations, improper appraisal of loans, diversion of funds, inadequate monitoring and follow up and inability of realise the securities available, are some of the cost drivers, which play a decisive role in determining the rates of interest charged by banks to ultimate borrowers in rural areas. Therefore, if credit risk can be disaggregated into factors like failure of rainfall, price fluctuations, poor health and death of the borrower, these can be mitigated through non-credit financial products like insurance and derivatives. This could also facilitate the banks to provide credit at lower rates.

The revamping of the rural credit cooperative system with the PACS, DCCBs and the SCBs in the short term structure and the PCARDBs and SCARDBs in the long term credit structure, has been long overdue. An estimated Rs.18,000 crore will have to be spent to nurse these institutions into health. All banks under the current debt waiver scheme have written off loans worth Rs.65000 crores. However, even if the farmers have become eligible for fresh loans, agricultural credit disbursement has not been picking up as per expectations. The economic crisis and other credit risks have made bankers more cautious and most of them have preferred the investment route. The Agricultural Debt Relief Scheme, 1990 affected rural credit flow and it took time for the rural credit delivery system (and two Narasimhan Committees in 1991 and 1998) to adjust by 2000, a long 10 years! The current economic crisis has also made bankers more cautious. The objective of the ADWDR, 2008 in ensuring fresh finance for farmers may take some time to be met.

The other important issue that needs to be addressed is to ensure that per acre productivity is increased. In order to enrich the quality of life of vulnerable groups, additional income from livestock/fisheries needs to be generated. Hybrid seeds, fertilisers and other inputs are to be improved to ensure quality at affordable prices. Better rural infrastructure, health, primary education and natural resource management will go a long way to raise the standard of living of vulnerable groups which is essential for inclusive growth.

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Notes

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Self-Help Co-operatives, Deposit Mobilisation and Supply of Credit: Evidence from Orissa, India

- Gagan Bihari Sahu and Biswaroop Das*

Introduction

A large number of Self-help Groups (SHGs) has enabled the poor to have an easy access to credit with low transaction costs and high loan recovery rates.

Formal financial institutions (FFIs) in a developing economy often fail to meet the loan requirements of the poor. It is frequently stated that the poor are non-bankable. The erroneous view is that the poor often do not have any resources, do not save, are ignorant about principles of financial management and cannot invest owing to their immediate consumption needs. The reluctant attitude of institutional credit agencies in lending to the rural as well as urban poor can be attributed to the following reasons. First, since the likelihood of default vary across borrowers and it is costly to determine the extent of risk for each borrower, formal lenders face the problem of adverse selection (i.e., the fear of selecting a bad borrower). Second, it is costly to ensure that the borrower takes actions that make repayment most likely, which in turn leads to 'incentive problem'. Third, since it is difficult to compel repayment by a formal lender, it takes the form of what can be called as the 'enforcement problem'.

Alternatively, micro-credit programmes have been successful in using peer monitoring and social sanctions to overcome these problems (Stiglitz 1990; Guha and Gupta 2005). Such models have now been replicated across many developing economies including India, and facilitated often through several non-government organisations (NGOs). A large number of Self-help Groups (SHGs) has enabled the poor to have an easy access to credit with low transaction costs and high loan recovery rates. Mutually Aided Co-operatives[1] is another and relatively

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recent structure delivering microfinance to low income households. While these are individual membership based organisations, they have often emerged through federating SHGs and are able to gain and retain a legal status. It is through such a status that these societies can mobilise savings from their members and provide microfinance services like credit on terms and conditions defined by themselves.

Significant here is to note that these Mutually Aided Co-operatives and Thrift Societies (MACTS) have generally been results of 'aggregating' SHGs at the first, and their 'federations' at the second level, where the SHG members remain their primary members. Though theoretically, a non-SHG member too can be part of a MACTS, in practice this is rare. This is perhaps as to why SHGs as organised groups help in facilitating the formation as well as functioning of MACTS. Simply put, MACTS can thus be defined as structures, which though based on individual membership, frequently mediate its actual functioning through SHGs.

With enactment of the Orissa Self-help Co-operative Act 2001, a new era in peoples' empowerment, seems to have started. The Orissa Self-help Co-operative Act, 2001 is an Act to provide for the formation of co-operatives and conversion of co-operative societies as self-help, self-reliant, mutual-aid, autonomous, voluntary and democratic business enterprises, which are to be owned, managed and controlled by members for their economic and social betterment through the financial and gainful provision of core services which fulfil a common need felt by them and for matters connected therewith or incidental thereto (Government of Orissa 2002). The above Act provided an opportunity to the people of Orissa and particularly the poor to organise themselves and form self-help Co-operatives to protect their own interests and to carry out various productive activities.

Placed within the above context, following questions can be raised. What is a self-help Co-operative? Who can be the members of such a structure? What are the eligibility criterion for their membership? Is it possible to convert the old SHGs/ federations into a self-help co-operative under the 2001 Act? If it is possible, then who would be the primary members of these co-operatives? Will it be the SHGs or individual women members? If an individual shall be the primary member of a Self-help Co-operative, what then would be the role of SHGs? Can we retain SHGs and give them a meaningful role to help the co-operative structure? How do they mobilise funds? Whether they are able to mobilise enough deposits to support the volume of loans and other financial services demanded by members? How do they manage while dealing with inadequate internal resources against required funds? What are the manner(s) and modalities through which such co-operatives sanction loan to members? Present paper addresses these questions by analysing data collected from offices and field areas of selected co-operatives and SHG members working under the patronage of ADHIKAR.

2 Data Base

Co-operatives facilitated by ADHIKAR[2] were formed in two ways. First, federations of SHGs formed by women were converted into primary co-operatives under the Orissa Self-help Co-operatives Act, 2001, and second new SHGs were formed and aggregated as self-help co-operatives. At the time of our field work during April-May 2006, ADHIKAR was facilitating running of nine registered self-help co-operatives. Of these Padmabati, Nari Bikas, Nari Jagruti, Mahalaxmi, Maa Tarini and Sramajibi Bikas were formed through the former, while Maa Tarini Gruhanirmana, Maa Shakti and Maa Adishakti formed through the latter way. Thus former co-operatives are quite older compared to latter group of co-operatives. These co-operatives function in Puri, Khurda, Nayagarh and Cuttack districts in the State and were covering 162 villages in 60 Gram Panchayats through 184 SHGs and a little less than 4000 members. These co-operatives provide a variety of savings and credit products to their members. It is important to mention here that all such primary co-operatives have been federated and this is the only federation in Orissa providing financial security and guarantee to its member co-operatives while facilitating them for delivery of required finances towards livelihood needs of their members. Both, the former unit as the primary, and the latter unit as the secondary co-operative, are registered under the Orissa Self-help Co-operative Act, 2001.

Of the nine, we randomly selected four self-help co-operatives for our present enquiry. Except for one co-operative, from which we picked two SHGs, from the rest we picked three SHGs each on a random basis. From each of the SHGs, we interviewed three members except two members each in case of two SHGs. From each SHG, at least one 'position holder' (office bearer either at SHG or the co-operative, past or present) was selected to examine the variability in accessing the core services provided by the self-help co-operative vis-à-vis an 'ordinary member' (members not holding any position of office). In all, four self-help co-operatives, nine SHGs, and 31 respondents spread across locations in three districts were covered for the analysis.

3 The Concept of a Self-help Co-operative

A Self-help co-operative is an autonomous association of people united voluntarily to meet their common needs and aspirations through a jointly owned and democratically controlled enterprise. Here, the concept of "common needs" denotes economic needs that are common to all who wish to form a co-operative. In other words, common needs of members are those that a co-operative is expected to fulfil through provision of its core services.[3] A "Self-Help Co-operative" organised under the Co-operative Act, 2001, has the following basic features (Box 1).

Thus, a co-operative organised under the Self-help Co-operative Act, 2001, prevents bogus membership, external influence as well as bureaucratic and political

Box 1
Features of a Self-help Co-operative

(i) All members should have a common business interest(s) and formation of the co-operative is aimed at protecting these common interest(s). Those who do not have the same interest(s) as that of its other members or their interests are in conflict with them, cannot become members of the co-operative.

(ii) Since a person who is in need of and able to use the core services of a co-operative can be a member of a Primary Self-Help Co-operative, those who do not avail the core services (required for protecting the common interest of all members) cannot be its members. This provision ensures absence of sleeping members in a self-help co-operative.

(iii) All members have to patronise the co-operative in the same manner as parents take care of their children. This ensures members' involvement in affairs and management of the co-operative.

(iv) An organisation based on the principle of self-help.

(v) It is a business organisation with a special feature of being managed democratically and expected to function in consonance with the principles of cooperation.

(vi) It cannot receive government equity and loans.

(vii) There is no scope for government intervention in any manner in the affairs of the co-operative.

(viii) The election in the co-operative is managed by the co-operative itself.

(ix) The success and failure of the co-operative is entirely left to its members and their elected representatives.

control. Based on this framework, how ADHIKAR have converted its SHGs into Self-help Co-operatives has been discussed in the following section.

3.1 Membership

As the structure mediates with its members through SHGs, all members from different SHGs constitute the General Body (GB) of a Primary co-operative. This suggests that while the Primary Self-help Co-operative is essentially an individual membership based organisation, in practice they have been structured and organised through SHGs.

Criteria for Eligibility of Membership in a Self-help Co-operative: In order to become and remain member of a self-help Co-operative, a person should (i) be member of an SHG; (ii) must have the capacity to save regularly (compulsory deposit) and demonstrate the same without fail; (iii) not have an association with any political group; (iv) be within the age group of 18 to 55 years; (v) be ready to use the core services (savings and credit facilities) provided by the co-operative, and (vi) reside permanently within the operational area of a co-operative.

Cessation of Membership: One may cease to be a member of the co-operative, if she (i) does not contribute to the compulsory saving for a consecutive period of three months; (ii) does not participate consecutively in three group meetings; (iii) does not use the available credit facility for two years either after having obtained the membership or repayment of an earlier loan, and (iv) acts prejudicial to the objects and interests of the co-operative and disobeys the policies of the General body or the Board.

Rights of a Member: A member in a Self-help Co-operative enjoys rights that include (i) access to services provided by the society; (ii) right to information on accounts and business plan; (iii) freedom to express her opinion on affairs of the co-operative; (iv) a voting right (provided one has been a member for at least one full financial year), and (v) contest an election in the co-operative.

Responsibilities of a Member: The responsibilities of a member in a Self-help Co-operative include, (i) contributing her saving and repaying loans on time; (ii) participating in affairs of the co-operative and in the selection of its leaders; (iii) helping the co-operative in achieving its aims and objectives and respect the policies developed by the Board of Directors, and (iv) continue to patronise the co-operative.

Action against a Member: Members can be penalised and/or face appropriate actions in case of (i) defaults and irregular savings; (ii) defaults in repayment of instalments or the entire amount of loan raised; (iii) not using the core services of the co-operative; (iv) raising voice or being militant against the co-operative; (v) disrespecting the bylaws of the co-operative; (vi) refraining from attendance in Board or the General body meetings, and (vii) acting in a prejudicial manner to the objects and interests of the co-operative.

It needs to be pointed out here that in case of an SHG getting dissolved for whatever reasons, those interested to continue as members of the co-operative are required to form a new SHG or become part of another existing group. However, a newly formed group (from among the old members or a mix of some old and new entrants) should at least have seven members to be part of the co-operative. The person wanting to move out from a group can collect her share and withdraw from its membership. In case of death, one's membership automatically gets cancelled and the co-operative returns the amount of share capital and relevant deposits to the nominee of the deceased. A person however cannot be a member simultaneously in more than one co-operative providing similar kind of services. Also, the Self-help Co-operative entertains one member at a time from one family.

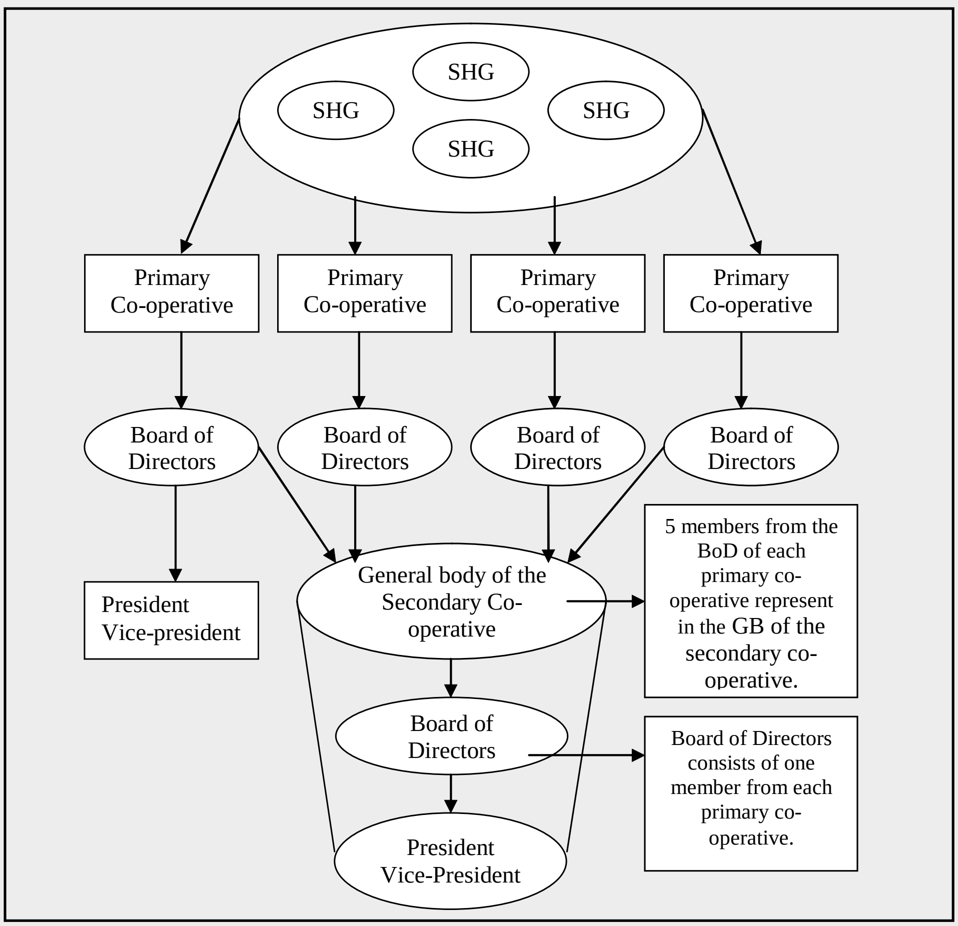
3.2 Structure

A structure of Self-help Co-operatives under the patronage of ADHIKAR has been shown in Figure 1. Importantly, the co-operatives have been formed by SHGs with their members being the primary members of these co-operatives. Within this context, two pertinent questions that emerge are (a) since the primary membership of a Self-help Co-operative remains essentially individual based, what then is the role of SHGs? and (b) Why have the SHGs been retained as part of the system. The joint liability, peer monitoring and peer pressure built into the structure of SHGs are key features of negotiating with critical issues of screening (of potential defaulters), provision of incentives (persuading borrowers to take actions which make repayment most likely) and enforcements (compelling repayments) at a meagre or no transaction costs to the lenders. Besides, the joint liability among SHG members co-guarantees each others loans and prevents the need to pledge any physical collateral (Ledgerwood 1999). It is possible that with such expectations, ADHIKAR has retained SHGs in its co-operative structures. These SHGs work in a similar manner as they were working while being part of the federation. And as was done earlier, leaders or representatives of these SHGs work towards collecting the compulsory deposits and refund the same to the co-operatives. On the whole, the SHGs work as subordinate units, acting as parts of the overall mechanics of a Self-help Co-operative.

As defined by the Co-operative Act, 2001, the ultimate authority of a co-operative society rests on its General Body that consists of all its members. The General Body of a co-operative society has the power to amend the bylaws, hold elections and remove directors, appoint and relieve auditors, review as well as approve annual accounts and budgets, and dissolve the society. The General Body also elects a Board of Directors (BoD)[4] for effective decision-making and to run the co-operative smoothly. In other words, the Board of Directors functions as the executive authority and runs the business of a co-operative society. Members of the Board hold office for a period of three years with one third of its members getting replaced every year. The Board has a president, a vice-president and in some cases a treasurer, generally elected or nominated from amongst the directors of the Board.

The Board meets at least once a month for conducting a periodic appraisal of the business and other affairs of a co-operative. It remains responsible for finalising a long term perspective plan, an annual plan and the budget which are placed before the General Body. It also directs the affairs of the co-operative in accordance with the plan and budget approved by the GB. The Board has the power to (i) appoint and remove any office bearer, (ii) make provisions for regulating appointments of employees in the co-operative, their salaries, allowances and associated service conditions including that of disciplinary action(s), and (iii) frame, approve and amend regulations

Figure 1: Organisation Structure of Primary and Secondary Co-operatives: ADHIKAR



Notes:
(1) Only member of an SHG can become member in a co-operative.
(2) Each SHG has a group representative.
(3) All SHG members together constitute the General Body (GB) of a Primary co-operative.
(4) Board of Directors of a Primary co-operative consists of 11 members where each is either nominated or elected from within an individual zone.

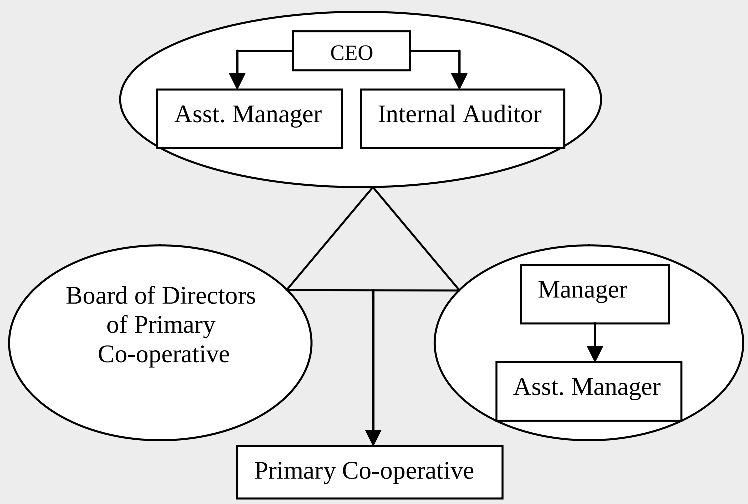
relating to services, funds, accounts and accountability, as well as the system of information keeping and its recording.

3.3 Management

These Co-operatives are primarily owned and controlled by clients and managed professionally. There are two groups of professionals. One works within the boundaries of the co-operative while the other helps the system from outside. Details on the management system of co-operatives facilitated by ADHIKAR are explained below (see Figure 2).

The Board of Directors is the most powerful body in the entire management system.

Figure 2: Management Pattern of Co-operatives under the Patronage of ADHIKAR



Manager and Assistant Manager appointed by the BoD do not come from the members and are hired to work for the society. The Board meets at least once a month. The broad agenda of its meetings includes appraisal of achievements in consonance with the targets, monitoring the status of fund mobilisation, reviewing positions on loan recovery, verification of loan applications and disbursement of fresh loans.

Managers of each primary co-operative meet at least once a month (generally on the 6th day of a month at the office of secondary co-operative) to discuss their problems and share experiences. The Chief Executive Officer (CEO) helps in the process of group formation, propagates the benefits of being member in a Self-help Co-operative, suggests measures for mitigating internal conflicts and helps the process of its overall development. Through secondary co-operative, the CEO also guides and conducts orientation programmes to improve the management skills of its Manager and Assistant Manager. Internal Auditor helps the Board in preparing the annual plans and budget to be placed before the General Body.

3.4 Mobilisation of Funds and Deployment of Credit

Generally, a primary Self-help Co-operative mobilises funds through deposits and share capital drawn from its members. In the study area, a co-operative receives five different kinds of deposits from a member. These are compulsory deposits (CD), fixed deposits (FD), recurring deposits (RD), voluntary savings (VD), and daily deposits (DD). Among these, the first is mandatory for all and the rest are discretionary.

The amount of compulsory deposits is decided by the members of the groups themselves as per their paying capacity. However, it often varies across and within co-operatives from a minimum of Rs.20 to a maximum of Rs.50 per month. These contributions are generally collected by the group representatives and deposited in the co-operatives against members' names. Members defaulting in contributing compulsory deposits are fined Rs.2 a month. The Manager personally visits the defaulting members for collecting compulsory savings. A per annum interest amount of 6% is offered on compulsory savings and gets added to a member's savings on yearly basis.

The amount for fixed deposit begins with a minimum of Rs.500 or its multiples and expected to be kept at least for a year. An interest of 8% per annum on these deposits is receivable by a member. However, in case of withdrawal or closure prior to the expiry of the agreed term, a member can withdraw the amount at a reducing rate of 1% interest for every two months. The minimum for recurring deposits is Rs.50 or its multiples per month for a minimum of 3 years. In case of premature closure or withdrawal of recurring deposits, one loses an interest of 0.5% every three months calculated backwards from the date of maturity. On occasions, such calculations can make a member left with only her deposits and no interest. A member can raise a demand loan for a maximum amount of up to 90% of what she has in form of fixed and recurring deposits at an interest of 15% per annum.

Voluntary saving starts by placing each time a minimum of Rs.100 or its multiples, has no stipulated time duration and yields a 4% yearly interest. Members remain free to deposit or withdraw such savings any time during office hours and no loan is sanctioned against this. A member can save a minimum of Rs.5 or its multiples as daily deposits and is expected to continue at least for 2 years. A 4% yearly interest is given on these deposits and after a year one can raise a demand loan of up to 90% of the amount saved in daily deposits at a 15% annual interest.

A member is eligible to apply for loans only after three months of her joining as a member in a self-help co-operative. Although a self-help co-operative sanctions loans to a member based on the amount of her compulsory deposit, it gives priority to those who save regularly and repay loans on time. Merely meeting the eligibility does not necessarily help one to seek loan. These co-operatives by and large provide farm and non-farm loans. A farm loan given generally for a period of 6 to 12 months helps to meet production costs and in undertaking allied agricultural activities. Non-farm loans are given for 6 to 18 months for conducting petty businesses, vending, processing and activities that add value to one's resources. In addition, co-operatives also provide loans for consumption, house construction and repairs. An interest of 24% per annum is charged on all loans except for demand loans. Irrespective of the loan type, a co-operative also collects 1% of the disbursed loan amount as processing fees from the borrower.

Recommended by the group, the representative submits a member's loan application to the Manager for conducting initial checking of the same. Subsequently, the Manager visits the field area and discusses with the group and the guarantors for assessing the validity of information provided, purpose of the loan, repayment capacity and saving habits of the borrower and then recommends the loan application for being considered by the Executive Body. On basis of information provided in the loan application and the Manager's remarks, the Executive Body discusses the matter for final approval. Of course, the Body has the right to either accept or reject the application or even postpone a decision on it. The approved application is then forwarded to the Manager for disbursing the loan, who depending on the availability of funds does it within a week or so.

A self-help co-operative sanctions loan (i.e., other than demand loans) to a member based on the amount of her compulsory deposit. In such cases, co-operatives sanction loan to its members for a maximum amount of up to five times of their compulsory deposits. While sanctioning loans, a co-operative follows certain rules that are listed below:

(i) Having raised a loan, a member is not allowed to withdraw her share, CD, FD, RD and DD in full or part thereof unless 75% of the repayment is over.

(ii) In case of loans up to Rs.10,000, another member has to be a guarantor. In case of loans exceeding Rs.10,000, a borrower needs to have two guarantors. It is important to note that no guarantor can raise a loan unless 75% of loan raised has been repaid by the borrower.

(iii) Placing of any movable or immovable properties as collateral for the loan is not encouraged unless agreed by the Board.

(iv) A second loan is not sanctioned to a member unless she has repaid the earlier loan at the time of applying except of course in case of emergency[5] and demand loans.

In addition to a member's savings, a co-operative also collects 20 rupees from each of its members as share capital. In case of inadequate fund (collected out of deposits and repayments) against requirement, the primary co-operative borrows from the secondary co-operative. On such occasions, the primary co-operative has to place the loan applications before the secondary co-operative. Like primary co-operatives, secondary co-operative too conducts a screening of the member co-operative on the basis of its earlier repayment records and amount of savings. Generally, a secondary co-operative sanctions loans to its member co-operatives for a maximum amount of up to ten times of its 'secured savings'.[6] For doubts or problems in the loan application, either the CEO or the Assistant Manager of the secondary co-operative visits the primary co-operative or at times even the applicants. Generally, for small amounts such as an emergency loan or a loan within the limit of Rs.5,000, the member co-operatives do not approach the secondary co-operative.

4 Secondary Co-operative

A Secondary Co-operative has primary co-operatives as its members. It is an autonomous association of primary co-operatives jointly owned and democratically controlled by member co-operatives for fulfillment of common needs. Under the leadership of ADHIKAR and efforts made by the leaders of primary co-operatives, a secondary co-operative called the "Khandagiri Madhyamika Mahila Samabaya Sangha Ltd".[7] was formed and registered under the Orissa Self-help Co-operative Act, 2001.

The secondary co-operative was formed to provide financial security and guarantee to its member co-operatives and to ensure that the livelihood needs of their members were met. It also assists the member co-operatives towards improving their operational systems, financial management and organisational development through training and capacity building programmes.

The President, Vice-President and other three members from amongst the BoD as nominated by the General Body (GB) of each primary co-operative form the GB of the secondary co-operative (Figure 1). It is mandatory for the President and Vice-President of each primary co-operative to be members in the GB of the secondary co-operative. Their being part of this facilitates monitoring and implementation of policies and relevant decisions at the primary co-operative level. The Board of Directors consists of one member from each primary co-operative who is elected (or nominated) from among those who represents the GB members in the secondary co-operative. Like a primary co-operative, the BoD of the secondary co-operative too has a president and a vice-president elected (or nominated) from amongst the directors on the Board. The BoD meets once (generally on the 7^{th} day of a month) in every two months. The CEO, Internal Auditor and Assistant Manager are appointed by the Board to run and manage the co-operative.

The secondary co-operative provides loans to and accepts deposits from its member co-operatives. It mobilises funds through share and deposit collections from its member co-operatives, and by borrowing from external sources. Each member co-operative has to purchase a share having a value of Rs.10,000 within a period of three years. Importantly, a member co-operative has to purchase a share value of Rs. 2,000 at the time of entry on which it is not entitled to receive any interest. A member co-operative also has to save Rs.1,000 per month as compulsory deposit and 10% of its total monthly receipts from deposits and repayments as secured savings deposits. Against this, a member co-operative can raise loan for a maximum amount of up to ten times of such savings. In order to protect the interests of member co-operatives, the secondary co-operative also provides emergency loans. It gives 6% interest on compulsory and secured saving deposits and charges 13% interest on loans advanced to member co-operatives. Managers from each of the member co-operatives present loan applications to the CEO between the 25^{th} and 30^{th} of every month. The CEO verifies all these applications and places them before a Loan Committee[8] for final approval and sanction of loans.

5 Growth in Deposits and Credit

Table 1 presents an analysis of growth in deposit mobilisation and flow of credit across co-operatives working under the patronage of ADHIKAR. Evidently, the amount of deposit mobilisation has increased from Rs.23,36,557 in 2004-05 to Rs.36,70,845 in 2005-06 at a rate of 57.1%. The total outstanding credit of all the co-operatives has increased form Rs. 31,32,155 to Rs. 50,32,002 at a rate of 60.7% during the same period. These growth rates of credit and deposits are highly scattered across co-operatives. Apparently, a positive growth in the supply of credit and deposit mobilisation has been observed across co-operatives except a negative growth of the former component in case of Padmabati. Though the rate of increase in credit disbursement has been higher than the rate of deposit mobilisation for all the co-operatives, this is not true in all cases. For instance growth in deposit mobilisation has been higher than the rate of growth in supply of credit in case of Padmabati, Nari Jagruti and Maa Tarini.

A high growth rate of either credit or deposits can be attributed to a low level of credit and deposits in the base year. It however does not prove that a co-operative with a lower growth rate, will have a smaller volume of deposit mobilisation and a lower scale of deployment of credit. A co-operative with a lower growth rate may have begun mobilising deposits and deploying credit on a larger scale at an early stage in order to increase its volume of credit disbursement and collection of deposits. At a subsequent stage, a further expansion of credit and deposits at the same rate may be difficult. So, an appropriate step would be to compute the average amount of deposits and credit to understand movement of these co-operatives.

Table 1 also gives data on average amounts of deposit and credit for the financial years 2004-05 and 2005-06. Importantly, the growth rates of average amounts of deposit and credit move in the same direction for all co-operatives suggesting that with amount of deposit rising, the amount of credit too goes up. Corresponding with the pattern, at places where amount of deposit mobilisation has declined, the amount

Table 1: Deposit Mobilisation and Flow of Credit across Self-Help Co-operatives

Co-operatives	Deposit Mobilisation (in Rs.)				Loan Outstanding (in Rs.)				Credit Deposit Ratio	
	Total		Average		Total		Average		2004-05	2005-06
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06		
Padmabati	393610	414102 (5.2)	1308	1101 (-15.8)	557148	481258 (-13.6)	1851	1280 (-30.9)	141.5	116.2
Nari Bikas	290546	426900 (46.9)	1605	1642 (2.3)	331158	543928 (64.3)	1830	2092 (14.3)	114	127.4
Nari Jagruti	620469	1206061 (94.4)	1224	1917 (56.7)	892720	1672022 (87.3)	1761	2658 (51.0)	143.9	138.6
Mahalaxmi	290765	474395 (63.2)	1077	1138 (5.6)	303481	535472 (76.4)	1124	1284 (14.2)	104.4	112.9
Maa Tarini	569899	615516 (8.0)	857	743 (-13.3)	854348	891019 (4.3)	1285	1076 (-16.2)	149.9	144.8
Sramajibi Bikas	35745	179768 (402.9)	325	461 (41.8)	65350	459121 (602.6)	594	1177 (98.2)	182.8	255.4
Maa Tarini (G)*	135523	266853 (96.9)	355	432 (21.7)	127950	302032 (136.1)	335	489 (45.9)	94.4	113.2
Maa Shakti	-	43550	-	224	-	65700 -	-	339	-	150.9
Maa Adi Shakti	-	43700	-	196	-	81450 -	-	365	-	186.4
All	2336557	3670845 (57.1)	967	933 (-3.5)	3132155	5032002 (60.7)	1296	1279 (-1.4)	134.1	137.1

Notes: (1) * Maa Tarini Gruhanirmana; (2) Figures in parenthesis are Annual Growth Rates (%)

of credit flow too has fallen. This suggests that deposit mobilisation is an important factor influencing the flow of funds in a self-help co-operative. However, a decline in the volume of average amount of deposit collection can be attributed to more number of new entrants into the co-operative system. In other words, because of new entrants, number of members having less than the mean value of deposit collection has increased during the financial year 2005-06 compared to 2004-05. Similarly, reduction in the availability of credit can be ascribed to a rise in access to credit by members. For instance, only 55% of total members were loanees[9] during the year 2004-05, a rate that increased to around 68.4% by the end of 2005-06 (Table 2). This indicates that the rate of growth in membership has been lower than the rate of growth in loanees during the financial years 2004-05 to 2005-06.[10]

Interestingly, for each of the co-operatives, the credit deposit ratio (CDR)[11] has been more than 100% during both the financial years except for Maa Tarini Gruhanirmana during 2004-05 (Table 1). This indicates that there was a net inflow of funds to all co-operatives. Since the CDR has been more than 100 per cent, a question that comes up is as to how do these co-operatives mobilise additional loanable funds? Apparently,

Table 2: Member Versus Loanees Across Co-operatives

Co-operatives	March - 2005 No. of members	No. of loanees	% of loanees to members	March - 2006 No. of members	No. of loanees	% of loanees to members
Padmabati	301	162	53.8	376	315	83.8
Nari Bikas	181	170	93.9	260	225	86.5
Nari Jagruti	507	414	81.7	629	575	91.4
Mahalaxmi	270	112	41.5	417	320	76.7
Maa Tarini	665	400	60.2	828	610	73.7
Sramajibi Bikas	110	35	31.8	390	295	75.6
Maa Tarini (G)*	382	37	9.7	618	250	40.5
Maa Shakti	-	-	0.0	194	43	22.2
Maa Adi Shakti	-	-	0.0	223	58	26.0
All	2416	1330	55.0	3935	2691	68.4

Note: *Maa Tarini Gruhanirmana.

they depend on the secondary co-operative which charges a 13% interest on loans advanced to its member co-operatives. Based on information given in Table 1, the inferences that can be drawn are (i) any increment on a 100% of CDR can be attributed to adding of additional loanable funds by the secondary co-operative, and (ii) declining CDR in case of Padmabati, Narijagruti and Maa Tarini is not owing to less utilisation of internal funds.

6 Loanable Funds: Owned Vs. Borrowed

As explained earlier, a Self-Help Co-operative generally mobilises loanable funds from collection of deposits and by borrowing from the secondary co-operative. Evidently, all of them have generated large proportions of loanable funds through mobilisation of internal deposits rather than by borrowing to meet credit needs of their member borrowers (Table 3). Except few, the rate of dependence on borrowed funds for meeting credit needs has however increased during the financial year 2005-06 compared to 2004-05. This is due to the fact that the rate of growth in credit disbursement has been higher than the rate of growth in deposit mobilisation for all co-operatives.

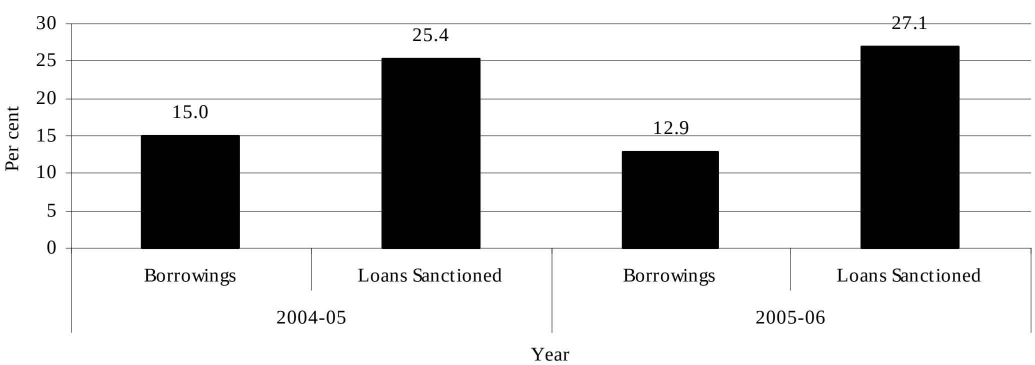
To provide loans to primary co-operatives, the secondary co-operative often borrows from external agencies. In this case, the secondary co-operative has borrowed from the FWWB(I) - an apex microfinance organisation located at Ahmedabd, India.[12] If the rate of borrowing[13] is equal to the rate of loans sanctioned,[14] it implies that borrowed funds have fully been utilised by the secondary co-operative. Otherwise, the extent of this differential can be treated as own funds of the secondary co-operative. Based on this logic, raising of funds by borrowing and the extent of their utilisation by the secondary co-operative is shown in Graph 1.

Table 3: Funds Owned and Borrowed by Co-operatives Working with ADHIKAR

Co-operatives	2004-05 Own Fund (in %)	2004-05 Borrowed (in %)	2005-06 Own Fund (in %)	2005-06 Borrowed (in %)
Padmabati	70.6	29.4	86.0	14.0
Naribikas	87.7	12.3	78.5	21.5
Narijagruti	69.5	30.5	72.1	27.9
Mahalaxmi	95.8	4.2	88.6	11.4
Maa Tarini	66.7	33.3	69.1	30.9
Sramajibi Bikas	54.7	45.3	39.2	60.8
Maa Tarini Gruhanirmana	105.9	-5.9	88.4	11.6
Maa Shakti	-	-	66.3	33.7
Maa Adi Shakti	-	-	53.7	46.3
All	74.6	25.4	72.9	27.1

Apparently, the rate of borrowing has been lower as against the rate of loans sanctioned during both the financial years. It suggests that the secondary co-operative may have sanctioned the additional loan amount to member co-operatives from its own funds. Notably, the proportion of external loan to the total outstanding credit has declined from around 15% during the financial year 2004-05 to 12.9% in 2005-06. It appears from this, that in order to provide credit to primary self-help co-operatives, the secondary co-operative has begun to depend on its own funds.

Graph 1: Borrowings and Utilisation of External Funds by the Secondary Co-operative



7 SHG Members and the Credit Market

Of the 31 sample SHG members, 16.1% have ever obtained any loan from formal financial institutions (Table 4). It should however be noted that the members did actually require credit, but their lack of access to formal credit make them dependant on informal credit. It is evident that as many as 64.5% of the sample households had borrowed from informal sources. We were told that even informal credit market was not accessible to all. Since such markets in our field area, as also elsewhere in rural India operate frequently on status and intensity of personal relationships, anybody prepared to pay the interest and meet collateral requirements, does not necessarily qualify to receive a loan from lenders (Basu 1997). Significantly, there is 100% access to credit by members from their own co-operatives indicating the degree of dependence and intensity of their accessibility to the co-operatives. The data also suggest that often the same members placed outside the formal credit market, access services from their self-help co-operatives.

Data given in Table 4 also show sources on which members depend for their credit need. On an average, a borrower has managed to draw only 19.7% of her households' credit requirement form a self-help co-operative with the rest raised from informal sources. Since most of these co-operatives started giving loans within a year of their existence and had to cover more number of member borrowers, the availability of loan amount was less.[15] Nevertheless, the rate at which deposit mobilisation and supply of credit are increasing, credit availability from these co-operatives is likely to substitute more and more amount of informal credit raised by these members in near future.

Table 4: SHG Members and Their Dependency in the Credit Market

Description	Extent of Dependency	
Number of SHG members who ever took loan(s) from formal sources *	5	(16.1)
Number of SHG members having loan(s) outstanding from informal sources *	20	(64.5)
Number of SHG members raised loan(s) from their own co-operatives *	31	(100)
Average amount of outstanding loan (in Rs.) from all sources (a + b)	19201	-
Average amount of total outstanding loan (in Rs.) from own co-operative (a) #	3785	(19.7)
Average amount of outstanding loans (in Rs.) from informal sources (b) #	15416	(80.3)

Notes: (1) No sample respondent had any outstanding loan from formal sources.
(2) Figures in parenthesis in rows (*) are percent to total sample.
(3) Figures in the parenthesis in rows (#) are the percentage of total outstanding loan.

An important issue that comes to our mind is as to whether all members get equal opportunity in accessing credit from a self-help co-operative? We have examined this issue by comparing the ordinary members with that of the 'position' holders. This has been done by using different indicators that include, (i) average number of times loans obtained; (ii) average amount(s) of loan obtained each time; (iii) average amount of compulsory and other forms of savings, and (iv) the status of credit deposit ratio (CDR). Table 5 presents such financial links of SHG members through which they have been mediating with their federations.

The key findings which emerge from Table 5 are, (i) Average number of times loans obtained by a position holder has been higher compared to ordinary members. (ii) Notably however, the average amount of loan obtained each time by a position holder has been lower compared to ordinary members. The CDR therefore appears higher in case of ordinary members. (iii) Position holders tend to save more in terms of compulsory and other forms of deposits. (iv) Since a member can also raise demand loans, the higher frequency of accessing credit by a position holder may not necessarily be conditioned by her additional savings in CD alone. This result contradicts earlier findings that a position holder remains placed better than an ordinary member in terms of volume of loans raised and frequency of accessing credit.[16] This indicates that all members get equal opportunity in accessing credit, irrespective of their social status and positions in the SHGs as well as primary and secondary co-operatives.

Table 5: Financial Links of SHG Members since their Joining the Co-operative

Indicators	All	Position holder	Ordinary members
Sample members from different SHGs	31	14	17
Average number of times loans obtained	2.5	3.4	1.8
Average amount of loan obtained each time (in Rs.)	4238	4187	4317
Average amount of compulsory savings (in Rs.) #	1148	1299	1024
Average amount of other savings (in Rs.) *	1008	1957	226
Credit deposit ratio (in %)	369.2	322.4	421.7

Notes: (1) # Accumulated figure;
(2) * includes FD, RD, VD and DD;
(3) While calculating the CDR, only the figures on compulsory deposits have been taken.

8 Saving Habits and Access to Credit

Of the 31 respondents, 25 were saving the scheduled amount in compulsory deposits (CD) and 6 were saving more than that. Those saving more in CD are accessing credit at a higher frequency (Table 6). Can one then say that a higher frequency of accessing credit is due to a member's additional savings in CD? This may not really hold true since members also raise demand loans. For instance, the average number of times credit accessed is lower in case of members having only CD than those having CD as well as other forms of savings (Table 6). The determinants of accessing credit at a higher frequency hence can be additional savings in other forms of deposits including FD, RD, VD and DD and not related essentially with saving more in terms of CD.

Significantly, though the amount of loan obtained each time is slightly higher for those saving more, the CDR is higher in case of those saving less. This means that the average net flow of fund is higher for the latter group. This suggests that for a given increase in compulsory savings, the resulting increase in the flow of credit is less than proportional.

Table 6: Saving Habits and Access to Credit by Members

Indicators	Saving Habits			
	1st Situation		2nd Situation	
	Members contributing the fixed amount in CD account	Members contributing more than the fixed amount in CD account	Members having only CD	Members having CD and other forms of saving
Number of SHG members	25	6	12	19
Average number of times raised credit since joining	2.1	4.2	1.3	3.2
Average amount of loan obtained each time (in Rs.)	4225	4264	4313	4218
Average amount of compulsory deposits (in Rs.) #	998	1773	863	1328
Average amount of other deposits (in Rs.) *	699	2296	0	1645
Credit deposit ratio (in %)	423.4	240.5	499.9	317.6

Notes: (1) # Accumulated figure;
(2) While calculating the CDR, only the figures on compulsory deposits have been taken;
(3) * includes FD, RD, VD and DD.

9 Repayment and Profitability

The repayment starts after a month of realization of a loan. A self-help co-operative generally collects repayments in instalments. As farm and non-farm loans are given for a maximum period of 12 to 18 months, a borrower has to repay the former loan in 10 and latter loan in 15 equal instalments at a reducing rate of interest. If a loanee fails to repay for more than a month, she has to pay a penalty at the rate of 1% per month on the instalment amount. In case of the delay exceeding for more than three months, the Manager brings it to the knowledge of BoD and issues a formal notice to the concerned loanee. After four months from the date of default, a co-operative has the right to adjust the amount from loanee's savings and share capital. If these fall short of the default amount, a co-operative can adjust the same with the share and deposits of guarantor(s). Even with such steps if the amount cannot be adjusted, a co-operative can initiate action to realise the amount from the assets listed in the loanee's application. Since no guarantor can raise a loan unless 75% of loan raised has been repaid by the borrower, the peer pressure persuades a borrower to repay the loan on time. Nevertheless, it is the collective responsibility of all members to get the loan back with interest. And indeed, profit of a financial institution gets determined by the rate of repayment.

On an average, repayment has been to the tune of 85% during both the financial years with only negligible variations across co-operatives (Table 7). However, a closer scrutiny of the rate indicates that the rate of repayment has varied between 83 to 87% and repayment was more consistent in 2005-06 compared to 2004-05.

Table 7: Loan Repayment and Profitability Status Across Co-operatives Promoted by ADHIKAR

Co-operatives	2004-05 Total Demand (in Rs.)	2004-05 Rate of Repayment (in %)	2004-05 Profit (in Rs.)	2005-06 Total Demand (in Rs.)	2005-06 Rate of Repayment (in %)	2005-06 Profit (in Rs.)
Padmabati	468004	84	34003	409069	85	5637
Nari Bikas	284796	86	28775	473217	87	23086
Nari Jagruti	776666	87	56654	1454659	87	87313
Mahalaxmi	254924	84	5668	455151	85	5768
Maa Tarini	726196	85	43748	766276	86	30707
Sramajibi Bikas	54894	84	-12703	390253	85	-2364
Maa Tarini (G)*	106199	83	-18272	253707	84	-14400
Maa Shakti	—-	—-	—-	55188	84	-11400
Maa Adishakti	—-	—-	—-	68418	84	-6557
All	2671679	85	137873	4325938	85	117790

Notes: (1) * Maa Tarini Gruhanirmana;
(2) - stands for loss

As it appears from Table 7, Sramajibi Bikas and Maa Tarini Gruhanirmana as incurred loss during both the financial years though its volume was lower in 2005-06. Maa Shakti and Maa Adishakti too have incurred losses for the year 2005-06. Co-operatives generally incur loss due to (i) poor repayment (ii) smaller spread available for covering financial and management costs, and (iii) low volume of business. Maa Tarini Gruhanirmana seems to be incurring losses due to the availability of smaller spread as it charges 18% interest per annum on loans. In other cases it seems to have been due to the low volume of business. Except these four co-operatives, the rest are gaining profit. The members, board of directors, co-operative staff as well as officials of ADHIKAR believe that, other things remaining the same, the amount of profit will go up with respect to the volume of business over a period of time.

In a self-help co-operative model, since profits as well as losses are shared among all members proportionately, the peer pressure appears to be rather high, which in turn ensures a substantially high repayment of loans. Thus, it can be stated that pumping of microfinance through self-help co-operatives ensures a high degree of sustainability. This even eliminates the risks for funding agencies while providing loanable funds to agencies. In case of the Grameen or Joint Liability Group (JLG) models, saving by members is frequently discouraged. Thus, adjustments of any kind gets ruled out in case of non-repayment of loans. Hence, neither the first line and nor the intermediary agencies possess full control over borrowers in Grameen as well as JLG models.

10 Conclusions

Some of the salient findings that emerge from the paper are: (1) around 68% of members without access to formal credit received loans from the SHCs during 2005-06; (2) Proportion of loanees to members shows an increasing trend suggesting a rise in access to credit by members. More significant is that the rate of growth in membership has been lower than the rate of growth in loaness; (3) These co-operatives have generated 72.9% of their total loanable funds through internal deposit mobilisation; (4) Though the volume of external loans has increased in absolute terms, its proportion to total credit has shown a decreasing trend; (5) The rate of growth of average amount of deposits and credit move in the same direction, suggesting that with the rise in amount of deposits, the volume of credit too has gone up. Similarly, where amount of deposit mobilisation has declined, the amount of credit supply too has slumped. This indicates that the volume of deposits tends to determine the flow of funds in these self-help co-operatives; (6) the Credit Deposit Ratio (CDR) being more than 100% indicates at full utilisation of deposits mobilised; (7) the rate of repayment was about 85%; (8) As members can also raise demand loans, higher frequency of accessing credit by a position holder may not necessarily be conditioned by one's savings in the CD alone.

These co-operatives indeed appear participatory in the process of decision making as well as mobilisation of deposits and disbursement of credit with potentials for financial as well as social intermediation among the poor, and present a workable model with features of strengthening the principles and practices on which co-operatives can be sustained. With legal measures and associated institutional reforms strengthened further, such and similar structures can be enabled to evolve as more participatory and self-governing platforms for provision of appropriate financial services, particularly to the rural poor.

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Notes

1 A co-operative which adheres to the principles of co-operation and aims at providing savings and credit facilities to its members in a self-reliant and autonomous manner. For a more detailed discussion, see Biswas and Mahajan (1997).

2 ADHIKAR, a premier NGO in Orissa located at Bhubaneswar has been working for the benefit of slum dwellers, poor women, and human rights since its inception. The organisation started its work for slum dwellers in Bhubaneswar city and later extended its operations into other vulnerable regions of Orissa. With passage of time, ADHIKAR expanded its scope of work from human rights to poverty eradication, legal literacy and provision of remittance services to Oriya migrant workers. It also facilitates provision of microfinance to some clients through the *Grameen* model.

3 Core services of such co-operatives are those which are expected to deal with social and

economic needs of members for their betterment.

[4] Generally, a member of a Board of Directors is elected by members of a zone falling within the jurisdiction of a co-operative. Hence, the number of members on a Board of Directors remains in correspondence with the number of zones in a co-operative.

[5] Any member of a co-operative can access an emergency loan. This loan amounts to Rs.1,000 and is aimed at meeting expenditure incurred especially towards responding to medical exigencies. Significantly, this loan can be raised by all members irrespective of their having a loan outstanding or not. But a member yet to clear an emergency loan taken earlier, cannot access this loan.

[6] Out of its monthly savings and repayment collection, a member co-operative has to deposit 10% of such amount as secured savings in the secondary co-operative.

[7] So far, this is the first and only secondary co-operative registered under the Co-operative Act, 2001. When we visited this co-operative in the month of May, 2006, it had 9 member co-operatives within its fold. More primary co-operatives were on their way to registration and expected to be part of the secondary co-operative.

[8] The Loan Committee consists of the President, Vice-President and the CEO. The committee meets once in every two months.

[9] A member who has borrowed at least once since the inception of a co-operative is treated as a loanee. Since in this analysis, a member who has borrowed even once receives the same weightage and remains at par as a 'loanee' with those having borrowed more than once, it would be pertinent to ascertain variations in the frequency of raising credit by members. Subsequent sections deal with this issue.

[10] There exists a higher degree of variation in the ratio of loanees to members across co-operatives. For instance, of every 100 members, loanees were as high as 91 in case of Nari Jagruti and as low as 22 in case of Maa Shakti. It gives an indication of existence of a positive correlation between percentage of loanee to members and the age of the co-operatives. In other words, members of a relatively older co-operative are likely to have more chances of raising loans compared to their counterparts in a new co-operative.

[11] The CDR indicates as to how far the resources mobilised from within a given area are being utilised in the same area, and what part of such resources are getting away from the area.

[12] The secondary co-operative does not receive any loans directly from external agencies. Instead, it receives loans through ADHIKAR. Hence, the amount of loan sanctioned by ADHIKAR to the secondary co-operative may be treated as its total external funds. The outstanding credit of the secondary co-operative from the FWWB (I) through ADHIKAR was Rs.4,70,000 during 2004-05. The same has however increased to around Rs.6,50,000 by the end of 2005-06.

[13] Rate of borrowing = (total external outstanding loan/ total outstanding credit of co-operatives) ´ 100.

[14] Rate of loan sanction = (total outstanding credit – total deposit mobilisation)/ total outstanding credit) ´100.

[15] At the time of our field work in April-May 2006, these self-help co-operatives were just two to two and a half years old.

[16] For a more detailed discussion, see Das, Biswaroop (2000).

Role of Microfinance Intervention in Household's Access to Insurance Services - Findings from Tamil Nadu**

- D. Yeswanth*

Introduction

SBLP adopted an integrative approach by involving various non-government organisations (NGO) and microfinance institutions (MFI) as facilitative agencies to reach the lowest segments of the society.

Government of India in the past six decades took various initiatives to mainstream poor households with the formal financial system, though with mixed results. In the mid 90's, the group approach adopted by the Self Help Group Bank Linkage programme (SBLP) was a marked shift from the individual target oriented approach adopted earlier in other development schemes or programmes. SBLP adopted an integrative approach by involving various non-government organisations (NGO) and microfinance institutions (MFI) as facilitative agencies to reach the lowest segments of the society. Over years to address the multi dimensional issue of poverty and help poor households manage unforeseen risks in a better way, microfinance intervention included other services like insurance (life and non-life), remittance and marketing services. In terms of performance NABARD reports notes that at the end of March 2007, 40.95 million poor households have been provided with credit under the programme through 2.92 million SHGs. Insurance Regulatory and Development Agency (IRDA) notes that insurance services has more than doubled in the past seven years in India i.e. from 1.93% in 1999 it rose to 4.8% in 2006. However the achievement of the programme and its role in bringing about financial inclusion to lowest segments of the society is adequately challenged and debated.

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** The paper is based on the research work conducted by the author titled 'Role of Microfinance interventions in Financial Inclusion: A study in Tamil Nadu'. The guidance given by Thesis Advisory Committee in designing and conducting the research study is acknowledged.

The first section of the paper in detail discusses the research methodology adopted for the study and microfinance intervention in the study area. Socio-economic profile of the sample household, its relationship with access to insurance services and role of microfinance intervention is discussed in the second section.

Methodology of the Study

For the study, Tamil Nadu was purposively selected based on the following criteria's:

(i) One of the pioneer states in India to adopt microfinance interventions for financial inclusion.

(ii) As on March 2007, Tamil Nadu ranked second in SHG-Bank linkage programme performance at all India level.

Microfinance Interventions in Tamil Nadu

Mahalir Thittam promoted through Tamil Nadu Women Development Corporation (TNWDC) is the state government initiative adopting group approach to disburse micro loans to women members. The programme was started in 1989 with the initial support of International Fund for Agriculture Development (IFAD). Over years the programme was supported by Tamil Nadu government and implemented in all the districts in phased manner. As on 30th March 2001, the scheme is operating in all districts of Tamil Nadu. In addition, SHG Bank linkage programme (SBLP) operates in all districts of Tamil Nadu, where all three models of the programme are observed. In Tamil Nadu, as on March 2007 SHG-Bank Linkage Programme alone as financed cumulatively about Rs.3816 crore to 3.98 million SHGs covering around 60 lakh households. In addition to SHG Bank linkage programme, various microfinance institutions are also operating in the state. As on March 2006 the district-wise outreach of microfinance intervention in Tamil Nadu through SHG Bank linkage programme and by microfinance institutions are presented in Table 1.

Selection of District

Based of State Human Development Index[1] all the districts in Tamil Nadu were ranked into two categories in order which is above or below the state average (0.657). Based on the ranking, Dharmapuri and Kancheepuram districts were selected for the study which ranks low (0.584) and high (0.712) in HDI index when compared to the state average value (Table 2). Same criteria were used in selection of taluk and villages for the study.

Microfinance Interventions in Study District

In Dharmapuri district microfinance intervention was started in 1989 with the initial support of IFAD. Over years the initiative was supported and promoted through government schemes (Arivoli, Valarkalvi and SGSY) to reach the poorest section of the community and women in the district. As on March 2007, there are 8336 women SHGs formed and linked with bank for credit under the Mahalir Thittam programme.

Table 1: District-wise Outreach of Microfinance Intervention in Tamil Nadu - as on March 2006

No	District name	Total No. SHG (SBLP)	Credit disbursed (Million)	MFI - Total outreach in the district	Number of MFI in the district
1	Chennai	0	0	29219	1
2	Kancheepuram	16467	939.78	61397	5
3	Kanyakumari	10579	596.49	14453	2
4	Thoothukkudi	13780	1117.93	2251	2
5	Coimbatore	5970	363.76	5234	1
6	Nilgiris	3830	250.73	0	0
7	Thiruchirapalli	19362	936.04	66130	5
8	Madurai	14828	1691.32	46113	5
9	Tirunelveli	35408	3616.02	16849	3
10	Erode	5405	392.04	18285	3
11	Vellore	9642	405.65	22199	2
	Tamil Nadu	312778	26985.49	615882	
12	Thiruvallur	9381	581.94	44881	2
13	Nagapatinam	6570	356.54	714	1
14	Virudhunagar	9153	620.71	6765	2
15	Karur	2282	147.14	19381	3
16	Cuddalore	8269	508.73	16566	4
17	Dindigul	6775	392.04	37977	6
18	Sivagangai	12918	1545.17	13921	5
19	Thiruvarur	6609	532.29	1728	2
20	Namakkal	5754	520.62	8210	3
21	Thanjavur	11413	897.61	12168	3
22	Ramanathapuram	11315	1120.77	0	0
23	Theni	1781	263.39	3672	1
24	Salem	14493	1256.96	979	1
25	Pudukottai	7004	782.06	21366	3
26	Tiruvannamalai	8151	549.74	28263	3
27	Perambalur	2514	213.39	19418	3
28	Villupuram	13908	1215.94	57136	3
29	Dharmapuri	39217	5170.69	22776	3

Source: SHG Bank linkage data was collected from the NABARD Annual reports. Detail of MFI operating in the state was collected from various Annual Reports of the organisation, networking institutions and discussion with programme directors of the organisation through personal visit and e-mail.

In addition, NGOs operating in the districts facilitate linkage with formal institutions through microfinance services. In Kancheepuram district Tamil Nadu Women Development Project was implemented for the promotion of women SHGs through approved NGOs. As on Feb 2007, about 19100 SHGs are operating in the district in which about 17399 are credit linked with various formal financial institutions.

Life Insurance Corporation (LIC) and Rural Postal Life Insurance (RPLI) is the major formal insurance provider in the state. Number of private insurance providers also operates in the district which provides both life and non-life insurance services.

Table 2: District-wise Human Development Index (HDI) value and rural population (%) in Tamil Nadu

No	District name	HDI	Rural Population (%)
1	Chennai	0.757	0
2	Kancheepuram	0.712	46.65
3	Kanyakumari	0.711	34.73
4	Thoothukkudi	0.703	57.71
5	Coimbatore	0.699	33.98
6	Nilgiris	0.685	40.35
7	Thiruchirapalli	0.671	52.89
8	Madurai	0.661	43.98
9	Tirunelveli	0.658	51.97
10	Erode	0.658	53.74
11	Vellore	0.658	62.38
	Tamil Nadu	0.657	60.14
12	Thiruvallur	0.654	45.54
13	Nagapatinam	0.654	77.81
14	Virudhunagar	0.651	55.61
15	Karur	0.647	66.73
16	Cuddalore	0.644	66.99
17	Dindigul	0.641	64.98
18	Sivagangai	0.64	71.77
19	Thiruvarur	0.637	79.71
20	Namakkal	0.636	63.49
21	Thanjavur	0.63	66.22
22	Ramanathapuram	0.629	74.53
23	Theni	0.628	45.89
24	Salem	0.626	53.91
25	Pudukottai	0.618	82.98
26	Tiruvannamalai	0.612	81.66
27	Perambalur	0.596	83.95
28	Villupuram	0.587	85.57
29	Dharmapuri*	0.584	84.97

* In the Government Order (Ms.No.18) issued on 06-02-2004, Dharmapuri District was bifurcated into two Districts -namely Dharmapuri District with Headquarters at Dharmapuri and Krishnagiri District with Headquarters at Krishnagiri

Selection of Sample Households

The total households in four villages (two villages selected from each district) represented the universe of the study. For the study 229 households (five per cent of the total village population) were selected through proportionate sampling method. At village level, systematic simple random sampling was used to select the final households from the census list. In the total 229 households selected for the study, 165 households represented Dharmapuri district and 64 households represented Kancheepuram district.

Data Collection Tools

Data was mainly collected through personal interviews of household heads using structured questionnaire. Focus group discussion with various members of SHG and semi structured interview with officials of formal and informal financial institutions was also conducted. Secondary data related to the number of SHGs formed, services offered, households insured and type of product offered and availed was collected from the officers of formal and semiformal institutions operating in the study area.

Socioeconomic Profile of the Household

Following section briefly discuss the socioeconomic profile of the household in the study area on the basis of type, SHG membership, occupation, annual income and land ownership of the household.

A. Distribution of Household by Type

In the total households studied, 45.41% of the household belong to Below Poverty Line (BPL)[2] category and 54.59% to general household category. Data indicates that BPL household in Dharmapuri district (47.27%) is more than the Kancheepuram district (40.63%) which confirms the state level data on poverty. Across two districts, 62.01% of the household are part of the microfinance programme. The percentage of household covered in Dharmapuri district (64.85) is comparatively more than Kancheepuram district (54.69%). The above is attributed to the fact that microfinance intervention in Dharmapuri district was started in early 90's and over

No	Household category	Dharmapuri	Kancheepuram	Total
1	Below Poverty Line	47.27 (78)	40.63 (26)	45.41 (104)
2	General household	52.73 (87)	59.38 (38)	54.59 (125)
	Total	100.00 (165)	100.00 (64)	100.00 (229)
	SHG household	64.85 (107)	54.69 (35)	62.01 (142)

Note: Figures in the brackets in the above and subsequent tables refers to total number of households, unless otherwise stated.

years promoted through various schemes implemented by the state government and NGOs operating in the district which is reflected in the percentage of household covered under the intervention.

In-depth analysis of field data indicates that about 66.90% of the SHG households live in joint family system. Except four households in Dharmapuri district all households in the study area are headed by male members. Together in both district, around 79.58% of the SHG households belong to the Hindu religion and 10.56, 9.86% represent Muslim and Christian religion respectively. Overall the literacy rate of SHG household's members across both districts is 55.26%. Comparatively the literacy rate is more in case of Kancheepuram district (69.80%) when compared to Dharmapuri district (50.82%), which is in line with the findings of State Human Development Report (2003). Male literacy rate across the district is about 55%, whereas the female literacy rate was 43.15% in Dharmapuri and 45.19% respectively in Dharmapuri and Kancheepuram district.

B. Distribution of Household by Occupation

Occupation[3] is considered as the most important socioeconomic characteristic which influences the behavior of the household in accessing various financial services. In line with the varying economic characteristics of the districts studied, the following occupational classification was adopted for the study.

No	Occupation of the the Household	Dharmapuri	Kancheepuram	Total
1	Farmer	29.70 (49)	26.56 (17)	28.82 (66)
2	Agriculture Laborer	20.61 (34)	12.50 (8)	18.34 (42)
3	Trader / Business	14.55 (24)	14.06 (9)	14.41 (33)
4	Service	13.94 (23)	17.19 (11)	14.85 (34)
5	Rural Artisan	4.24 (7)	7.81 (5)	5.24 (12)
6	Non-farm Labourer	16.97 (28)	21.88 (14)	18.34 (42)
	Total	100.00 (165)	100.00 (64)	100.00 (229)

Data in the above table indicates that the main occupation of household across the district is farmers (28.82%) and 18.34% are agriculture labourers. Agriculture and agriculture labour are the most important occupation for households living in Dharmapuri district (50.31%), when compared to Kancheepuram district (39.06%). Above is mainly due to the presence of large number of private companies and manufacturing industries in Kancheepuram district. About 5.24% of the household in the study area are rural artisan which includes Pottery, Carpentry and blacksmith etc.

C. Distribution of Household by Land Ownership

Across two districts about 105 household (45.85%) owned operational land for cultivation, with varying land size i.e. from 0.45 acre to 15 acre. From the following table, it is clear that about 11.52% of the household in Dharmapuri district and 10.94% in Kancheepuram district own less than 1.23 acre (sub-marginal category). About

11.79% of the household own land area more than 4.94 acre categorised under medium and large farmer's category.

No	Land Size (acres)	Category	Dharmapuri	Kancheepuram	Total
	0	Landless	53.94 (89)	54.69 (35)	54.15 (124)
	Landed				
1	< 0.1.235 – 1.23	Sub Marginal	11.52 (19)	10.94 (7)	11.35 (26)
2	> 1.235 - 2.47	Marginal	10.30 (17)	7.81 (5)	9.61 (22)
3	> 2.47 - 4.94	Small	12.12 (20)	15.63 (10)	13.10 (30)
4	> 4.94 - 9.88	Medium	7.88 (13)	9.38 (6)	8.30 (19)
5	> 9.88	Large	4.24 (7)	1.56 (1)	3.49 (8)
		Total	100.00 (165)	100.00 (64)	100.00 (229)

Of the total land holdings, about 36.55% don't have any irrigation facilities. In general the average land size varies across different categories of farmers; it is comparatively high in case of Kancheepuram district when compared to Dharmapuri district except in case of medium and large farmers.

D. Distribution of Household by Annual Income

The distribution of households by annual income reflects on the income inequalities of the households studied across the study area. While there are many income categories possible, the following seven economic classes are considered for the study.

No	Annual Income Range (Rs)	Category Name	Dharmapuri	Kancheepuram	Total
1	<9394	Ultra poor	9.09 (15)	0	6.55 (15)
2	> 9394 - 14092	Very poor	14.55 (24)	9.38 (6)	13.10 (30)
3	>14092 - 18789	Poor	7.27 (12)	17.19 (11)	10.04 (23)
4	>18789-28183	Not so poor	23.64 (39)	18.75 (12)	22.27 (51)
5	>28183 - 75156	Middle class	28.48 (47)	32.81 (21)	29.69 (68)
6	>75156 - 112734	Rich	10.30 (17)	12.50 (8)	10.92 (25)
7	>112734	Very rich	6.67 (11)	9.38 (6)	7.43 (17)
		Total	100.00 (165)	100.00 (64)	100.00 (229)

Around 30% of the household represented Below Poverty Line category and 22.27% were just above the poverty line i.e. Rs. 28183. Across the district, significantly 51.96% of the population fall under the annual income category of Rs. 28283 i.e. categorised under 'just above the poverty line'. Across the district 7.43% of the household represented 'very rich' income category and 10.92% from 'rich' income category. About 29.69% of the household represent middle income category with an annual income range of Rs. 28183 - 75156.

Households Access to Insurance Services

Access to insurance refers to services availed by households from formal institutions operating in the study area and the role of NGOs and microfinance institutions in availing the service. Insurance services in the study area are broadly classified into two types namely life and non-life. It is observed that insurance for house, theft and fire are absent in the study area. In addition micro-insurance schemes/services

District name	Dharmapuri	Kancheepuram	Total
Total number of household	165	64	229
Households availing any one kind of life insurance Service	53.93 (89)	45.31 (29)	51.53 (118)
Access to life insurance			
Life	48.48 (80)	43.75 (28)	47.16 (108)
Medical	21.21 (35)	17.19 (11)	20.09 (46)
Accident	7.88 (13)	6.25 (4)	7.42 (17)
Households availing two life insurance policies	5.19 (7)	10.42 (5)	6.56 (12)

Note: Figures in the brackets in the above and subsequent tables refers to total number of households, unless otherwise stated.

promoted individually by NGO or MFIs are not present in the study area.

About 51.53% of the household avail any one kind of insurance services in the study area. When compared about 53.93% of the household access the service in the Dharmapuri district, whereas it is only 45.31% in Kancheepuram district. From the above table it's clear that about 47.16%, 20.09 % and 7.42% of the household access life, health and accident insurance policies across the district respectively. It is observed that accident policies are generally covered by the organisation in which members of the household work, which includes service and non-farm sectors like private mills, automobile companies and transport.

About 6.56% of the household across the district avail double insurance policy (where more than one member of the household avail the service). At district level 5.19% and 10.42% of the household in Dharmapuri and Kancheepuram district avail double insurance policy respectively. Across the study area in most households male members avail the service but with the intervention of microfinance programme number of women members availing the service has increased over the years.

Observation from Field

Analysis of insurance policies indicates that most households prefer policies with short term period (less than 15 years) and facility to withdraw the sum at five years intervals. The popular insurance products include money back policy and endowment policy issued by public and private agency. A policy which insists on completion of the term period for payment of sum assured plus accumulated bonus is generally avoided by the rural household. From Focus Group Discussion, it's observed that awareness and knowledge about the benefits of insurance through NGOs and group meetings has positively influenced the households in availing the insurance service.

The lowest premium paid is Rs. 100 / year under Janashree Bima Yojana mostly by households who are part of microfinance programme. Introduction of 'Janashree Bima Yojana' in collaboration with local institutions (NGOs) has positively influenced the performance of the public agencies, interms of outreach and type of people covered under the insurance service. In addition to collection of premium at regular intervals, NGOs through microfinance programme help in assisting claim processing and creating awareness about the service.

Though different payment structure is observed in terms of premium payment, majority of the households in the study area prefer quarterly payment. The average premium paid under different structures is Rs 540 (Quarterly), Rs 1055 - Rs 4850 (half yearly) and Rs 2000 - Rs 13750 (Annual). The most preferred method of payment is through insurance agents followed by facilitating organisations (NGOs) and directly through cash/cheque by few households. Presence of local agents helps in collecting the premium amount at regular but flexible interval and in few cases payment of premium amount by agent themselves is observed, which is collected from the policy holder at his/her convenience.

Insurance Service Providers

No	Agency	Dharmapuri	Kancheepuram	Tamil Nadu
1	LIC	49.69 (82)	35.94 (23)	45.85 (105)
2	RPLI	0	9.37 (6)	2.62 (6)
	Public	49.69 (82)	45.31 (29)	48.47 (111)
1	PISL	15.75 (26)	14.06 (9)	15.28 (35)
2	NG Vysaya	6.66 (11)	7.81 (5)	6.98 (16)
3	Bajaj Alliance	9.69 (16)	7.81 (5)	9.17 (21)
	Private	32.12 (53)	29.69 (19)	31.44 (72)

Life Insurance Corporation (LIC) remains the single largest formal agency which provides insurance services in the study area. Presence of local agents and credibility of the organisation are quoted as the main reason for utilising the services from LIC. Less than ten percent of the households in Kancheepuram district avail RPLI policy, and the premium paid are Rs 150 / month. In Dharmapuri district, Rural Postal Life Insurance (RPLI) services are absent. It is observed that in the study area significantly about 48.47% of the household avail insurance policy from public agencies.

About 31.44% of the household avail insurance service from private agency like PACL Insurance Services Ltd. (PISL)[4], ING Vysya Life Insurance Company Limited and Bajaj Allianz Life Insurance Company Ltd. In Dharmapuri district, private agency (PISL) plays a major role in providing insurance services to rural households. Vari ous products including monthly scheme and fixed deposit schemes are observed in the study area with a term period of 3-5 years.

Access to Non-life Insurance Services

District name	Dharmapuri	Kancheepuram	Total
Non-life Insurance			
H'hold owning land	76	29	105
Crop Insurance	34.21 (26)	27.59 (8)	32.38 (34)
H'hold owning livestock	90	29	119
Livestock Insurance	17.78 (16)	10.34 (3)	15.97 (19)

Crop Insurance

About 32.38% of the households which own farm land access crop insurance schemes across the district. Among household owning agriculture land in Dharmapuri and Kancheepuram district, about 34.21% and 27.59% avail the service respectively. The above difference or comparatively high presence of crop insurance is attributed to the presence of Regional Rural Bank and Sugar Mills in Dharmapuri District. Crop insurance is availed at the time of loan borrowing from Regional Rural Banks and commercial banks to cultivate sugarcane crop mainly through facilitation by local NGOs and sugar mills. Use of crop insurance services by Below Poverty Line households is comparatively nil due to the type of crop grown (absence of any commercial crops), small land holding and absence of land ownership. Further analysis of household data by land size indicates that the households owning more than two acre of land have availed the crop insurance services mostly. In the general household's category (77 farmers), only two farmers owning less than two acres of land avail the service.

Livestock Insurance

Around 15.97% of the household who own livestock avail the service mainly for milch animal. When compared to Kancheepuram district (10.34%) Dharmapuri district (17.78%) has more access to the service, largely due to the presence of private players. In Dharmapuri district, Hatsun Agro Products (private milk company) acts as collateral agency for poor household to get loan from banks for purchasing Milch animal. The loan amount varies from Rs 5000 to Rs 15000 for a single household. In partnership with ICICI Lombard General Insurance Co. Ltd the organisation help the household to access livestock insurance services for the cattle purchased. The average premium collected is 3.9% of the insured sum and insurance is valid from the date of tagging to one year. The organisation also provides vertinary services; cattle feed at a minimal cost to the households under the agreement that the households will supply the milk to the company.

Correlation Coefficient - Insurance Services

Positive influence of facilitating agency is clearly indicated by the fact that the low income households avail the insurance service more in case of Dharmapuri district, when compared to Kancheepuram district.

The number of households accessing the service is positively correlated with self help group membership, annual income and land ownership. Occupation further analysis also indicates that within the households positive relationship exists between with access to life and non-life insurance services.

Influence of Socioeconomic Factors with Access to Insurance Services

	Life Insurance			Non-life Insurance	
	Life	Medical	Accident	Crop	Livestock
Total number of H'hold	229	229	229	105	119
Number of household	47.16 (108)	20.09 (46)	7.42 (17)	32.38 (34)	15.97 (19)
Landless	48.15 (52)	41.30 (19)	64.71 (11)	0	21.05 (4)
Sub- marginal	2.78 (3)	4.35 (2)	5.88 (1)	0	0
Marginal	10.19 (11)	6.52 (3)	5.88 (1)	5.88 (2)	21.05 (4)
Small	16.67 (18)	8.70 (4)	11.76 (2)	23.53 (8)	5.26 (1)
Medium	14.81 (16)	21.74 (10)	5.88 (1)	50.00 (17)	21.05 (4)
Large	7.41 (8)	17.39 (8)	5.88 (1)	20.59 (7)	31.58 (6)
Total	47.16 (108)	20.09 (46)	7.42 (17)	32.38 (34)	15.97 (19)
Forward caste	5.56 (6)	6.52 (3)	5.88 (1)	5.88 (2)	0
Backward caste	14.81 (16)	17.39 (8)	17.65 (3)	29.41 (10)	26.32 (5)
Most Backward caste	59.26 (64)	60.87 (28)	47.06 (8)	52.94 (18)	63.16 (12)
Scheduled caste	20.37 (22)	15.22 (7)	29.41 (5)	11.76 (4)	10.53 (2)
Scheduled tribe	0	0	0	0	0
Total	47.16 (108)	20.09 (46)	7.42 (17)	32.38 (34)	15.97 (19)
Farmer	34.26 (37)	41.30 (19)	11.76 (2)	85.29 (29)	57.89 (11)
Agri Lab	0	0	0	0	0
Trading / Business	19.44 (21)	13.04 (6)	17.65 (3)	8.82 (3)	26.32 (5)
Service	25.93 (28)	28.26 (13)	29.41 (5)	5.88 (2)	5.26 (1)
Rural Artisan	2.78 (3)	4.35 (2)	0	0	5.26 (1)
Non Farm Lab	17.59 (19)	13.04 (6)	41.18 (7)	0	5.26 (1)
Total	47.16 (108)	20.09 (46)	7.42 (17)	32.38 (34)	15.97 (19)
>9394	0	0	0	0	0
9394 - 14092	0	0	0	0	0
14092 - 18789	1.85 (2)	4.35 (2)	0	2.94 (1)	5.26 (1)
18789 - 28183	17.59 (19)	15.22 (7)	17.65 (3)	5.88 (2)	10.53 (2)
28183 - 75156	43.52 (47)	26.09 (12)	47.06 (8)	35.29 (12)	31.58 (6)
75156 - 112734	22.22 (24)	21.74 (10)	23.53 (4)	23.53 (8)	10.53 (2)
>112734	14.81 (16)	32.61 (15)	11.76 (2)	32.35 (11)	42.11 (8)
Total	47.16 (108)	20.09 (46)	7.42 (17)	32.38 (34)	15.97 (19)

Note: Figures in the brackets in the above and subsequent tables refers to total number of households, unless otherwise stated.

Independent Variable	Dependent Variable - Access to Insurance			
	Correlation coefficient (r)			
	Life		Non life	
	Life	Health	Crop	Livestock
SHG membership	0.1627	0.0106	0.0232	0.0397
Land size	0.3246	0.4086	0.7803	0.396
Annual income	0.5559	0.5353	0.5072	0.4225
Occupation	0.0773	-0.0299	-0.3634	-0.1459
Religion	-0.0173	-0.0568	-0.0634	-0.0092
Caste	-0.2503	-0.1944	-0.2373	-0.1188

Issues and Challenges in Availing the Insurance Services

No	Issues / Challenges	%
1	No stable income to pay premium (Mainly in case of agriculture labourers and low income households)	92
2	Not interested with the available services mainly due to unsuitable premium structure and longer premium payment period.	90
3	Long time taken in terms of claim procedure	87
4	Rejection of claim (Health insurance)	86
	Lack of awareness about insurance benefits.	72
5	Absence of local facilitating agents	67
6	Credible insurance agencies are not available locally and many households feel they may cheat the hard earned money.	55
	Not provided or facilitated by the Non Government Organisation operating in the area	47
7	Lack of awareness or knowledge about existing services	39

Conclusion

Need for financial inclusion is always consciously emphasised in the policy framework of formal financial system. Over years, microfinance intervention in addition to facilitation of micro loans with formal institutions has also provided other services like insurance services to rural households. Awareness and knowledge about the benefits of insurance through NGOs and group meetings has positively influenced the households in availing the insurance service. In addition, NGOs play a major role in collection of premium and help rural households in claim settlement. It's observed that with the intervention of microfinance programme, number of women members availing financial services is increasing over the years and positive correlation exists between type of households accessing the service and self-help group membership. Positive influence of facilitating agency is clearly indicated by the fact that low income households avail insurance service more in case of Dharmapuri district, when compared to Kancheepuram district. Within the population, positive relationship exists between literacy level, annual income, and land ownership with access to medical/health insurance policies.

Access to insurance service is considered as one of the important risk management strategy, which help poor households face uncertainties and fight the vicious cycle of poverty. But, it is observed that only about 51.53% of the household avail insurance services in the study area. Study identified the influence of socio economic factors with access to life and non-life insurance services in the study area. It is observed that various challenges still exist in reaching the poorest segment of the household which mainly includes agricultural labourers and BPL households. NGOs through microfinance intervention have played a significant role in improving access to insurance services. Based on analysis of field data, it is concluded that facilitation of micro loan in conjunction with insurance services could go a long way in keeping this segment away from the poverty trap and help in meeting out their life and investment need.

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Notes

[1] The data used to construct the Tamil Nadu's HDI includes the District-wise income estimate estimated for the year 1998-99; Life expectancy at birth for the year 1997, literacy rate (2001) and combined gross enrolment ratios for 1998-99. The data was published in the Tamil Nadu *Human Development Report* (2003)

[2] Calculation of BPL household: According to NSS 61st Round, [Report No.508 (61/1.0/1)] the per capita per month income of a person living in rural Tamil Nadu is Rs 351.86, which is multiplied with the average size of the household.

[3] Occupation of the household in the study area was classified based on main source of income which contributed to the household income calculated based on number of labor days spent by the household members to earn the income.

[4] PACL Insurance Services Ltd. (PISL), a subsidiary of PACL India Ltd, was formed to conduct insurance business all over India for life as well as non-life products. PISL has tied up with OM Kotak Mahindra Life Insurance Co. Ltd., a joint venture between Old Mutual (UK) and Kotak Mahindra Finance Limited.

Micro-Housing Loans for Micro-Entrepreneurs: A Needs Assessment

- Stuti Tripathi and Minakshi Ramji*

With the promulgation of micro-finance across the world, it has been posited that micro-finance can become an innovative and sustainable channel to provide low-income groups with access to finance for their housing needs.

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Introduction

Access to housing for the poor, whether urban or rural, is a world-wide challenge, which has a direct impact on the socio-economic status of every economy. With the promulgation of microfinance across the world, it has been posited that microfinance can become an innovative and sustainable channel to provide low-income groups with access to finance for their housing needs. High demand for shelter calls for the design of housing finance products and supply mechanisms that target the low-income groups which have traditionally been excluded from the housing market due to lack of land tenure and high investment requirements.

This study explores how best to design and provide a housing microfinance product through an MFI which is specifically targeted to new home construction by low-income communities. As such, the research agenda was determined by product details that the bank wished to iron out. Specifically, this study explored the following points:

- How do MFIs conduct credit evaluations to determine eligibility of clients who desire housing microfinance loans?
- How feasible is it to use land title as collateral, given the general lack of collateral, especially in rural areas?
- How do MFIs determine the size of HMF loans?
- Is it possible to determine loan size by using land valuation?
- What are client preferences for housing characteristics and loan terms?
- What are the levels of willingness and ability to repay?
- What is the demand for additional services?

We performed a demand assessment on a subset of potential clients of the final product. Interviews with various stakeholders in the sector were also conducted in order to refine product features for the pilot exercise.

While there are benefits to MFIs of offering housing products, they also face several challenges.[1] There is a strong case to be made for MFIs to introduce housing finance products. Such a product would enable them to diversify their portfolios, cross-subsidise their products, and develop business relationships with their clients. In spite of these potential rewards, MFIs face significant obstacles when they attempt to provide home loan products. Firstly, MFIs are usually unable to access adequate funding for housing finance. Secondly, lack of clear land titles amongst low-income households often makes it difficult for MFIs to lend to them. Thirdly, there is also a lack of understanding about the level of non-financial assistance that low-income households may need for housing. Finally, housing microfinance (HMF) loans are distinct enough from standard micro-credit loans that they represent a major shift away from typical microfinance mechanisms. HMF loans typically involve larger sums of money and longer terms. Joint liability lending, the cornerstone of microfinance, tends to be less effective as loan amounts grow larger. HMF is still in a nascent stage in India with just a few successful examples.

Our results indicate that demand for a housing product does exist. This demand is currently met by loans from both formal and informal sources. The demand for 'Repair and Renovation' products is much stronger than the demand for 'New Construction.' In our sample, clear land titles existed. Furthermore, housing in our sample was generally a productive asset, since many micro-entrepreneurs operated home-based businesses. However, housing finance is a priority only for those clients with slightly higher incomes. This is further reinforced by the fact that many MFIs which currently offered the product face lower repayment rates on this product than they do on the standard microfinance loan product.

This paper is organised in the following manner. Section 1 briefly examines the challenges and potential of offering HMF for MFIs. Section 2 enlists feedback from discussions with four MFIs which already offer the HMF product in India. The next section presents the methodological approach used in the study and analyses the empirical evidence thus collected. Section 4 provides a discussion of these results, and finally, a conclusion is offered.

2 Review of Literature

2.1. Housing Microfinance Defined

HMF is defined as the provision of small loans to low-income households for a wide range of housing activities, including but not limited to: repair, renovation, improvements to existing structures, purchase of land, new construction, and even improvement in infrastructure facilities, such as sewage. It has been posited that poor households build through a process referred to as 'progressive housing' or 'progressive build,' implying that poor households build gradually and incrementally, a few rooms at a time (Ferguson, 2003). Thus, microfinance loans would appear to be compatible with this form of housing finance since finance for 'progressive build' can be dispensed in the form of small loans of a shorter tenor.

However, there are noteworthy differences between HMF loans and standard microfinance loans. The table below provides a snapshot of some of the major differences between micro-enterprise loans and HMF loans.

Micro-Enterprise Loans versus Housing Microfinance Loans

Micro-Enterprise Loans	Housing Microfinance Loan
Affects borrower's income	Affects borrower's income and asset base
Offers short, small loan amounts	Loans are relatively longer and larger
May or may not be "fungible" e.g., a loan to buy livestock could be used for housing	Relatively harder to be "fungible" since housing loans are disbursed in a staggered manner
Repayment capacity based on ability to use the loan to generate future income	Repayment capacity is based on current income
Unsecured loan	Can be Secured or Unsecured. Typically requires either legal title or some para-legal document
Tend to be group loans; social collateral said to enforce repayment	Can be individual or group loans; social collateral not as effective higher loan sizes

From Krishnan, Taishi & Ramji (2007), Adapted from table in presentation "Housing Microfinance: An Overview" by Frank Daphnis and Bruce Ferguson at the Small Enterprise Education and Promotion (SEEP) Network Annual General Meeting, October 2004.

2.2. Challenges to Overcome

There is a strong case to be made for MFIs to introduce housing finance products (Escobar, Alejandro and Merrill (2004) in Krishnan, Ramji & Taishi (2007). Apart from the fact that 'progressive build' is compatible with microfinance loans, offering an HMF product allows MFIs to diversify their portfolios and cross-subsidise products. Offering new products also allows them to improve client satisfaction, maintain longer relationships with their existing clients, and attract newer clients. However, in spite of these advantages, there are important challenges that MFIs must overcome to be able to provide this product. Some of the major challenges they face include lack of access to funding, the absence of land titles and collateral for many poor households, lack of awareness amongst clientele, and the differences between design of traditional microfinance loan products and HMF products. These issues are explored in brief below.

Funding remains an important constraint for MFIs wishing to offer HMF (Young, 2007; Krishnan, Ramji & Taishi, 2007). Since HMF is a relatively new product, the absence of successful examples of HMF makes banks wary of offering finance to MFIs for this purpose. Furthermore, banks see housing loans as consumption loans, rather than productive loans. This situation is changing, however, with several agencies, such as the National Housing Bank, the apex body for housing companies, promoting HMF as an important delivery channel for housing finance for poor people. MFIs, however, are loath to lend for housing purposes, since longer term loans tend to be less profitable for them.

Low-income households, both in urban and rural areas, often do not have clear legal land titles, although they may be able to prove tenure in other ways such as through tax receipts, sale deeds, electricity bills, etc. (Young, 2007). Banks are often unable to accept anything less than a clear land title as collateral and are unable to lend to MFIs in the absence of clear titles, especially if the bank loan is meant specifically for housing. At the same time, it is important to note that when MFIs retain client land titles, it is typically meant only as a psychological curb against default. Foreclosure tends to be extremely time-consuming and burdensome for most MFIs. Further, since many MFIs, including for-profit ones, have social goals as well, it may be difficult for an MFI to justify evicting a low-income household from their house in the event of default.

Changes in lending methodology: MFIs are used to lending to groups and using joint liability as a means of ensuring 100% repayment. HMF involves larger and longer-term loans, and as such, tends to be more suited to individual lending methodology (Krishnan, Ramji & Taishi, 2007). Another difference between these loan types is the profile of target borrowers for each product. While microfinance has been criticised for reaching only the moderately poor, HMF, due to the larger loan size, is likely to cater to an even creamier layer amongst the moderate poor. Typically, when MFIs offer HMF, these loans are offered only to their star borrowers or graduated clients. Thus, MFIs may not be able to offer more than a repair product for their poorest members.

Additionally, MFIs lack a clear understanding about client preferences for housing loans and for construction. Uncertainty also exists regarding whether or not offering technical services would decrease the cost of construction and what kind of technical services would be most helpful for clients.

Another important issue includes a lack of awareness amongst clientele about repaying longer-term loans and about the construction process in general. MFIs tend to report repayment rates close to 100%. Given the larger and longer loan sizes and terms involved in HMF, it is possible that repayment rates may be lower.

Since HMF is an emerging area in microfinance, there are very few programmes which have shown evidence of successfully scaling up. It is thus difficult to draw lessons and generalise for the sector as a whole. This study seeks to elucidate some of these concerns.

3 Research Methodology

The research focuses on rural HMF, since urban microfinance would suffer from the immediate disadvantage of being prohibitively expensive and typically requires collaboration between several organisations like NGOs, financial institutions and others. Due consideration was given to the following points of action research:

i. **Practitioner Interviews:** CMF identified the following stakeholders, who are either involved or interested in providing HMF: Madura Microfinance, Evangelical Social Action Forum, Shalom, and RepCo Bank. Interviews were conducted with the management at these organisations, to understand any logistical and operational hurdles to providing housing microfinance.

ii. **Demand Assessment:** A short demand assessment was conducted on a subset of 53 potential clients of the final product with Madura Microfinance in Salem District, Tamil Nadu.

4 Practitioner Interviews

Housing Microfinance Product Details in Practitioner Interviews

	Micro-enterprise Loan				Housing Loan			
MFI	Model	Tenure	Amount	Rate	Tenure	Amount	Rate	Criteria
RepCo Bank	SHG	2-3yrs	Rs. 3,000 - 25,000	12-14%	Up to 7yrs	Up to Rs. 2 lakhs	11%	* At least 2yrs/2 loan cycles * Evidence of land ownership (without land ownership, loan only up to Rs. 50,000) * RepCo will fund only 80% of the cost * EMI should ideally not be more than 60% of income * Group guarantee is necessary, even though loan is individual * Most popular use of loan: using govt. sponsored scheme to convert kuccha houses to pucca
Madura Microfinance	SHG	3.5yrs	Rs. 12,500 - 25,000	12.50%	Up to 6yrs	New: Rs. 1lakh Repair: Rs. 60,000	17%	* At least 1 Activity Loan * Land title is must * Individual loans with no say for group * Must have salaried employer, govt. employee guarantor * Begun only in last 6mths
ESAF	JLG	1yr	Rs. 8,000	12% flat	Up to 7yrs	New: Rs. 50,000 Repair: Rs. 25,000	15%	* Original land title is essential; for repair, copy of land title is enough * Completion of one loan * Minimum 3 cents land required
Shalom	JLG	1yr	Rs. 8,000 - 20,000 and above	15% flat	3yrs	Repair: Rs. 15,000 - Rs. 25,000	15%	* Repair Loans: clear land title, individual loan * Save & Build: 2yr saving history with at least Rs. 50K in savings, * Shalom uses this money to buy land and build new construction * Shalom did first such project around Palakkad. Total cost was 2.6L where 1.85 is loan, 50K savings and 25K is Shalom subsidy

Note: Madura Microfinance is an NBFC and as such cannot collect savings. Their groups save with banks

Three MFIs and one cooperative bank were contacted for this study. Evangelical Social Action Forum and Shalom have been offering HMF for more than four years,while RepCo and Madura have offered a housing product for the last year only. A summary of the conversations on the major points of our research interest is offered below.

Credit evaluation: Our conversations confirmed the findings in our literature review: household income is an extremely important determinant of whether or not clients receive HMF. While loan officers are an important source of information regarding client suitability for these products, the groups that HMF clients belong to are also critical. Each organisation, except for Madura Microfinance, uses the group structure to approve and sanction loans. In these organisations, even though the loans are individual loans, the group must guarantee HMF loans. Along with these two points, repayment history is extremely important.

Land title and collateral: HMF loans fall into two major categories – loans for new construction and loans for repair and renovation. All four refused to give HMF loans for new construction without land title as collateral. Primarily, this has to do with loan size. All loans of Rs. 50,000 and above require a land title. However, those that request loans below this amount can apply without collateral.

Determining loan size: While organisations have policies to offer up to Rs.2 lakh per HMF loans, loan amounts for new construction typically range between Rs. 50,000 and Rs. 1,00,000. For repair and renovation, the loan amounts are between Rs.25,000 and Rs.50,000. Typical home sizes range between 350 to 450 square feet. However, the organisations, with the exception of Madura Microfinance, told us that the HMF loan amounts were insufficient to construct houses in their respective areas of operation. Other sources of funding are thus essential to complement these HMF loans.

Foreclosure: All organisations said that foreclosure was not possible in their areas of operation. The threat of foreclosure is merely meant as a strong psychological deterrent.

Using land valuation for determining loan size: All four organisations believed that this was impossible. Firstly, land prices may be quite depressed in rural and semi-rural areas. Secondly, it may not be connected to the actual repayment capacity of the client. Thirdly, determining loan size through land valuation is useful only when default entails foreclosure, since the value of the land is what the bank/financial institution will obtain by selling the asset. However, in this case, MFIs have never foreclosed on a defaulting loan and do not plan to do so in the future.

5 Demand Assessment

5.1. Background to Madura Microfinance's Microfinancing Activities

Microcredit Foundation of India (MCFI) is a not-for-profit Section 25 Company in Tamil Nadu. Working primarily with women, MCFI promotes Self-Help Groups (SHGs), trains them in sound financial practices, facilitates access to microcredit loans, and equips them with business skills. MCFI has about 500,000 women SHG members across 6,500 villages in 24 districts.

In MCFI's SHG Model, each group consists of 15 to 20 women from the same village. Before they can be deemed credit ready each group goes through a one year training program. After six months of training and saving, the groups are graded; if they are in good standing and hold a savings account with a commercial bank, they become eligible for a short-term group loan with a repayment period of six months. These short-term loans are personal consumption loans of Rs. 50,000 (US$1220) per SHG (up to a maximum of Rs. 2,500 per member). This loan is used to assess the ability of group members to make the monthly payments.

At the end of this six-month repayment period, the groups are graded once more to determine their eligibility for a larger, activity-term loan with a repayment period of four or five years. The activity-term loan is typically Rs.2.5 lakhs for the entire SHG group and provided for income generating activities, wherein each member is allowed a maximum of Rs. 12,500.

A significant number of MCFI clients are now eligible for a third loan. Unlike the first two loans, the third loan is fairly flexible in terms of amount and tenure and therefore more customised to the needs the client. In the third cycle, the clients are eligible for a loan amount ranging from Rs. 20,000 to Rs. 100,000 depending upon the purpose. MCFI gives a loan of Rs. 100,000 for construction of new houses, having an EMI of Rs. 2,300 spread over 72 months with a 6-month moratorium. For housing repair, the cap is Rs. 50,000 payable in 60 equated monthly installments of Rs. 1,300 at a diminishing interest rate of 18.5%. Clients applying for a housing loan have to submit a detailed application form which includes hypothecation of the land papers and guarantee by two people, one of which should be a fellow SHG member. The second is often the applicant's husband or the person in whose name the land is registered. Madura Microfinance Ltd. (MMFL), a non-banking finance company (NBFC), is the lending partner of MCFI. In 2006-07, MMFL disbursed loans to the tune of Rs. 140 crores through its network of 182 branches.

5.2. Area and Sampling

The research was conducted in Salem district in Tamil Nadu. In Salem District, MCFI has three project offices; one each in Salem, Idappadi, and Konganapuram. The respondents were spread across nine villages in the Konganapuram Block of Iddapadi Taluk.

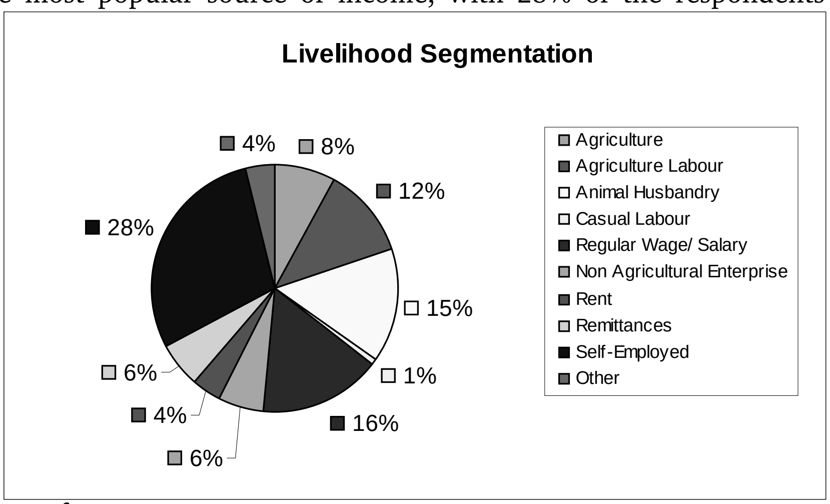
The questionnaire was administered to 53 clients that had been with MCFI for 3 to 4 years, had completed two loan cycles and were therefore eligible for bigger loan ticket size. Our respondents therefore were clients who had demonstrated themselves to be creditworthy over a significant period of time. Besides, given that MCFI already has a housing product in place, it helped clients to realistically respond to questions designed to assess their willingness to take loans for financing new housing construction or renovation.

5.3. Survey Observations

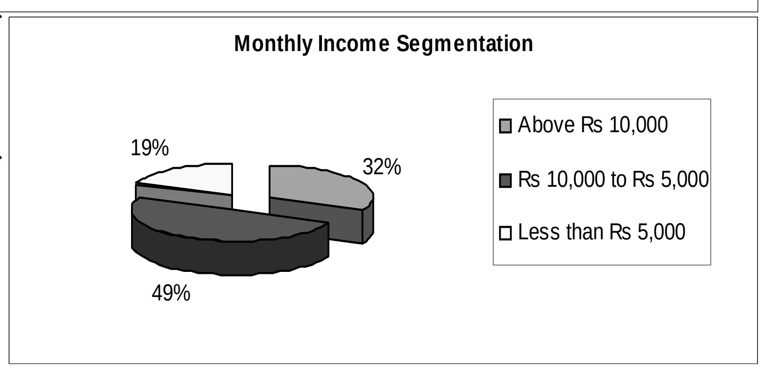
5.3.1. Profiling of the Respondents

The questionnaire was administered to 53 respondents, a majority of whom (68%) belonged to the Most Backward Caste. The remaining 32% belonged either to Backward Caste or Other Backward Caste. Further, none of the respondents reported having a Below Poverty Line (BPL) or Antodaya Anna Yojana card. Literacy levels were high with over 60% of the respondents said that they could both read and write. The average family size of the respondents stood at 4.3.

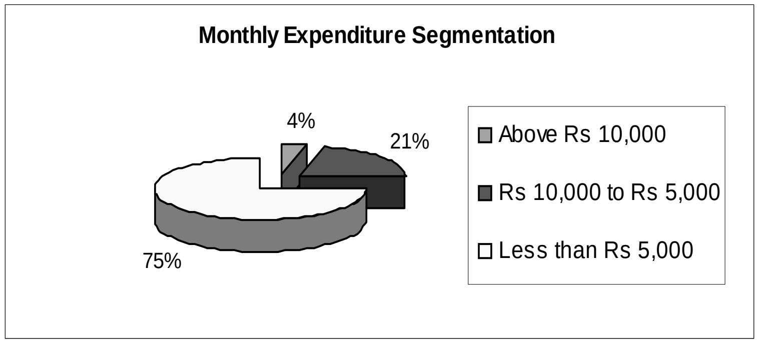
Segmentation of the respondents along livelihood patterns revealed self-employment as the most popular source of income, with 28% of the respondents reporting it as one of the sources contributing to their monthly income. 16% of the respondents earned a regular wage or a salary, with animal husbandry a close third, reported by 12% of the respondents. The pie chart below gives a more detailed picture of occupational distribution.



The pie chart shows three income brackets of the participating households.



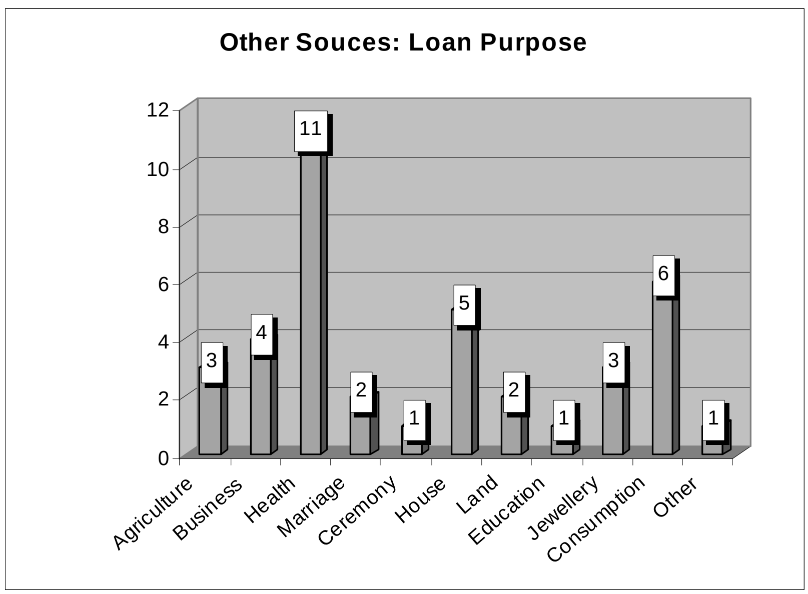
A majority of the households had an income of over Rs 5000 a month. The average income of the households stands at Rs. 1,00,000 per annum with a standard deviation of around Rs. 53,000.



As the pie chart below shows, there is opportunity for saving amongst the respondents. Though the study does not systematically capture information on how people save, chit funds do seem to be a popular informal saving instrument with the community, which became evident when many people reported raising money from chit funds to finance their house construction or renovation needs.

5.3.2. Credit History of the Respondents

As stated earlier, all respondents had a good credit history with MCFI and were eligible for the third loan. An analysis of loan usage showed that 43 respondents had used the loan from MCFI for productive purposes, and only 10 had used it for purposes like health, marriage, house repair, and purchase of land or jewellery.

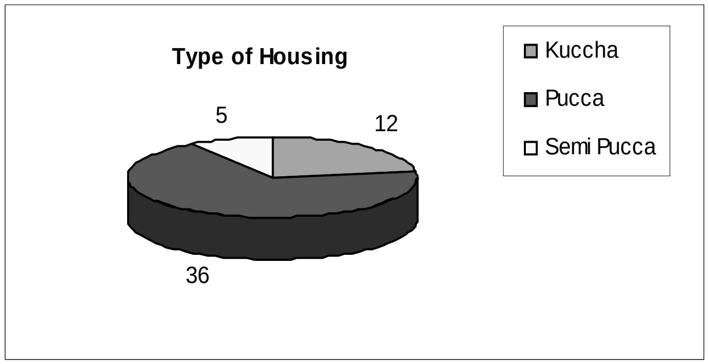


This, however, was not true for loans borrowed from informal sources. Also significant here is the fact that 75% of the SHG members interviewed confessed to taking loans from informal sources other than the SHG. Over 10% of our respondents had used this money for some housing activity. The most popular source of informal loans was the money-lender (44%).

5.3.3. Housing in the Area

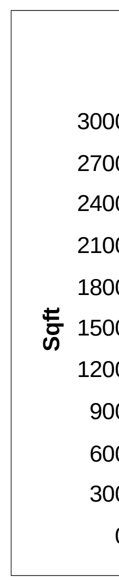
The survey tried to capture the housing situation among the respondents; focusing on the kind of houses they presently live in, how they came to own the house, kind of repair work undertaken from time to time, and amount needed spend on the upkeep of the house.

The physical verification of the houses by the surveyors revealed that a majority of them lived in in a "Pucca House". Only some 12 households, that is, a little over 20%, lived in Kuccha houses, whereas another 5 lived in a Semi Pucca house.



Those living in Kuccha houses had, except in two cases, only one room, which compared unfavourably with those owning pucca homes all of whom had at least two rooms, or more in some cases. Further, while 50% of the respondents had a separate kitchen, 80% did not have a toilet. These statistics seem to indicate that loans for housing may not necessarily be a product in any great demand, especially if one were to juxtapose this to the average family size of 4.3.

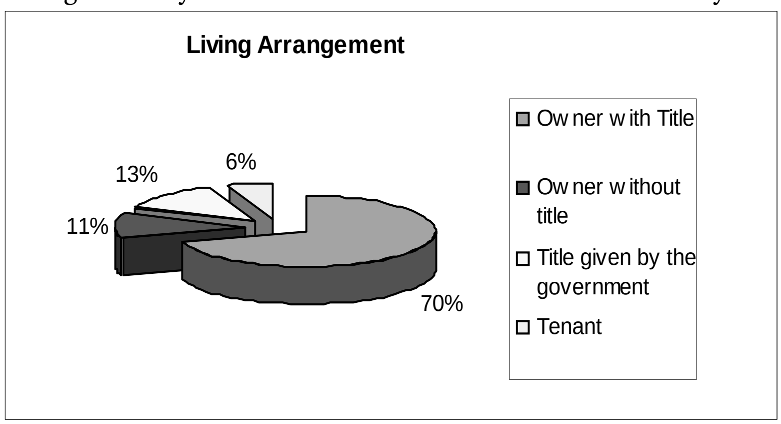
We further looked at the area of the house. The bar chart below states the findings:



As is evident from the above diagram, a significant majority of the people had houses ranging from 300 sq ft to 600 sq ft. The much quoted Gandhigram Model talks about only a 225 to 250 sq ft of a house.

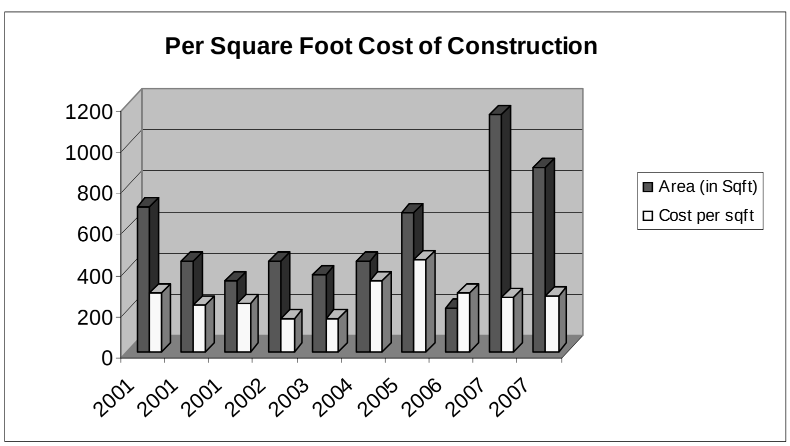
It may, however, be good to keep in mind that for many of the households, a significant area is used to house power looms. Presence of power looms was in fact also stated as one of the primary reasons for households investing year after year in roof repair (something that will become evident later) and preferring to own a pucca house.

Almost 70% of those interviewed were owners of the homes they lived in, holding legal titles in the names of their husbands, father-in-laws. or husband's grandfather for a majority of cases. In a sample of 53, only three respondents were tenants. Of the 50, 76% had inherited the house or the land, and only 6 had bought the house they were currently residing in. Only one of these six had taken a loan to buy the property.



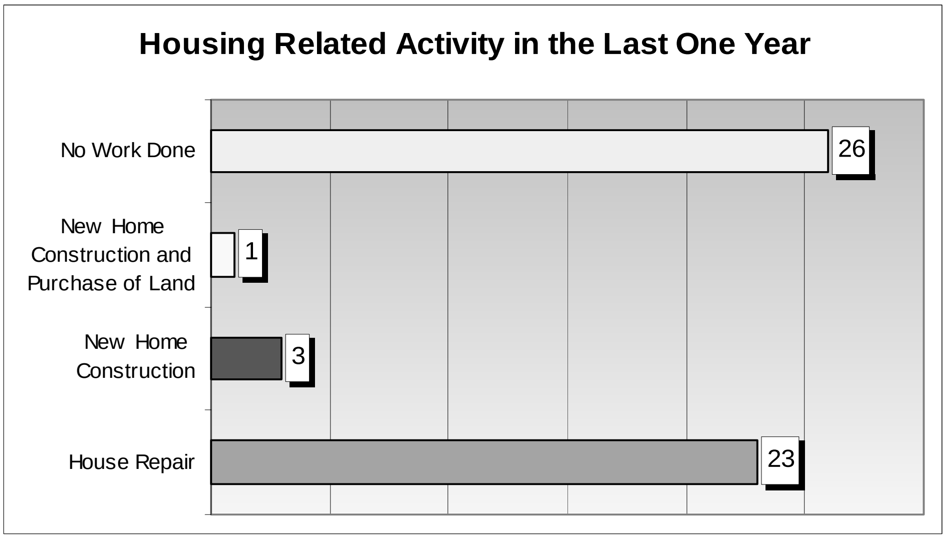
If we look at the per square foot cost of constructing a pucca structure for houses constructed after 2001, at least 8 of the 10 houses reported paying less than Rs 250 sq. ft.

If we increase this cost to Rs 300 per sq ft, then a 250 sq ft house can be constructed in Rs 75,000. However, one must also take into consideration the fact that the majority of respondents want houses in the range of 300 to 400 square feet rather than 250 square feet. This cost also does not factor in cost of land.

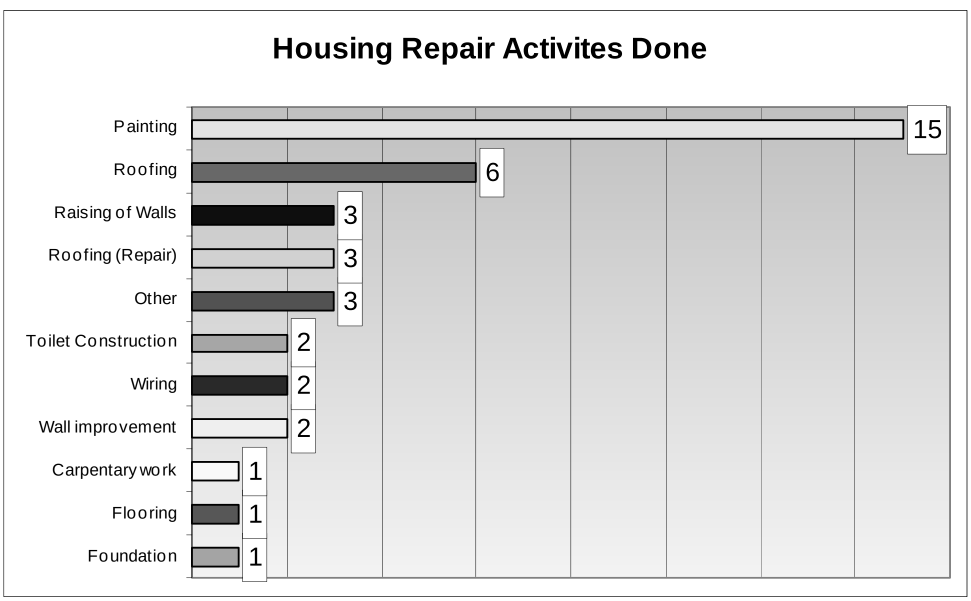


When asked about the availability of the construction material, 65 percent of the respondents said that none of the material had been available locally, that is within the village. A majority of the respondents reported sourcing material from the nearby town - in this case the block headquarters of Konganapuram.

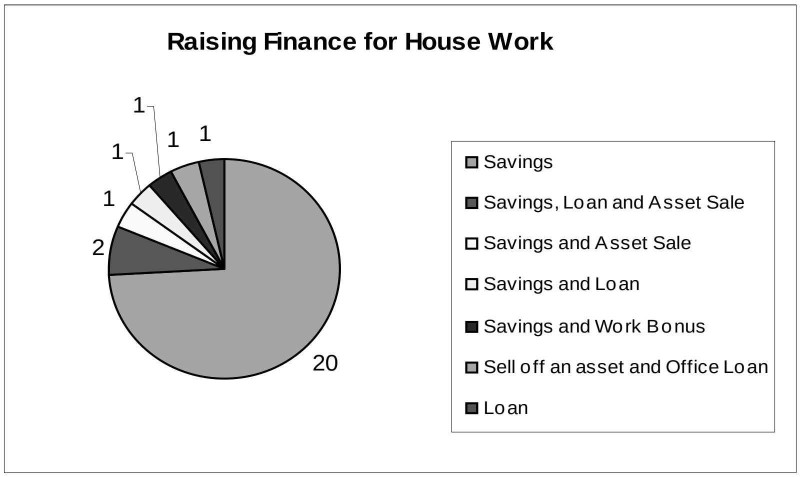
The survey tried to specifically look at the construction or repair work that the respondent households had done in the last one year, involving an expenditure of over Rs. 500.



Twenty six respondents did not have any construction activity done. For those who did do some kind of construction work, not a single respondent reported getting any technical assistance, and almost all, except two cases, hired masons or labourers

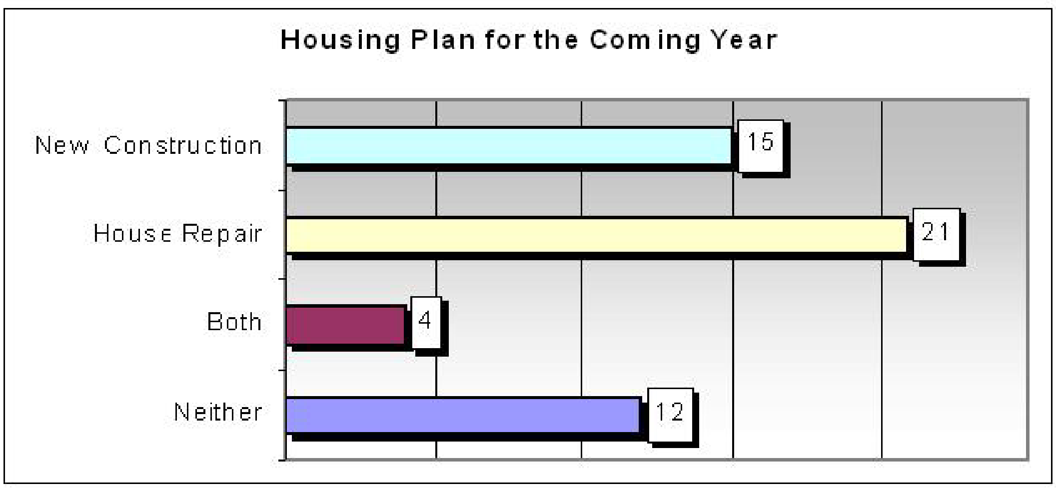


did the actual construction. The average amount spent on repair by respondents stands at Rs. 3020 (if we exclude one outlier) and Rs. 1994, if we exclude top 20% of the expenditure on repair. Painting and roof-related work were found to be the most recurring activity among the interviewed households. Twenty of the 27 respondents who reported doing construction activity used savings to finance their house work.



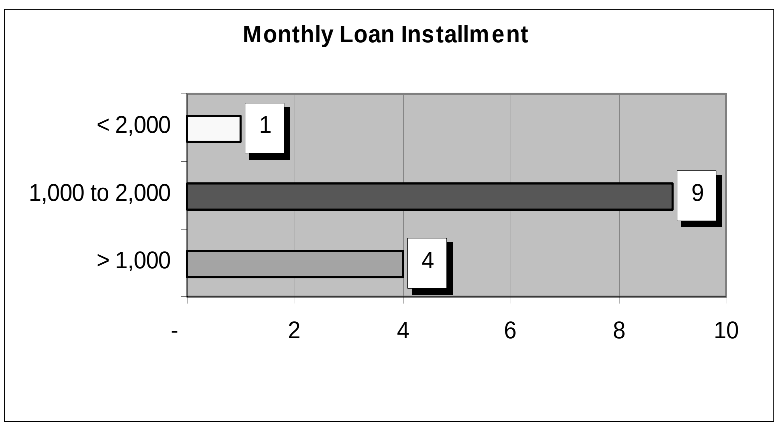
Regarding future housing plans, we asked all 53 respondents if they would be eager to own a house more suited to their needs than the one they were currently living in.

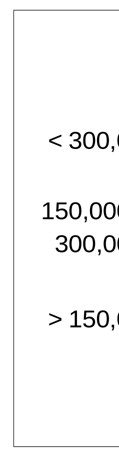
Close to 40% of the respondents said that they would, with 19 of them willing to undertake construction in the coming year, if finance was available. The figure below represents the amount that the respondents were willing to obtain in loans for the purpose of housing.



Of the 20 people interested in owning a better house, 19 expressed willingness to take a loan to finance construction, while only 14 were keen on taking a longer term loan for the purpose.

As for the amount that the respondents were willing to set aside every month towards payment of the loan, a majority of the respondents quoted an amount between Rs. 1,000 and Rs. 2,000. A housing loan for renovation from MCFI with a monthly instalment of Rs. 1,300 and of Rs. 2,300 for house construction seems close to the client's ability and willingness to pay.





5.3.4. Focus Group Discussions

5.3.4.1. Methodology

In total, six focus group discussions in three villages were conducted, choosing villages which differed significantly from each other in livelihood opportunities available to the people. All of the women that participated in a particular discussion were members of MCFI from the same village but not necessarily belonging to the same group.

This choice of sample was based on the fact that the housing needs of people vary depending upon the kind of house they were presently living in, which also was assumed to be an indicator of their financial position. As such, their current housing situation could be an accurate indicator of their ability to finance further constructions or new constructions of a house.[2] Based on this assumption, participation in different discussions was determined by whether the SHG member lived in a *Pucca* house or a *Kuccha* house.

The aim was to ascertain to what extent the socio-economic conditions of the village in general and the livelihood options available to people in particular impacted the choices people made while planning their finances. More specifically, it was to understand what people prioritise when it comes to investing money. Does this change if the money comes as a loan, and if it is given specifically for housing, what are the terms and conditions that would affect the take up?

5.3.4.2. Findings

In Vettuvapatti village, people are dependent largely on agriculture for livelihood. While most of the people have at least some land of their own, a significant number among them also work as agricultural labourers.

In this village, there was a general reluctance on part of the people to take a housing loan, irrespective of the kind of house they presently owned. A water scarce area, a majority of the participants across the groups expressed willingness to take a loan either for digging a bore well or for educating their children instead.

Thus, securing livelihood, in the present and for future, seemed to be the paramount concern for the women. While they did acknowledge housing as an important need, they expressed inability to repay the loan. There was categorical interest in taking loans only for income-generation activity.

Those who did own a pucca house reported taking loans from chit funds to get construct them. Important to note here is that those who did take loans for housing construction did so some 4-5 years back when the village was hit by a storm that destroyed most of the Kuccha houses in the area. Even at that time, the women settled for loans which allowed for six monthly repayments, and almost all expressed inability to pay monthly due to their livelihood.

In stark contrast to Vettuvapatti, Puliampatti, situated on the banks of river Kaveri, was an agriculturally prosperous village. For women who owned a Pucca house, many had husbands or sons working in jobs which ensured a regular stream of income to the households even in lean agricultural seasons. A majority of the women here were willing to take a loan for housing and expressed willingness to pay monthly instalments ranging from Rs 1,500 to Rs 3,000.

People living in Kuccha houses were largely agricultural labourers but reported a more secure stream of income, given higher overall returns from agriculture in this region. Here again, livelihood and education were among the most articulated needs of the people, but unlike Vettuvapatti, while women were open to the idea of taking a housing loan, it was not without some level of circumspection.

Women confessed to loan terms being an important determinant of their willingness to take a loan. Their own preference was for a loan with semi-annual repayments, for which monthly repayment would not exceed Rs. 1000 per month for most women or Rs. 1,500 for some. Thus, while the respondents were better off, their income flows were also governed by the seasonal character of agriculture.

In another village, women living in kuccha houses and dependent on labour showed greater willingness to take housing loans. They, however, quoted a much lower repayment amount, ranging from Rs. 700-1,000, as the amount they could set aside each month to pay the loan instalment. Though labourers, the women here were willing to pay the loan in monthly instalments. Proximity of this village to the block headquarter could be one reason that people in this area found some (non agricultural) work for a certain number of days in a month.

The last discussion had a mixed group of people living in houses that were either pucca or semi pucca. A majority of the discussants expressed interest in borrowing money for either repairing their house or extending the present unit. A significant number of households in this village were engaged in some kind of enterprise (generally cloth or saree weaving), and therefore a house was seen as an asset, investing in which would yield returns. Even respondents who did not wish to set up a power loom saw it as an opportunity to start a small shop at home and earn some extra income. Further, given that the economy of the village was not dependent entirely on agriculture, the women were willing to pay back the loan in monthly installments of up to Rs. 2,000.

Thus to summarise the findings from the FGDs, it may be said that:

• **Attending to livelihood needs is the first priority for the rural poor.**
• **Willingness for taking a housing loan exists only among people who view their house as an asset that would add to the household income.**
• **Where a house does not directly contribute to family income, peoples' decision would be governed more by the terms at which the loan is offered.**
• **Need of a house is pressing for people living in Kuccha houses but the challenge would be to design a product that takes into consideration their income flow and the frequency and the amount they can set aside for loan repayment, which typically appears to be less than Rs 1000 per month.**

6 Discussion of Results

This study explores how best to design and provide HMF specifically targeted for new house construction to low-income communities through an MFI. This study is merely a preliminary attempt to gauge interest in HMF and how best to offer such a product. In order to facilitate scale up, more intensive research on product design and impact evaluation is called for. The size of the study also constrains us from being able to generalise the results. However, certain broad trends appear which are helpful as we seek to refine our research in this emerging area of microfinance.

One of the most significant results from this study is that demand for housing finance is extremely dispersed, unlike demand for microfinance. As such, for MFIs which are used to providing a standard product, it may be difficult to sustain and develop the HMF product.

The focus group discussions indicate that household income and livelihoods are an important determinant of demand for housing. While there are people living in kuccha housing who may require loans for housing, these amounts are likely to be small. However, conversion from kuccha to pucca offers MFIs an opportunity to provide their clients with a much-needed service and also to innovatively combine their products with government subsidies. For instance, RepCo Bank in the Nilgiris has extended a small housing loan to convert kuccha houses to pucca. Here Rs. 2,500 is the government subsidy to BPL families, 500 is the family contribution and Rs. 7,000 is the loan from RepCo. Those families that use their homes as home-based businesses or that were a bit wealthier also expressed strong interest in improving their homes.

While most MFIs are able to offer up to Rs. 1 Lakh as a HMF loan, most people who can afford these loans appear to require a higher amount. While results from the study show that at the rate of Rs. 300 per square feet, a 300-400 square foot house (the average house size of our respondents) is about Rs. 90,000 to 1,20,000, this amount does not include cost of land. However, in rural areas, many people own some land, so this may not be as much of a concern.

Land titles were not an issue in our small sample size. Most people claimed they had land titles. However, there may be regional variations in the availability of land titles.

Client willingness to pay seemed difficult to pinpoint. As we pointed out earlier, demand is dispersed and depends on household income. Other needs like livelihood creation and education gain precedence over housing needs. While current expenditure on housing, measured by expenditure in the last one year, was small, with painting and roofing representing the most popular activities, respondents' plans for the future were far more optimistic. Close to half planned on some house repair and about a third claimed that they wanted to build a new house in the coming year. Similarly, about a third expressed interest in taking a long-term loan for financing housing activities. Of these 14, the majority quoted an amount between Rs. 1,000 and 2,000 as being the monthly instalment they would be willing to pay. Once again, the focus group discussion provided greater clarity. Respondents engaged in agricultural labour were not interested in housing loans. Respondents engaged in casual labour, living closer to bigger towns which had greater employment opportunities and respondents who were self-employed quoted an amount between Rs. 1,000 to Rs. 1,500 as being the monthly instalment as well.

7 Conclusion

Given that that HMF is an emerging area in the Indian microfinance sector, there are very few successful examples of scaleable HMF. As such, it is difficult to draw principles that can be generalised across the sector. However, this study is meant as a first step towards understanding HMF as a product and how to improve product design in order to be able to offer HMF in a more scaleable form to increase outreach and availability.

This study shows that demand for housing exists, although in an extremely dispersed manner. Demand for housing is also dependent upon household income and whether or not housing can be used as a productive asset for the household. Clients' desire for housing can often be much more optimistic than what MFIs are able to offer. For instance, while MFIs estimate that respondents will require about 200-250 square feet for a house, most respondents indicated that their current house is between 300 to 400 square feet. However, it appears that the amounts MFIs are able to offer is enough to build a house, if not to finance the purchase of the land on which the house is built. The demand for the repair and renovation product appears to be much stronger than the demand for new construction. We also learn that those excluded from housing finance are an extremely diverse group. There are those who require extremely small amounts to convert their kuccha houses into pucca houses and then those who claim to require up to Rs. 3 lakhs to build a house.

While this study is extremely context-specific owing to its small size, the themes that emerge direct us towards further areas of research. Firstly, there may be an opportunity for tie-ups between organisations interested in providing technical assistance or creating new technologies for building low-cost housing and MFIs. It may be worthwhile to research how houses can be built in a cheaper and more durable manner. Further, currently, respondents need to travel to the closest town to obtain materials, and there may be value in bringing the materials to the villages or finding alternative and locally available sources for construction. Secondly, since demand for housing is so diverse and segmented, it would be interesting to look more closely into variations in housing preferences of different income groups and whether or not this can be incorporated into the HMF product. Lastly, there is need for evaluation of the housing product and product design experiments to understand how important this product is to the lives of microfinance clients. This may lead to greater donor funding for this product.

This study explores the feasibility and the scalability of offering housing microfinance to low-income clients through an MFI. It would appear that housing demand is extremely dispersed and diverse. As such, scalability is difficult to attain. This study reveals that more in-depth and contextual studies regarding demand are necessary before launching a housing microfinance product.

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Notes

[1] While this paper provides an overview of some of these issues, for a more in-depth analysis of these issues, please refer to the following publications: Young, Cheryl (2007), "Housing Microfinance: Designing a Product for the Rural Poor", Centre for Microfinance Working Paper Series No. 19, Krishnan, Ramji & Taishi (2007), A Report on Low Income Housing In India: Challenges and Opportunities for Microfinance , available here: http://www.habitat.org/housing_finance/pdf/low_income_housing_in_india.pdf, and The Center for Urban Development Studies, Harvard University (2000), "Housing Microfinance Initiatives." The literature review is paper is based primarily on Krishnan, Ramji & Taishi (2007).

[2] In fact, CASHPOR House Index is used as a measure of poverty by many microfinance institutions and NGOs. The structure of the house and the materials used to construct it are appraised to determine the poverty levels of the inhabitants (Young, 2007).

Microfinance: A Coping Mechanism for HIV/AIDS in Tamil Nadu

- U Devasenadhipathi*, S Mariappan* & V Nirmala**

Introduction

Government of India in the past six decades took various initiatives to mainstream poor households with the formal financial system, though with mixed results. In the mid 90's, the group approach adopted by the Self-Help Group Bank Linkage programme (SBLP) was a marked shift from the individual target oriented approach adopted earlier in other development schemes or programmes.

Poverty increases vulnerability of the poor to the disease, which in turn decreases their ability to prevent further economic losses.

Globally, there are 33 million Human Immuno Deficiency Virus/Acquired Immuno Deficiency Syndrome (HIV/AIDS) infected people living in 2007. It is reported that 95% of the new HIV infection occur in developing countries. This sets in a vicious cycle of poverty among the poor. Poverty increases vulnerability of the poor to the disease, which in turn decreases their ability to prevent further economic losses. Household with infected persons experience decline in income due to loss of income of a sick adult; loss of economic productivity of a healthy adult who is the caregiver; and substantial rise in household expenditures, mainly for medical treatment. In India there are between 2.0-3.1 million people living with HIV/AIDS in India as on July 2007, and a prevalence rate of 0.36%. Tamil Nadu ranks sixth in the country, with a prevalence rate of 0.39%. An estimated 1,44,146 HIV and 63,517 AIDS cases live in the state (NACO 2007).

Each household, especially those with HIV/AIDS infected persons, has its own way of handling economic stress. While households with economically diversified activities are in a better position to cope with such economic stress, the others are compelled to dissave, reduce consumption expenditure, borrow from both formal and informal sources, and resort

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to reduction in expenditures like non-emergency health needs, school fees, etc. Ultimately, the latter may also be forced to sell household assets, like land, jewels, live stocks, and other items, which reduces their future ability to earn income. In this context, the potentiality of Microfinance Institutions (MFIs) to serve as an "enabling strategy" for high-risk households is profound. "Microfinance programmes are one of the few interventions" that have demonstrated the potential to enhance "poor household's income in a cost-effective manner" (Jill 2000, p. 3). Access to credit provides the business - a means to survive the crisis. They provide the households a means to steady income flow; savings opportunities that are easy to liquidate and retain value; increase coping mechanism and reduce vulnerability to loss; and saves household from selling items of productive capacity (Jill 2000, p.3). Several affected countries have initiated experiments with MFI as intervention strategy to combat economic deterioration of HIV/AIDS households.

MFI provide financial services to low-income individuals. The Micro Credit Summit 2007 held in Washington, D.C., appealed to reach out to the poor in a sustainable manner, by providing them economic opportunities to start small enterprises.

However more vulnerable household would be less likely to use microfinance effectively. Under HIV/AIDS crisis, it would become difficult for it to make investment in productive activity, save, repay loans or pay insurance premiums. Under such circumstances, grants or social services would be a more suitable intervention for the affected households. According to CGAP (2003), financial services may be disseminated to: i) HIV-Positive, but still productive individuals; ii) productive family member of HIV-positive individuals; and iii) surviving spouse, children or parents.

Intervention strategy in the context of MFI–HIV/AIDS linkage is at experimental stage, particularly in most affected areas of the world. Available literatures in this context are also highly limited, because the strategy of facing the challenges of providing microfinance services to HIV/AIDS infected individuals is very recent. There is a need for the MFIs to develop new location specific strategies to handle this problem. The initial attempts were made in Sub-Saharan Africa (ICAD 2001, p. 1). World Relief (Rwanda) introduced a pilot lending program for AIDS infected people during 1999, which was discontinued due to 100% member of a borrower group defaulted on the loans taken (UNCDF/SUM 2003, p.2)

Parker, Singh and Hattel (2000) found that 57% MFIs assisting HIV/AIDS infected clients faced difficulties in loan repayments and 27% of them had higher demand for small loan. Further, the clients had to divert enterprise loans for health care and funeral expenses, which made them temporarily suspend the use of microfinance services.

A survey (ICAD 2001) of several countries in Africa revealed that 41% of the interviewed MFIs showed increased overall cost structure due to the impact of HIV/AIDS. The main causes reported were – i) increased loan loss provision (27%);

increased staff benefits, like medical expenses reimbursement (27%); and induction costs of new client (14%)

In the Intervention with Microfinance for AIDS and Gender Equity (IMAGE) study, which provides a multi-level intervention in economics, social and educational inputs, Pronyk and others (2008) found that the multi-level intervention provided in terms of economic, social and educational inputs resulted in reduction in violence levels and HIV risk behaviour among its women participants in rural South Africa. They found the application of a social capital framework to address major public health challenges to be important and useful in the country.

Vulnerability of HIV/AIDS affected households revolves around the disease, death and loss of productive capacity (income) of the infected adults and their care givers. Such households are compelled to reduce food consumption; postpone non-emergency health care requirements; switch to less risky business activities or reduce income generating activities; liquidate savings; and sell productive assets, which makes the family's future productive ability difficult (Jill 2000, pp.1-2). The erosion of economic resources of the household depends upon the stage of the disease. An overview of family's decision-making and coping mechanism during the crisis can provide useful insight into suitable policy formulation to reinforce household's economic security through extension of assistance so as to mitigate the impact of the crisis. The potentiality of MFIs to operate as an enabling strategy among high-risk groups is well acknowledged. Using microfinance as an enabling strategy for improving women's status and decreasing their vulnerability to HIV infections is not yet tested. The present survey an attempt of microfinance to reach out to HIV/AIDS infected poor women in Tamilnadu.

The objectives of the present paper are as follows:-

i) to overview the socio-economic background of the sample HIV/AIDS infected SHG respondents;
ii) to examine the problems encountered by the sample respondents in SHG formation and obtaining loans;
iii) to survey the perceived benefits of joining SHG; and
iv) to get an insight into the coping mechanism adopted by the SHG members in dealing with the disease and its economic consequences.

The remaining paper runs as follows. Section - I gives the introduction and objectives, while Section - II outlines the data and methodology used by the study. Section - III discusses the results, and the concluding remarks are given in Section - IV.

Section II : Data and Methodology

Positive Women Network (PWN+) organisation was formed by women living with HIV/AIDS at Chennai, Tamil Nadu, in October 1998. it has a tie-up with other

PWN+ organisations in Kerala, Maharashtra, Manipur, Delhi, Hyderabad and Rajasthan. Within Tamil Nadu, its network organisations extend across Villupuram, Namakkal, Nagapattinam, Madurai, Tirupur, Tiruvarur, Tirunelveli, Salem and Virudhunagar districts. Of them, the present paper focuses on the activities of PWN+ in Villupuram district. Under it, Holy Mother Teresa Women's Group was formed by 15 women from economically weaker sections living with HIV/AIDS on 02 February 2006. They saved Rs. 50/- per month, which was lent within the group. In six months, they decided to set up business by investing Rs.1000/- each, by taking a loan of Rs. one lakh. In five months, they earned Rs. 50,000 through the New Modern Garment store set up by them in Villupuram. These women were united in their attempt to earn independently and provide for their children by forming a SHG of their own. When they decided to approach Indian bank for a loan, the first challenge that confronted them was that, contradictory to the fundamental principles of the SHG concept, the members of Holy Mother Teresa Women's Group belonged to entirely different villages and cities. Doubting the cohesiveness such a group can possess, Indian bank rejected their request of creating a savings account which could provide them access to services of Revolving Fund for credit, skill, training, and economic assistance such groups are normally entitled to. They approached District Rural Development Agency (DRDA) in Villupuram, which appreciated their special position, and the then collector requested the bank to treat the group as a special case. However, the wait was too long. After nearly a year, while the group was almost disillusioned and had decided to dissolve and return the cumulative savings, the PWN+ happened to seriously consider their case. In 2006, two of their members had attended a training program in Thailand organized by the Women and Wealth Project [a collaboration initiative of the United Nations Development Programme – (UNDP) - Regional HIV and Development Programme, PDA-Thailand, and WEINC working to empower women living with HIV/AIDS through social enterprises]. On return, the members launched an initiative Project Seed in January 2007, in partnership with a Chennai-based organization named Buds of Christ (working to empower children with HIV/AIDS). It was supported by American Jewish World Service project. The project had three objectives:-

i. to form self-help group (SHG) of women living with HIV/AIDS to take up savings and credit activities;
ii. to build capacity of these women through trainings and exposures to various business models in Tamil Nadu; and
iii. to support and strengthen HIV/AIDS women to initiate group and individual business units.

While Project Seed team started organising women living with HIV/AIDS into SHGs, PWN+ was already in touch with the Holy Mother Teresa Women's group. It offered them a group loan of Rs.10,000 as a pilot test to examine their potential to form micro enterprise. The members used it for saree business and successfully repaid it, which was repeated through successive lending. Meanwhile, with technical consultancy Buds of Christ offered a loan of Rs. 1,00,000 to the group to start a micro-enterprises. After great concern on their own ability to start a business and run the activity successfully, the group decided to accept the offer and started a saree shop. Each member agreed to offer an additional margin of Rs. 1,000/- for the initial investment in the business. Buds of Christ, as a technical partner, initiated the process through a spectrum of the following services:- i) development of business plan; ii) budgeting; iii) agreement between PWN+ and Holy Mother Teresa Women's group; iv) disbursement of loan amount; v) identification of capacity building needs; vi) delivering capacity building support; vii) selection of launch date; viii) creation of marketing communication; xi) launch operations; and x) on going business review and support. In July 2007, a two-day intensive training program was organised at Villupuram PWN+ (VPWN+) office for these members by Buds of Christ and leader of Open Minds, Chennai, as a resource persons in areas covering:- i) market research for understanding the market; ii) planning; iii) financial management; iv) staffing; v) procurement operations; vi) pricing; vii) advertising and promotions; and viii) sales. It was agreed between PWN+ and the group to have bank linkage for crediting the loan amount. The group received acceptance from the new Indian Bank Manager at Koliyanur, after reviewing the group's savings and credit activities, besides the support extended by PWN+ and District Rural Development Agency (DRDA). Soon with his assistance, the group received a credit assistance of Rs. 25,000/- With Deepavali festival as the target, their saree store was inaugurated on 22 October 2007 with the support of PWN+ and Buds of Christ, in the presence of Branch Manager, Collector and Project Officer of DRDA. The group successfully started sales by catering to customers' requirements and adopting direct sales strategy, besides sales through shop. Thus, these women members, under support services of PWN+ and Buds of Christ have developed confidence in handling the business.

The present study is based on the secondary information provided by Positive Women Network (PWN+ - 2008) on the functioning of self-help groups in Villupuram district. Primary data have also been gathered from 36 women living with HIV/AIDS in Villupuram district, belonging to three Self-Help Groups (SHG), viz., Holy Mother Teresa Women's Group, Annai Indira and Senthamil. Data were collected during October-November 2008. Although the intention was to collect data from all the 100 SHG women members, it became difficult to contact them either because the group dissolved, or they came only for the meetings or trainings, attracted mainly by the small sum of money they received as stipend to attend the same. Many also complained that their family members were not supportive or encouraging them to join SHG due to their HIV/AIDS status. Besides, their family members also openly accused them of being invalid and economically burdensome.

The objectives of the study have been analysed using simple averages, percentages, ratios and Garret Ranking technique (1969) to rank the respondents' HIV/AIDS coping mechanisms and perceived benefit of SHG membership.

Garret ranking technique was used to convert the order of preference given by the sample positive women into ranks. The following formula was used to convert the order of merit into ranks.

$$\text{Per cent position} = \frac{100(Ri_j - 0.5)}{N_j}$$

where,

Rij = rank given by the jth individual for the ith factor, and
Nj = number of factors ranked by the jth individual.

After obtaining the% position of each item, it was further converted into scores by using Garret's table. The computed scores of the individual respondents for each factor were added and divided by the total number of respondents who had responded. The mean scores of all the factors thus arrived at were arranged in a descending order and ranks assigned according to the scoring.

Section III: Results and Discussion

This section discusses the results of the study. Table 1 presents the socio-economic background of the sample respondents. It shows that three-fourth of them belonged to rural and the rest to urban areas. It indicates greater need among the rural infected members to earn an income to support self and family. More than two-third of the sampled respondents were widowed (69.4%), around a quarter married and one separated. The widowed had been infected by their late husband.

Nearly half the respondents came from low (47.2%), 38.9% from medium and the rest from high (13.9%) standard of living households. This reflects the fact that poverty is an important cause of the disease.

Nature of co-residence of the sample respondents reveals that 30.5% of them

Table 1: Socio-Economic Background of the Respondents

Sl.No.	Details	Number	Percentage
	A. Residence:		
1	Rural	27	75
2	Urban	9	25
	Total	36	100
	B. Marital status:		
1	Married	11	30.6
2	Widowed	24	66.6
3	Separated	1	2.8
	Total	36	100
	C. Standard of Living Index:		
1	Low	17	47.2
2	Middle	14	38.9
3	High	5	13.9
	Total	36	100
	D. Co-Residence:		
1	Living alone	9	25
2	Living with husband	11	30.5
3	Living with in-law	6	16.7
4	Living with parents	10	27.8
	Total	36	100

Note: Low SLI – 0 – 9; Middle SLI – 10 – 19; High SLI – 20 and Above currently live with their infected husbands. Around 28% of the widowed/separated are residing with their parents, 25% live alone, and the rest (16.7%) with their in-law. The co-residency reflects the dependency and helplessness of the infected respondents.

Table 2 records details on HIV contraction and SHG membership of the sample respondents. It reveals that all of them have contracted the infection from their spouse. Nearly 39% have been infected for 2-3 years and 36% for 3-4 years. About 19% are suffering for 4-5 years, while the rest have been infected for 1-2 years.

As regards HIV positive SHG membership, majority (44.4%) are its members for nearly three years, and 28% have been a member for nearly two years. About 13.8% are members for about one and a half years, and 11.1% for about a year.

Table 2: Details of HIV Contraction And SHG Membership

Sl.No.	Particulars	Number	Percentage
A.	Source of HIV Infection:		
1	Through Spouse	36	100.0
2	Blood transfusion	0	0.0
	Needle sharing	0	0.0
	Total	36	100.0
B.	Period of HIV Infection:		
1	1 – 2 Years	2	5.6
2	2 – 3 Years	14	38.9
3	3 – 4 Years	13	36.1
4	4 – 5 Years	7	19.4
	Total	36	100.0
C.	How long you have been in the HIV Positive Women SHG? (in months)		
1	6 – 12	4	11.1
2	12 – 18	5	13.8
3	18 – 24	10	27.8
4	24 – 30	1	2.8
5	30 – 36	16	44.4
	Total	36	100.0
D.	Who motivated you to join in the HIV positive women SHG?		
1	Positive Women Network	31	86.1
2	ICTC counselor	3	8.3
3	NGO Social Worker	2	5.6
	Total	36	100.0

About 86 % of the sample respondents had been motivated by the Positive Women Network to join this SHG. Less than 10% had been encouraged by Integrated Counseling and Testing Centre (ICTC – 8.3%) and NGO social workers (5.6%) to join the same.

Table 3 contains age distribution of the sample respondents. Half the respondents belong to 30-35 age group, followed by 19.4% in 35-40 age group. About 13.9% belong to 25-30 age group and the rest (8.3% each) to 40-45 and 20-25 age groups respectively. This indicates that majority of the sample respondents had been infected at an early age of less than mid-30s in their life, which is pathetic.

Table 3: Age Distribution of the Respondents

Sl.No.	Details	Number	Percentage
1	20 – 25	3	8.3
2	25 – 30	5	14.0
3	30 – 35	18	50.0
4	35 – 40	7	19.4
5	40 – 45	3	8.3
	Total	36	100

Education details of the respondents are shown in Table 4. A quarter of them are illiterates, while more than a quarter are educated upto middle and high school levels (27.8% each respectively). Another 16.6% had completed primary education, while only one is qualified with higher secondary and above (2.8%) education.

Table 4: Educational Details of the Respondents

Sl.No.	Details	Number	Percentage
1	Illiterates	9	25
2	Primary	6	16.6
3	Middle	10	27.8
4	High	10	27.8
5	Higher Secondary and Above	1	2.8
	Total	36	100

Table 5 contains savings details of the sample respondents, who have been saving Rs. 50-55 per month as a Self-Help Group member, a pre-condition to obtain loan under the scheme. About (44.4)% of them had a savings of Rs. 1500-2000 at the time of interview. This was followed by 27.8% with savings between Rs. 500-1000, and 22.2% between Rs. 1000-1500. Only two members (5.6%) had savings of less than Rs. 500. It is heartening to note that despite their medical expenses, these women have come forward to save and become a Self-help Group member for their own and family's economic sustenance.

Table 5: Savings Details of the Respondents

Sl.No.	Particulars	Number	Percentage
A.	Savings:		
1	Up to 500	2	5.6
2	500 -1000	10	27.8
3	1000 - 1500	8	22.2
4	1500 - 2000	16	44.4
	Total	36	100
B.	Period of savings:		
1	6 - 12	4	11.1
2	12 - 18	5	13.8
3	18 - 24	10	27.8
4	24 - 30	1	2.8
5	30 - 36	16	44.4
	Total	36	100

Besides income, the period of savings of the sample respondents largely coincides with their period of SHG membership. It shows that 44.4% of them have been saving for about three years now, followed by 27.8% for about two years. Only 11% have been saving for about a year.

Table 6: Loan Details

Sl.No.	Mother Teresa SHG Members' Loan and Investment Details	Amount
A.	Revolving Fund from Bank (12% Interest per Annum)	25000
	i) Share per member (14 members)	1785
B.	Loan from Positive Women Network (Interest Free)	125000
	Investment per member in Modern Saree shop	8928

Table 6 illustrates the loan details of the 14 members of the Mother Teresa SHG who had received loans. After the intervention of the District collector, its members were granted a Revolving fund of Rs. 25,000/- by Indian Bank (Kollianore Branch) in Villupuram at 12% interest per annum on March 2007. Of this, Rs. 10,000/- was granted as subsidy, which the members have not yet availed as the amount is still being used on rotation. Each member has taken and invested an amount of Rs. 1785/- on an average.

Encouraged by the performance of the group, Positive Women Network has provided them interest free loan worth Rs. 1,25,000. The members have invested Rs. 8928 per head on saree business, which is doing quite well.

It is worth noting here that the rest of the members have formed the group, but have been unable to even open bank accounts owing to their HIV/AIDS status.

Table 7 illustrates the current occupational structure of the sample respondents. It reveals 14 respondents (38.9%) to be engaged as Non-Government Organisation (NGO) workers. About five are engaged as agriculture labourers (13.9%), while four each (11%) are engaged in petty business and non-agricultural labour respectively. Two (6%) work as domestic servants, while one each are engaged in flower business (2.8%) and tailoring (2.8%), respectively. Thus, the table reveals all respondents to be employed in traditional and less remunerative activities.

Table 7: Occupational Structure of the Respondents

Sl.No.	Details	Number	Percentage
1	Agricultural labourer	5	13.9
2	Non-Agricultural labourer	4	11.1
3	Petty business	4	11.1
4	NGO Worker	14	38.9
5	Domestic Servant	2	5.5
6	Flower Business	1	2.8
7	Tailoring	1	2.8
8	Unemployed	5	13.9
	Total	36	100.0

Table 8: Monthly Income Distribution of Sample Households

Sl.No.	Particulars	Respondent Income Rs. (%)	Household Income Rs. (%)
1	No income	4 (11.1)	0 (0.00)
2	1 – 1000	6 (16.6)	2 (5.6)
3	1000 – 2000	11 (30.6)	5 (13.9)
4	2000 – 3000	11 (30.6)	10 (27.8)
5	3000 – 4000	3 (8.3)	11 (30.6)
6	4000 – 5000	1 (2.8)	6 (16.6)
7	Above 5000	0 (0.00)	2 (5.5)
	Total	36 (100.0)	36 (100.0)

Income distribution of the sample respondents and their household are given in Table 8. Income of nearly two-third of the respondents ranges between Rs. 1000-2000 and Rs. 2000-3000, Nearly 17% earn less than Rs.1000, while 11% had no earnings. Only around 10% of them earned between Rs. 3000-5000.

Meanwhile, the sample household income per month largely ranges between Rs. 3000-4000 (30.6%) and Rs. 2000-3000 (27.8%). It is followed by Rs. 4000-5000 (16.7%) and Rs. 1000 - 2000 (13.9%) respectively. Only two each of the respondent households earned less than Rs. 1000 (5.6%) and more than Rs. 5000 per month. Thus, the monthly income of the sample respondents and households largely ranges between Rs. 1000-3000 and Rs. 2000-3000 respectively, which is quite low considering the medical maintenance of an infected person.

Details of monthly expenditure of the sample respondents have been recorded in Table 9, in terms of food, non-food and medical expenses. About one-third each of the sample households incurred food expenditure ranging between Rs. 1000-1500 and Rs. 1500-2000, respectively. Around 19.4% spent between Rs. 500-1000 and 14% between Rs. 2000-2500 per month on food items. Around a quarter each spend between Rs. 2000-2500 and Rs. 2500-3000 per month on non-food items. Almost 17% spent upto Rs. 500 and 14% between Rs. 500-1000 per month. The rest had an expenditure ranging between Rs. 1500-2000 (8.3%) and Rs. 1000-1500 (5.6%) respectively.

In the case of HIV/AIDS medical expenditure, nearly two-third (61%) of sample respondents incur an expense of upto Rs. 250 per month for the treatment. About 22% spend between Rs. 250-500 and nearly three% between Rs. 500-750. The remaining

14% get free treatment. Medical expenditure of the respondents is quite low, due to the fact that majority of them get treated at government hospitals where medicines are almost free. Hence, they only have to incur expenditure on transport and other miscellaneous items.

Table 10 furnishes ranked details on economic coping mechanisms of the sample respondents. It reveals that the main coping mechanism of economic pressure is by taking up additional job. SHG loan has been ranked second, followed by liquidation of assets (third); borrowing from money lenders (fourth), and mortgaging family assets (fifth). The sixth method is through family support, the seventh borrowing from friends and relatives, and the last by using up past savings. Thus, the major coping mechanism of these women is observed to be achieving economic independence, SHG loans and liquidation of assets first.

The ranked perceived benefit of joining SHG by the respondents is recorded in Table 11. Loan facility has been ranked as the first benefit, followed by sharing identical problems (second), better living standard (third), and helping each other (fourth). Empowerment was ranked fifth,

Table 9: Monthly Expenditure of the Household

Sl.No.	Amount in Rs.	Number	Percentage
A.	Food Expenditure:		
1	Upto 500	0	0.0
2	500 – 1000	7	19.4
3	1000 – 1500	12	33.3
4	1500 – 2000	12	33.3
5	2000 – 2500	5	14.0
6	2500 – 3000	0	0.0
	Total	36	100.0
B.	Non-Food Expenditure:		
1	Upto 500	6	16.7
2	500 – 1000	5	14.0
3	1000 – 1500	2	5.6
4	1500 – 2000	3	8.3
5	2000 – 2500	10	27.7
6	2500 – 3000	10	27.7
	Total	36	100.0
C.	Medical Expenditure of the Respondent:		
1	Upto 250	22	61.0
2	250 – 500	8	22.2
3	500 – 750	1	2.8
4	No Expenses	5	14.0
	Total	36	100.0

Table 10: Coping Mechanisms of the Respondents

Sl. No.	Particulars	Total Score	Mean core	Rank	No. of Respondents
1	Took up job	1198	66.56	1	18
2	SHG loans	1785	57.58	2	31
3	Liquidation of assets	1577	50.87	3	31
4	Borrowing from money lenders	1042	43.42	4	24
5	Mortgage of assets	476	43.27	5	11
6	Family extended support	207	41.4	6	5
7	Borrowings from friends and relatives	837	39.86	7	21
8	Past savings	234	33.43	8	7

Table 11: Perceived Benefit of SHG Membership

Sl. No.	Benefits of SHG	Total Score	Mean core	Rank	No. of Respondents
1	Loan facility	2308	65.94	1	35
2	Sharing identical problems	2363	65.64	2	36
3	Better living standards	1590	45.43	3	35
4	Help each other	1450	41.43	4	35
5	Empowerment	566	37.73	5	15
6	Decision making	75	37.5	6	2
7	Independence	251	35.86	7	7
8	Socially active	826	34.42	8	24

greater decision-making sixth, economic independence seventh and socially active the eighth benefit. It is clear from the table that through SHG formation, the HIV/AIDS women not only gain economic and emotional support, but also feel empowered, independent and socially active. This becomes particularly important for such infected women, which provides them a new lease of life.

Section IV: Concluding Remarks

The study examines the coping methods of HIV/AIDS infected women through SHG membership. Survey for the study was conducted during October – November 2008 in Villupuram district. The researcher could locate and interview only 36 HIV/ AIDS SHG members, as the rest out of the 100 who had joined were either not active or did not want to respond. The non-active members were discouraged from contributing to the initial savings by family members on the pretext that they were already dependent and burdensome to them. Even among the 36 interviewed, only 14 members were in active business. The rest were finding it extremely difficult to obtain loan or even open a Bank account in their name owing to their HIV/AIDS status. The major reason quoted was that the lender could not trust these women on repayment of loan due to their growing medical expenditure, which was expected to further grow with the maturity of the disease. Given the fact that the SHG formation itself has provided them with a better economic coping mechanism, these women also feel socially empowered and emotionally supportive towards each other. Above all, coming together of women under similar circumstances gave them moral support and courage to fight the social taboo and discrimination at personal level. However, their HIV/AIDS status was known only to own family members, the NGO workers and bank authorities, besides their group members. This fact was hidden from the customers and society in general, for fear of losing business, as experienced by one of them in rice business.

Several implications surface from the study. Although the HIV/AIDS women want to be economically independent, the society still discriminates and ostraice them. The financial institutions are equally wary of giving them loans, owing to their deteriorating health conditions which can affect their future repayment capacity. Under such circumstances, the paper suggests that specific banks should focus on and support microfinance activities for the HIV/AIDS infected by providing grants. They may be provided flexible savings mechanism under the SHG scheme. Emergency loans, burial insurance and loan insurance (incase of death) may also be arranged (CGAP 2003, p.1). Above all, awareness should be generated among the lending institution authorities about the financial services they can extend to these women. Society in general should awaken to the needs and necessities of the poor HIV/AIDS members and be educated on means of contracting it. The reach out to rural areas appears to be still weak, which needs to be strengthened through NGO participation, print and visual media, information and communication technology (ICT), health workers and social workers.

The repercussions of HIV/AIDS infection on the households are devastating in terms of depletion of socio-economic sources. Extension of microfinance services to these households can be useful in providing some economic respite to the family. Provisions of microfinance loans to members of the affected households can help them plan and manage the financial risk posed by the disease in a much better manner. It can have in-built links to awareness generation and health/insurance services facilities as well. However, in households with no supportive members, though not viable, loan extension to infected individuals provide a financial coping mechanism under such situations. Although financial services alone cannot solve the consequences of HIV/AIDS, its savings mechanism "can help build a safety net to deal with the impact of the disease" (UNCDFSUM 2003, p.1)

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Role of Microfinance in Women Empowerment: A Study of Selected Experiments in Kerala

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Introduction

The major thrust as well as focus of development theory and practice during the last couple of decades has been on Women's participation and empowerment.

Since 1970s the attempts to redefine development in terms of women and her productive role has gained much footing. It can be visualised as a move from "integrating women into development" to "gendering the development process". The Women in Development (WID) perspective, which gained much popularity in 1970s, distinguished the practical gender needs and strategic gender needs, but when policies were designed and implemented, they ignored the latter. The 1980s witnessed the emergence of a different perspective labeled, "mainstreaming women" which called for bringing women to the mainstream of development efforts. During the 1980s there has been a shift in focus from Women to Gender. This has identified the role of women and men as contextual to time place and culture. The empowerment approach, which evolved in the 1990s, has interpreted it in terms of participation in policy making and planning process. The most popular version of empowerment provides ample room for participation in decision making and implementation of development plans by women. Women's participation at grass root level is increasingly recognised as crucial to the betterment of women. Hence the major thrust as well as focus of development theory and practice during the last couple of decades has been on Women's participation and empowerment. The organisation of women into self-help groups (SHGs) and provision of microfinance through them is to be viewed in this background.

The paradigms for social development have been swiftly changing with greater attention to gender issues both at the global and national levels. The Government of India (GoI)

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has also continuously been formulating strategies and initiating process to bring women into the mainstream. Women constitute about 48% of the total population of the country as per the 2001 Census. They suffer many disadvantages as compared to men in terms of literacy rates, labour participation rates and earnings. The "National Policy for Empowerment of women" was adopted in the country in 2001, with the ultimate objective of ensuring women their rightful place in the society by empowering them as "agents of socio-economic change and development". Towards the development of women, there have been various shifts in policy approaches of the GOI in the last forty years, from the concepts of "welfare' till the 1970s to 'development" in the 1980s and "empowerment" in the 1990s (Behuria, 2004).

Microfinance, the current buzzword in the developmental sector, is often hailed as a panacea for the problems of community development. Microfinance commonly works through group systems like the Grameen Bank of Bangladesh, solidarity groups of Latin America, and self-help groups of India. Self-help groups, the most common microfinance institutions in India, are small voluntary associations of poor people from the same socio-economic background who come together for the purpose of solving their common problems through self-help and mutual help (NABARD, 2000). They are mostly autonomous financial institutions, which help members to keep safe their occasional small surpluses in the form of thrift, and grant loans to people in exigencies without any cumbersome procedure. It is argued that, through microfinance poverty can be reduced as well as the resultant increased access and control over financial resources by women can itself become an empowering instrument. The activities of Bangladesh Gramin Bank, SEWA Bank of Ahemedabad, poduppu Lakshmi of Andhra Pradesh, Pradhan of Tamil Nadu and MYRADA of Karnataka brought out the success stories of microfinance. One would also find that the popularization of microfinance has given feminist scholars an opportunity to put gender back in focus in the discussions on development planning. Microfinance SHG has become a ladder for the poor to bring them up not only economically but also socially, mentally and attitudinally.

2 Objectives of the Study and Methodology

Studies in Kerala society have demonstrated that gender disparity has been comparatively less in most of the human development indices, like education, IMR, MMR, fertility rate, life expectancy etc. All these indices are favorable generally to women. At the same time, unemployment rate is increasing in Kerala and opportunities for women in the employment market are further decreasing. The most serious factor that affects the livelihood of all women is seen in the work participation rate (WPR), though low generally, is the lowest among women. This low WPR in a state, which has high living indices, is a matter of serious concern. This shows that, although women are educated, have fewer children and live longer, their labour in any form has not yet been socially used. According to the 2001 Census figures, out of the 82 lakhs main workers in Kerala, women comprise only 17 lakhs, and out of 20 lakhs marginal workers, women comprise only 7 lakhs. At the same time, out of the 2.15 crores non-workers, women comprises of 1.38 crores which shows the pathetic situation of female work participation rate (FWPR) in Kerala. The WPR in Kerala was 29.79 in 1971, which has increased to 32.3 by 2001. When the WPR is low, we can very well assume that the unemployment is on the increase.

Kerala has been hailed as a Model State in terms of its achievements in literacy, health and other social developments. Its achievements in social indicators are comparable to that of the developed countries of the world. Heller (1996) and Tornquist and Tharakan (1996) argue that the active participation of civil society and the responsiveness of the government to this has enabled the State to achieve a higher standing in social development. At the same time, economic accomplishments of the State in terms of employment generation, per capita income, work participation rate and growth rate of the productive sectors of the economy are at stake. Of late, the sustainability of the Kerala Model of Development has been debated and discussed by many scholars (Kannan 1990, George 1999, Franke and Chasin 2000, Parayil 2000, Tharamangalam, 1998, Ram Mohan 2000) as the economic achievements are very marginal.

In this context, microfinance has a great role to play in changing the mind set-up of women and bring them to the fore of economic activities. The experiments in organizing women in groups for empowering them in Kerala began with the Non-Governmental Organisations (NGOs). Later on, Government, Banks and voluntary organizations like Kerala Sashtra Sahitya Parishad (KSSP), Community organizations like Sree Narayana Dharma Paripalanasangam (SNDP), Nair Service Society (NSS) and even churches started promoting the SHG movement. Now, Kerala has an extensive network of thrift and credit groups under the flagship of various agencies through SHGs. They have been operating in the land of Kerala for decades. It warrants examining the way they work and in what way they promote women empowerment. This study is an attempt in this direction.

Objectives of the Study

The specific objectives of the study are as follows:

1. To analyse the contribution of selected microfinance initiatives in the area of women empowerment in Kerala,
2. To examine the role played by various grass root level organizations in the process of women empowerment,
3. To measure the attitude of selected Self Help Microfinance programmes towards microfinance, and,
4. To discuss the important problems of the microfinance experiments and offer solutions to resolve them.

Methodology and Data Source

The present study was carried out in Kerala with the objective of assessing the experiments of the SHG intervention of a Non Governmental Organisation (NGO) called the **Shreyas**[1] and Government Organisation called the **Kudumbashree**[2] in the process of women empowerment. The members of the Kudumbashree programme is known as Neighbourhood Groups (NHG) and the members of Shreyas is called as the SHG in this study. The study is largely based on primary data and supplemented by secondary data wherever necessary.The primary data were collected from a cross section of 200 SHG/NHG members of the selected programmes through an appropriate sampling method. Primary data for the study were collected through a multi-stage random sampling procedure. In the first stage, a district with the presence of both the SHG and NHG in Kerala was located. It happened to be Kozhikode District. In the second stage, a Grama Panchayat (the lower tier rural Local Self Government) with the presence of both the SHG and NHG in Kozhikode district was identified. In the third stage, women SHG and NHG members were selected from the selected Kodanchery Grama Panchayat. One hundered each of Women SHG and NHG members were included in the study. The field survey for the study was conducted during June-October 2007. The data were obtained through a structured interview schedule. The beneficiaries were contacted during their group meetings. The questions were mainly on their individual profile, household profile, experience with microfinance programmes, savings and borrowing particulars, utilisation and repayment of loan, role of Microfinance Organisations and their attitude towards microfinance. The information collected were analysed using simple statistical tools. The attitude towards microfinance was analysed using a Likert-type scale. The secondary data required for this work were collected from the annual publications of the concerned organizations, various economic and socio-political journals, publications of the NABARD, SIDBI, RBI, Kudumbashree Mission, Government of Kerala etc.

3 The Analysis of Data

This section serves the purpose of examining the multiple roles played by microfinance in empowering women in the study area. The source of awareness, years of association with microfinance, monthly savings, source of savings, utilisation of loans availed, repayment of loan, income generating activities and the impact of these activities on the attitude of women as well as their outlook are the major aspects examined.

Source of Awareness about Microfinance

An enquiry has been done to understand the source of information about the SHG/NHG activities and microfinance. In the case of Kudumbashree members, they heard about them mainly through neighbours and Local Self Government (LSG) members. In the case of Shreyas members, neighbours and friends/relatives played a major role in enrolling members to their programmes.

Table 1: Source of awareness of SHG / NHG and Microfinance

Source	Kudumbashree No.	Kudumbashree (%)	Shreyas No.	Shreyas (%)	Total No.	Total (%)
NGO	0	0	7	7	7	3.5
LSG Members	36	36	0	0	36	18.0
Neighbours	62	62	56	56	118	59.0
Friends/Relatives	1	1	37	37	38	1 9.0
Media	1	1	0	0	1	0.5
Total	100	100	100	100	200	100.0

Source: Survey Data

Years of Association with SHG/NHG

On the question of the experience with the SHG/NHG programmes, in the case of Kudumbashree members, majority were having less than 4 years of experience with them. While, majority of Shreyas members have more than 5 years of membership in their programmes. This is attributed to the fact that Shreyas has been functional in the study area long before the Kudumbashree started its operation.

Table 2: Period of Association with SHG / NHG and Microfinance

Years	Kudumbashree No.	Kudumbashree (%)	Shreyas No.	Shreyas (%)	Total No.	Total (%)
02-Jan	14	14	0	0	6	3.0
04-Mar	58	58	21	21	79	39.5
06-May	28	28	38	38	66	33.0
>6	0	0	41	41	49	24.5
Total	100	100	100	100	200	100.0

Source: Survey Data

Monthly Savings

Contribution of a fixed sum on weekly/ monthly basis as savings assumed greater importance as they directly influence the growth of the common fund of the groups. Members used to save a fixed amount regularly and pool this savings for on lending or depositing in banks. The data on monthly savings of the respondents show that majority of the members save less than Rs.50 per month. In the case of Shreyas, a good number of SHG members save Rs.100 per month. The average monthly savings of NHG comes to Rs. 56.40 and that of SHG, Rs. 65.20. It is useful to compare the proportion of savings with the SHG/NHG with that of other agencies. The other outlets for savings for the poor people in the study area incude co-operative banks, regional rural banks, commercial banks and informal agencies like kuries and chities. The sample beneficiaries revealed that only for bigger loans they approach the formal banking institutions. For regular savings, the most preferred agency is the SHG/NHG programmes, though a good number participates in chities and kuries organised by the societies, temples and clubs. Hence, it is interesting to conclude that microfinance agencies do provide a better source of savings for the people in the rural areas because of its proximity, low cost of savings/borrowing, and less cumbersome procedures.

Table 3: Monthly Savings of SHG / NHG Members

Savings (Rs.)	Kudumbashree No.	Kudumbashree %	Shreyas No.	Shreyas %	Total No.	Total %
40	37	37	0	0	37	18.5
50	22	22	68	68	90	45.0
60	26	26	2	2	28	14.0
100	15	15	30	30	45	22.5
Total	100	100	100	100	200	100.0
Average Savings	56.4		65.2		60.2	

Source: Survey data

Source of Savings

It is of interesting to know the source of savings of SHG/NHG members. The information given in Table 4 reveals that own savings forms a negligible portion in the total savings in microfinance programmes. Where as the contribution of their husbands/children are high in the total monthly savings in microfinance programmes. Actually, the microfinance programmes envisages that the savings of the members should come from their own earnings.

Table 4: Source of Savings of SHG / NHG Members

Source	Kudumbashree		Shreyas		Total	
	No.	%	No.	%	No.	%
Husband/Children	79	79	59	59	138	69
Own Savings	17	17	35	35	52	26
All the family members	4	4	6	6	10	5
Total	100	100	100	100	200	100

Source: Survey Data

Availing of Loan

Microfinance programmes envision provision of loan to their members without much cumbersome procedures. In our study, 94% of the members have availed the loan facility from their microfinance organisations. The size of loan availed by the members revealed that more than 90% of the loan were of less than Rs. 5000, which signifies the fact that members use the loan for short-term, revolving operations.

Table 5: Average Size of Loan of SHG / NHG Members

Size of loan (Rs.)	Kudumbashree		Shreyas	
	No.	Av. Size(Rs.)	No.	Av.Size(Rs.)
>2500	33	2091	15	1933
2501-5000	55	4191	79	3816
>5001	5	22000	1	7000
Total	93	4403	95	3553

Source: Survey Data

Utilisation of Loan

Beneficiaries of any credit programme utilise the loan they have taken for various purposes. In rural areas, it is true that the poor may use loan for consumption purposes also. An enquiry on the utilisation of loan by the NHG/SHG members revealed that majority of them utilises it for consumption. It means that a good number of poor still depend on these agencies for meeting their day to day consumption needs. About 19% use loan for production purposes and about 23% for investing in assets. The use of microfinance loans by the husbands is negligible unlike what is reported else where in the country.

Table 6: Purpose-wise Utilisation of Loan

Purpose	Kudumbashree		Shreyas		Total	
	No.	%	No.	%	No.	%
Production	21	21.0	17	17.0	38	19.0
Consumption	50	50.0	46	46.0	96	48.0
Investment	18	18.0	29	29.0	47	23.5
To lend to others	2	2.0	1	1.0	3	1.5
Husband used the loan	2	2.0	2	2.0	4	2.0
Total	100	100.0	100	100.0	200	100.0

Source: Survey Data

Repayment of Loan

Microfinance is known for its high repayment rates. It has proved that women are better repayers and hence bankable. So, the donors and other agencies promote microfinance through self help groups. Information on the repayment of loan by the respondents showed that around 90% repay promptly. While, the remaining borrowers repay after the due date. None of them reported to be defaulters.

Table 7: Status of Repayment of Loan by SHG / NHG Members

Status	Kudumbashree		Shreyas		Total	
	No.	%	No.	%	No.	%
Timely Repayment	79	85.0	85	89.0	164	88.0
Late Repayment	14	15.0	10	11.0	24	12.0
Default	0	0.0	0	0.0	0	0.0
Total	93	100.0	95	100.0	188	100.0

Source: Survey Data

Reasons for Prompt Repayment

As majority of the respondents repaid the loan in time, it is interesting to examine the reason for the prompt repayment of their loan. Both peer pressure and own decision prompted them to repay their loan. In most of the studies on micro credit, it is highlighted that peer pressure played a major role in the repayment of micro credit. But, here both the peer pressure and not to be a defaulter consciousness prompted timely repayment.

Table 8: Factors for Prompt Repayment of Loan

Factors	Kudumbashree		Shreyas		Total	
	No.	%	No.	%	No.	%
Peer pressure	39	41.9	46	48.4	85	45.2
Own decision	54	58.1	49	51.6	103	54.8
Total	93	100.0	95	100.0	188	100.0

Source: Survey Data

Income Generating Activities and Microfinance

One of the avowed objectives of microfinance is the promotion of Income Generating Activities (IGA) among the rural poor women for sustainable livelihood. Of the total respondents surveyed, only 28.5% of the members have started any IGAs. There is no significant difference between the SHGand NHG studied in this matter. The utilisation of the loan by the members of the microfinance as mentioned elsewhere

Table 9: Percentage of Respondents Who Utilised the Loan for Starting IGAs

Response	Kudumbashree		Shreyas		Total	
	No.	%	No.	%	No.	%
Yes	25	25.0	32	32.0	57	28.5
No	75	75.0	68	68.0	143	71.5
Total	100	100.0	100	100.0	200	100.0

Source: Survey Data

in the paper underscored the dire need of consumption of the poor families. Though the proportion of borrowers who have utilized the loan for starting an IGA is low, it is true that microfinance has helped them in meeting their immediate consumption requirements without the help of the usurious money lenders. In that sense, the presence of microfinance is to be viewed positively.

Type of IGA

Those who have utilised the loan for any IGAs, it is of interest to see the type of IGAs initiated by them. Majority of them were involved in livestock and agriculture. Followed by it, activities in the service sector dominated. It is to be noted that none of them have started any production activities.

Table 10: Type of IGA

Type	Kudumbashree		Shreyas		Total	
	No.	%	No.	%	No.	%
Food Processing	4	16.0	1	3.1	5	8.8
Livestock	13	52.0	21	65.6	34	59.6
Service sector	8	32.0	10	31.3	18	31.6
T otal	25	100.0	32	100.0	57	100.0

Source: Survey Data

Nature of IGA Unit

An enquiry into the nature of the IGA taken up by the SHG/NHG women members reveals that majority of the activities are individual enterprises. There are no significant differences between the Kudumbashree and Shreyas initiated micro-enterprises in this regard.

Table 11: Nature of IGA

Nature of Activity	Kudumbashree		Shreyas		Total	
	No.	%	No.	%	No.	%
Individual	14	56.0	25	78.1	39	68.4
Group	11	44.0	7	21.9	18	31.6
Total	25	100.0	32	100.0	57	100.0

Source: Survey Data

Factors Contributed in Selecting IGA

The SHG/NHG members undertake the IGAs due to several factors. Hence it is interesting to examine the contributing factors to the setting up of economic activities. To this question, there were seven options provided to them and they had to give preference to either any of the seven factors, or any factors beyond these seven. The questionnaires of the 57 micro entrepreneurs in the study showed that their responses were within the pre-stipulated seven factors. The seven factors are: (i) availability of raw materials (ii) low cost technology (iii) prior experience (iv) low fixed investment (v) market demand (vi) encouragement of microfinance organisations (MFOs) and (vii) able to spare leisure time. The maximum number of factors given by a single entrepreneur does not exceed seven. Accordingly weighted scores were calculated for each of the seven problems by giving a weightage of 7 points to the most prominent one, and 6, 5, ….. and 1 points respectively to the succeeding ones in that order. The weighted scores calculated for each of the seven problems were added up for all the respondents and the factors were ranked on the basis of the total weighted scores for each problem. The Table 12 exhibits the number of entrepreneurs giving first preference to any of the seven factors in relation to the variable NHG and SHG.

It can be seen from the Table that the highest number of SHG/NHG members took up the IGA because of the encouragement of the MFOs, followed by 17.5% due to low fixed investment, 12.3% due to market demand for the product, 7% each due to low cost technology and prior experience respectively, and 1.8% each because of availability of raw materials and just to spare leisure time respectively. It is also seen that there is no significant difference between the SHG and NHG members in terms of the factors prompted to start an IGA.

Table 12: Factors Prompted to Selected the IGAs

NHG/SHG	FACTORS						
	I	II	III	IV	V	VI	VII
Kudumbashree	0	1	2	6	2	14	0
Shreyas	1	3	2	4	5	16	1
Total(N=57)	1(1.8)	4(7.0)	4(7.0)	10(17.5)	7(12.3)	30(52.6)	1(1.8)

Note: Figures in brackets are percentages to total
Source: Survey Data

Role of MFOs in Promoting IGAs

It is already seen that the encouragement of MFOs is significant in promoting IGAs among the women members of the selected experiments. Hence, an attempt is made to reveal in what way these MFOs are helpful in promoting the IGAs. The MFOs can promote the entrepreneurial capabilities of its members in several ways like training, marketing, etc. The relative importance of each of these roles has been analysed using weighted ranking method. In order to understand the role of MFOs, the entrepreneurs were asked to indicate the order of preference to them. The maximum number of reasons given by a single entrepreneur does not exceed five. Accordingly, weighted scores were calculated for each of the five responses by giving a weightage of 5 points to the most prominent one, and 4, 3, ………and 1 points respectively to the succeeding ones in that order. The weighted scores calculated for each of the five factors were added up for all the respondents and the factors were ranked on the basis of the total weighted scores for each item. Tables 13 and 14 provide details of the role of MFOs in the promotion of IGAs.

In the case of Kudumbashree sponsored IGAs, members perceive the provision of loan as the foremost help from the MFO followed by marketing, product selection and so on. Kudumbashree CDS arranges special marketing campaigns during festive occasions and this is considered an opportunity to introduce the product of Kudumbashree for the public. In the case of Shreyas promoted IGAs, members perceive that product selection is the major role played by their MFO followed by provision of loan, training and so on. The factor 'Others' include consultancy, project formulation etc.

Table 13: Role of MFOs in IGA Promotion (Case of Kudumbashree)

Weight	5	4	3	2	1	Weighted Score	Rank
Rank	1	2	3	4	5		
Training	4	3	6	7	5	69	IV
Marketing	1	10	10	3	1	82	II
Loan	12	7	2	2	2	100	I
Product Selection	5	3	7	5	5	73	III
Others	3	2	0	8	12	51	V

Source: Survey Data

Table 14: Role of MFOs in IGA Promotion (Case of Shreyas)

Weight	5	4	3	2	1	Weighted Score	Rank
Rank	1	2	3	4	5		
Training	3	3	8	8	6	89	III
Marketing	1	12	16	3	-	59	V
Loan	9	6	3	5	7	95	II
Product Selection	13	4	3	9	3	111	I
Others	3	3	2	8	16	65	IV

Source: Survey Data

Difficulties in Starting an Enterprise

The SHG/NHG members often face many difficulties in the process of starting an enterprise. When the members who have already started some sort of IGAs were asked about the major constraints in the way of conducting an activity revealed mixed factors. Tables 15 and 16 provide the opinion of Shreyas sponsored SHGs and Kudumbashree sponsored NHGs respectively in the matter of difficulties in starting an enterprise. The analysis similar to understanding the role of MFOs in promoting IGAs has been done here.

The information available from the Tables shows that getting loan poses a great problem for the Shreyas SHGs in the way of organising an enterprise. The second problem

Table 15: Difficulties in starting an IGA (Case of Shreyas)

Weight	6	5	4	3	2	1	Weighted Score	Rank
Rank	1	2	3	4	5	6		
Marketing	0	6	8	6	4	8	96	V
Loan	4	8	11	1	7	1	126	I
Time	7	4	5	5	5	6	113	II
Political Interference	6	6	3	4	5	8	108	IV
Group solidarity	6	5	3	7	3	8	108	IV
Others	7	3	2	9	7	4	110	III

Source: Survey Data

pointed out by them was no time to spare for the enterprise. The Kudumbashree NHG entrepreneurs have also their own problems in the process of starting an activity. Most of the members pointed out that they have little time to spare for the enterprise after their normal household duties. The second reason was the marketing of the product. They argue that their products can not be easily sold in the market in competing with similar products available in the market. Timely availability of loan also poses great hindrance in the way of conducting an enterprise.

Table 16: Difficulties in Starting an IGA (Case of Kudumbashree)

Weight	6	5	4	3	2	1	Weighted Score	Rank
Rank	1	2	3	4	5	6		
Marketing	6	5	9	1	2	2	106	II
Loan	5	3	9	3	5	0	100	III
Time	6	11	4	1	0	3	113	I
Political Interference	2	2	0	2	5	14	52	VI
Group solidarity	3	2	1	10	3	6	74	V
Others	3	2	2	7	10	1	78	IV

Source: Survey Data

Key Changes after Joining Microfinance Programmes

Microfinance programmes envisage several other changes along with the IGAs among the women members. An enquiry into these varied aspects of the impact of microfinance on the members reveal that a number of qualitative changes have been brought into their life. Mobility, attending public meetings, deal with officials, and increased role in family decision making, banking habit and gain family respect were the major perceived changes among the Kudumbashree NHG members. While the Shreyas SHG members perceive that mobility, attending public meetings, deal with officials, increased role in family decision making, education and training and banking habit as more important impact of their programmes. Table 17 displays this information.

Table 17: Perceived Changes Due to Microfinance Programmes
(Figures are in percentages)

Sl.No.	Key Changes	Kudumbashree	Shreyas
1	Go out of house	100	100
2	Gain family respect	97	95
3	Attend public meetings	100	98
4	Deal with officials	100	97
5	Role in family decision making increased	91	100
6	Increased knowledge of IGA	53	32
7	Social advocacy	82	93
8	Education and training	71	100
9	Banking habit	98	100

Source: Survey Data

Attitude Towards Microfinance Programmes

On the basis of the objectives of the study, a Likert-type attitude scale has been distributed among the selected SHG/NHG members to understand their attitude towards microfinance programmes. This attitude scale consisted of 12 items as described below:

Item 1: Participation in microfinance programmes have improved enhanced women's decision making in domestic matters.	Item 2: Participation in Microfinance programmes have women's role in public functions.
Item 3: Microfinance programmes are useful in increasing women's status.	Item 4: Microfinance programmes negatively affect gender relations at home.
Item 5: Microfinance programmes have no impact on domestic violence.	Item 6: Microfinance programmes have a bright future.
Item 7: Microfinance Programmes have less impact in reducing poverty.	Item 8: Microfinance programmes have failed in promoting income generating activities.
Item 9: The role of money lenders is unaffected by the operation of Microfinance.	Item 10: Male family members utilize and manage Microfinance programme loans.
Item 11: Participation in Microfinance programmes increased women's self esteem.	Item 12: Microfinance programmes have considerable impact on reducing social evils.

Out of these 12 items, six are positive and six are negative. The five response categories ranged from strongly agree (SA) to strongly disagree (SD) through undecided (U), scored 5 for SA and 1 for SD responses and this scoring was reversed in case of negative items. The item-wise attitude scores for each individual were tabulated and Chi-square test was applied to analyse data. The results are presented in Table 18.

Table 18: Chi-square Values for the Selected NHG and SHG on 12 Attitude Items

Item	1	2	3	4	5	6	7	8	9	10	11	12
Chi-square value	2.84	3.48	6.16	1.70	3.20	0.73	0.50	9.30	25.28	4.26	3.24	3.52

Note: Table value of Chi-square =13.277 at 0.01 level of significance.
Source: Survey Data

So far as quantitative analysis was concerned, the Chi-square results presented in the Table shows insignificance of all the Chi-square values for each of the 12 attitudinal items except for item 9. The value (Chi-square value 25.28 at 0.01 significance level) for item 9 showing significant difference in the attitude of SHGs and NHGs. The detailed attitude scores and Chi-square results of this item is presented in Table 19.

Table 19: Chi-square Value for the Item 9

Response Category	Kudumbashrees NHG		Shreyas SHG		Total	
	No.	%	No.	%	No.	%
Strongly Agree	30	30	9	9	39	39
Agree	15	15	9	9	24	24
Undecided	18	18	12	12	30	30
Disagree	20	20	30	30	50	50
Strongly Disagree	17	17	40	40	57	57
Total	100	100	100	100	200	100

Note: Calculated Value of Chi-square = 25.28
Table Value of Chi-square = 13.277 at 0.01 Level of Significance.

From the Table it can be observed

that 45% of the NHG members and 18% of the SHG members showed favourable attitude towards the statement given in Item 9. It means that the microfinance programmes have not succeeded in fully reducing the role of money lenders in the area of study. However, an enquiry into the modalities of the functioning of money lenders after the introduction of microfinance gives room for complacency. Almost all the beneficiaries of microfinance argued that the rate of interest charged by the local money lenders has reduced drastically during the period. Similarly, other conditions like taking thumb impressions in blank stamp paper, taking advance interest, putting other charges etc., have been stories of the past. Hence it is right to conclude that though the presence of money lenders is still there in the study area, their conditionalities have been lightened due to the operations of microfinance.

Though, so far as the above variable was concerned, the SHGs and NHGs differed in their attitude towards specific attitudinal statements, the total attitude score of all the 200 microfinance beneficiaries showed that 98% had favourable attitude towards microfinance as given in Table 20.

Table 20: Total Attitude Scores of SHG NHG Members

Range of Scores	Kudumbashree NHG	Shreyas SHG	Total
49-60	25	14	39
37-48	72	85	157
25-36	3	1	4
13-24	0	0	0
1-12	0	0	0
Total	100	100	200

Source: Survey Data

4 Summary of Findings, Suggestions and Conclusions

It is clear that empowerment is an abstract and complex concept and it is interpreted in many ways. The views regarding the potential contribution of microfinance programmes to women's empowerment has been the subject matter of many a studies. It is brought out that there is a definite relation between the two. The Mayoux's contrasting paradigms of women empowerment and microfinance and Cardine Moser's (1989) paradigms towards women's development throw light into the intricacies between microfinance and women empowerment. The review of the international, national and regional studies led us to conclude that microfinance have a great bearing on women empowerment. However, the studies in the regional contexts were few and far between. This study is the realisation of such a revelation. The important findings emerged from the study are the following.

The average monthly savings of Kudumbashree NHG members was found to be lower than the Shreyas SHG members. Regarding the sources of savings, contribution of husbands/children became a potential source rather than own savings. A large majority of the sample availed loan from the SHG/NHG. Though the average savings of NHG members were found to be lower than SHG members, the average size of loan of NHG members were found to be higher than that of the SHG members. This was mainly attributed to the higher NHG-bank linkage programme. A close perusal of the utilisation of loan revealed that both in the NHG and SHG, majority utilised it for consumption purposes. As evident in earlier studies, the repaymen in the selected programmes was high. However, regarding the reasons for prompt repayment, rather than the peer pressure, own decision to repay became the prime reason.

The operation of IGA with the help of microfinance is yet to strengthen. Most of the beneficiaries utilise the loan for meeting their immediate consumption requirements, a feature still prevelant in the rural area. The structure of IGAs revealed that about 60 %were related with livestock followed by service sector activities. The nature of IGA indicated that majority were individual initiatives. The prime factors contributed to the selection of IGA include, encouragement of MFOs, low fixed investment, market demand and so on. The MFOs promote IGAs in several ways. The provision of training; product selection, loan; marketing etc., were found to be prominent contribution of MFOs. The difficulties in conducting IGAs revealed that availability of sufficient loan, time and marketing as important.

The enquiry into the changes due to MFP showed that mobility, attending public meetings, able to deal with officials, increased role in family decision making and banking habit as highly significant in both the programmes studied. The attitude towards microfinance revealed that 98 %had favourable attitude towards microfinance.

Hence, we conclude that microfinance has benefited the women members to enhance their role in society, family decision making and mobility. However, on the matter of economic empowerment, the MFOs need to take much more initiative to bring women in the fore of economic activities. The overall conclusion is that the SHG and NHG movement have beneficial impact on women empowerment. There is not much difference between the functioning of NHG and SHG in the study area. The Kudumbahsree and Shreyas need to properly motivate and train their members to overcome the difficulties in the way of conducting IGAs and invoking in them the spirit of enterprise because at present both these groups primarily concentrate on thrift and internal loan.

Suggestions

The following suggestions have emerged from the study to strengthen microfinance initiatives for women empowerment:

1. Though Income Generating Activities promoted through the experiments studied were found to be low in number, it is inspiring to note that microfinance has succeeded in meeting the immediate consumption requirements of the poor families. Otherwise, these families were forced to be the clients of the local money lenders.
2. In most of the group based enterprises, group solidarity was found to be a major problem. In order to circumvent this issue, proper group based training and awareness programme must be organised.

3. The bank linkage of the SHG groups was literally low and hence this has bearing on the quantum of loan availability. So, the promoters of the SHG should take serious attention in maximum SHG-bank linkage so that adequate loan for economic activities will be available.
4. The economic activities taken up by the SHG and NHG members are mostly traditional and lack diversity. There is enough scope for agro-based industries, sunrise industries and non-farm activities in the rural area. So, the promoters should focus on promoting such activities through the SHGs and NHGs.
5. The Chairman of the Community Development Soceity (CDS) and co-ordinators of SHGs should see that the office bearers of the NHGs and SHGs are rotational so that every member of the group is involved in leadership activities, accounting, etc. At present, most of the office bearers continue as long as they wish or till other members voluntarily willing to take up the responsibility.
6. Since there are various women groups in the same locality under various organisations involved in microfinance activities, it is high time to think of forming a consortium of SHGs for planned empowerment of women and to strengthen the overall development of the countryside rather than their piece-meal efforts. This is especially important in the wake of the separate Woman Component Plan (WCP) in the Five Year Plans of our country.

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Notes

1. Shreyas, an NGO under the flagship of the Catholic Diocese of Bathery, Kerala, has completed 28 years of its service by 2006-07. During its almost three decades of functioning, a number of innovative programmes have been initiated and implemented. It adopts programmes conducive to the holistic development of life by following an inclusive approach in development. The operational area of Shreyas spreads over three States, viz., Karnataka, Kerala and Tamil Nadu. It has 10 Regional Offices and 100 village level units for effective co-ordination of its activities in its operational area. The noble mission of Shreyas is to create a more humane and just society based on human values, irrespective of religion, sex and colour. Its vision is to become an excellent facilitating organization through participatory approach. The main objectives of Shreyas include; (i) Formation and strengthening of Community Based Organisations (CBOs), (ii) Promoting decentralization and institution building process, (iii) Initiating development movements, and (iv) Conservation of environment. Formation and strengthening of people's organizations has always been the foremost programme of Shreyas all through these years. They understand that, CBOs are the primary platform to address the multi-faceted human issues. Shreyas practice the family centred approach by facilitating the formation and strengthening of groups for women, men, youth, children, disabled and senior citizens. As on March 2007, there were 1666 women SHGs, 448 men SHGs and 15 mixed SHGs formed under the leadership of the Shreyas.
2. Kudumbashree, the State Poverty Eradication Mission (SPEM) was launched by Government of Kerala in 1998 with the active support of GOI and NABARD for wiping out absolute poverty within a period of 10 years. The project is implemented through Local Self Governments empowered by the 73rd and 74th Constitutional amendments. The slogan of the Mission is "Reaching out to families through Women and reaching out to community through Families". It is a holistic, participatory, women oriented innovative overarching poverty reduction approach. "Kudumbashree" envisages prosperity of the economically backward families in the state with multiple programmes that will provide them information, create awareness, build up their capacity and enhance their confidence and show them opportunity for better social security and empower them physically, socially, economically and politically. As on December 2007, 3.6 million women participate in the Kudumbashree movements in the state cutting across political ideologies and religious faiths. Within a short span of 9 years, Kudumbashree could bring about considerable change in the lives of women of Kerala by converging resources, ideas and programmes of various departments through the CDS system. About 36 lakh women of the State have been organized into 182969 grass root level Neighborhood groups. Apart from thrift mobilisation and informal banking, the CDS structure has given birth to 29436 vibrant Micro Enterprises making around 54949 women owners of these units.

Microfinance and Women: Gender Issues of Poverty Alleviation and Empowerment

- Gopa Samanta*

Introduction

In south Asian countries the GDP per capita for women is extremely low and is often less than half, or one-third of that of men. In India it is only 38% (Kelkar, 2005). This low GDP per capita for women is due to the reporting of women as economically less active, which is again determined by their low social status. Bhatty (1987) argued that this invisibility of women's work is to the elusive definition of 'work' given by economists and Census Commissioners. She also identified another reason for the non-recognition of women's economic contribution, which is the neglect of the household economy and the unorganised sector, in which women play an overwhelming role. According to Mazumdar (1985), unless the economic and social utility of women in the eyes of their family and nation by opportunities to take part in socially and economically productive roles is recognised, the national neglect of women will continue.

In India, women account for 60% of unpaid family workers and 98% of those, engaged in domestic work.

Yet, when both household and "productive labour" for market are considered, women work considerably longer hours than men do. This gap is particularly pronounced in poor households. In India, women account for 60% of unpaid family workers and 98% of those, engaged in domestic work (Acharya and Ghirme, 2005). Even after the experience of women's access to income, arguments are being made by scholars that economic independence of women does not convert easily into empowerment. Gulati's (1996) study on the outskirts of Trivandrum noted that women who had supplemented their family income, and in some cases were the 'principal earners' as their husbands were unemployed neither rose in status within the social groups to which they

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belonged nor did they acquire the condition of being equal with their menfolk.

In the above context, the poverty alleviating and livelihood generating microfinance schemes put more emphasis on women SHGs to make their contribution visible in the family and to empower them in economic as well as in social aspects of life. Both the Indian government and NABARD have started microfinance schemes since 1990s to raise poor women and their families above the poverty line through collective sustainable livelihood projects. Too much is claimed for such microfinance programmes and that expectations are in most cases grossly exaggerated (Harper, 2008). In this study, the impact of such microfinance programmes are analysed on poverty alleviation and in empowering women as a case in Burdwan, West Bengal.

This paper belongs to evaluative research, which examines the success and failure of microfinance to ameliorate poverty, to generate livelihoods and to empower women by organizing them under self-help groups. The major issues addressed in this paper are sustainable livelihood generation and empowerment of women SHGs. In this paper, I have tried to understand women's empowerment as a process rather than a state. The levels of empowerment are measured through the indicators such as mobility, confidence and capacity building, entitlement, perceptions of empowerment, decision making, and autonomy and authority.

The paper is based on the data and information collected from intensive field survey in five Rural Development blocks of Burdwan district, West Bengal covering 64 Swarnajayanti Gram Swarojgar Yojana (SGSY) women groups and 500 individual women. The selection of groups is done from the lists of Blockwise SGSY and NABARD SHG groups in Burdwan District, West Bengal. The groups, having at least 3 years of work experience, are selected for the study to understand the impact of microfinance schemes on livelihood generation and poverty alleviation for rural women. The field survey was based on both quantitative and qualitative methods. To complement quantitative information gathered through structured questionnaire survey, qualitative data are obtained through participatory research methods such as long informal interviews and focused group discussions. For a better understanding of the implementation and consequent problems related to forming, functioning and bringing success to change the lives of poor women, a series of interviews are also taken with different officials at Panchayat, Development Block and District levels, who are directly engaged with the entire process of forming and functioning of SGSY and SHG groups.

Theoretical Discussion on Empowerment, Women and Microfinance

"Empowerment is the most frequently used term in development dialogue today. It is also the most nebulous and widely interpreted of concepts. It has simultaneously become a tool for analysis, as also an umbrella concept to justify almost every conceivable development intervention" – Deshmukh-Ranadive and Murthy (2005:44).

The growing social awareness across the globe has made the issues of gender equality and women empowerment significant in the development discourse of recent past. The concept of empowerment of women is the special outcome of several important critiques and debates generated by the women movement throughout the world, and particularly by Third world feminists. Its sources can be traced to the interaction between femininity and the concept of popular education developed in Latin America in the 1970s (Avasthi and Shrivastava, 2001). In the present day development discourse empowerment has become a 'motherhood term' (Parpart *et al*, 2002) and a common ideological meeting point for disparate actors. Its widespread deployment masks the different conceptual, procedural, and substantive concerns that underlie the commitment of different institutions to women's empowerment (Madhok, 2003).

It is very difficult to define empowerment with a universally accepted definition. It has been defined by academics and development practitioners in different ways. The word 'empowerment' used by development agencies like World Bank and NGOs, does not bear the same meaning as used by feminist development theorists and practitioners. However, much of the literature views empowerment as a process of change in existing power structure. It is clearly concerned with power, and particularly with the power relations – and the distribution of power – between individuals and groups (Kahlon 2004). Batiwala (1994) defined empowerment as 'the process of challenging existing power relations and of gaining greater control, over the sources of power'. According to Bhasin and Dhar (1998), it is a process of making present power structures more inclusive, including all women and men, senior citizens, *dalits*, indigenous people and people with disabilities. Acharya and Ghirme (2005) identified empowerment as a dynamic and ongoing process, which enhances women's and any other marginalized and alienated groups' abilities to change the structures and ideologies that keep them subordinate. Deshmukh-Ranadive (2005) defined empowerment as a process that takes place wherein an inequality moves towards becoming equality. It is also perceived as process of change to gain the power and ability to make choices that affect the lives of powerless individuals or group (Cheston and Kuhn, 2002).

Empowerment is a holistic concept. It is multi-dimensional in its approach and covers different aspects of life. Stromquist (1993) identified four interdependent dimensions of empowerment – cognitive, psychological, economic, and political. Cognitive empowerment refers to knowledge about, and understanding of, the conditions and causes of subordination. Psychological empowerment relates to the development of self-esteem and self-confidence enabling powerless individuals or group to recognise their own power and to motivate those into action. Economic empowerment is the ability to earn and control economic resources. Political empowerment involves the ability to analyse one's world and to organize and mobilise for social change.

Women Empowerment

The issue of empowerment of women is very complex as the issues related to women are varied and multidimensional. In its simplest form, women empowerment means the manifestation of redistribution of power that challenges patriarchal ideology and the male dominance. It is both a process and the result of the process. It is transformation of the structures or institutions that reinforces and perpetuates gender discrimination. It is a price that enables women to gain access to and control of material as well as information resources (Avasthi and Shrivastava, 2001). According to Tapan (2000) empowerment of women means making their own choices with regard to their lives and makes them active players in the society. Gaonkar (2004) conceptualized the empowerment of women as a multidimensional and holistic approach. According to her, although it covers social, political and economic aspects of women's development, economic empowerment is of utmost significance in order to achieve a lasting and sustainable development of society.

Acharya and Ghirme (2005) identified three dimensions of women's empowerment – economic, social and political. According to them each component of these dimensions reinforces the other. The economic aspects include increasing women's access to, and command over tangible and intangible resources, such as wealth, property, employment, knowledge and information. Social aspects include changing discriminatory ideology and culture, which determine the environment for women's existence. Finally, political process must increase women's presence and influence in the power structure.

However, Garba (1999:131) adopted two genetic concepts of dimensions of empowerment with respect to women: the static and dynamic. The former emphasizes women's empowerment in terms of their capacities to participate in decisions making that directly or indirectly affect their lives, and to influence those decisions. This refers to the notion of women having an effective voice. Women are also assumed to be disempowered when they cannot influence decisions that alter their lives. The static concept of empowerment leads to exogenous empowerment strategies. Exogenous strategies are those built on the premise that disempowered groups can be empowered by external individuals or groups in the way so that an effective voice could be given to women. The exogenous empowerment strategy implies a top-down approach.

Hashemi and Schuler (1993) hypothesised that the process of empowerment can be attained by weakening the systemic basis of women's subordination. According to Batiwala (1994), women empowerment can be attained through the process of:

- challenging the ideology of male domination an women's subordination;
- enabling women to gain equal access to and control over resources and
- transforming the institutions (family, education, religion, media etc) and structures (legal, political and social) through which the ideology and practice of subordination is reinforced and reproduced.

Lastly it can be said that the process of women's empowerment highly depends on the existence of alternatives. Women may be aware of the conditions of their oppression, but if they see no viable alternatives, if there are no choices available, they can only turn their anger inwards, into frustration and bitterness, or into (religious) acceptance of suffering. Women's capability to make meaningful decisions over critical areas of their lives depends to a large extent on the existence of alternatives to arrangements about which they are unhappy (Charmes and Wieringa, 2003).

Microfinance and Empowerment of Women

There has been much debate in the gender and development literature on how to achieve women's empowerment, with this debate often centering on whether microfinance programmes do in fact empower women (Jayaweera, 1997). Does access to credit automatically lead to empowerment? – This question is increasingly being asked by academics who are working on the impact analysis of microfinance on women (for example see Cheston and Kuhn, 2002). Kantor (2003) raised a similar question: does access to income earning opportunities improve women's status within the household or do social norms and practices intervene to make access to resources alone insufficient to challenge intra-household gender relations in some contexts?

According to Hunt and Kasynathan (2001), who controls decision-making regarding the use of credit, who manages enterprises supported by credit, whose labour is used, who controls the marketing of products, and who keeps, decides on, and uses any income generated? – These questions are critical for understanding changes in gender relations and the contribution of microfinance to women's empowerment. Several studies (for example see Chaudhary, 2005; Garba, 1999; Gulati, 1996 etc.) have shown that access to credit and income cannot lead to the empowerment of women instead those are associated with processes of changes in the power structure. Therefore, it is important to make a conceptual distinction between projects that seek to reduce poverty and enhance productivity and those that seek to empower women, as the strategies adopted could be different. Effective poverty targeting can ensure that short-term, material benefits reach the poorest without necessarily leading to enhanced voice and equality (Rao, 2005). Singhe (1993) also noted that the development strategies which simply increase women's access to resources do not necessarily ensure their empowerment.

Cheston and Kuhn (2002) pointed out that the ability of a woman to be empowered through access to financial services depends on many factors – some of them linked to her individual situation and abilities, and others dependent upon her environment and the status of women as a group. Control of capital is only one dimension of the complex and ever-changing process by which the cycles of poverty and powerlessness replicate them. Women also face disadvantages in accessing information, social networks, and other resources they need to succeed in business and in life. According to Ramachandran (2002) credit, productive assets and skills cannot be used to empower the poor especially women unless they are aware, confident and powerful as collective to resist the landlords, moneylenders, unscrupulous middlemen and even development functionaries. Endeley (2001) argued that women having access to income primarily ensures the welfare of the family, and can hardly address problems of women's oppression and subordination. Using 'empowerment' in connection with projects that focus only on ensuring women's access to moneymaking opportunities can only mislead. The true meaning of empowerment – transforming unequal gender power relations – is in most cases forgotten by development agents and practitioners who tend to avoid challenging male power and control i.e., patriarchy.

Livelihood Generation and Poverty Alleviation

The foremost objective of all microfinance programmes is to provide credit to poor people who do not have access to formal credit institutions. In addition, some government programmes like SGSY tries to alleviate poverty through generating credit and subsidy based self-employed livelihood activity. Although there is much craze among Microfinance Institutions (MFIs) of forming women groups, very less attention is given to the special needs of women and their feasibility to run credit based group activity. According to Mayoux (1998), conditions of such microfinance delivery should be flexible to women's aspirations, needs, and existing strategies. This includes considering the types of loan and savings conditions that would maximise women's control over loan and savings decisions as well as over the income.

The credit taken by the women members are supposed to be for productive purposes. However, in reality credit is hardly used by women for productive activities. In a number of cases credit is used for regular consumption needs such as food, clothes, education of children and medical treatment. About 6% of credit is used for daughter's marriage. Mohindra (2003) also noted that loans are often used by the poor women SHG members for consumption, such as health care and marriages.

The women from small farmers' families also take credit for agriculture (4%). In these cases, credit is not used by the women themselves. Rather their husbands use the credit for agricultural activities in which women hardly get access to be involved and to monitor. The credit taken for building assets is very limited i.e. only 8% among the women. This is again used for non productive assets such as purchase of homestead land (2%) and construction of houses (4%). Kabeer (1998), in her study on gender, credit and empowerment, also noted that women usually do not have much control over their credit and income. When they control those, they tend to spend their income on household consumption and 'security-related assets' such as homestead than the male borrowers who prefer to invest the credit in further productive activities.

According to Mosley & Hulme (1998), due to the preferences or needs for the consumption loans by the poor, members are not gaining productive capacities. However, in my study about 25% of women are using the credit for petty business and another 36% use for purchasing livestock resources. These 61% of women use their credit for productive purposes. The proportion of women in using credit for productive purposes is again higher in SGSY groups than that of SHG groups. A few instances are also there where women have taken credit to repay the earlier loan of the family from moneylenders.

SGSY guidelines, which seeks to use SHGs as channels of delivery of credit-cum-subsidy assistance to below-poverty-line section, aims to bring every assisted family above the poverty line in three years by creating a monthly income of at least Rs. 2,000 from the activity undertaken, after repayment of the bank loan (Kalpana, 2005). Over 60% of our surveyed SHGs have crossed that threshold limit of three years. However, none of the groups have achieved that target of Rs. 2,000 income per member per month. There are a number of groups who were formed eight to ten years ago and yet most of them could not even earn Rs. 1,000.

The higher levels of income categories noted among the SHGs are Rs. 700 to 1,000 and above Rs. 1,000. The respective proportions of women in these two categories of income are 9.4% and 2.6% only (Table 1). These categories of income are again only found in SGSY groups. The SHG groups' women have not yet attained the income categories above Rs. 700 per month. On an average, 29% of women have no income from SHGs as their livelihood activities are yet to start. About 49% of women have monthly income varying within Rs. 500. Another 10% earn Rs. 500 to 700 per month from their group activities.

Empowerment

In development discourse, there is an argument that women's empowerment is the product of successful income generating programmes run by women. The poverty alleviating programmes for women are often entangled with women empowerment. This is done on the belief that the social and political empowerment of women would automatically come with women's access to credit and income. However, there is debate among scholars on the relation between microfinance, poverty alleviation and women's empowerment.

According to Endeley (2001), the argument that women's empowerment assists in poverty alleviation hinges on the extent to which a society permits women to retain control of her income, and participate in decision-making in economic, social and political spheres. However, facilitating women's access to money is not an effective means for achieving women's empowerment, unless it is linked to other kinds of activity like training for women on self-esteem, on awareness of the impact of women's subordination and on the meaning and benefits of empowering women. According to Kabeer (2000), given the social and cultural location of some sources of gender inequality in India, access to economic resources alone is not necessarily sufficient to counter this inequality and to empower women as their disempowerment is not based only in economics.

Women's empowerment is a very critical issue in respect of its measurement. Although several impact assessment studies have been done to measure empowerment of women, there is no consistent analytical framework on how to measure empowerment in different contexts. However, the context is very important in measuring women's empowerment. According to Malhotra et al (2002) one of the major difficulties in measuring empowerment is that the behaviours and attributes that signify empowerment in one context often have different meanings elsewhere.

Sahay (2005:155) has dealt with the other difficulties and challenges of framework for measurement of women's empowerment. According to her, many scholars describe empowerment as a process rather than a condition or state of being. However, processes are always very difficult to measure with the standard empirical tools available to social scientists. She analysed the major methodological challenges in measuring the process of women's empowerment, including the use of direct measures as opposed to proxy indicators, the lack of availability and use of data across time, the subjectivity inherent in assessing processes, and the shifts in relevance of indicators over time.

However, World Bank (2004) has developed an analytical framework for the measurement of women's empowerment. Empirical analyses of women's empowerment are heavily concentrated at the individual and household level. There are many possible indicators to assess empowerment. However, certain indicators such as power, autonomy and self-reliance, entitlement, participation, and process of building awareness and capacity are frequently used in view of its operationability and ability to capture the level and process of women's empowerment (Sahay, 2005). Besides, economic status, social mobility and decision making are parameters which can change even over short period time due to increasing income generating capacity of women. This study would focus on mobility, confidence and capacity building, entitlement, perceptions of empowerment, decision making, and autonomy and authority for measuring empowerment of women through microfinance.

Mobility

Women's freedom of movement is extremely limited in most of the south Asian countries especially in India. Only one in three women can go to the market without permission and only one in four can go to visit relatives or friends without permission (Kishor and Gupta, 2004). Women often tend to be dependent on men (father, husband, brother) to mediate social interactions and to avoid social suspicion and animosity (kabeer, 1999 and 2000). Therefore, change in mobility and social interaction can be considered as a significant indicator of women's empowerment.

Increase in women's mobility through SHGs has been noted by several scholars. According to the IFAD/OE (2000) study women have become more mobile and begun to have new interactions with persons from a range of class after joining microfinance based livelihood project. In order to participate in SHG meetings and activities, the women were required to exit their homes, thus opening opportunities to gain social autonomy. Mohindra (2003) noted that many women now claim that they have acquired freedom not only to attend meetings and SHG functions, but also can travel for other purposes. However, Hunt and Kasyanathan (2001) stated that contextual factors such as extreme poverty and landlessness may be more strongly associated with increased mobility beyond the village, than with microfinance programmes.

Mobility is therefore, a crucial factor of SHGs for women. Participating in SHGs meant that women would need to spend time away from their households, a luxury for women which may not be feasible, or acceptable to family members, particularly to husbands. In Burdwan women have started to visit new places and travel longer distances for the SHG project. As a result they have started to enjoy more mobility than before. However, the social interaction is more limited to the group leaders and assistant group leaders who negotiate with staffs of institutions such as banks, district and block development organisations, and NGOs. However, the degree of mobility and interaction depend on the nature of livelihood generating activities.

Mobility to the market is one of the necessary preconditions of women SHGs to be economically viable. The sale of products and profit generated from the livelihood activities depends on the access of women to markets. These markets may be the rural periodic markets (locally called *haats*), rural market centres or urban markets in the nearby towns. Only 14% of women go to the nearest market daily. About 29% visit the nearest market weekly. Another 21 per cent visit once in a month. However, the interesting observation is that, still 23% of women have never been to the nearest market. According to Acharya and Ghirme (2005) the ideology of seclusion makes women's work outside the household a matter of dishonour, resulting in the restricted mobility of women and under-reporting of their economic activities.

Coming to the point of purpose of visit to the nearest market centre, it is observed that about 89% of women go the market for shopping and not for marketing their products. Only about 4% go to the market centre to sell their products of group based livelihood activities. The only other purpose for which women visit the nearest market centre is health care i.e. medical check ups. Such low rate of mobility for livelihood generating activities and the nature of the purpose of mobility highlights that microfinance has not empowered women to enjoy mobil-

Table 2: Mobility Index

Types of Mobility	Frequency of Mobility Enjoyed by Women			
	Generally	Occasionally	Never	Total
Visiting parental Home	136	324	40	500
	(27.23%)	(64.73%)	(8.04%)	(100.00%)
Visiting Hospital	82	327	91	500
	(16.33%)	(65.32%)	(18.35%)	(100.00%)
Visiting village Market	141	222	137	500
	(28.23%)	(44.44%)	(27.33%)	(100.00%)

ity for work in the public domain outside home. Putting various types of mobility together I have tried to understand the overall pattern of women's mobility with the help of a mobility index (Table 2). From the index it is very clear that the majority of women enjoy their independent mobility only occasionally not generally.

Confidence and Capacity Building

Capacity building is an important component of poverty alleviation initiatives. SHG formation and strengthening, book keeping and financial management help members and leaders to develop linkages with banks and other institutions. Sustained awareness-generating activities and an effective backstopping system are vital for any sustainable impact. The experience of NGOs like the Cooperative Development Federation of Andhra Pradesh, Working Women's Forum of Tamil Nadu and Self Employed Women's Association, Gujarat have shown that it takes a long time and a lot of hard work to build the capacities of women members and their leaders to be able to make it a profitable and worthwhile exercise (Ramachandran, 2002).

Increasing self confidence is another necessary precondition of women empowerment. Self-esteem and self-confidence are evident manifestation of women's psychological empowerment which facilitates other dimensions of empowerment (Stacki and Monkman, 2003). The SGSY guidelines state that the self -help group approach helps the poor to build their self-confidence through community action. Interactions in group meetings and collective decision-making enable them in identification and prioritisation of their needs and resources. This process would ultimately lead to the strengthening and socio-economic empowerment of the rural poor as well as improve their collective bargaining power (GOI, 1999).

Self confidence although is one of the most crucial aspect of empowerment, it is also one of the most difficult to measure or assess. Self confidence is a complex concept related to both women's perception of their capabilities and their actual level of skill and capabilities (Cheston and Kuhn, 2002). It is related to Kabeer's concept of 'agency' that allows women to define and achieve goals as well as the sense of power women have within themselves. In this study I have tried to measure self confidence of women through the perception of the change in their capabilities. About 90 per cent of women have perceived positive changes in the levels of their self confidence after working in groups (Table 3). Many also mentioned that the access to credit had enabled them to contribute to household finances which increased their self-respect and self-worth. Hunt and Kasyanathan (2001) also noted that among the various positive aspects of microfinance women most valued the confidence, knowledge, or training that they received.

Capacity building for financial management is another significant factor of making microfinance programme sustainable. Proper understanding about loan and its recovery, savings, distribution of profit, etc are necessary to make a microfinance

Table 3: Change in Self-Confidence						
Self Confidence	SGSY		SHG		Total	
	No of women	Percentage	No of women	Percentage	No of women	Percentage
Improved	346	90.81	108	91.53	454	90.8
No change	36	9.19	10	8.47	46	9.20
Total	382	100	118	100	500	100

based livelihood programme economically viable. Besides, the capacity of financial management of the household increases the confidence of women to take part in the families' financial decision making. In an enquiry into the change in the capacity of financial management after joining SHGs, it has been found that 68% women's capacity has improved. Among those 68% of women about 60% can operate their bank account. However, 32% of women did not progress in their capacity of financial management.

Entitlement

Women's subordinate position in society is perpetuated and reinforced by her limited access to and control over resources. Although poor in general have limited access to assets and resources, the women have comparatively less control over whatever resources they possess. Women thus get doubly marginalised – by virtue of being poor and being women (Batiwala, 1993).

Therefore, entitlement is one of the important components of women's empowerment. For a process of women's empowerment to be successful, women must have access to resources. It is here that policy, both of governments and of the private sector, can provide effective intervention Charmes and Wieringa (2003). According to Longwe (1991) control over resources is the ultimate proof of women's economic, social and political empowerment.

In poverty alleviating programmes there is thrust on the entitlement of women over the resource generated from the livelihood activities. However, in reality very few women can control their credit and income for the well being of themselves as well as for the family. Hunt and Kasyanathan (2001) noted that individual factors often become important in the increasing control of women over loan and income generated from SHG activities. Such factors may be the absence of husband due to death, abandonment or long-term migration of male members of the family. Sometimes prolonged illness from chronic disease and physical unfitness for work of husband give more controlling power to women.

Control over money automatically gives women a degree of authority. However, in cases where poverty dictates the pattern of expenditure of the family, women have less option to control over money. From the primary survey it is observed that less than half of the women keep income in their hands (Table 4). They often use their money to meet the bare necessities of the family such as food. The rest of the women give their total income to the male members of the family especially to husbands (38%). Sharing of women's income with husbands is also done in some cases. Although women use their income for maintenance of the family, husbands hardly allow them to keep the money to themselves. Unmarried women give their income either to their fathers or to elder brothers. Even grown up son enjoy the income of their mother in case of elderly widow women.

Table 4: Persons Controlling the Money Earned by Women

Persons	SGSY		SHG		Total	
	No of women	Percentage	No of women	Percentage	No of women	Percentage
Self	210	54.97	28	23.73	238	47.6
Husband	127	33.25	65	55.09	192	38.4
Joint	29	7.59	18	15.25	47	9.4
Father	5	1.31	5	4.24	10	2
Son	4	1.05	2	1.69	6	1.2
Mother-in-law	7	1.83	0	0	7	1.4
Total	382	100	118	100	500	100

Ownership of asset is negligible among women. About 93% of women have no asset at their disposal. They neither do have any control over family assets nor have any asset such as house formally in their name. Among the negligible proportion of women who have assets, a smaller fraction has monetary capital. Such capital is accumulated either as recurring deposits or as life insurance premium. The deposited cash help women to cope the emergency needs of the family such as daughter's marriage and sickness of family members. The rest of the women have ownership of homestead land and houses which are 50:50 in proportion.

Perceptions of Empowerment

Women's perception of empowerment comes out of the awareness about their subordinate position in the society. Women usually internalise their subordinate position and gender inequality to the extent that they think the discrimination as normal to them. They rarely feel that they are victims of the unequal customs and gendered practices prevailing in the society. Therefore, attainment of even a few facilities such as mobility, access to money etc. makes women feel empowered. About 72% of women feel that they have been empowered after joining SHGs and 28% do not perceive any change in their status in the family.

An analysis of the reasons why women perceived them empowered highlights interesting observations. The majority of them (47%) could not clarify why they feel themselves empowered (Table 5). This is due to the lack of proper understanding of the meaning of empowerment. About 23 per cent of women's feeling of empowerment comes from the choice of purchase of household goods and sometimes for themselves. Feeling of independence in earning and mobility makes 19% of women to perceive themselves empowered. Participation in family decision making also gives 11% of women the feeling of empowerment. In contrast 4% of women have perceived negative changes in their status. These are women who have increases the debt of the family due to the failure of and consequent loss in microfinance based livelihood activity.

Table 5: Reasons of Feeling Empowered

Reasons	SGSY		SHG		Total	
	No of women	Percentage	No of women	Percentage	No of women	Percentage
Self purchase	56	20.22	26	32.1	82	22.91
Decisions making	35	12.64	6	7.41	41	11.45
Feeling independent	26	9.39	42	51.85	68	18.99
Does not clarify	160	57.75	7	8.64	167	46.65
Total	277	100	81	100	358	100

Change in the bargaining power for their rights in the family is observed among women in some cases. About 66% of women perceive that they have got strength to bargain for their own well being. However, such bargaining capacity is reported only on individual scale and within the domain of family. No experience of collective bargaining has been reported by women to change their positions in the society. Mayox, (1998:236) has explained similar observations:

'*Some women do undoubtedly benefit substantially from some programmes, increasing their incomes and using this to raise their bargaining power in the household and their status in the community. It is impossible to say for how many women, or in which contexts, this is occurring*.'

Financial position means the participation of women in the financial decisions of the family. Among the women 57% have perceived positive changes in the financial status within the family. Contributing financial resources to the family or community confers greater legitimacy and value to women's views and gives them more entitlements than they would otherwise have (Cheston and Kuhn, 2002). In this study, 76% of women have reported that their financial contribution is gaining importance in the family. As a result their opinion regarding family matters are often asked by the male members in the family which was totally absent before they could do the economic contribution. It has also been noted that some women do feel that they gain respect, they are listened to more, or they have more value, because they bring in credit and income. Such observations are also made by Kabeer, 1998; Banu et.al., 1998 and Hunt and Kasyanathan, 2001.

Decision Making

Decision means 'say in action'. In decision making what is really important is the action that results, and who has a say or influence on that action (Holcombe, 1995). Participation in decision making is the most significant component of empowerment. The enhancement of women's capacity to influence and participate in decisions that directly or indirectly affect their lives, is a key issue in raising their standard of living and protecting their rights to full participation in the processes of development. In other words, empowering women is a means to an end, the end being to improve their lives and protect their rights to participate in decisions that affect them (Garba, 1999).

According to Kabeer (1999) the dimension of women's empowerment is linked to enhancing women's ability to make choices over the areas in their lives that matter to them. Such choices may be both the 'strategic life choices' and choices related to daily life. Kabeer (1999) defines 'strategic life choices' as choices of women which are related to their marriage and children, residence and choice of livelihoods and friends. Women's capability to make meaningful decisions over such choices again depends to a large extent on the existence of alternatives (Charmes and Wieringa, 2003).

Regarding decision making, the IFAD/OE evaluation study (2000) stated that 'there seemed to be a slight improvement in women's involvement in household decision-making in male headed households, on such issues as credit, the disposal of household assets, children's education, and family health-care. However, the traditional gender-based divisions persist in intra-household decision making. Women basically decide on food preparation, and men make the financial decisions. Similar observations are also made by Cheston and Kuhn (2002): although women have substantially increased their decision-making power - especially regarding the purchase of household assets - and are consulted more often in the decision-making process, men still tend to have the final word on major decisions. In contrast, in the discussions on the linkages between resources, agency and achievements in relation to women's empowerment in Bangladesh, Kabeer (1999) noted that with access to credit, just a little training, and some group support, women become able to negotiate significant increases in power and decision making within their households.

In most of the south Asian countries, women have far less say in ordering family expenses. In India, they have no choice in budgetary matters, particularly in rural areas, where the dependency ratio is higher than in urban areas. In Burdwan, majority of SHG women (82%) usually do not yet take any decisions regarding family budget and expenditure. Only a few are empowered to take financial decisions of the family (Table 6). However, areas over which they take decisions are either children's education or the purchase of consumption goods.

In decision making, very poor achievement has been observed among the women members of SHGs. Thereafter, I tried to understand the extent to which women are consulted by their husbands in household affairs. The measurement of this aspect of empowerment is done with the help of inter-spouse consultation index, adopted by Ruhul (1997) in his study on the impact of NGO in rural Bangladesh. In the patriarchal society of rural Bengal, women are rarely consulted in the domestic affairs

Table 6: Women's Decision-making in the Family Matters

Issues	SGSY		SHG		Total	
	No of women	Percentage	No of women	Percentage	No of women	Percentage
Children's education	16	4.19	17	14.4	33	6.6
Consumption	37	9.68	21	17.8	58	11.6
Nil	329	86.13	80	67.8	409	81.8
Total	382	100	118	100	500	100

by their husbands. However, this trend has changed due to the income earning capacities of women through SHGs.

From the inter-spouse consultation index, it is clear that more than one-third of women are generally consulted by their husband in the aspects of food and educational expenses of children (Table 7; Figure 1). They are occasionally consulted in purchase of clothes, medical expenses and purchase of household furniture. However, they are never consulted in the generation of assets such as purchase of land.

Table 7: Inter-spouse Consultation Index

Issues of Consultation	Frequency of Woman's Consultation by Her Husband			
	Generally	Occasionally	Never	Total
Buying Household Furniture and Utensils	101 (20.13%)	384 (76.74%)	15 (3.13%)	500 (100.00%)
Purchasing Land	15 (2.91%)	57 (11.43%)	428 (85.66%)	500 (100.00%)
Educational Expenses of Children	191 (38.12%)	214 (42.83%)	95 (19.05%)	500 (100.00%)
Medical Expenses	140 (28.00%)	358 (71.56%)	2 (0.44%)	500 (100.00%)
Purchasing Clothes	47 (9.36%)	451 (90.18%)	2 (0.46%)	500 (100.00%)
Purchasing Daily Food	372 (74.33%)	121 (24.12%)	7 (1.55%)	500 (100.00%)

Autonomy and Authority

Autonomy is a multidimensional concept and is very difficult to measure. It has been defined by scholars to incorporate different dimensions of empowerment. Dyson and Moore (1983) has defined autonomy as the capacity to manipulate one's personal environment. Gandhi and Shah (1999) viewed it as a process with continuous involvement rather than a state. They also stated that autonomy should not only incorporate individual beliefs, desires, and choices, but also the social context in which they are made. In India, female autonomy sometimes changes over the course of a women's lifetime. They acquire more autonomy as they age and produce sons, and then loose autonomy when they are elderly or widow.

Mohindra (2003) have categorised autonomy into three dimensions - economic, social and political. Economic autonomy represents not only the capacity of a woman to earn income, but also to have command over resources through personal access or control in how the income is spent. Social autonomy is the freedom a woman has to travel outside the domestic household and to engage in social activities. Finally, political autonomy is the capacity of a woman to use her voice either within the household or in public in order to influence decision-making.

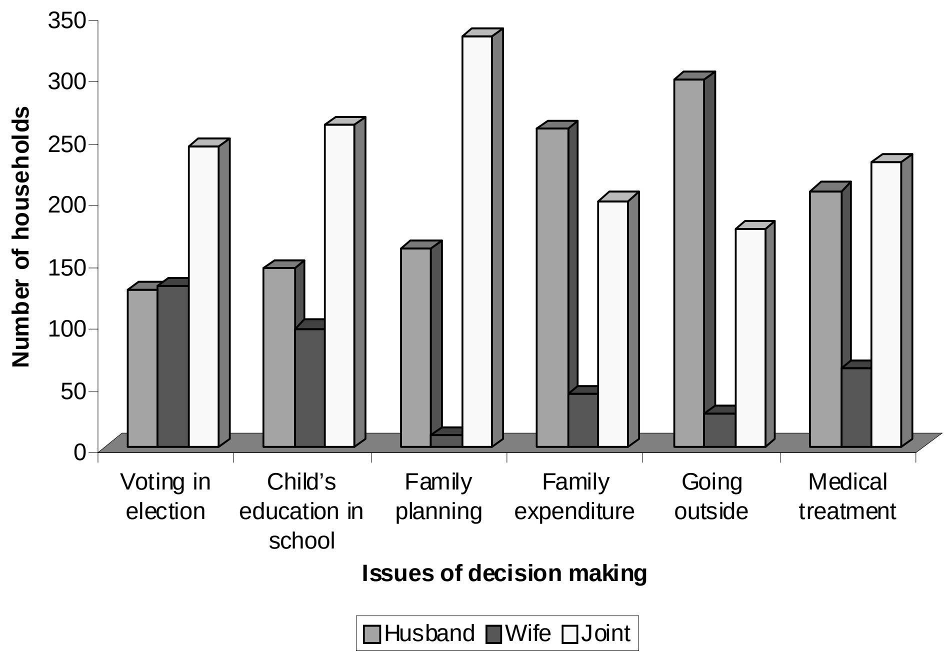
Economic, social and political autonomy are inter-linked and capable of reinforcing the other dimensions. Ultimately autonomy in different aspects of life empowers women to develop their authority both within and outside households. It would appear that control over the family purse must automatically give women a degree of authority, and this is often assumed to be so (Dixit, 1998). However, some sociologists like Hollensteiner and Burcraff (1975) have pointed out that control over cash does not confer power, since poverty dictates expenditure until income are high enough to give some options. Sometimes women also do not use their economic status to push for their preferences in an overt manner, instead maintaining their relationships through compromise (Kabeer, 1999). Kelkar (2005) opined that there are also women who keep quite and show nothing but compliance to male dominance; this is done as a result of fear of insult and physical assault.

Table 8: Authority Index

Issues of Decision Making	Types of Decision Making			
	Husband	Wife	Joint	Total
Voting in Election	127 (25.45%)	130 (25.90%)	243 (48.65%)	500 (100.00%)
Child's Education in School	144 (28.75%)	96 (19.33%)	260 (51.92%)	500 (100.00%)
Family Planning	160 (31.81%)	9 (1.83%)	331 (66.36%)	500 (100.00%)
Family Expenditure	257 (51.35%)	43 (8.78%)	199 (39.87%)	500 (100.00%)
Going Outside	297 (59.46%)	27 (5.33%)	176 (35.21%)	500 (100.00%)
Medical Treatment	207 (41.32%)	63 (12.63%)	230 (46.05%)	500 (100.00%)

Following Ruhul (1997), I have tried to understand the levels of authority achieved by women after joining SHGs with the help of authority index. In this index authority in several aspects of women's lives such as financial, social and political are measured. Women rarely enjoy independent authority in different aspects such as family planning, family expenditure, going outside and medical treatment (Table 8; Figure 2). However, in decisions regarding voting in election and children's education, women enjoy authority to some extent. However, one positive aspect is that women are often included in the decision making and the rates of joint decisions are on the increase in household affairs.

Figure 2 : Authority Index



Conclusion

From the analysis of women's livelihood generation for poverty alleviation and women's empowerment through microfinance, it is found that the impacts are mixed in nature. SHGs have become successful to raise women and their families above poverty line if the planning for livelihood activity is well thought out and well nourished by the dedicated practitioners from either Government or NGOs working close to the grass root levels. Besides, there are several cases where women are long engaged in SHG activities but could not generate sufficient income to contribute to the family and to cope with poverty. Increase debt bondages are also observed in cases where SHG women lost their livelihood but have credit to repay with interest. Therefore, the paper raises question on the viability of microfinance as poverty alleviating programme. Dichter and Harper (2007, p.258) explained the failure of microfinance as poverty alleviation alternative 'Microfinance practitioners neglect opportunities to develop techniques to reach further down the poverty scale, they fail to appreciate the need for products that can finance enterprises that will employ people rather than forcing them to be self-employed, and they continue to focus on credit and loans when their customers need savings and insurance far more urgently'. Bera (2008, p.84) has another explanation 'it is sensible for MFIs to recognise that microfinance cannot be expected to work everywhere and for everyone'.

In the empowerment scenario, it has been seen that successful livelihood generation and access to credit and income sometimes empower women to take decisions in some family matters such as food, children's education etc. Women are entering the area of finance management, which traditionally is considered the domain of men, and have also gained access to economic resources to some extent. However, this empowerment is hardly found in case of financial decisions for the family as well as in the decisions regarding the dealings in public life. Women have not yet achieved the right to take decisions for their own well-being; they are only allowed to take decisions in domestic issues for the well-being of the family. They are yet to enjoy any control over the resources and assets of the family. In search of the reasons for failure of microfinance project to empower women, Garba (1999:132) observed that it is the ineffectiveness of exogenous methods that are currently being used in such projects. He argued for the necessity of an endogenous strategy that sees empowerment as a dynamic concept, and as a process of developing the capacity of women to participate effectively in making and implementing decisions that directly or indirectly affect them. This can be more likely to generate an effective empowerment strategy. Similar argument is made by Deshmukh-Ranadive (2005:5), 'empowerment cannot be given to anyone, nor is it a goal that can be reached by an organization or state'. Therefore, the paper ends with a hope that the state would take initiatives to change the structure and to create the conditions so that disempowered women could endogenously empower themselves, which is not possible by exogenous strategy of microfinance only.

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Is Convergence of SHGs and SGSY Approaches of Lending a Necessary Condition for the Growth of Microfinance Sector in India?

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The strategy for raising the standard of living of the people was mainly based on the 'trickle down effect' which anticipates that the growth of the economy and the per capita income would lead to a better standard of living.

"Growth with Social Justice" being one of the objectives of the planning process since its inception in 1951, planned efforts were made to ameliorate the living standard of masses in a systematic manner. The strategy for raising the standard of living or the quality of life of the people was mainly based on the 'trickle down effect' which anticipates that the growth of the economy and the per capita income would lead to a better standard of living. However, this strategy could not deliver the desired results on account of various factors. As the basic objective of development of a nation is to improve the welfare of the people, every nation strives hard not only to increase her wealth and productive resources but also to ensure better standard of living by providing them with sufficient food, shelter, clothing, medical facilities, education, etc., the formulation of a comprehensive and long term plan to achieve the welfare objectives of human being has become imperative. During late sixties, several other measures like nationalisation of commercial banks, establishing exclusive banks for rural areas in form of Regional Rural Banks, etc., were adopted to increase the role of institutional credit and reduce the dependence of rural masses on non-institutional sources. However, these strategies could not yield the desired results on account of various factors.

The credit needs of the rural poor are determined in a complex socio-economic milieu, where it is difficult to adopt project lending approach as followed by banks and where the dividing line between credit for 'consumption' and 'productive' purposes is blurred. Under the circumstances, a non-formal agency of credit supply to the poor, in the form of 'Self Help Group' (SHG) of the poor has emerged as a promising partner of the formal agencies. The democratic functioning of the

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successful SHGs, their adroitness in assessing and appraising the credit need of members, their business like functioning and efficiency in recycling the funds often with repayment rates nearing cent per cent, are positive features that has encouraged the banks for serving the credit needs of the poor. Recognition by the formal credit structure of the self management capabilities of the poor through the SHGs and a link up between the two has resulted in specific advantages to both the systems. Under the linkage project the main advantage to the banks are externalization of a part of the work-items of the credit cycle-assessment of credit needs, appraisal, disbursal, supervision and repayment, - reduction in the formal paper work involved and a consequent reduction in the transaction cost. Improvement in recoveries and also in the margins leads to wider coverage of such groups. A larger mobilisation of small savings is equally advantageous. For the groups, the advantages lie in the access to a larger quantum of resources as compared to their meager corpus generated through thrift, access to better technology and skill upgradation through different schemes of the banking sector and different developmental agencies involved in promotion of SHGs and a general improvement in the nature and scale of operations that accelerates economic development. It is expected that the outside intervention should be limited to the capacity building and providing financial support to the groups. The rest of the things, viz., terms and conditions of loan, activity to be taken-up, repayment schedule, etc., should be left with the groups in order to increase the decision making capabilities of the groups/ group members.

The SHGs also provide scope for collective management of funds and assist in developing entrepreneurial skills of individual members. Micro-credit interventions also improve the bargaining position of the poor with the informal lenders by altering the terms of credit availability and increasing competition amongst credit providers. Another very important aspect is the quick availability of credit for meeting emergent needs for medical and social requirements. This may make the poor more attractive to formal lenders through pre-screening, by increasing debt capacity and reducing lending risk.

Financing to groups which started in early 1990' with the introduction of Self Help Group concept and later adopted as an important channel under Swarna Jayanti Gram Swarozgar Yojana (SGSY) programme is today considered to be an innovative and the most effective approaches/ strategies for effective delivery of institutional credit to farmers, small entrepreneurs and other target groups. However, the results in form of reduction in poverty level of rural masses (per cent population below poverty line) and increase in standard of living at the end of 10th Plan Period have not found to be very encouraging due to many problems, particularly those relating to the implementation of these modules aimed at group approach of lending. The recycling of funds has suffered a setback on account of the generally poor recoveries of loans given under priority sector. Besides non-repayment of loans, populist political decisions are vitiating the general atmosphere of recovery, and also there could be several other factors which appear to have restricted the access of the rural poor to formal institutional credit. Through the implementation of successive Plans while the poverty ratio in our country has substantially been brought down from a level of 54.9 % in 1973-74 to 26.1% in 2000, the number of poor estimated at 260.3 million in 1999-2000 (321.3 million during 1973-74) is still a cause of worry. According to NSS 61st round (2004-05) the percentage of persons living below poverty line in India is 21.8% (using Mixed Recall Period) and 27.8% (using Uniform Recall Period).

According to India's first Social Development Report, published in 2006, 26%, or about 260 million Indians (193 million in rural areas and 67 million in urban areas) are still below the poverty line. However, if we consider the Indian Council of Medical Research (ICMR) 1981 prescription that 2,400 calories are needed for light work, 2,800 for moderate work and 3,900 calories for heavy work, then the poverty ratios are much higher. Poverty is declining but inequality is on the rise, says the International Monetary Fund. While poverty levels have shown a decline, there is huge disparity among the social classes with the percentage of the poor among the Scheduled Tribes being 43.8 per cent, Scheduled Castes 36.2%, and Other Backward Classes 21%, according to the Social Development Report 2006. This has happened despite the fact we have many exclusive programmes for SC/STs and separate & better treatments to SC/STs in other general programmes. The perspective Plan envisages reducing the proportion of the poor from a level of 29.18% during 1996 to a level of 4.37% by the year 2011, as indicated in the Ninth Five Year Plan.

The following table shows the overall poverty in India over various years given by the Tenth Five Year Plan.

Year	Poverty Ratio (Per cent)			Number Of Poor (Millions)		
	Rural	Urban	Combined	Rural	Urban	Combined
1977-78	53.1	45.2	51.3	264.3	64.4	328.9
1983	45.7	40.8	44.5	252.0	70.9	322.9
1987-88	39.1	38.2	38.9	231.9	75.2	307.1
1993-94	37.3	32.4	36.0	244.0	76.3	320.3
1999-00	27.1	23.6	26.1	193.2	67.1	260.3
2007	21.1	15.1	19.3	170.5	49.6	220.1

Source: Poverty: Background & Perspective by Mari Marcel Thekaekara

The present study using data from a macro study on 'Coverage of Scheduled Castes and Scheduled Tribes under Swarna Jayanti Gram Swarozgar Yojana (SGSY)' conducted by BIRD for Ministry of Rural Development, Government of India is putting forth the following cases which are aimed at justifying the need for convergence of SHG and SGSY schemes. The findings of the above study are presented in the following sections. The study is based on a total sample of 6904 swarojgaries from North India covering 2818 individual and 4088 group members and 1738 group swarojgaries from South India.

Physical Status of Units Financed

The activities of retail trade/ shop, agriculture based activities and dairy (cows and buffaloes) dominated the cumulative sample of individual swarojgaries in the sample states. Piggery was found to be the next important activity after these three but was limited to the State of Bihar only. In case of group swarojgaries, the dairy (33%), goatery (11.4%) and agriculture based activities (11%) dominated the financing in northern states. Retail trade business (7.6%) and paddy processing (7%) activities were found to be the next important activities in the northern states. In southern states too, dairy, retail trade and agriculture were found to be important activities being pursued by the group members. The findings of the study indicate that the units financed to sample swarojgaries were found intact only in case of 31% of total sample units. However, in case of group swarojgaries, only 17.7% of the total sample group swarojgaries units were found to be intact in northern states. However, in case of southern states, 76.6% units were found to be intact at the time of field visits which shows the better care by the government department as far as monitoring of units is concerned.

Table 1: Sample Size

States	SHG Groups	SC/ST Swarojgaries			Non-Swarojgaries
		Individual	SHG Member	Total	
Bihar	297	1608	313	1921	593
Chhatishgarh	106	454	973	1427	366
Orissa	108	496	974	1470	456
Uttar Pradesh	371	258	1828	2086	791
North	882	2816	4088	6904	2206
Andhra Pradesh	116		828		
Kerala	20		197		
Tamil Nadu	81		713		
South*	217		1738		
Over all	1099	2818	6842	8642	2206

Income Generation in case of Existing Units: Individual Swarojgaries

The average incremental income per annum in case of existing units (see Table 2) over the total sample of individual swarojgaries across all the activities covered under the study was found to be less than Rs. 800/- a month which is not even 40% of minimum requirement (Rs. 2000/- per month) to cross the poverty line. Most of the individual swarojgaries who were financed for dairy, poultry,

Table 2: Activity-wise Average Incremental Income: Individual Accounts

Activities	Average Incremental Income per unit per annum (Rs.)				
	Bihar	Chhattisgarh	Orissa	UP	Average
Agriculture	2575	9465	7541	8550	8230
Irrigation	4776	8963	2000	5700	6511
Dairy	3875	10500	13700	11078	7636
Fisheries	2000				2000
Goatery	10729	8763	6242	7778	7690
Piggery	11823	8000		9400	11579
Poultry		4000			4000
Sheep rearing			6300		6300
Handicraft	6676	4500	7100	10000	6733
Village Industries	15400	9444	5400		9300
Handloom		18000	2000		7333
Retail Trade/ shop	11246	9133	10542	15750	11488
Paddy Processing			7250		7250
Service sector	7424	12563	10500	14300	8904
Total	8205	10800	8682	12818	9391

goatery and Sheep rearing activities opined that they were not able to manage the asset properly due to their poor knowledge/ understanding about the management of animals and also because of poor support from the animal husbandry department, purchase of non-descriptive breed, etc. They lost quite a large number of animals, particularly goats, because of one or the other disease. The poor income generation in case of village/ cottage industry and handicraft items was basically due to their low level of business as this activity was generally pursued as secondary/ off-season activity. The low level of stock in retail trade / small shops was observed to be the major reasons for poor income generation in this activity.

Income Generation in case of Existing Units: Group Swarojgaries

The average incremental income per group member was estimated at Rs. 6916 in northern states and Rs. 11089 in southern states (Table 3). The average incremental income per member was lowest in the state of Uttar Pradesh (Rs. 3476) and highest in Tamil Nadu (Rs. 12026). The pattern in average incremental income per group member (on sample of existing units) appears to be on the lines of that observed in case of individual swarojgaries as far as income generation in northern states are concerned. One important observation in case of group financing is that quite a significant number

Table 3: Activity-wise Average Incremental Income

Activities	Average Incremental Income per unit per annum (Rs.)				
	Bihar	Chhattisgarh	Orissa	U P	Average
Agriculture/ Veg Cult	0	11232	7583	4152	9790
Irrigation	4800			3156	3795
Dairy	3119	14000	9856	6881	8090
Fisheries		3769	7850	7200	6174
Goatery	3150	5143	4448	3858	4518
Piggery	2870	8120	8480	4220	4588
Poultry	0	9251			9251
Minor Forest Produce		6318			6318
Khali Leaf Stitching			6076		6076
Dal Processing			2384		2384
Village Industries/ SRM	3300	9555	5540	7540	7274
Retail Trade/ shop	3657	8200	9865	6560	7003
Paddy Processing		5700	6300	4145	5880
Service Sector	5480	6200	4118	4878	5035
Total	3474	9178	6428	5585	6916

Activities	Number of units financed in different states			
	AP	Kerala	TN	Average
Agriculture/ Veg Cult	8540	9957	9369	9005
Dairy	10201	9865	12663	10951
Fisheries	9514			9514
Goatery	10213	11410	1246	5767
Piggery	8752			8752
Poultry	9584		10124	9881
Sheep rearing	12689		10526	11119
Handloom	9453		10894	10021
Village Industries/ SRM	9215	11268	13548	12387
Retail Trade/ shop	12321	13258	12561	12450
Paddy Processing			8451	8451
Service sector	11326	12984	10768	11207
Total	10359	10768	12026	11089

of groups were financed a set of two to three activities just to achieve an already fixed 'unit cost' so that the maximum amount of subsidy can be availed by the groups.

The major reasons for poor performance of units financed to group swarojgaries are as under:

(i) Quite a large number of members (other than the office bearer) are dummy members and most of them do not know about the activity for which their group has availed the term loan.

(ii) In more than 85% groups, the asset/ loan has been divided amongst the group members and all of them are pursuing their business independently.

(iii) A large number of activities viz., paddy processing, khali leaf stitching, broom making, collection and sale of minor forest produce, sawai rope making, activities related to agriculture group, etc do not require any type of capital investment and, therefore, most of the groups were disbursed cash either directly in hand or through their Saving Bank accounts. Most of the groups/ group members who were still engaged in these activities were doing it traditionally and the bank finance had nothing to do with their taking up these activities. So most of them used the loan amount (cash) for satisfying their other needs and they were found to be operating at their pre-disbursement stage of business. Further, in most of these cases, only a portion of subsidy was disbursed to them and the loan amount which was credited to their saving bank account was adjusted against their loan accounts after a period of 6 to 12 months. In the process, most of the groups were basically denied the loan although the loan was found to have been disbursed on papers. Some other activities, viz. dal processing, service sector activities, village industries require only a small amount of capital investment and some working capital for purchase of raw material. In such activities too, most of the groups were disbursed cash through their saving bank accounts.

Policy Options

The analysis presented in the foregoing sections justify the need for reorientation of poverty alleviations programmes viz., SGSY in order to reap the full benefit of the investment credit in form of loan and the subsidy. The following three cases need to be thoroughly examined in light of our past experiences of SHG and SGSY schemes:

Case of Convergence of SHG and SGSY Schemes for BPL Families

The launching of SGSY, a target oriented credit linked subsidy scheme, in April 1999 was aimed at sharing the financing burden of poor by way of subsidising the investment credit for creating an income generating asset either individually or in a group. In order to achieve the target fixed for creating micro-enterprises under SGSY, many SHG groups formed under NABARD's approach were roped in to avail credit as well as subsidy under SGSY programme, whether matured enough to absorb the entire amount of loan/ unit cost or not. In the process, many immature groups got the benefit of the scheme and many deserving and matured groups were left out on account of their non-proximity with the officials of the implementing agencies. The issue of proportion of individual swarojgaries vis-à-vis group swarojgaries in which they were to be covered and the nature of activities to be financed to them have also been viewed differently by different agencies in different states. This resulted in manipulation in terms of duplicity of members amongst various SGSY groups. Though it is required to ensure that the groups promoted by various agencies must attain a certain level of maturity in terms of skill development so that they can handle the economic activity in a professional manner the same was ignored while converting SHGs into SGSY groups. Groups promoted by mFIs to whom the credit from institutional sources does not reach directly are however, kept away from the banking network by their promoters on the plea that all is not well with the banking with formal banking structure in the country.

Another important issue is that the eligibility of subsidy in per cent terms varies from region to region (separate for NE region) and from community to community across the country which needs a close scrutiny as the field experiences show that this approach of having different subsidy eligibility for different social classes could not help much to the target groups/ vulnerable section of the society. Rather it widened the chasm between 'target' and 'non-target groups' leading to create social tensions which finally resulted in poor achievement under the scheme. These arguments justify the need for having a single module/ model for poverty eradication for the country as a whole since poverty does not differentiate between caste, religion and region.

Case for Introduction of Interest Subsidy

Despite a large number of programmes introduced by Government of India including IRDP and SGSY, there is no significant reduction in the absolute number of poor in the country. The poor are mostly concentrated in backward regions comprising of rain-fed areas, drought-prone areas, and tribal, hill and desert areas. The concurrent evaluation of IRDP revealed that only 14.8% of the 54 million families assisted could cross the revised poverty line of Rs 11,000 (at 1991-92 prices) (Ministry of Rural Development, GOI). The outcome of SGSY scheme is not different than that of IRDP programme as far as percentage of people crossing the poverty line is concerned. The average per capita investment was to the tune of Rs. 21,818 (Table 4) as against the minimum target of Rs. 25,000. The poor credit mobilisation (49.72% of the target) has been observed to be the main reason for lower per capita investment as well as poor credit : subsidy ratio (1.99:1 as against the target of 3:1). In fact the Credit to subsidy ratio was only 1.75 in case of SHG swarojgaries.

Table 4: Credit Support under SGSY till the end of 10th Five Year Plan: All India Status

(Rs. in crore)

Particulars	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Average
Target for credit	3205	3205	3200.9	2525.2	2129.3	2507.7	2515.7	2869.1	2755.5
Credit disbursed	1056.5	1459.4	1329.7	1184.3	1302.1	1658.2	1822.5	2369.5	1401.8
Subsidy disb	541.7	701.9	665.6	605.9	713.4	858.8	904.7	1222.2	713.1
Total investment	1598.2	2161.3	1995.3	1790.2	2015.5	2517	2727.3	3591.7	2115
Credit-subsidy ratio	1.95	2.08	2	1.95	1.83	1.93	2.01	1.94	1.99
Per capita investment (Rs.)	17113	21481	21284	21666	22472	22555	23709	24263	21818
% of SHGs taken up Eco activity to Grade-II	39.1	26	56.6	37.5	55.9	64.3	87.3	NA	52.4
SHGs taken up eco activities (No)	29017	26317	30576	35525	50717	68102	80067	NA	45760

It appears that the implementing agencies were more concerned with the management of supply side issues and did not take into account the demand side problems being encountered by the beneficiaries of the programme. Further no attempt was made to increase the absorption capacity of the borrowers. It may be mentioned here that the implementing agencies also failed to do justice as far as utilization of fund for creation of infrastructure is concerned since only 14.25% fund could be allocated/utilised as against the target of 20% (25% in NER). The SGSY was thought to be superior over other similar programmes implemented in the past on account of its thrust on training and skill development. However, the actual utilization of fund for training and skill development was only 4.86% as against the target of 10% of total fund.

The problems highlighted above clearly suggest to withdraw the capital subsidy being given at present under the SGSY programme and re-inject the subsidy in some other form from 11th Plan onwards. The Ministry of Rural Development, GOI has projected that Rs. 94, 631 crore of grant under the current level of assistance under SGSY would be required, during the 11th Plan Period, if every rural poor family in country is to be assisted through revolving fund and economic assistance. There are also backlog of groups which have already been formed (7.72 lakh groups need revolving fund and another 3.11 lakh groups need economic assistance) and are waiting for financial assistance under SGSY. There is another lot of 9.46 lakh groups which are yet to be put through the grading system. The MoRD has also estimated that about 18.34 lakh new groups are to be formed afresh in addition to the existing groups. It is suggested that the entire amount of grant assistance (Rs. 94, 631 crore) budgeted for 11th Plan period may be given in form of INTEREST SUB-VENTION to the eligible groups.

Case for Financing 'Composite Loan' Instead of only Term Loan for Economic Activities

It was observed that the loan amount/ the unit cost for group activities was varying between Rs. 3.0 lakh to Rs. 4.5 lakh per group in recent years in most of the states despite the fact that most of the groups were not mature enough to handle such large amount. The feedback of the financing banks and the other agencies (NGOs, line department, etc.) suggests that the absorption capacity of most of the groups is not more than Rs. 2.0 lakh.

The activities viz., vegetable cultivation, sawai grass rope making, leather footwear making, broom making, wood carving and products made of cane and bamboo, other village and cottage industries, minor forest produce collection (mahua & sal leaves) and its sale do not require high capital cost but the loan for these activities was also sanctioned to the extent of Rs. 3.0 lakh to Rs. 4.5 lakh as term loan. Another important observation in case of group financing is that quite a significant number of groups were financed a set of two to three activities just to achieve an already fixed 'unit cost' so that the maximum amount of subsidy can be availed by the groups. For example, in Orissa state many groups were financed joint activities viz., khali leaf + paddy processing, goatery + paddy processing, sawai rope making + paddy processing, khali leaf + goatery, vegetable cultivation + paddy processing.

It is suggested that loan for economic activities should be sanctioned keeping in view the actual requirement for the activity, financial viability of the project, absorption capacity of the borrowers and in form of a composite loan wherever necessary, particularly for those activities where capital requirement was very less and a large portion of loan was going to be utilised as working fund.

Case for Selection of Viable Activities

The level of income generation from activities selected for financing under SGSY (Table 2 & Table 3) indicates that the swarojgaries would never cross the poverty line if they continuously realise this level of income in future too. There is need to have an in-depth study for identifying state specific key activities which are suitable and viable for different areas of the states. Further, the implementing agencies are also required to ensure the creation of quality assets under the programme.

Case for Promotion of 'Micro Insurance Corporation India'

The paper also suggests that the establishment of 'Micro Insurance Corporation India on the lines of Agricultural Insurance Corporation of India with the players like NABARD, LIC, SIDBI and MoRD, Government of India as the key stake holders in it, would help the beneficiaries of microfinance to gain confidence and courage to take up some innovative activities too for up-scaling the level of income generation.

Conclusion

The poor income generation in both the cases of individual swarojgaries (Rs. 9,391) and group swarojgaries (Rs. 6916 in northern states and Rs. 11089 in southern states) per member per annum suggests for serious thinking as the implementation strategies of the programme in its present format. Certain success stories, here and there should not be read as final outcome of the programme and at best can be documented and evaluated so that the reasons for success can be internalised and used as feedback for future policy guidelines. The programme also breaks the great myth that 'group approach of lending' is always better than the individual approach of financing. No doubt, the group has led to some type of social empowerment to group swarojgaries, particularly to the women swarojgaries but it has failed in uplifting their economic status. The beautiful platform called as 'group' provided by the programme could not be converted into an opportunity, thanks to lackluster approach of the implementation agencies and a strong feeling amongst everyone including borrowers that 'subsidy money is a free money', which otherwise would have resulted crossing of the poverty line by number of programme beneficiaries.

Time is now to act seriously on the issues raised in this paper.

Index of Microfinance Group Sustainability: Concepts, Issues and Empirical Evidence from Rural India

- Naveen K. Shetty*

Introduction

One of the successful ways through which financial services are being provided to poor people is through Microfinance Groups or Self-Help Groups (SHGs)

In India, for a long period of time formal banks stayed away from banking with the poor. This led to the emergence of innovative '*microfinance*' models in the field of financial intermediation and created new hopes for the poor. One of the successful ways through which financial services are being provided to poor people is through Microfinance Groups or Self-Help Groups (SHGs). These groups are essentially informal, voluntary associations of people formed to attain a collective goal. Thus, SHG is defined as a voluntary group valuing personal interaction and mutual aid as a means of altering or ameliorating the problems perceived as alterable, pressing and personal by most of its participants (Smith and Pillheimer, 1983). People who are homogeneous with respect to social background, heritage, caste or traditional occupation come together for a common cause to raise and manage their collective savings for the benefit of all the group members. These group-based credit systems addressed the problems of screening, incentives and enforcement by incorporating the joint liability principle and peer monitoring. Group-based lending contracts effectively make a borrower's neighbours co-signers to loans, mitigating problems created by informational asymmetries such as *adverse selection*, *moral hazard* and *enforcement*. Thus, in group-lending contracts the functions of screening, monitoring and enforcement repayments are, to a large extent, transferred from the financial institution to the group members. Varian (1990), Stiglitz (1990), and Besley and Coate (1995) have acknowledged several credit market failures that have been overcome by group-based

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lending through the microfinance programmes. Group-based lending mitigates the problem of *adverse selection* which in turn, reduces the problem of credit rationing and brings safe borrowers back to the credit market. Theoretical and empirical studies show that people try to investigate each other's behavioural integrity and credit-worthiness with the help of existing social networks (through development of social capital) before they try to prevent irresponsible and credit risky borrowers from joining the group.

Group-based lending methodologies will mitigate the problem of *moral hazard*. Soon after a member receives the loan, other members monitor each other to make sure that they have invested the loan in a safe project that will guarantee repayment by the borrower. Members make use of their social ties to acquire the necessary information and create social sanctions and pressure on de-faulting members. *Peer pressure* is a mechanism in group-lending and can be used in the process of mitigating *moral hazard* and *enforcing* prompt repayment. In order to secure future access, members are obliged to monitor each other. The social collateral (systems) or ties constitutes a powerful device to reinforce repayment among group members. The ability of the groups to harness social sanctions and use them to make members to repay their shares can be important mechanisms to sustain groups and improve the repayment performance of microfinance lending. Distributing loans through groups of borrowers is assumed to result in lower *transaction costs* for both the lender and the individual borrowers. The lender's costs are minimised by dealing with the group as a whole, rather than an individual within the group. Similarly, the group is responsible for distributing loans and collecting repayments. This will lead to reduction in the transaction costs to individual borrowers. Thus, it is very clear that microfinance groups have greater potential to mitigate market imperfections.

Nevertheless, it is apparent that group-based lending will have advantages over traditional lending methodologies. Despite its widespread outreach, triumphant savings mobilisation and credit disbursements, and high loan-repayment rates, the *sustainability* of microfinance groups has not been clear and comprehensive. To avail persistent benefit from microfinance groups in financial intermediation, its *sustainability* is having wider concern in donor agencies, practitioners, policy makers and academicians. At the same time, it is whispered that achieving *microfinance group sustainability*, both at institutional and financial level is a prerequisite for wider impact of microfinance on the poor (Zohir and Matin, 2004). But, hitherto, very limited research was undertaken to measure group sustainability and locate the indicators and variables. The objective of this paper is to present a set of variables that operate as indicators to measure the sustainability of microfinance groups, on the one hand, and to examine the level of sustainability attained by the microfinance groups in Karnataka, India, on the other.

This paper consists of six sections. Section one introduces the research problem and study objectives. In section two, a brief review of literature on microfinance group sustainability is presented. The third section deals with the survey design and data source used in the study. In section four, the methodology of constructing of the SHG-sustainability index is explained and the empirical results are presented in the fifth section. The final section embodies policy recommendations and conclusion.

II
Microfinance Groups and Sustainability: A Review

Microfinance groups (SHGs) can be formed for any common cause or developmental activity. Its small size and limited resources – both financial and human – make most of them dependent on the promoter agencies for several essential services (Nair, 2005). Initially the groups are formed for a specific purpose or activity; progressively they diversify and take up more than one development activity in their area. The groups practising saving and credit along with other economic activities (or income generating activities) have been more successful and sustainable. The term *sustainability* in microfinance is defined as, repeating performance in the future, such permanency requires a flexible organisation and a structure of incentives to maintain performance in spite of changes in the environment (Schreiner, 1996). Stuart Rutherford (2000), for example, makes the point that informal money management groups are short-lived and changing in their membership for good reasons – to maximise returns and safety. The desire of donors and MFIs to work with stable groups necessitates much investment in management style and leadership development.

Group formation and management (functioning) are not ends but means for development. If the microfinance groups are to play the intended role, it is important that such groups emerge as sustainable entities. Group sustainability largely depends on the active participation of the members in maintaining financial and organisational discipline in the group. In other words, group sustainability is a phase where it manages its savings, internal lending, financial linkages, and book keeping without external support. It also represents a stage of attaining institutional, financial and managerial autonomy or self-sufficiency of the group to meet the growing financial and non-financial needs of its members.

The paper views that sustainability is the long term existence of the microfinance groups through acceptable financial and institutional performances (indicators). Further, the group sustainability implies the acquisition of skills and knowledge necessary to ensure that the group is financially and institutionally sustainable. There are two levels of sustainability – institutional and financial sustainability. To attain institutional sustainability the groups need to independently manage and handle group activities. The members must be competent enough to resolve internal or external problems associated with the group's functioning. There should be democracy in the management of the group through selection and periodic rotation of leadership and decision-making power. Regularity of meetings and transparency in accounting practices are the prerequisites for the sustainability of the groups. Sustainability is also measured through the levels of skills and confidence of the group to approach local institutions in order to mobilise the resources at its command (Rajasekhar, 2002). The financial sustainability of the group is assessed through the ability of the group to meet its costs through resources mobilised. The loan portfolio of the group and timely repayment of the loan is also a major determinant of the financial sustainability of the group.

The existing empirical review of SHG literature revealed that few studies have tackled the problem of sustainability of SHGs. However, the studies that do treat financial performance provide only a partial understanding of the issue (Srinivasan, 2000; Siebel and Harishkumar, 2002; Harper, 2002; Tankha, 2002, Reddy and Prakash, 2003; Sinha, 2003). Some studies focus only on the costs of running the SHG, such as the costs of forming or maintaining the microfinance group, but do not look at the generation of revenue (Harper, 2002; Tankha, 2002). These studies disclose little about whether or not SHGs can pay for the cost of forming and maintaining the group. Some of the studies look at whether or not lending to SHGs is profitable for banks, but pay no attention to the costs incurred by Self-Help Promoting Institutions (SHPIs) and others in forming and supporting these groups (CGAP, 2007). Nevertheless, the studies done by Reddy and Prakash (2003) and Nair (2005) clearly address the question of sustainability of SHGs or federations of SHGs. These studies analyse the functions of superstructures (SHG federations) in designing and providing support services to SHGs, including capacity building, performance monitoring, and helping to access bank credit (CGAP, 2007). CGAP (2007) on sustainability of the SHGs in India provides some theoretical and empirical insights on the issue. However, all these studies failed to provide comprehensive and integrated sustainability tools to measure the institutional and financial sustainability of microfinance groups. In this backdrop, this paper makes an attempt to provide the indicators and variables that will help in measuring and determining the sustainability of microfinance groups.

III
Survey Design and Data

The data was derived from a survey of 106 women SHGs in ten villages in the state of Karnataka, India in 2006 and 2007. Five of the villages were supported by the Sri Kshethra Dharmasthala Rural Development Project (R.) (SKDRDP), Dharmasthala, Dakshina Kannada and the other five were supported by the Sanghamithra Rural financial Services (SRFS), Mysore. The rationale behind the selection of SRFS is that it is one of the *Not-for Profit Company* MFI registered under the Indian Companies Act, 1956 and has been working in the state for more than ten years with wide experience in microfinance services in Karnataka. The SRFS also extends micro-financial services in neighbouring states like Tamil Nadu and Andhra Pradesh. However, the motivation behind the selection of SKDRDP, was that it is the largest (by reaching the number of poor people and loan outstanding) NGO-MFI working in the field of microfinance in Karnataka. The SKDRDP is also reaching the poor with many non-financial services through the development of micro-enterprise units, health care and sanitation facilities, literacy programme, etc.

To study the sustainability of the SHGs, a multi-stage random sampling technique was used in the selection of the units. Accordingly, at the first stage, Mysore district, from the operational area of the SRFS and Dakshina Kannada district, from SKDRDP are were selected. Selection of the district was done keeping in view that it should satisfy the two criteria viz., (i) cover (formed/linked to the MFI) the maximum number of SHGs and rural poor households and (ii) the district should be the first operational area so that we have matured groups and members for the study. The second stage of sampling is the selection of taluks. There are two taluks, viz., T. Narasipura and Belthangady from the SRFS and SKDRDP operational areas were selected by using the same criteria that was used for the selection of districts. The third stage of sampling covered the selection of villages. From each taluk, the village list was prepared with number of SHGs formed/linked to the MFI. Consequently, the top five villages having the highest number of SHGs and members were selected from each taluk. The fourth stage of sampling involved the selection of SHGs. In the each selected village, the currently MFI linked SHG list was prepared. Accordingly, from each village 25% of SHGs were selected randomly. In all, 106 SHGs (53 SHGs from each taluk) were randomly selected from ten villages.

The interview schedule (questionnaire) was prepared and data on basic details of the group, like, age of the SHG and its size, members' educational level, caste composition, occupation, land holdings, annual income, their position in the group (present and past) drop out rate in the group etc., were collected. Qualitative information on leadership, meetings and decision-making, mechanisms of record keeping, conflicts-resolving capacity of the groups, networks and awareness of the members was compiled. The quantitative data on thrift and saving, borrowing and lending, credit rotation, income generating activities, repayment of loan, rate of interest of the loan, etc., was colleted from the SHGs.

IV
Methodology

In the first step, a set of variables of group management was identified from the primary survey. There are, in total, twelve major indicators drawn from the field study to measure the sustainability of the groups. They are further divided into two groups – managerial and financial indicators. Each of the indicators is determined (integrated) by a set of variables. In the second step, the variables drawn from the primary survey were used for the computation of the sustainability index. Twelve individual indices were constructed. By using individual indices, the institutional sustainability index and financial sustainability indices were prepared and accordingly, an integrated SHG-Sustainability *Index* was computed. The variables used for the computation of sustainability index and the methodology used for the same are explained below. Further the detailed discussion on the computation of sustainability index is presented in *Appendix 1*.

Constructing SHG-Sustainability Index: Variables and Indicators

The sustainability of a SHG is determined by a number of managerial or institutional and financial factors of the group. The institutional sustainability index of the SHG was constructed with the help of six indicators of group management, viz., leadership, meetings and decision-making, mechanisms of record keeping, accounting and monitoring, networks and memberships, conflict resolving capacity and drop-out rate of the members from the group. As a first step, an independent index was constructed for each of these components. The SHG-institutional sustainability index is a weighted average of the six individual indices. The weights given to each of these components are as follows: leadership, meetings and decision-making and networks and memberships in institutions – 0.20 each; group record maintenance – 0.150; conflicts resolving capacity and member dropout – 0.125 each.[1] In the construction of the SHG-institutional sustainability index, it is observed from the field that leadership, meetings, decision-making and networks are the most important aspects of group management. Hence, these indicators were given more preference in the index construction than the other variables in group management. Maintenance of group records was given second highest weight. Once the group starts functioning maintenance of proper documentation plays very significant role in SHG management. The least weights were given for conflict-resolving capacity and dropout rate of the group. Conflicts and dropouts are not permanent features of any group. The SHGs function with mutual trust and win—win approach. Hence, these features of the group are given less priority in the institutional sustainability index.

The financial sustainability index of the SHG was constructed with the help of six indicators of financial management of the group, viz., thrift and savings management, credit accessibility, credit rotation, recovery and repayment of credit, resource mobilisation and utilisation and independence from social parasites. As a first step, an independent index was constructed for each of these components. The SHG-Financial sustainability index[2] is a weighted average of the six individual indices. The weightages given to each of these components are as follows: The equal weight of 0.2 each was given for thrift and savings, credit accessibility, credit rotation and credit repayment, 0.15 to the resource mobilisation and utilisation, and for independence from social parasites 0.05 was given. In the financial sustainability index equal weights were given to thrift and savings, credit accessibility, credit rotation and credit repayment. These indicators play pivotal role in the financial management of the group. The SHGs are formed to improve the habit of savings, for easy and timely credit access and repayment. Hence, these variables were given highest preference in the index construction. However, in the financial sustainability index, resource mobilisation and utilisation were given second preference while least preference was given for independence from social parasites of the group members. This will identify the average number of members in the group still depending on informal lenders. In the study area it was found that very meager number of the members were depending on informal agencies for their credit needs.

Computing Integrated SHG-Sustainability Index

It was observed from the field that a large number of factors were influencing the sustainability of the microfinance groups. Hence, to measure the sustainability of the group it was considered necessary to composite all the individual indices together. Therefore, the individual indices of managerial and financial components were taken together to compute the institutional and financial sustainability index. The overall SHG-sustainability index was a weighted average of two individual indices viz., SHG-institutional sustainability and SHG-financial sustainability indices. Equal weights were given to each of these components – 0.5 each. Since, both the indices are equally important they were given equal weights in computing the overall sustainability index of a SHG.

In computation of institutional, financial and overall sustainability index, the 'DEFINITE'[3] package was used. In the first step, the variables were identified and scores assigned as per the significance and the explanatory power of the variable in the index. The second step was to run the multicriteria analysis and the weighted summation was used in this process. In this step, all scores of the variables were standardised and converted into uniform measurement units. In the third step, an appraisal score was calculated for each alternative by first multiplying these standardised scores by appropriate (random/direct) weights, followed by summing the weighted scores of all variables. The final ranking of the variables was assessed based on the resulting appraisal scores for each variable or alternative.

Subsequently, the individual groups were computed with an index value which will vary from 0 to 1. If the index value is "1", then it means that the level of sustainability (institutional/financial/overall) of the SHGs is very high and, if it is "zero", then the sustainability (institutional/financial/overall) of the SHG is very poor. Further, based on the 'distribution' of the index values three *Quartiles* were prepared. The upper quartile represents high level of sustainability, median quartile shows medium level of sustainability and lower quartile illustrates the low level of sustainability of the microfinance groups. The values of the quartiles are presented below:

- Index value of < 0.73 – High Sustainability
- Index value of 0.41 to 0.73 – Medium Sustainability
- Index value of > 0.40 – Low Sustainability

V
Empirical Results

Table 1 presents sustainability of the SHGs across the sample taluks and villages. At the aggregate level (taluk/MFI level), the SHGs that were formed and credit linked by SKDRDP were institutionally 67.9% (36) financially 56.6% (30) and overall 66% (35) achieving *high level of sustainability* in Belthangady taluk. The table also depicts that 30.2% SHGs of SRFS have achieved overall *high sustainability* of which, 35.8% have financially and 26.4% have institutionally *high sustainability* in T. Narasipura taluk. The SRFS linked SHGs in T. Narasipura taluk were in all levels very *poorly sustainable* as compared to SKDRDP groups in Belthangady taluk. It is clear from the table that 47.2% 34% and 41.5% SHGs of SRFS, respectively, are institutionally, financially and overall attained very *low level of sustainability*. In Belthangady taluk, very small numbers of SHGs are in the category of institutional, financial and overall *low level of sustainability* – 5.7%, 5.7% and 9.4%, respectively.

It was observed from the field that SKDRDP is giving intensive training (leadership, book keeping, bank literacy, income generating activities, health and sanitation, etc) and keenly monitoring the activities (in all levels of its group management) of its SHGs. It is less practised in groups of SRFS. This resulted in a higher level of sustainability of the groups in SKDRDP than SRFS. The groups linked to SRFS were not promoted by themselves, they were promoted by other SHPIs, like, MYRADA, Karuna Trust and government programme like, Stree Shakti, Navajyothi, Swayamsidda, etc. Hence, there was failure of horizontal and vertical linkages of institutions in developing managerial and financial capabilities among the members of microfinance groups. It was also observed that some of the groups that were linked to SRFS were poorly managed with weak leadership, inconsistent group meetings, incomplete and

Table 1: Sustainability of SHGs Across the MFIs/Taluks and Sample Villages

Types of Indices	SRFS/ T. Narasipura (N=53)			SKDRDP/ Belthangady (N=53)		
	Low	Medium	High	Low	Medium	High
Institutional Sustainability Index	25 (47.2)	14 (26.4)	14 (26.4)	3 (5.7)	14 (26.4)	36 (67.9)
Financial Sustainability Index	18 (34)	16 (30.2)	19 (35.8)	3 (5.7)	20 (37.7)	30 (56.6)
Overall Sustainability Index	22 (41.5)	15 (28.3)	16 (30.2)	5 (9.4)	13 (24.5)	35 (66.5)

Note: Figures in parentheses denote percentage to the total number of groups in the villages and the MFIs
Source: Primary Survey

faultily maintenance of accounts, lack of awareness, poverty and unemployment among group members.

Similar results were seen at the disaggregated level or at the village level too. The sample villages of SRFS, like, Vatal, Hykanoor and T.Bettahalli (72.7%, 54.5% and 50%) had a large number of SHGs with very *low level of overall sustainability.* In these villages, either 'Stree Shakti' or 'Swayamsidda' programme promoted SHGs are working with very poor training and awareness. In the next subsections we have explained the sustainability of the groups across age, size, level savings, credit accessed and repayment of the loan etc.

(i) Age and Sustainability of the SHGs: The age of the group is a major determining factor in achieving financial and institutional sustainability. It is clear from Table 1 (see Appendix 2) that the age of SHGs is directly related to the level of sustainability. At the aggregate level (both MFI) overall sustainability was very high with SHGs that were more than six years old. Similarly, overall sustainability was very low in SHGs less than three years old. Another interesting result was that no SHG of more than six years was in the category of low level of sustainability (institutional, financial and overall). There was not a single SHG in the age group of less than three years with higher level of overall sustainability. Similar characteristics were true at the disaggregated level or at the MFIs level too. Hence, it is obvious that age of the SHG is one of the determinative factors in the sustainability of the SHGs.

(ii) Size and Sustainability of SHGs: Table 2 (see Appendix 2) represents the relationship between the size (number of members) of the microfinance group and level of sustainability. As the number of members in microfinance groups increases the level of sustainability also increases. In Belthangady taluk only one SHG had more than 16 members and it had achieved all levels of high sustainability. However, in T. Narasipura there were 29 groups in the more than 16 – member category and majority of them had achieved high level of sustainability. It was observed at the time of the field survey that the scattered households in Belthangady taluk had influenced the formation of SHGs. Thus, majority of the microfinance groups (77%) in the taluk had less than 12 members. However, there was a small number of SHGs in T. Narasipura taluk with larger size that had not attained a higher level of sustainability. These SHGs were either formed by the government (Stree Shakti) or some NGOs where they were very poorly managed and had very poor managerial ability and financial outreach.

(iii) Level of Savings and Sustainability of SHGs: Table 3 (see Appendix 2) depicts a direct relationship between the level of savings and level of sustainability (institutional, financial and overall) achieved by the SHGs. In Belthangady and

T.Narasipura taluks, 88.2 and 61.1% the groups with more than Rs. 48,000 savings had attained high level of overall sustainability. Only 26.3 and 7.7% groups with the savings of less than Rs. 32,000 had achieved a high level of overall sustainability. It is apparent that 74.3% of the groups with savings of more than Rs. 48,000 had achieved high level of overall sustainability and 18.8% of the groups with savings of less than Rs.32,000 had attained high overall sustainability. Hence, it is clear that as the accumulation of savings increases it will boost the sustainability level of the microfinance groups.

(iv) Level of Credit Accessed and Sustainability of SHGs: The rationale behind the innovation of 'joint liability group' is to expand the frontiers of financial services to the poor. Thus, the access to credit is found to be a significant driver in the development of microfinance groups. Table 4 (see Appendix 2) presents the relationship between the level of credit disbursed by the groups and level of sustainability attained. It is apparent from the table that of the groups that accessed credit of more than Rs. 4 lakh, 88.5 and 80% of the groups in Belthangady and T. Narasipura taluk, respectively, achieved high level of overall sustainability. It is obvious from the table that in both the taluks that the groups which accessed less than Rs. 2.25 lakh achieved very low level of institutional, financial and overall sustainability. In total, 67.7% SHGs in the category of less than Rs. 2.25 lakh had very low overall sustainability. However, 86.1% SHGs in the category of more than Rs. 4 lakh credit had very high level of overall sustainability. Hence, it is clear that access to higher level of credit will lead to higher level of sustainability to the microfinance groups.

(v) Repayment of loan and Sustainability of SHGs: Table 5 (see Appendix 2) presents the relationship between the timely repayment of loan to the MFI and its level of sustainability. The timely repayment of the loan by the SHGs to the MFI will show the promptness and creditworthiness of the members to the SHGs. The timely repayment of credit by the SHGs to the MFI also explains the peer pressure and monitoring of the members in the group in credit utilisation and repayments. The timely repayment of the credit by the SHGs to the MFIs is also a deciding factor in the sustainability of the microfinance groups. If the loans are repaid in time by the SHGs to the MFIs, then it leads to *progressive lending* by the MFI; it will lead to higher level of sustainability. It is obvious from the table that the SHGs in T. Narasipura had not repaid (33.3) the loan in time to MFIs and had achieved very low level of overall sustainability. However, the groups in Belthangady taluk had not repaid the loan in time to the MFI but they were capable enough to manage the group and take them to a higher level of sustainability. At the outset, it is clear that the groups with untimely repayment of loans had attained very lower level of institutional, financial and overall sustainability. The SHGs that repaid their loans timely to the MFI had attained higher level of sustainability.

Determinants of SHG Sustainability: An Econometric Model

Theories based on sequential stage of group development are based on the identification of definite phases in the life cycle of the group. According to Tuckman (1965) each group will pass distinct stages of development like, forming, storming, norming and performing. Thus, the age or the level of maturity of the group will play a dominating role in determining the sustainability of the SHGs. The cross-tabulation shows the association between the age and the size of the group, level of credit accessed by the members and timely repayment of the loan with the level of sustainability of the SHGs. However, to explain the disparity in the level of overall sustainability of the SHGs, we have used a linear regression model with overall sustainability of the SHG as dependent variable and age, size of the group, per capita credit accessed, income generating activity taken by the group and lending rate of loan as independent variables. Description of independent variables and expected signs has been given.

In analysis of determinants of SHG sustainability, the age of the group is considered as an explanatory variable. The SHGs that exist for a long period with continued savings and lending activities make the group successful and sustainable. It is expected that as compared to the age1, age2 and age3 groups are likely to positively influence overall sustainability of the SHGs. The per capita credit accessed by the member is considered as an explanatory variable in the model. It explains the reliability of SHGs in delivering credit services to the members in a more convinced manner. Thus, benefits to the members will keep the SHG alive and sustainable. It is expected that the per capita credit accessed by the member will positively influence the sustainability of the SHGs. The permanence and stability of microfinance groups also depends upon the productive usage of credit in income generating activities. The groups that have taken productive activities are considered as more sustainable groups than others. Hence, in this model the expected sign of iga positive. Generally, the microfinance groups depend on external borrowing (from MFIs or banks) for financial requirements. Thus, external borrowing will have very high transaction and other costs that will directly affect the lending rate of the SHGs to its members. If the groups are efficient in managing these costs, it will reduce their credit lending rate and keep the sustainability level of group very high. Thus, it is expected that the lending rate of the group is likely to negatively influence sustainability of the SHGs. Group size

Table 2: Description of Independent Variables

Variable	Description	Expected Sign
Age2	1= SHG having age of 3 to 6 years, 0 otherwise	+
Age3	1= SHG having age of more than 6 years, 0 otherwise	+
pcc	Per capita credit accessed (Rs.)	+
iga	1= Income generating activity, 0 otherwise	+
lenrate	Lending rate of the loan by the SHGs (Rs.)	-
Group2	1= group size between 12 to 16 members, 0 otherwise	+
Group3	1= group size more than 16 members, 0 otherwise	+

is considered as an explanatory variable. Most of the theoretical literature on group lending suggests that the group, which is too large or too small size, may fail to achieve sustainability. If the group is too big then the strength of peer pressure and monitoring will be very weak due to information asymmetries and if it is extremely small in size then there may be failure of 'economies of scale' in its operation. Thus, in this model as compared to the group1 (less than 12 members), group2 (12 to 16 members) and group3 (more than 16 members and less than 20) are likely to positively influence overall sustainability of the SHGs. The estimated equation is as follows.

$$SHGsus = \alpha + \beta_1\ age2 + \beta_2\ age3 + \beta_3\ pcc + \beta_4\ iga + \beta_5\ lenrate + \beta_6\ group2 + \beta_7\ group3 + u$$

The result indicates that there is positive association between the age of the SHGs and sustainability of the group. SHGs falling in age group 2 attained higher sustainability by 0.07 units compared to SHGs falling in age group1. Similarly age3 attained higher sustainability by 0.14 units as compared to SHGs falling in the age group1. The coefficients of age2 and age3 are positive and statistically significant at 90 and 99% level, respectively. The per capita credit accessed by the group member is positive and significant at 95% level. The size of the SHGs is positively associated with their sustainability. While comparing the smallest group (group1), the sustainability of group2 is comparatively high at 0.063 units and the sustainability of group3 higher by 0.072 units. Group2 and group3 are statistically significant at 99 and 90% level. The coefficients of income generating activity and per capita credit accessed were positively and significantly (at 1% and 5%, respectively) associated with sustainability of the SHGs. In the model opting for productive activity has more influence on the sustainability of the SHGs. The SHG lending rate negatively influences the sustainability of the SHGs and it is significant at 10% level. This was possible in two ways. First, if the cost of borrowing from the MFIs/banks to the SHGs is higher that will increase the SHG lending rate to its members. As a result, lesser number of members from the SHGs will opt for loan and it will hamper the sustainability of the SHG. Second, a higher margin in lending will also lead to higher rate of lending. This will decrease the demand for loan from the SHG. Thus, increased lending rate will effect the loan cycle of the SHG and will deteriorate the sustainability of the group. The R-square

Table 3: Determinants of SHG- Sustainability: OLS Estimates
Dependent Variable = Overall SHG Sustainability (SHGsus)

Variable	Co-efficient	Std. Error #	t-Statistics
Age2	0.072856***	0.037023	1.97
Age3	0.139494*	0.043916	3.18
pcc	0.0000025**	0.000001	2.5
iga	0.389685*	0.031737	12.28
lenrate	-0.00466***	0.002462	-1.89
Group2	0.063064*	0.028664	2.2
Group3	0.071556***	0.039738	1.8
constant	0.246847*	0.079317	3.11
R^2	0.63		
F (7, 98)	67.84*		
N	106		

Note: *, **, *** Significant at 1, 5 and 10% level, respectively.
White Heteroskedasticity-Consistent Standard Errors and Covariance

value is 0.63, which means 63% of the variations in sustainability of the SHGs were explained by the included variables in the model.

VI
Policy Recommendations and Conclusion

In the recent past, in India, new institutions namely, SHGs, have been recognised and accepted as financial intermediaries. The supply of financial services through the SHGs to the poor is found to be efficient and sustainable. It has contributed in filling the gap between the relatively low cost but inaccessible formal banking sector, and the accessible, but high cost informal sector.

This paper has examined the sustainability of the microfinance groups (SHGs) in Karnataka, India. To do so, it conducted a primary survey of 106 SHGs in ten sample villages (two taluks) of two MFIs (SKDRDP and SRFS) projects areas. To measure the sustainability of the microfinance groups the institutional, financial and overall sustainability index was developed. The results were presented in terms of high, medium and low institutional, financial and overall sustainability across MFIs, villages, age and size of the group, level of savings and credit accessibility and timely repayment of loan. The results showed that age of the group, savings and credit access and timely repayment of credit had a direct relationship with various levels of institutional, financial and overall sustainability of the microfinance groups.

In measuring the sustainability of the microfinance groups, this paper contributed in identifying various indicators and variables for the measurement of sustainability. In any microfinance group, two important aspects – institutional or managerial and financial – need to be studied. Sustainable impact of the microfinance programme on the poor will be possible only when there are sustainable microfinance groups. Thus, to maintain microfinance as an effective tool in eradicating poverty, it is necessary to maintain the sustainability of the microfinance groups (financial intermediary) in India.

The empirical findings of this paper established that, the groups of SKDRDP had attained a higher-level of sustainability as compared to the groups linked to SRFS. The basic reason for this is that, the SHGs of SKDRDP are institutionally and financially more graduated than those of SRFS. The SRFS does not have complete managerial control over its (credit-linked) groups (the SHGs are formed and trained by other SHPIs). The SHGs that were formed by the government – *Stree Shakti* and *Swayamsidda* lacked sufficient managerial skills and knowledge of microfinance. In this backdrop, it is suggested that timely training on book-keeping, banking, leadership, income generating activities, community development activities etc., are the rudiments for development of microfinance in general, and to sustain the impact of microfinance on the poor in particular.

Appendix: 1

1 Institutional Sustainability Index:

The institutional sustainability index of the groups was constructed with the help of six indicators of group management, viz., leadership, meetings, decision-making, mechanisms of record keeping, accounting and monitoring, networks and memberships, conflict resolving capacity and dropout rate of the members from the group. In the first phase, an independent index was constructed for each of the six component indicators of institutional sustainability. The individual indices are explained below:

1.1 Leadership Index:

Leadership is one of the determining factors of institutional sustainability. The index value will explain the efficiency of the leader/s in managing the group over the years. The leadership index is constructed through three variables, viz, (i) the selection procedure of the leader of the group, (ii) the periodical rotation of leadership in the group, and (iii) identifying the group management capabilities of the leader/s in the group. Then the scores are assigned based on the significance of the variable in the index. The selection of the leader in the group by the members is given higher preference because it shows the members are democratic managing group activities. If the leadership is decided by member's self-interest, it is given least preference in the construction of the index because it means there is no collective participation in the group management. In other words, it indicates manipulative and dictatorship tendencies in the members of the group. The annual rotation of leadership in the group is the evidence of democracy in managing the group and equal opportunities for the members. Members are asked questions on the managerial capacity of the leader of the group. Their answers reveal how well the leaders are managing group activities. The preferences are ranked from high to low efficiency of the leadership.

1.2 Index of Meetings and Participation in Decision Making:

The meetings and decision-making behaviour of the group shows the collective participation of the members in group management. This index was constructed using six variables, viz, (i) frequency of group meetings, (ii) regularity of the meetings, (iii) average attendance at the meeting, (iv) decision-making process in the meeting, (v) participation of the members in the decision-making process and (vi) penalty imposed for irregularity attendance. The scores are assigned on the basis of the priority of the above given variables in the index. If the group conducts weekly meetings then it is given higher priority, compared to fortnight or monthly meetings. In the weekly meetings member can save and rotate the credit frequently, more interaction with the member and quick solutions for their problems. If more members attend the meeting, it will be given higher priority. Attendance of the member in the group meetings will decide rotation of savings, credit, and their participation in the group's activities. Decisions taken by consensus, and not by voting or individual decisions, prove there is democracy in management of the group.

1.3 Index of Group Record Maintenance:

This index will explain the efficiency of the group in managing its books of accounts. It will also depict the level of maintenance and transparency of the records of the group. The updated records will play a pivotal role in the sustainability of the SHGs. The index has been constructed using five variables, viz, (i) maintenance of records, (ii) regularity in maintaining the records, (iii) who writes the records, the knowledge of writing the records, (iv) level of transparency in maintaining the records, and (v) auditing of group accounts. The scores for the variables are given on the basis of their importance in the index. A large number of records have to be maintained for easy management of the group. For example, attendance, savings, and loan registers, minutes and passbooks. Regular and updated books are the prerequisites for the sustainability of the groups. If the group member writes the books independently, without the help of the hired or project staff it will have more impact on group management. Similarly, if all the members in the group know how to write records, it will show the capacity of the member in documenting group activity. If the records of the group are easily accessible and transparent, it will depict democracy in the management of the group. The annual auditing of the group's accounts will clarify truthfulness in the business and enhance the group's confidence.

1.4 Networks and Membership Index:

The sustainability of the group is largely dependent on the capacity of the group in networking and developing social capital with local institutions or organisations. The networking/membership with other institutions will improve knowledge, local participation, and community development. This index has been constructed by using three variables – viz, (i) group having membership in federation/cluster of groups, (ii) membership in formal financial institutions, and (iii) membership in local organisations, like, schools, social, political, and religious institutions. Membership in these institutions will improve local access to resources.

1.5 Index of Capacity to Resolve Conflicts:

Generally, an efficient group may function without any conflicts or problems. However, in some cases problems or conflicts may arise between the members of same groups or with members of different groups. Similarly, solving these conflicts is also equally important for the sustainability of a group. The index of a group's capacity to resolve the conflicts will show the collective participation of members in sustaining their groups. This index has been constructed using three variables, viz, (i) the conflicts faced by the members/groups, (ii) with project staff and (iii) the level of capacity of the group in solving the conflicts. In computation of the index, the scores will be assigned thus: groups that are not having any conflicts will have higher values followed by groups that resolved the problems and so on.

1.6 Member Dropout Index:

Dropout of members in a group takes place due to various reasons. If a member leaves the group by defaulting, this will lead to bankruptcy of the group. Consequently, it makes the group unsustainable. Therefore, dropout rate of members has a significant effect on sustainability of the groups. The index of member dropout has been constructed using three variables, viz; (i) number of members that left the group after formation, (ii) the cause for the dropout, and (iii) default by the dropout member. Later, the scores for the variables are allotted on the basis of its priority in the index. Large number of members leaving the group will reduce savings, access to credit and cause managerial problems. Hence, zero dropout rates after group formation will get higher scores than the other two factors. There are various reasons for the dropout of members from the group. Members leaving the group because of interpersonal problems will be considered a great drawback in the management of the group. However, if the members dropout for personal reasons or death, it will be considered less important for the sustainability of the group. The dropout of member because of default is considered as a significant variable in determining the sustainability of the group.

Once independent indexes are constructed for each of the above said indicators of group management, all the individual indices will be used for the construction of a composite index of SHG-institutional sustainability. The SHG-institutional sustainability index is a weighted average of the six individual indices. The weights given to each of these components is as follows: leadership, meetings and decision-making and networks and memberships in institutions – 0.200 each; group record maintenance – 0.150; conflicts resolving capacity and member dropout – 0.125 each. In the construction of SHG-institutional sustainability index, leadership, meetings and decision-making, networks and membership in institutions are the most important aspects of group management. Hence, these indicators are given more preference in the construction of the index rather than the other variables in the group's management, because, these variables have more influence on the institutional sustainability of the group. Maintenance of group records is given second highest weight. Maintenance of proper documentation plays a very important role in the management once the group starts functioning. The least weights are given for conflict-resolving capacity and dropout rate of the group. Conflicts and dropouts are not permanent features of any group. Groups are formed on mutual trust and function with a win-win approach. Hence, these features of the group are given less priority in the institutional sustainability index.

2 Financial Sustainability Index:

The financial sustainability index of the group has been constructed with the help of six indicators of financial management of the group, viz., thrift and savings management, credit accessibility, credit rotation, recovery and repayments of credit, resource mobilisation and utilisation, independence from social parasites. As a first step, an independent index is constructed for each of these components. The variables used for the construction of individual indices are presented below:

2.1 Thrift and Savings Index:

The thrift or savings index in this study measures the saving potential and utilisation in the group. This is the primary objective of forming the group and it will determine the financial sustainability of the group. As the group is encouraged to save more, it will lead to accumulation of a larger common fund to extend financial assistance to its members. The index has been constructed by using five variables, viz, (i) the frequency of savings per month, (ii) average savings of the group per month, (iii) total common fund created by the group, (iv) utilisation of group savings, and (v) mode of savings collection from the members. The scores for the variables are given on the basis of their significance in the index.

2.2 Credit Accessibility Index:

Access to credit is the second most important objective in the formation of groups. Maintaining equity and punctuality in delivering adequate credit has more impact on the sustainability of the groups. The group's capability to raise more loans from the MFI/bank and deliver them to a maximum number of members has a greater impact on its sustainability. The index has been constructed by using four variables, viz, (i) the average loan amount accessed by the group from the MFI, (ii) the average number of members who accessed the credit, (iii) the per capita credit accessed by each member in the group, and (iv) the process/procedure of credit disbursement.

2.3 Process of Credit Rotation Index:

Credit rotation is one of the decisive indicators of financial sustainability of the group. Credit rotation in the group denotes healthy functioning and equity in accessing resources. Further, fulfilling the criteria required for credit rotation in the group will take care of the screening of borrowers in the group. The index has been constructed by using three important variables, like, (i) the frequency of loans taken by members, (ii) the criteria followed in credit rotation, and (iii) credit rationing in the group.

2.4 Credit Repayment Index:

Repayment of loan to the MFI or to the group is equally important for its sustainability. Default and delay in repayment will make the group unsustainable. Proper circulation of money without any hurdle will decide financial sustainability and it depends on the managerial abilities in the group. The index has been constructed by using three variables, viz, (i) repayment according to schedule by members to the group, (ii) repayment according to schedule by group to the MFI, and (iii) the number of defaulters in the group and the amount in default.

2.5 Index of Resource Mobilisations and Utilisation:

The group's capacity to absorb and utilise the resources will determine the financial sustainability of the group. Not all groups may be equal in raising and making use of resources. Hence, sustainability of the group will also vary as per their capacity in absorbing the resources and utilising the same for the different purposes. Four variables are considered for the construction of the index. Like, (i) the efforts of the group members to raise resources, (ii) the capacity of the group absorb and utilise resources, (iii) the average number of members are engaged in income generating activities (individual/group), and (iv) the level of benefit distributed among the members.

2.6 Index of Independence from Social Parasites:

This index will explain the efficiency of group lending in rural areas to meet the credit requirements of the poor. It is assumed that if group lending is not effective and inclusive, the poor will have to depend on informal lenders. As such the purpose of group lending is not served, because, people are still shackled by informal lenders. In other words, dependence on informal lenders indicates that microfinance is not effective and sustainable in rural areas. The index has been constructed by using three variables, viz, (i) the potential of the group in fulfilling the credit requirements of the members, (ii) number of group members still depending on informal lenders, and (iii) proportion of informal credit in total credit accessed.

The SHG-financial sustainability index is a composite of six indicators. In this index, each of the financial management indicators has its impact on the sustainability of the SHGs. This index represents the financial soundness of the group. It is a weighted average of the six individual indices. The weights given to each of these components is as follows: The equal weight of 0.2 is given for thrift and savings, credit accessibility, credit rotation and credit repayment respectively, 0.15 to resource mobilisation and utilisation, and for independence from social parasites, it is 0.05. In the financial sustainability index, equal weights are given to thrift and savings, credit accessibility, credit rotation and credit repayment because they play a pivotal role in the financial management of the group. The groups are formed to improve the habit of savings, for easy and timely credit access and repayments. Hence, these variables are given highest preference in the index construction. Resource mobilisation and utilisation are given second preference, and least preference is given for independence from social parasites of the group members. This will identify the average number of members in the group still depending on informal lenders. In the study area, it was found that a very small number of members were dependent on informal agencies for their credit needs.

Appendix: 2

Table 1: Sustainability of the SHGs Across Various Age Groups

Taluks	Age of the SHGs (in years)	Institutional Sustainability Index				Financial Sustainability Index				Overall Sustainability Index			
		Low	Medium	High	Total	Low	Medium	High	Total	Low	Medium	High	Total
BEL (N=53)	< 3	1 (50)	1 (50)	0	2 (100)	2 (100)	0	0	2 (100)	2 (100)	0	0	2 (100)
	3 to 6	2 (7.4)	10 (37.0)	15 (55.6)	27 (100)	1 (3.7)	12 (44.4)	14 (51.9)	27 (100)	3 (11.1)	10 (37.0)	14 (51.9)	27 (100)
	> 6	0	3 (12.5)	21(87.5)	24 (100)	0	8 (33.3)	16 (66.7)	24 (100)	0	3 (12.5)	21 (87.5)	24 (100)
T. N'pura (N=53)	< 3	14 (87.5)	2 (12.5)	0	16 (100)	10 (62.5)	4 (25)	2 (12.5)	16 (100)	13 (81.3)	3 (18.8)	0	16 (100)
	3 to 6	11(45.8)	6 (25.0)	7 (29.2)	24 (100)	8 (33.3)	9 (37.5)	7 (29.2)	24 (100)	9 (37.5)	8 (33.3)	7 (29.2)	24 (100)
	> 6	0	6 (46.2)	7 (53.8)	13 (100)	0	3 (23.1)	10 (76.9)	13 (100)	0	4 (30.8)	9 (69.2)	13 (100)
TOTAL (N=106)	< 3	15 (83.3)	3 (16.7)	0	18 (100)	12 (66.7)	4 (22.2)	2 (11.1)	18 (100)	15 (83.3)	3 (16.7)	0	18 (100)
	3 to 6	13 (25.5)	16 (31.4)	22 (43.1)	51 (100)	9 (17.6)	21 (41.2)	21 (41.2)	51(100)	12 (23.5)	18 (35.3)	21 (41.2)	51 (100)
	> 6	0	9 (24.3)	28 (75.7)	37 (100)	0	11 (29.7)	26 (70.3)	37 (100)	0	7 (18.9)	30 (81.1)	37 (100)

Note: Figures in parentheses denote percentage to the total number of SHGs in particular age group; BEL=Belthangady and T. Npura=T.Narasipura
Source: Primary Survey

Table 2: Sustainability of the SHGs across various size of the groups

Taluks	Size of the SHGs (No. of Members)	Institutional Sustainability Index				Financial Sustainability Index				Overall Sustainability Index			
		Low	Medium	High	Total	Low	Medium	High	Total	Low	Medium	High	Total
		Low	Medium	High	Total	Low	Medium	High	Total	Low	Medium	High	Total
BEL (N=53)	< 12	1 (2.4)	12 (29.3)	28 (68.3)	41 (100)	2 (4.9)	17 (41.5)	22 (53.7)	41 (100)	3 (7.3)	11 (26.8)	27 (65.9)	41 (100)
	12 to 16	2 (18.2)	2 (18.2)	7 (63.6)	11 (100)	1 (9.1)	3 (27.3)	7 (63.6)	11 (100)	2 (18.2)	2 (18.2)	7 (63.6)	11 (100)
	> 16	0	0	1 (100)	1 (100)	0	0	1 (100)	1 (100)	0	0	1 (100)	1 (100)
T. N'pura (N=53)	< 12	1 (33.3)	1 (33.3)	1 (33.3)	3 (100)	0	2 (66.7)	1 (33.3)	3 (100)	1 (33.3)	1 (33.3)	1 (33.3)	3 (100)
	12 to1 6	12 (57.1)	4 (19.0)	5 (23.8)	21 (100)	6 (28.6)	11 (52.4)	4 (19.0)	21 (100)	9 (42.9)	7 (33.3)	5 (23.8)	21(100)
	>16	12 (41.4)	9 (31.0)	8 (27.6)	29 (100)	12 (41.4)	3 (10.3)	14 (48.3)	29 (100)	12 (41.4)	7 (24.1)	10 (34.5)	29 (100)
TOTAL (N=106)	< 12	2 (4.5)	13 (29.5)	29 (65.9)	44 (100)	2 (4.5)	19 (43.2)	23 (52.3)	44 (100)	4 (9.1)	12 (27.3)	28 (63.6)	44 (100)
	12 to 16	14 (43.8)	6 (18.8)	12 (37.5)	32 (100)	7 (21.9)	14 (43.8)	11 (34.4)	32 (100)	11 (34.4)	9 (28.1)	12 (37.5)	32 (100)
	> 16	12 (40.0)	9 (30.0)	9 (30.0)	30 (100)	12 (40)	3 (10)	15 (50)	30 (100)	12 (40.0)	7 (23.3)	11 (36.7)	30 (100)

Note: Figures in parentheses denote percentage to the total number of SHGs in particular age group; BEL=Belthangady and T. Npura=T.Narasipura
Source: Primary Survey

Table 3: Sustainability of the SHGs Across Levels of Savings (Rs.)

Taluks	Level of Savings in SHGs (Rs.)	Institutional Sustainability Index				Financial Sustainability Index				Overall Sustainability Index			
		Low	Medium	High	Total	Low	Medium	High	Total	Low	Medium	High	Total
BEL (N=53)	< 32000	3 (15.8)	10 (52.6)	6 (31.6)	19 (100)	3 (15.8)	10 (52.6)	6 (31.6)	19 (100)	5 (26.3)	9 (47.4)	5 (26.3)	19 (100)
	32000 to 48000	0	1 (5.9)	16 (94.1)	17 (100)	0	7 (41.2)	10 (58.8)	17 (100)	0	2 (11.8)	15 (88.2)	17 (100)
	>48000	0	3 (17.6)	14 (82.4)	17 (100)	0	3 (17.6)	14 (82.4)	17 (100)	0	2 (11.8)	15 (88.2)	17 (100)
T. N'pura (N=53)	< 32000	12 (92.3)	0	1 (7.7)	13 (100)	9 (69.2)	3 (23.1)	1 (7.7)	13 (100)	12 (92.3)	0	1 (7.7)	13 (100)
	32000 to 48000	10 (45.5)	8 (36.4)	4 (18.2)	22 (100)	8 (36.4)	9 (40.9)	5 (22.7)	22 (100)	8 (36.4)	10 (45.5)	4 (18.2)	22 (100)
	> 48000	3 (16.7)	6 (33.3)	9 (50)	18 (100)	1 (5.6)	4 (22.2)	13 (72.2)	18 (100)	2 (11.1)	5 (27.8)	11 (61.1)	18 (100)
TOTAL (N=106)	< 32000	15 (46.9)	10 (31.3)	7 (21.9)	32 (100)	12 (37.5)	13 (40.6)	7 (21.9)	32 (100)	17 (53.1)	9 (28.1)	6 (18.8)	32 (100)
	32000 to 48000	10 (25.6)	9 (23.1)	20 (51.3)	39 (100)	8 (20.5)	16 (41.0)	15 (38.5)	39 (100)	8 (20.5)	12 (30.8)	19 (48.7)	39 (100)
	> 48000	3 (8.6)	9 (25.7)	23 (65.7)	35 (100)	1 (2.9)	7 (20.0)	27 (77.1)	35 (100)	2 (5.7)	7 (20.0)	26 (74.3)	35 (100)

Note: Figures in parentheses denote percentage to the total number of SHGs in particular age group; BEL=Belthangady and T. Npura=T.Narasipura
Source:Primary Survey

Table 4: Sustainability of the SHGs Across Various Levels of Credit Disbursed (Rs. in lakh)

Taluks	Total Credit Disbursed	Institutional Sustainability Index				Financial Sustainability Index				Overall Sustainability Index			
		Low	Medium	High	Total	Low	Medium	High	Total	Low	Medium	High	Total
BEL (N=53)	<Rs.2.25 lakh	1 (14.3)	3 (42.9)	3 (42.9)	7 (100)	3 (42.9)	2 (28.6)	2 (28.6)	7 (100)	3 (42.9)	2 (28.6)	2 (28.6)	7 (100)
	Rs.2.25 lakh to Rs 4 lakh	2 (10)	7 (35)	11 (55)	20 (100)	0	13 (65)	7 (35)	20 (100)	2 (10)	8 (40)	10 (50)	20 (100)
	> Rs.4 lakh	0	4 (15.4)	22 (84.6)	26 (100)	0	5 (19.2)	21 (80.8)	26 (100)	0	3 (11.5)	23 (88.5)	26 (100)
T. N'pura (N=53)	<Rs.2.25 lakh	17 (70.8)	6 (25.0)	1 (4.2)	24 (100)	16 (66.7)	7 (29.2)	1 (4.2)	24 (100)	18 (75.0)	5 (20.8)	1 (4.2)	24 (100)
	Rs.2.25 lakh to Rs 4 lakh	6 (31.6)	7 (36.8)	6 (31.6)	19 (100)	2 (10.5)	7 (36.8)	10 (52.6)	19 (100)	3 (15.8)	9 (47.4)	7 (36.8)	19 (100)
	> Rs.4 lakh	2 (20)	1 (10)	7 (70)	10 (1000	0	2 (20)	8 (80)	10 (100)	1 (10)	1 (10)	8 (80)	10 (100)
TOTAL (N=106)	<Rs.2.25 lakh	18 (58.1)	9 (29.0)	4 (12.9)	31 (100)	19 (61.3)	9 (29.0)	3 (9.7)	31 (100)	21 (67.7)	7 (22.6)	3 (9.7)	31 (100)
	Rs.2.25 lakh to Rs 4 lakh	8 (20.5)	14 (35.9)	17 (43.6)	39 (100)	2 (5.1)	20 (51.3)	17 (43.6)	39 (100)	5 (12.8)	17 (43.6)	17 (43.6)	39 (100)
	> Rs.4 lakh	2 (5.6)	5 (13.9)	29 (80.6)	36 (100)	0	7 (19.4)	29 (80.6)	36 (100)	1 (2.8)	4 (11.1)	31 (86.1)	36 (100)

Note: Figures in parentheses denote percentage to the total number of SHGs in particular age group; BEL=Belthangady and T. Npura=T.Narasipura
Source: Primary Survey

Table 5: Sustainability of the SHGs Across Timely Repayment of Loan to the MFIs by the SHGs

Taluks	Timely Repaid the Loan to the MFI?	Institutional Sustainability Index				Financial Sustainability Index				Overall Sustainability Index			
		Low	Medium	High	Total	Low	Medium	High	Total	Low	Medium	High	Total
BEL (N=53)	No	1(10)	2(20)	7 (70)	10 (100)	0	4 (40)	6 (60)	10 (100)	1 (10)	3 (30)	6 (60)	10 (100)
	Yes	2 (4.7)	12 (27.9)	29 (67.4)	43 (100)	3 (7.0)	16 (37.2)	24 (55.8)	43 (100)	4 (9.3)	10 (23.3)	29 (67.4)	43 (100)
T. N'pura (N=53)	No	8 (44.4)	6 (33.3)	4 (22.2)	18 (100)	4 (22.2)	9 (50.0)	5 (27.8)	18 (100)	6 (33.3)	8 (44.4)	4 (22.2)	18 (100)
	Yes	17 (48.6)	8 (22.9)	10 (28.6)	35 (100)	14 (40)	7 (20)	14 (40)	35 (100)	16 (45.7)	7 (20.0)	12 (34.3)	35 (100)
TOTAL (N=106)	No	9 (32.1)	8 (28.6)	11 (39.3)	28 (100)	4 (14.3)	13 (46.4)	11 (39.3)	28 (100)	7 (25.0)	11 (39.3)	10 (35.7)	28 (100)
	Yes	19 (24.4)	20 (25.6)	39 (50.0)	78 (100)	17 (21.8)	23 (29.5)	38 (48.7)	78 (100)	20 (25.6)	17 (21.8)	41 (52.6)	78 (100)

Note: Figures in parentheses denote percentage to the total number of SHGs in particular age group; BEL=Belthangady and T. Npura=T.Narasipura
Source: Primary Survey

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Notes

1 The leadership, meetings and decision making, networks and membership in institutions get high weights as these have more influence on the institutional sustainability of the group. The record maintenance will be getting next highest weights. The member dropout and conflict resolving capacity of the group gets least weights.

2 The SHG-financial sustainability index is a composite of six indicators. In this index each financial management indicator is having its impact on the sustainability of the SHGs. This index will be representing the financial soundness of the group.

3 DEFINITE is a tool kit of methods that can be used on a wide variety of problems. In practical life many of the variables/indicators are in qualitative and quantitative character. This can be best used in developing the qualitative and quantitative index.

Government Operated Self-Employment and Microfinance Programme towards Financial Inclusion and Poverty Alleviation in Rural Areas: A Study of Self-Help Groups under SGSY

- Basanta K Sahu* and K. K. Tripathy,IES**

Introduction

Five Year Plan emphasis on rapid and progressive institutionalisation for supply of timely and adequate credit-support to enable those engaged in agriculture production and productivity.

Despite a mere 17.5% contribution to the Gross Domestic Product (GDP), Indian agriculture still provides livelihood support to about two-thirds of the country's population. The country has taken notable strides in the agricultural sector during the last four and a half decades of economic planning where the contours of Indian agriculture started showing improvement gradually after the mid-1960s with the introduction of High Yielding Varieties (HYV) of crops. The subsequent emphasis on the development of agricultural infrastructure for the supply of agro-inputs like irrigation, power, water, seed, credit and fertilisers, creation of storage and marketing facilities and provision of adequate and fair distribution of food-grains, however, could not give an appropriate boost to the growth of agricultural productivity.

The key problem of those dependent on agriculture, especially the poor, small and marginal farmers and weaker sections of the society, is finance. Therefore, in each Five Year Plan period, there has been a continued emphasis on rapid and progressive institutionalisation for supply of timely and adequate credit-support to enable those engaged in agriculture to adopt modern agricultural technology and improved agricultural practices for enhanced growth, production and productivity. The traditional concern about accessibility of agricultural credit to the needy rural inhabitants is still alive even after increasing bank branch network, improving Co-operative Banking structure, evolving specialised rural bank-

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ing institutions (i.e., Regional Rural Banks) and the setting up of various financial agencies like the National Bank for Agriculture and Rural Development (NABARD) in 1982.

The impressive expansion of bank branches and other rural formal financial intermediaries has not really helped in developing an atmosphere of hassle-free qualitative credit flow in the rural economy. Table 1 shows the distribution of rural population and rural bank offices in India from 1971. There were 4,817 rural bank branches during 1971 catering to almost 33 crore rural people. The corresponding figures for 2007 were 30,560 and 80 crores, respectively. While the% age of rural bank offices to total bank offices was the highest (58.5%) at the end of 1991, it gradually reduced to 41.4% during 2007.

The increase in bank credit in the last few years has been a heartening phenomenon of India's banking sector which reflects the economic reform policies followed since the 1990's. The financial sector reform measures have yielded desired results and strengthened financial positions of the banks. In spite of all this, the overall higher order credit growth in the banking system has not supported the desired expansion of agricultural credit and credit to small-scale industries sector (Roy, 2006). As we can see from Table 2, while the Bank Credit disbursed during 1970-71 as a% age to the Agriculture GDP was 0.57, the same increased to 12.13 during 2000-01 and to an all-time high of 49.5% age points during 2005-06. However, while 2.04 times increment in the credit disbursement in Indian Agriculture could lead to an increase in 1.11 times of the agri-GDP during 1970-71, the growth in credit disbursement and Agri-GDP between the years 2000-01 and 2005-06 shows that the same were 4.73 times and only 1.16 times, respectively. This clearly indicates that though the credit disbursement in rural areas has increased manifold the same has not affected any increment in the agricultural GDP. This may be due to a continuous decline in the total factor productivity in Indian Agriculture (Rao and Gulati, 2005) caused by the absence of a suitable technological breakthrough in Indian agriculture in the post-green revolution era.

We have been focusing on co-operative movements, priority sector lending, operation, supervision and monitoring of rural credit

Table 1: Year-wise Distribution of Population and Bank Offices in India

Year	Population (in '000)		% of Rural Population to Total Population	Bank Offices		% of Rural Banks to Total Banks
	Rural	Total		Rural	Total	
1971	3,29,932	4,39,046	75.1	4,817	13,622	35.4
1981	3,64,404	5,23,867	69.6	17,656	35,707	49.4
1991	4,11,281	6,28,836	65.4	35,206	60,220	58.5
2001	7,42,490	10,28,610	72.2	32,562	65,919	49.4
2002	7,52,506	10,45,547	72.0	32,380	66,190	48.9
2003	7,62,345	10,62,388	71.8	32,303	66,535	48.6
2004	7,72,006	10,79,117	71.5	32,121	67,188	47.8
2005	7,81,488	10,95,722	71.3	32,082	68,355	46.9
2006	7,90,786	11,12,186	71.1	30,750	69,118	44.5
2007	8,03,596	11,47,995	70.0	30,560	71,685	41.4

Source: *Handbook of Statistics on the Indian Economy* (RBI), 2005-06, *Census Statistics*, 1971, 1981, 1991, 2001 & *Population Projection Report of National Population Commission* (GoI), May 2006 by designated rural financial agencies for the smooth, adequate and timely flow of credit to the rural people. With the disappointing result of these formal agencies, we have now started depending on an innovative model of credit delivery mechanism, popularly known as microfinance (MF). This MF, after the Grameen Bank revolution in Bangladesh, is the buzz-word these days and is treated as a suitable supplement to formal banking in rural India, keeping in view its cost-effectiveness, easy and hassle-free accessibility and in-built process for loan allocation and its recovery.

Table 2 : Agricultural Credit, Agriculture GDP, Total GDP & Total Commercial Banks' Credit

Year	Agricultural Credit Disbursed (Rs. Cr)	Agri-GDP (Rs. Cr)	Credit Disbursed as a % of Agri-GDP	Total GDP (Rs Cr)	Agri-Credit as a % of Total GDP	Total Bank Credit Disbursed by CBs (Rs. Cr.)	Agri-Credit as a % of Total CBs Credit
1970-71	818	1,42,581	0.57	2,96,278	0.28	4,684	17.5
1980-81	3,436	1,67,770	2.05	4,01,128	0.86	25,371	13.5
1990-91	10,188	2,42,012	4.21	6,92,871	1.47	1,16,301	8.8
2000-01	38,127	3,14,252	12.13	12,03,079	3.17	5,11,434	7.5
2005-06	1,80,486	3,64,576	49.51	16,80,343	10.74	15,07,077	12

Source: *Handbook of Statistics on the Indian Economy* (RBI), 2005-06, *Economic Survey* (GoI), 2007-08, *Annual Report* (M/o Agriculture, 2007)

MF has now come to be regarded as a powerful tool for development because:

- It empowers borrowers to escape from poverty by giving them the means to generate income.
- It proves that the poor are creditworthy.
- Most MF programmes target women. This increases their self-worth and independence.

In India, the most popular form of MF is the Self-Help Group (SHG) Bank Linkage Programme. MF which includes, *inter-alia*, micro credit and micro savings, is increasingly advocated by country planners to ensure timely and adequate credit to small and marginal farmers and to alleviate poverty. It is treated as an effective employment generator in rural areas having capability to sustain the income of the households by ensuring their opportunities to work.

In this backdrop, this paper tries to review the principle of financial inclusion and its impending benefit of poverty alleviation through government operated microfinance and self-employment programme, called Swarnjayanti Gram Swarozgar Yojana (SGSY)[1] in rural India. Data from both primary and secondary sources have been used in this paper. While secondary data were collected from the Ministry of Rural Development, Government of India, primary data were collected from a field survey conducted in two districts of Orissa viz., Jagatsingpur and Nuapara.[2]

The objectives of the paper are to:

- Highlight the nature and functions of the SHGs and their impact on employment-income generating opportunities and on poverty reduction.
- Review the performance of SGSY by analysing the State level physical and financial progress.
- Analyse some major constraints of the microfinance driven programme and their possible solutions.

In the following section a brief overview of the SGSY of Government of India has been highlighted. The nature and function of the base level beneficiary organisation under the SGSY, popularly known as SHGs, have also been explained in this section. The review of the performance of the SGSY has been carried out in Section III. Section IV analyses some of the findings from the field level study conducted on the SGSY beneficiaries in Orissa. An attempt is made, in this section, to list the major constraints of the implementation of this programme at the grass-root level.

II. Microfinance under SGSY, SHG and Self-employment

SGSY, the on-going self-employment programme of rural poor is a mechanism through which physical and financial resources are mobilised in rural areas and public resources are transferred to identified groups of poor who are willing to constitute a small informal group from the similar socio-economic status to evade chronic case of socio-economic crisis and vulnerability of one kind or the other. Being a holistic programme of self-employment, SGSY tries to bring in all the components needed for the successful implementation of micro-enterprises like organisation of the poor into SHGs, provision of timely and adequate credit, training, technology and marketing. The microfinance component of the programme is referred to as a small-scale financial intermediation inclusive of savings, credit, insurance, business services and technical support.

The objective of SGSY is to bring the assisted poor families (*Swarozgaris)* above the poverty line by ensuring an appreciable level of income sustainable over a period of time and by organising the rural poor into SHGs through the process of social mobilisation, training, capacity building and provision of income-generating assets. This process aims at building the poor's self-confidence through community action, collective decision-making, prioritisation of their needs and resources so as to improve their collective bargaining power and empower them socially and economically. The *modus operandi* of SGSY works through the integration of various agencies like District Rural Development Agencies (DRDAs), banks, line departments, Panchayat Raj Institutions (PRIs), non-governmental organisations (NGOs) and other semi-government organisations.

The Government, through this programme, tried to mitigate inherent limitations of the formal and informal financial sectors in providing financial services to the needy and poor by ensuring the extension of micro-credit programmes in the country. The programme envisaged to extend small loans to be given in multiple doses based on the absorption capacity of the needy beneficiaries, who are too poor to qualify for formal bank loans, as they have no assets to offer as collateral security against loans.

SHG and Micro-Credit:

Financial exclusion of a large segment of population in the country has led to the search for alternative policies and mechanisms for reaching out to the poor to meet their credit requirements. In this context, microfinance interventions were recognised all over the world as an effective tool for raising incomes, contributing to livelihood security and changing the social relations of the beneficiaries (RBI, 2008). Since the SHG is a small group of 10 to 20 persons drawn from relatively homogenous backgrounds, the members, who join the group, know what benefit they would attain from the group through micro-credit. Micro-credit has to be utilised in such a way that it benefits the SHGs to improve the quality of life of their members and their productivity to earn a sustainable income. The SHGs need to firm up their financial and economic norms meant for selection of appropriate beneficiaries and subsequent disbursement of credit to the needy.

The borrowing member chooses economic activities for income-generation purposes and knows clearly the goals or objectives he has to attain for his own sustenance and stability of the group which he/she belongs to. Here, the members through participative decision-making process prioritise their goals in terms of their urgency. All the members are aware of their individual needs so as to converge their needs with the group objective. They can utilise team effort in addressing their problems and issues while approaching their target. Unity, group effort and team-work help them in achieving their goals.

SHGs under SGSY

The emphasis of SGSY is on SHG formation, social mobilisation and economic activation through the SHG-Bank linkage which is quite unique to India. Micro-credit programmes through their inherent and inbuilt developmental approach contribute to socio-economic welfare and empowerment of members (Jayaraman, 2005). The approach of SGSY rests on the basic premise that there is a tremendous potential within the poor to help themselves and this potential can be harnessed by organising them into groups with a given amount of physical, financial and human resources. Exhibit-1 summarises the most popular reasons why people join SHGs.

Nature and Functions of SHGs under SGSY

Five to twenty members are drawn from below the poverty line (BPL) families to constitute an SHG. To bind itself, the Group devises a code of conduct in the form of regular democratically organised weekly/fortnightly meetings, which allow free exchange of views and participation by the members in the decision making process. The Group collects a minimum and fixed voluntary saving amount from all the members regularly in the group meetings to build its Group Corpus[3] for extending loans to the members. The loaning decisions are based on participatory decision-making processes. The Group operates a Group account preferably in their service area bank branch. The Group develops financial management norms covering the loan sanction procedure, viz. prioritise the loan applications, fix repayment schedule and fix appropriate rates of interest and closely monitor the repayment of the loan. Simple basic records such as Minutes book, Attendance register, Loan ledger, General ledger, Cash book, Bank passbook and individual passbooks are maintained by the Group.

Exhibit 1: Why do People Join SHGs?

Reason	Benefit from Self-Help
Security	Reduction of insecurity of 'standing alone'. Feeling of strength, fewer self-doubt, more resistance to threats.
Status	Provision of recognition and status to the members.
Self-esteem	Feelings of self-worth.
Affiliation	Fulfilment of social needs through regular interaction.
Power	Power of unity and numbers.
Goal Achievement	Talents are pooled, knowledge and awareness are available for accomplishment of group task.

Stages of SHG Evolution under SGSY

SHGs go through the four broad stages of evolution viz. (a) Group formation where SHGs are formed, developed and strengthened to evolve into self-managed people's organisations at grass-root level, (b) Group stabilisation where through thrift and credit activity the members build up their Group Corpus from where internal loaning facilities are extended, (c) Microfinance where the Group Corpus is supplemented with Revolving Fund sanctioned as cash credit limit by the Banks, and, (d) Micro-enterprise development where SHGs take up economic activity, of their choice for income-generation.

The micro-enterprise phase includes entrepreneurship development and skill development training of the members of the Group to enable them to successfully implement the chosen activity. Every group might not graduate to the stage of Micro-enterprise within the time frame indicated in the Guidelines of SGSY. Some groups may require intensive training and capacity building inputs to enable them to reach higher levels of income generation.

Microfinance initiative ensures empowerment amongst women within informal and small cohesive groups as they ensure consistent promptness and reliability of repayment of credit (Mwenda & Muuka, 2004). SHG is a movement for women empowerment and ensures self development and social, political and economic participation of women and work for the success of women entrepreneurs (Mohammed, 2004). SHGs exert strong influence on their members where the norms of the groups become the basis of the determination of appropriate behaviour of the members. The characteristics of an SHG are enlisted in Exhibit 2.

Exhibit 2: Characteristics of SHG as a Small Group

Characteristics	Activities within SHG
Group interaction	The SHG members' face-to-face contact with each other ensures flexibility to communicate freely among themselves.
Perception and cognition of group members	Members engaged in interaction with one another help in forming impression/perception about each other.
Group cohesiveness	Members are attracted towards the group which increases task based cohesiveness.
Group goals	The members of SHGs set common goal or goals and each of them contributes to achieve the goal.
Group problem solving	Strong interpersonal interaction and participative decision-making process leads to effective problem solving.
Motivation and need satisfaction	The members are motivated towards achieving the common group goal or goals to satisfy their immediate and future needs.
Group organisation	Setting group norms and developing interpersonal relationships contributes to the effective functioning of the group.

SGSY encourages the constitution of SHGs in rural areas to channel credit and subsidy components in an effective manner since the commitment in task accomplishment is high in small and cohesive group members. Further, team goal commitment in small groups is positively related to team effectiveness through group performance, quality of group experience and team viability (Aube & Vincent, 2005).

III. Performance and Outreach of SGSY

An analysis of the trend of SHG formation under SGSY between 1999-00 and 2007-08 in the country indicates that the number of SHGs formed in 2007-08 (306,688) was about 104% that of the number of SHGs formed during 1999-2000 (292,426) (Table 3). The annual growth rate of formation of SHGs has not shown any definite increasing or decreasing trend over the years from 1999-2000 and 2007-08. During 2000-01 i.e., the second year of SGSY implementation, formation of SHGs in India witnessed a negative growth of -23.6% vis-à-vis the previous year. During 2001-02 there was a high positive growth rate of SHG formation (94.5%) while the next three years experienced negative growth at -8.2, -1.7 and -32.1%, respectively. During 2007-08 the SHG formation marked an increment of 24.5%. However, the number of SHGs assisted increased more than six-fold from 29,017 in 1999-00 to 1,81,386 during 2007-08. One notices from the growth rates of SHGs which have taken up economic activities that except 2000-01, there has been a positive increment in the linkage of SHGs to self-employment activities. Accordingly, from being merely 9.9% in 1999-00, the number of SHGs assisted as a% age of number of SHGs formed increased to about 59.1% during 2007-08.

Table 3: Physical Progress under SGSY since inception i.e. 01.04.1999 (As on 1st October 2008)

Indicators	Year										Total/ Average
	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09*	
Self-Help Groups formed (Nos)	292426	223265 (-23.6)	434387 (94.5)	398873 (-8.2)	392136 (-1.7)	266230 (-32.1)	276414 (3.83)	246309 (-10.9)	306688 (24.5)	110015	2946743
Percentage of Women SHGs (%)	NA	NA	NA	55.4	59.5	72.0	77.1	71.7	75.5	69.2	81.7
SHGs Taken up Economic Activities (Nos.)	29017	26317 (-9.3)	30576 (16.2)	35525 (16.2)	50717 (42.8)	68102 (34.3)	80130 (17.7)	137931 (72.1)	181386 (31.5)	66952	706653
SHG formed to Economic Activation (%)	9.9	11.8	7.0	8.9	12.9	25.6	29.0	56.0	59.1	60.9	24.0

Notes: (a) * up to October 2008 (b) NA = Not available (c) Figures in the parentheses are annual growth rates
Source: Compiled from data obtained from Monitoring Division of Ministry of Rural Development, Government of India

As on October 1, 2008, 7.06 lakh SHGs have been linked with credit and taken up economic activities. Table 4 indicates that on an average an amount of Rs. 1,601.1 crore is available under the programme. The matching credit mobilised so far is Rs. 1,563.1 crore. The cumulative subsidy disbursed is Rs. 7,630.4 crore during the last 10 years under the programme. This means the Credit subsidy ratio is only 2:1 which is well below the government norm of at least 3:1 (M/o Rural Development,1999). While the total investment (cumulative) is Rs. 23,262.2 crore, average per capita investment has been estimated to be Rs. 23,040 only. This was below the desired level of the Govt's indicative and targeted per capita investment of Rs. 25,000 per beneficiaries (M/o Rural Development, 2007).

Table 4: Financial Progress under SGSY since inception i.e. 01.04.1999 (As on 1st October 2008)

(*Rs. in Crores*)

Indicators	Years										Total/ Average
	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09*	
Total Funds Available	1962.0	1608.2	1299.5	1178.2	1214.9	1511.2	1558.5	1724.6	2394.2	1559.4	16010.7
Total Funds Utilised	959.9	1117.9	970.3	921.1	1043.4	1290.8	1338.8	1424.2	1966.0	538.2	11570.7
Total Credit Mobilised	1056.5	1459.4	1329.7	1184.3	1302.1	1658.2	1823.2	2291.2	2760.3	767.0	15631.8
Total Subsidy Disbursed	541.7	701.9	665.6	605.9	713.4	858.8	904.8	971.1	1289.1	378.2	7630.4
Credit Subsidy Ratio	2.0	2.1	2.0	2.0	1.8	1.9	2.0	2.4	2.1	2.0	2.0
Total Investment	1598.2	2161.3	1995.3	1790.2	2015.5	2517.0	2728.0	3262.3	4049.4	1145.2	23262.2
Per Capita Investment (Rs.)	17113	21480	21283	21665	22471	22555	23698	19281	28764	32093	23040

Notes: * up to October 2008
Source: Compiled from data obtained from Monitoring Division of Ministry of Rural Development, Government of India

Table 5 indicates the financial and physical progress under SGSY in Orissa since the inception of the programme. Up to 2008-09 out of 1.87 lakh SHGs formed in the State of Orissa, only 34,943 (i.e., 18.6%) have been credit linked and taken up economic activities. It may be seen from this table that on an average Rs. 87.3 crore has been spent on the programme per annum (from 1999-00 to 2008-09). Out of this total subsidy disbursed is to the tune of Rs. 500 crore during the intervening years. Such a huge investment under the programme, however, has not been successful in enhancing the per capita investment level appreciably. However, from Table 4 and 5, it is noticed that Orissa has witnessed a higher per capita investment i.e. Rs. 23,893 vis-à-vis Rs. 23,040 at all India level. This is quite possible because, fund flow under the SGSY is linked to poverty incidence in a State. Orissa, one of the backward most States of the country draws relatively higher proportion of subsidy than the others. The credit subsidy ratio which is 1.9 shows the indifferent attitude of the banks in disbursing the matching credit to subsidy in higher doses.

Table 5: Physical and Financial Progress under SGSY in Orissa since Inception i.e. 1.4.1999 (Rs. In Lakh)

Indicators	99.00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09*	Total/Avg
Financial Progress											
Total Funds Available	13535.3	10625.9	5774.6	5421.4	6062.9	7525.1	7594.6	8646.9	13315.5	8829.4	87331.5
Total Funds Utilised	7457.7	9780.8	6138.6	5499.0	6699.2	8281.8	8073.9	8611.1	11695.0	1377.7	73614.8
Total Credit Mobilised	9417.6	12333.9	8263.7	6888.9	7789.7	9750.1	10697.5	14006.8	17738.5	251.9	97138.5
Total Subsidy Disbursed	5038.6	6627.4	4699.7	4068.2	3431.2	5940.6	5948.1	6220.0	7856.8	127.9	49958.4
Total Investment	14456.2	18961.3	12963.4	10957.0	11220.8	15690.7	16645.5	20226.8	25595.4	379.8	147096.9
Per Capita Investment (In Rupees)	19369.7	22004.3	21885.4	22395.6	18925.7	23878.0	26047.7	29447.7	29362.2	25610.9	23892.7
Credit Subsidy Ratio	1.9	1.9	1.8	1.7	2.3	1.6	1.8	2.3	2.3	2.0	1.9
Physical Progress (Nos.)											
Self-Help Groups (SHGs)	10334.0	18706.0	31732.0	26465.0	19000.0	26393.0	18741.0	16032.0	16403.0	3403.0	187209.0
formed during the year		(81.1)	(69.6)	(-16.6)	(-28.2)	(38.9)	(-28.9)	(-14.4)	(2.3)		
SHGs Taken up	1011.0	1169.0	1296.0	1454.0	3514.0	5058.0	5293.0	5647.0	10404.0	97.0	34943.0
Economic Activities		(15.6)	(10.8)	(12.2)	(141.6)	(43.9)	(4.6)	(6.7)	(84.24)		

Notes: (a) * up to October 2008 (b) Figures in the parentheses are annual growth rates

Source: Compiled from data collected from Monitoring Division of Ministry of Rural Development, Govt. of India

Table 5 also indicates that while annual growth of SHG formation between the years 2000-01 and 2007-08 has not been consistent, the SHG linked to self-employment economic ventures followed a positive trend. The compound annual growth rate ofnSHG formation and their linkage with economic activities between 1999-00 and 2007-08 for all India was 0.6% and 25.7%, respectively. For Orissa, the same was 5.9 and 33.8. This shows that in both the formation of SHGs and their linkage activities have a higher growth rate in Orissa.

IV. Analysis of Field Study

(a) Research Context and Methodology

The fieldwork for this study was conducted during October 2006-June 2007 in Jagatsingpur and Nuapara Districts of Orissa through a stratified multi-stage sampling procedure. In the first stage, districts were identified on the basis of the SHG penetration into their respective rural blocks. Out of the two districts, a total of four blocks were chosen for conducting the field survey. From each of the selected blocks, four gram panchayats (GPs) are chosen using random sampling. The selection of blocks was done carefully so that these would properly represent the implementation of the SGSY programme in the districts. Individual members and leaders within the SHGs were the final sampling units. The SGSY beneficiaries were generally drawn from the Government of India enumerated Below Poverty Line (BPL) Census.[4] From the SGSY programme beneficiary list, four SHGs each were randomly identified from a gram panchayat. Out of the four SHGs, two were matured groups constituted during 2000-2004 and the other two constituted after 2005. Four beneficiaries each were selected randomly as beneficiary respondents in each SHGs. The schedules for beneficiaries were administered on each of them. Basic information on occupation structures, income and asset ownership, programme structure and participation of members in the programme were collected through a structured schedule from 96 SHGs covering 384 respondents.

(b) Characteristics of the Study Districts

In the State of Orissa, Jagatsingpur is considered to be a forward district with 10.57 lakh population out of which 79.1% are literate. Rural population in the district is 90.1% . Nuapara, one of the most socio-economically backward districts of Orissa, has 5.31 lakh population out of which 94.3% live in rural areas. While the literacy rate in the district is as low as 42%, there exists a favourable sex ratio of 1007 females per thousand males.

The selection of the districts was intended to reflect differences in the impact of the SGSY programme in two diverse regions of the State and to analyse the underlying factors or variables behind the governance of SHGs and the performance of micro-enterprises in rural areas. It was expected that the SGSY would have a positive income impact on its poor clients in relatively backward areas (as the objective of the programme was to alleviate poverty by ensuring required infrastructure in backward regions) where the sources of finance and availability of technical infrastructure needed for micro-enterprise development is restricted.

(c) Study findings

Basic information on occupation structures, income and asset ownership, programme structure and participation of members in the programme was collected through a structured schedule from 96 SHGs covering 384 respondents. Data analysis has been carried out here for only 374 respondents since these were filled-in satisfactorily. Out of the total respondents, 23% belong to SC, 33% from ST social groups. Out of the total respondents 365 (98.6%) was found to be reeling under poverty line. Further, an overwhelming proportion of the SHG members (208) was found to be illiterate (56.2%). As per the results of the survey, SHGs in these districts are exclusively women groups with an average member size of 17. The monthly savings of members range between Rs. 30/- and Rs. 100/-. The responsibility of formation and nurturing of SHGs lies with the village level workers[5] (VLWs).

Under SGSY, the presumption is that the poor members of SHGs would acquire basic skills of accountancy, book-keeping, management, leadership and team-work to manage their own business unit for their income-generation (MoRD, 2003). So, the illiteracy of members may pose a grave challenge for the future survival and sustainability of these SHGs, which have to be self-reliant and cannot be permanently dependent on Self Help Promoting Institutions (SHPIs)[6] for their day-to-day work.

Table 6: Respondent Beneficiaries by Ownership of Land Property

S. No.	District/State	Land Property (in Acres)				
		0-1	1-2	2-3	>3	Landless
1	Jagatsingpur	26.2	57.4	6.6	1.6	8.2
2	Nuapara	26.2	51.2	7.3	2	13.3
	Orissa Total	26.2	53.2	7	1.9	11.6

Table 7: Distribution of Sample Respondents by Daily Income Per-capita

Income Class (Per Capita per Day in Rs.)	Jagatsingpur	Orissa Nuapara	Total
0-25	38 (21.8) {31.1}	132 (75.8) {53.2}	170 (97.7) {45.9}
26-50	78 (25.4) {63.9}	113 (36.8) {45.6}	191 (62.7) {51.6}
51-100	4 (3.7) {3.3}	3 (2.8) {1.2}	7 (6.5) {1.9}
101-150	2 (11.1) {1.6}	0 0.0 {0.0}	2 (11.1) {0.5}
Total	122 (19.8) {100.0}	248 (40.3) {100.0}	370 (60.1) {100.0}

Notes: (a) Figures in parentheses are row-wise per cent total (b) Figures in curly brackets are the column-wise per cent to total.

It was observed that 37.8% of the members were either landless or possessed land of less than 1 hectare and 79.4% of the members own land up to 2 acres (Table 6).

Out of the total respondents, while 45.9% are earning per day income up to Rs. 25/-, 51.6% are found to be earning up to Rs. 50 a day (Table 7). This means about 97.5% of the total respondents are in the daily income bracket of Rs. 0-50.

The distribution of sample respondents by SHG investment in Orissa indicates that 21.1% of total SHG respondents get a bank investment up to Rs. 25,000, 18.9% gets between Rs. 25,001 and Rs. 50,000, another 10.8% between Rs. 50,001 and Rs. 1 lakh and 47.3% more than Rs. 5 lakh. Seven SHG respondents have not got any external financial support to take up economic activities.

Table 8 reveals that the average land holding of the beneficiaries was only 1.0 acre. While on an average a beneficiary member saves Rs. 29.9 per month, an average amount of individual loan was as high as Rs. 6,605/-. It is estimated that the average group corpus was Rs. 36,385/- and average group loan was Rs. 1,63,344/- thereby taking the debt-equity ratio to a peak of 4.5:1. This high ratio clearly puts a big question mark on the sustainability of the economic units as the usual conventional norm for debt-equity ratio of an economic unit is only 2:1.

The figures relating to the average interest charged to members of the SHGs by various credit suppliers indicate that the bank interest rate per month is the lowest (i.e, 0.8%) followed by SHGs (2.7%) and the rural money lenders (5.5%). This clearly shows that other things being equal, the interest cost of the credit extended to the rural people have reduced significantly giving the advantage to the rural borrowers.

As far as accessibility to banking services in rural areas are concerned, it can be seen from table 8 that an average distance between the group and nearest bank branch is estimated to be around 2.5 Kms. It is also found that an SHG has to make 5 visits to open a savings bank account and after getting issued a savings account the same SHG has to make another 4 to 5 rounds of visit to the bank to get a loan disbursed in their name. This shows that the microfinance has not been well accessed by each and every SHGs in the State.

Table 8 : Statistical Characteristics of the Total Sample of Orissa (N=370)

No.	Variables	Mean
1	Average Monthly Savings (Rs.)	29.9
2	Average Size of Land possessed (Acre)	1.0
3	Average Market Value of House Owned (Rs.)	16891.9
4	Average Amount of Individual Loan (Rs.)	6605.4
5	SHG Investment (Rs.)	1,59,966.2
6	Average Value of Group Corpus (Rs.)	36385.1
7	Average Size of Group Loan (Rs.)	1,63,344.6
8	Average Rate of Interest Charged by SHG per month (%)	2.7
9	Average Rate of Interest Charged by Banks per month (%)	0.8
10	Average Rate of Interest Charged by Money-lenders per month (%)	5.5
11	Average Distance from Nearest Bank (Meters)	2329.1
12	Average No. of Visits to Bank to Open Savings Account	5.0
13	Average No. of Visits to Bank to get a Loan	4.5

Occupation Under SGSY

An analysis of the beneficiaries' occupational pattern before and after joining the programme was undertaken to find out the reasons behind the low credit off-take under SGSY. It was found that even after joining SGSY, the dependence on agriculture has not reduced substantially. Around 71% of beneficiaries were either involved in agriculture activities or allied activities like forestry and livestock.

Table 9 reveals the shift in the occupation due to the microfinance intervention under SGSY. In the pre-SHG stage 60% of respondents were living on agriculture and 10% on forestry and livestock. In the post-SHG period while the former occupation marked a reduction of 11.3%, the latter registered an increase of 11.4%. While trade and commerce registered a reduction by 17.8% during the same period, there was a positive shift of 15.1% in case of the household industry category. While occupation in the category of transport did not register a change, other occupations recorded a marginal but positive shift. This shows that the microfinance intervention has not worked towards shifting for relatively more income generating and high productive industrial or service sector activities in the rural areas. Hence there has not been significant income impact on the beneficiaries of the SGSY.

Table 9: SHG Respondents by Occupational Distribution during Pre (1999-00) and Post (2006-07) SHG period (in per cent)

Occupational Categories	Nuapara (N=248)		Jagatsingpur (N=122)		Total (N=370)	
	Pre	Post	Pre	Post	Pre	Post
Agriculture	72.6	60.5	34.4	27.9	60.0	49.7
Livestock, Forestry	9.3	16.5	11.5	31.1	10.0	21.4
Total Agriculture and Allied	81.9	77.0	45.9	59.0	70.0	71.1
Household Industry	0.4	18.1	5.7	15.6	2.2	17.3
Trade and Commerce	16.9	1.6	39.3	16.4	24.3	6.5
Transport	0.0	0.0	9.0	9.0	3.0	3.0
Others	0.8	3.2	0.0	0.0	0.5	2.2

SHG members were found to have undertaken occupational activities other than those identified by the Government. Though the SGSY guidelines stress on the identification of a maximum of 10 activities in each block, it was observed that each block had identified as many as 21 different activities for assistance under SGSY without taking into account their forward and backward linkage effects. The activities identified under SGSY in Jagatsingpur and Nuapara Districts were dairy farming, poultry, goat rearing, pisciculture, floriculture, vegetable cultivation, chilli cultivation, betel binding, plantation, cane and bamboo cultivation, agarbati and detergent powder making, coir products, tent house with brass band, golden grass, palm products, mushroom cultivation, fruit processing, spices, soft toy making, terracotta, dry fish making. Besides, these activities were not identified through a participatory process involving SHPIs and prospective members of SHGs. Many activities had been selected without taking into account the details of existing local resources, the aptitude and skill of the people in the area concerned.

SGSY and Incremental Income

Data have been collected from individual respondents on their income and asset status both in the pre-SHG and post-SHG periods. From the data analysis it is observed that while some beneficiary respondents have experienced a positive change in their income earning, there are a lot of respondents who have not experienced a rise in their income. Table 10 reveals that 21.6% of beneficiaries experience no change in their income and 45.1% in their asset value during the pre and post-SHG periods. However, there are 78.4% and 54.9% beneficiaries who have experienced a positive change in their income and asset values, respectively. It is also evident from the table that as high as 21.6% beneficiaries in Orissa do not experience a change in their income.

Table 10: Respondent Beneficiaries by Income and Asset Position

S. No.	District/State	Change of Income and Asset between Pre and Post SHG Period (% of Respondents)			
		Change of Income		Change of Asset	
		Positive	No change	Positive	No change
1	Jagatsingpur	77	23	51.6	48.4
2	Nuapara	79	21	56.5	43.5
	Orissa Total	78.4	21.6	54.9	45.1

The income and asset figures as received from the respondents indicate that there has been an increase in the income and asset value of the respondents due to the SHG activity under the self-employment programme. Thus, it is decided to undertake an analysis to find out the real increase or decrease in the income and asset size of the respondents during these periods. To find out the incremental real income and asset figures, an attempt is made to deflate the income amount and asset value taking into consideration the Consumer Price Index for Industrial Workers[7] (CPI-IW) for 2001-02, 2005-06 and 2006-07 with a base of 1986-87 prices. The pre-SHG income and asset figures for matured SHGs (constituted during 2000-2004) are deflated by taking the CPI-IW value of 5.1. The same is also followed for income and asset figures of the younger SHGs as the CPI-IW had touched 5.1% by December 2005-06. However, the post-SHG income and assets of all the 615 respondents are deflated with a 2006-07 CPI-IW value of 6.3.

It was presumed that with an average experience of 2.8 years (Table 11), the respondents of relatively older SHGs would increase their income. It is seen that there has been an increase in the income and assets of the respondents during the pre and post SHG period. However, a review of the annual incremental income in taking into consideration the duration of existence of group and the price factor indicate that the annual growth of income was 8.4% for older SHG members. The same was negative at -0.6% for newer group members. For younger SHG members, the annual increment in asset was 24.8% whereas the same for older SHG members was 35.7%. This shows a positive impact on income and asset through the microfinance activities under the programme.

Table 11: Total Sample of Orissa by Average Income and Asset Value

Sl. No.	Variables	SHGs formed during 1999-2004 (N=184)	SHGs formed 2005 onwards (N=184)
Pre-SHG			
1	Average Income of the Respondent Family (Rs.)	21.3	21.6
2	Adjusted Family Income (Rs.)	4.2	4.2
3	Average Value of Assets Possessed (Rs.)	17,282.6	17,096.8
4	Adjusted Value of Assets Possessed (Rs.)	3,388.7	3,352.3
Post-SHG			
5	Average Income of the Respondent Family (Rs.)	32.5	26.5
6	Adjusted Family Income (Rs.)	5.2	4.2
7	Average Value of Assets Possessed (Rs.)	42554.3	26451.6
8	Adjusted Value of Assets Possessed (Rs.)	6754.7	4198.7
9	Increment in Adjusted Income (%)	23.2	-0.6
10	Increment in Value of Assets Possessed (%)	99.3	25.2
11	Average Duration of the SHGs (Year)	2.8	1.0
12	Yearly Increment in Adjusted Income (%)	8.4	-0.6
13	Yearly Increment in Value of Assets Possessed (%)	35.7	24.8

Constraints in the Implementation of SGSY

The respondents were asked about the difficulties they have been facing in the execution of self-employment activities under the microfinance programme. The problem areas as identified are marketing, finance, product and its quality, infra-structure and facilitators' support. It is seen from Table 12 that 21.6% of the total sample respondents perceived marketing as the main problem whereas 56.3% experienced problems pertaining to timely and adequate availability of finance. While 14.1% of respondents perceive product and quality as the twin main problems in the successful implementation of their self-employment ventures, only 1.6% ascribed facilitators' support as the problem area.

V. Conclusion & Policy Implications

Studies conducted on the income impact of micro-credit on the clients drawn from poverty line have indicated that most households are better off with micro-credit, but income impacts vary in magnitude and durability, and a sizeable pro-portion of clients find that their

Table 12: Distribution of Sample Respondents by Difficulties Encountered while Operating Self-employment Ventures

Difficulty Categories	Districts		
	Jagatsingpur	Nuapara	Total
Marketing	27	53	80 (21.6)
Finance	48	160	208 (56.3)
Product and Quality	29	23	52 (14.1)
Infrastructure	13	11	24 (6.4)
Facilitators' Support	5	1	6 (1.6)
Total	122	248	370 (100.0)

Note : Figures in parantheses are per cent to total post-credit incomes stagnate or fall (Copestake, Bhalotra & Johnson, 2001). In turn, this paper indicated that the SGSY has a positive impact on the beneficiaries' income and assets. However, it is not clear whether the annual increment in income and asset under this programme would be sufficient to give a big push to the beneficiary to go above the poverty line. This may be because for those trapped in chronic food insecurity with no asset base to protect themselves from the myriad web of shocks, micro-credit can be ineffective and sometimes counterproductive (Matin and Hulme, 2003). Keeping in view the inherent principle of savings, thrift and social mobilisation, a long term effort in such type of microfinance intervention may be the need of the hour.

MF is not a panacea, but could help to improve the socio-economic condition of the poor by addressing certain issues relevant to income generation and capability enhancement. In Orissa, SHG participation can help protect poor, particularly the women against poverty, insecurity and social exclusion.

The success of the rural microfinance intervention lies in the formation of quality groups, adequate and timely credit support along with the identification of appropriate and profitable economic activities. While the credit-to-subsidy ratio under the programme has to be raised, a lot more is required by way of co-ordination among the different tiers of implementing agencies, viz. bankers, government officials and SHPIs. The in-built co-ordination and monitoring mechanism within the programme has to be reviewed and redesigned ensuring the active involvement of programme implementing agencies. The selection of activities in a particular area should be determined by the availability of physical resources, skills and aptitude of the people and market demand. For optimum forward and backward linkages the number of key economic activities should not exceed five. Further, the selected activities should have the potential of generating incremental income sustained over a period of time which would enable the beneficiaries to cross the poverty line.

A review of the existing occupational options within the local area could be undertaken and emphasis should be laid on participatory decision making while mapping the local resources, identifying and selecting economic activities. Periodic monitoring should be carried out not only of the progress made by the beneficiaries but also of the quality of operation of the SHGs. Besides, an improvement in marketing and technical infrastructure for the SHG units is the need of the hour. In the era of globalisation, the SHGs need to upgrade their methods of production to be able to survive in a competitive market.

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Notes

1 Consequent on the recommendations of a high powered committee of Planning Commission, Government of India, the IRDP and its allied programmes were re-structured and re-designed into a single and holistic self-employment programme called Swarnjayanti Gram Swarozgar Yojana (SGSY) that was implemented throughout India with effect from 01.04.1999.

2 Located in the coastal region of the State, Jagatsingpur is a relatively well-off district in the State whereas Nuapara is infamous for the incidence of poverty.

3 The corpus of a group consists of cash balances with the group, group savings as per the balance in the savings bank account of the group, the sum of all outstanding loans against the members of the group, interest earned on the loans to members and interest on balance in the savings bank account

4 Below Poverty Line (BPL) census indicates the households which are reeling under a benchmarked poverty line income which is a must for their daily sustenance. As per the current methodology adopted by the government, a family is said to be living below the poverty line if it has an annual income earnings of less than Rs. 24,000/- (i.e. Rs. 65.75 a day). To bring the poor and marginalized sections of the rural society into the fold of government supported antipoverty and employment generation programmes, the Ministry of Rural Development, Government of India conducts a household survey called BPL Census, once in each Five Year Plan Period, to identify the poor and vulnerable and take appropriate action in regard to their all round development

5 VLWs act as community builders by socially mobilising poor women from various households in a village to form informal cohesive groups. They are required to monitor the group, its day-to-day function, internal lending and banking habits

6 Facilitating agencies or catalysts working closely with the poor at the grass-root level who can sensitise and motivate the poor about the advantages of organising themselves into groups for their socio-economic progress. The SHPI spectrum includes NGOs and other community based organisations, various government rural development institutes, Panchayati Raj Institutions, Rural Branches of Commercial Banks, Regional Rural Banks and Co-operatives, Corporate bodies and private sector companies, individuals like school teachers, retired government employees, health workers, village development workers and even unemployed educated youth.

7 Consumer Price Index reflects changes in the retail prices of selected goods and services on which a homogenous group of consumers spend a majority of their income. Out of the three series of CPI, the CPI for Industrial Workers (IW) is the most popular as the government employees wage compensation is calculated on the movement of this index. CPI-IW is constructed on a monthly basis with the base year of 1986-87.

Self-Help Groups and Financial Inclusion of Rural Households in Dry Land Villages of Davangere District, Karnataka

- K. B. Rangappa*, Ms. Renuka Bai** & A. L. Sandesh***

Introduction

The Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

In south Asian countries the GDP per capita for women is extremely low and is often less than half, or one-third of that of men. In India it is only 38% (Kelkar, 2005).

Access to finance, especially by the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion. Further, access to finance will empower the vulnerable groups by giving them an opportunity to have a bank account, to save and invest, to insure their homes or to partake of credit, thereby facilitating them to break the chain of poverty (Committee on Financial Inclusion, 2008). The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance (United Nation, 2006). Building an inclusive financial system, thus, has gained growing global recognition bringing to the fore the need for development strategies that touch all lives, instead of a select few. Financial Inclusion Committee (2008) defined the Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

In recent years Indian banking sector is grappling with the issue of financial inclusion. But, it is not altogether a new exercise. Financial inclusion was envisaged and embedded in Indian credit policies in the earlier decades also, though in a disguised form and without the same nomenclature (Rao, 2007) and emphasis. Increasing access to credit for the poor

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has always remained at the core of Indian planning in fighting against the poverty. The 'social banking' policies being followed by the country resulted in widening the 'geographical spread and functional reach' of commercial banks in rural area in the period that followed the nationalisation of banks (Shetty, 1997). Despite having a wide network of rural bank branches in India which implemented specific poverty alleviation programmes that sought creation of self employment opportunities through bank credit, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking systems (NABARD, 1999). Social banking policies made appreciable achievement in shifting the commercial banks' focus from 'class banking' to 'mass banking' but their achievement is very poor in taking the commercial banks' focus to the 'poorest of the poor'.

Since early 1990s, Indian financial sector has been witnessing the market oriented reforms. The focus in the period of reforms was on enhancing the efficiency and profitability of banking system. It led to the development of new generation private sector banks as well as technological breakthrough in diverse financial products, services and delivery channels. With the recent developments in technology, both delivery channels and access to financial services have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATM), credit / debit cards, internet banking, online money transfer, etc. The moot point, however, is that access to such technology is restricted only to certain segments of the society (Committee on Financial Inclusion, 2008). Reaching the poorest, whose credit requirements were very small, frequent and unpredictable, was found to be difficult. Further, the emphasis was on providing credit rather than financial products and services including savings, insurance, etc. to the poor to meet their simple requirements (Ansari, 2007). In short, it had created a structure which is 'quantitatively impressive but qualitatively weak' (Mishra, 2006). Indeed, in the era of financial liberalisation, the pursuit of financial inclusion appears to be an arduous task (Chavan, 2007). But the country cannot afford to have an elite minority enjoying services with banks and a large unorganised majority in the cash and barter mode. This divide, apart from undermining economic growth could engender social tensions. Sustained growth of the nation and its continued prosperity depend critically on universal financial services coverage of all people (Srinivasan, 2007).

NABARD, in this background, realized the need for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest and launched its pilot phase of the Self Help Group (SHG) Bank Linkage programme in February 1992. SHGs are small informal associations created for the purpose of enabling members to reap economic benefit out of mutual help, solidarity and joint responsibility. These small and homogeneous groups involved in savings and credit activities are capable of taking care of the risks through peer monitoring. The main advantage to the banks of their links with the SHGs is the externalisation of a part of the work items of the credit cycle, viz, assessment of credit needs, appraisal, disbursal supervision and repayment, reduction in the formal paper work involved and a consequent reduction in the transaction costs (Rangarajan, 1996). The SHG-Bank linkage programme in which SHGs are linked to banks in gradual way-initial through savings and later through loan products- is considered to be an effective strategy to ensure financial inclusion. In this backdrop, this study has been undertaken with the specific objective of analysing the impact of SHGs on the financial inclusion. It is an attempt to empirically verify the hypothesis that 'there is association between the participation in SHGs and the degree of financial inclusion"

2. Methodology

2.1. The Study Area: The study is based on the primary data collected in Davangere district of Karnataka state. It occupies a total geographical area of 5975.97 Sq km spreading over 6 taluks. The total population of the district, as per 2001 census, is 1790952. The district is primarily agrarian in character consisting of 243747 farm households. Majority of the farm households are belonging to marginal (43%) and small size (30%) category. The normal rainfall of the district is 644mm. Canals accounting for 53 per cent of total net area irrigated created regional disparity within the district. It is one of the districts of the state where large number of farmers' suicide have been reported in recent years. Though the district is being served by 87 branches of commercial banks and 42 branches of regional rural banks besides a large number of credit cooperative societies financial inclusion continued to be a major challenge. Government agencies and many NGOs are promoting SHGs to face this challenge. The socio economic background of the district provides strong case for the purposeful selection of the district. Due to wide socio-economic disparity between irrigated and dry land villages, only dry land villages have been considered for focused study.

2.2. ***Data and Sampling Design:*** Impact of SHGs on the financial inclusion could be analysed by comparing the extent of financial inclusion before and after SHG membership. This approach would yield good results only if the data has been collected from the panel of respondents for pre and post SHG period separately and time scale for pre and post SHG period should be uniform among the respondents. Collection of data for pre and post SHG period at a single interview involves recall lapses. Therefore, the impact of SHGs on financial inclusion has been assessed by comparing the 'with SHG' and 'without SHG households'. The results of this kind of comparison would be dependable only if the two groups are comparable. Thus, Care has been taken to make these two groups comparable and to avoid selection bias. Multistage stratified random sampling method was used to select the respondents. In the first step four taluks of the district were randomly selected. In the second step villages of these taluks were stratified into irrigated and dry land villages. The former are those which are connected with channels and latter villages are not connected with channel. Four dry land villages were randomly selected from each taluks. In the third step, households of each village were stratified into landless, marginal (less than 2.5 acres), small (2.5 to 5 acres), medium (5 to 10 acres) and large (more than 10 acres) farm category. From each village, considering the land holding distribution in the study area, 2 landless, 4 marginal, 4 small, 3 medium and 2 large farm households were randomly selected from each village. Thus, totally 240 rural households were selected for collecting the primary data.

Post enumerative classification of the households into the households 'without SHG' and 'with SHG' was made. Former are those which have not even a single family member involved in SHG either as an ordinary member or as a leader of the group and the latter are those which have at least one member of the family who involved in SHG either as an ordinary member or as a leader of the group. Distribution of the sample respondents across the different groups is summarised in table 1**.** Out of 240 randomly selected sample households 140 were with SHG and the remaining 100 were without SHG. Percentage of households with SHG decreases with the size of the farm. Primary data on the demographic profile of the family, borrowing and saving details, involvement in SHG were elicited from these households by using pre-tested well structure schedule. Data has been collected during July and August, 2007. Data pertaining to borrowing details was collected by taking 2006-07 agriculture season as a reference period.

2.3 Concepts and Analytical Framework: Financial Inclusion covers a wide array of services by banking sector. The various financial services considered by financial inclusion committee (2008) include savings, loans, insurance, payments, remittance facilities and financial counseling / advisory services by the formal financial system and summarised in figure 1. According to Mor and Ananth (2007) financial inclusion, at a minimum, may be interpreted to mean the ability of every individual to access basic financial services which include savings, loans and insurance in a manner that is reasonably convenient and flexible in terms of access and design and reliable in the sense that savings are safe and that insurance claim will be paid with certainty. Rao (2007) was of the opinion that though the financial inclusion cover a wide array of services by the banking sector

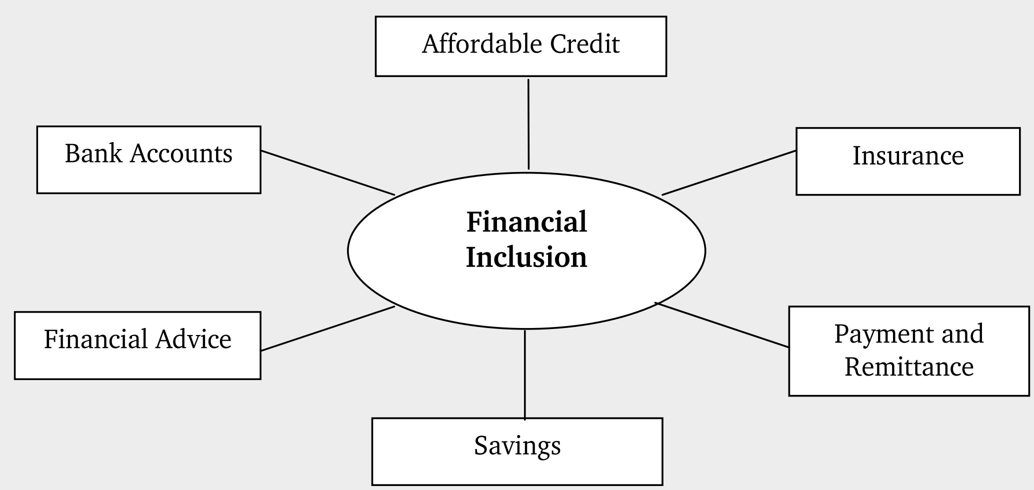
Table 1: Distribution of Sample Respondents

Farm Size Category	Membership in SHG		Total
	Without SHG	With SHG	
Land Less Families	12 (37.5)	20 (62.5)	32 (100)
Marginal Farmers	26 (40.6)	38 (59.4)	64 (100)
Small Farmers	14 (21.9)	50 (78.1)	64 (100)
Medium Farmers	28 (58.3)	20 (41.7)	48 (100)
Large Farmers	20 (62.5)	12 (37.5)	32 (100)
Total	100 (41.7)	140 (58.3)	240 (100)

Note: Figures in parenthesis indicate percentage to row total one crucial area relate to borrowings from banks by the lower strata of the unorganized segment of the economy. Further, debt owed to institutional and non-institutional source could be used as barometer of degree of financial inclusion in the two sectors. Thorat (2007) used the percentage of adult population having bank accounts as measure of financial inclusion in the payment system. Similarly he used the percentage of adult population having loan account as measure of financial inclusion in formal credit market.

Financial inclusion index, which measure the degree of financial inclusion, has developed by giving appropriate weight to the selected financial services. Banking officials and knowledgeable farmers were consulted in order to understand the farmers' financial needs. In the light of the experience gained in the consultation some important financial services were selected and the weights are assigned for computing the financial inclusion index. The relevance of the financial services selected for the construction of financial inclusion index and their respective weights were discussed in seminars and conferences and suggestions given by the experts were considered. Details of financial services selected for developing the financial inclusion index and their corresponding weight are given in Table 2.

Figure 1: Financial Inclusion



Highest weight has given to borrowing form institutional sources (50) followed by saving in institutional agencies (25) and other financial services (25). A rural farm household, which is best in its transaction with banks and cooperatives, borrows the crop loan every year. Though, relatively higher weight (30) has given to current borrowing (2006-07) form institutional sources and/or SHGs additional weights have assigned to institutional and/or SHGs borrowing during 2005-06 (10) and 2004-05 (10). Small and frequent borrowing from the internal resources of the SHGs may

Table 2: Financial Services and Corresponding Weights

	Financial Services	Weight if Answer is		Maximum Weight
		No	Yes	
1	Borrowing from Institutional Sources			50
i.	Is the household borrowed directly from institutional agencies and /or through SHG during 06-07?	0	30	
ii.	Is the household borrowed directly from institutional agencies and /or through SHG during 05-06?	0	10	
iii.	Is the household borrowed directly from institutional agencies and/or through SHG during 04-05?	0	10	
2	Saving in Institutional Agencies			25
i.	Is the household operating at least one SB account in bank or post office?	0	25	
3	Other Financial Services			25
i.	Is any adult member/s of your family covered under life insurance?	0	10	
ii.	Is any asset/s of your family covered under insurance?	0	5	
iii.	Is your family having at least one ATM card?	0	5	
iv.	Is your family having at least one credit card?	0	5	
	Total	0	100	100

overweight households with SHGs. Therefore, borrowings from the SHGs which are from the institutional resources were considered for giving weight. Other weights given in the table are self explanatory. The household which availed all the financial services will get 100 weights whereas which does not availed any of these services will get 0 weights. The total weights of an individual household show its degree of financial inclusion. Households with as well as without SHGs were further classified based on the degree of financial inclusion. Chi-square test (c^2) was applied to test the significance of the association between the membership in SHGs and the degree of financial inclusion.

In this study arithmetic mean values of borrowing during 1-7-2006 to 1-6-2007 from institutional and non-institutional sources were computed separately for the households 'without SHG' and households 'with SHG'. Significance of the difference in the mean values of borrowing between the households without SHG and with SHG was tested by using the 't' test. The relative share of institutional and non-institutional sources in total borrowing were also computed and summarised in tabular form.

3 Results and Discussion

Accessibility to the institutional credit by vulnerable groups is one of the most important indicators of financial inclusion. Therefore, Sample households were stratified into different categories based on land holding, caste and membership in SHGs. Category wise number of households borrowed from the institutional sources during 2006-07 is give in Table 3. Percentage of households borrowed from institutional sources is found to be positively related with the land holding. Only 37.5% of landless households borrowed from institutional sources were as it is 90.6% among large farm category. Accessibility to institutional credit by the SC/ST households is relatively less (61.4%) compared to the households of general caste (69%). Percentage of households borrowed from institutional sources is relatively more among the households with SHGs compared to the households without SHGs irrespective of farm size and caste.

Habit of savings in the financial institutions is another important indicator of financial inclusion. Category wise number of households operating at least one Savings Bank (SB) account in bank or post office is given in Table 4. Percentage of

Table 3: Number of Households Borrowed from Institutional Sources During 06-07

Household Category		Without SHG	With SHG	Total
Classification of Households Based on Land Holding on Land Holding	Landless (32)	0 0.0	12 (60.0)	12 (37.5)
	Marginal (64)	10 (38.5)	24 (63.2)	34 (53.1)
	Small (64)	10 (71.4)	40 (80.0)	50 (78.1)
	Medium (48)	22 (78.6)	16 (80.0)	38 (79.2)
	Large (32)	17 (85.0)	12 (100.0)	29 (90.6)
	Overall (240)	59 (59.0)	104 (74.3)	163 (67.9)
Classification of Households Based on Caste	SC/ST (114)	22 (55.0)	48 (64.9)	70 (61.4)
	General (126)	31 (61.7)	56 (84.8)	87 (69.0)
	Overall (240)	59 (59.0)	104 (74.3)	163 (67.9)

Note: Figures in parenthesis are percentage to the total population of respective cell

households operating at least one SB account is relatively more among the household with SHGs compared to the households without SHGs. Percentage of households having at least one SB account found to be increasing with increase in size of landholding except large size category. Percentage of households operating at least one SB account is relatively less among SC/ST category compared to the general category. However, the impact of SHGs on the saving habits is relatively more on the SC/ST population compared to the General caste population.

It is generally reported that SHGs inculcated the saving habit among the women and increased the flow of institutional credit and thus financial institutions started covering more and more women under their services. Therefore, number of SB accounts in banks and post office per 100 population before and after getting membership in SHGs was computed separately for male and female and results are given in table 5. The number of SB accounts per 100 population increased with the membership in the SHGs and this increase is relatively more for females compared to males. Almost same is the case with the number of lives covered under insurance per 1000 population. ATM services have not reached the rural women irrespective of their membership in SHGs. Number of respondents participating in bank transactions considerably increased with the membership in the SHGs.

The degree of financial inclusion of each household was computed by using the method explained in the section 2.3. The two way classification of the respondents based on their degree of financial inclusion and the membership in the SHG was made and the farm size wise results are given in Table 6. The Chi-square test (c^2) was made to verify the significance of the association between the degree of financial inclusion and the membership in the SHG.

Table 4: Number of Households Operating at Least One SB Account in Bank or Post Office

Household Category		Without SHG	With SHG	Total
Classification of Households Based on Land Holding	Landless (32)	0 0.0	4 (20.0)	4 (12.5)
	Marginal (64)	4 (15.4)	18 (47.4)	22 (34.4)
	Small (64)	6 (42.9)	32 (64.0)	38 (59.4)
	Medium (48)	16 (57.1)	16 (80.0)	32 (66.7)
	Large (32)	12 (60.0)	6 (50.0)	18 (56.3)
	Overall (240)	38 (38.0)	76 (54.3)	114 (47.5)
Classification of Households Based on Caste	SC/ST (114)	8 (20.0)	38 (51.4)	46 (40.4)
	General (126)	30 (50.0)	38 (57.6)	68 (54.0)
	Total (240)	38 (38.0)	76 (54.3)	114 (47.5)

Note: Figures in parenthesis are percentage to the total population of respective cell

The calculated chi-square value for the overall farm size category (20.205) was

Table 5: SHGs and Coverage of Male and Female under Financial Services

Financial Services	Male		Female	
	Before SHG Membership	After SHG Membership	Before SHG Membership	After SHG Membership
Number of SB accounts in Banks and Post office per 100 population	13.8	16.4	11.7	20.0
Number of lives covered under insurance per 1000 population	15.2	17.5	6.7	9.4
Number of persons using ATM services per 1000 population	0.7	0.9	0.0	0.0
Number of SHG members participating in bank transaction per 100 members	43.7	100.0	5.0	45.7

found to be statistically significant at one percent probability level indicating the significant association between the degree of financial inclusion and the membership in the SHGs. In this category 36 and 25% of the households without SHG group were in low and medium degrees of financial inclusion respectively. The corresponding figures for the household with SHG were 14.3 and 48.57%. It clearly shows that SHGs transformed some households from low degree of financial inclusion to medium degree of financial inclusion. There is no much difference between the households with and without SHGs with respect to the attainment of high degree of financial inclusion. Percentage of households reached the high degree of financial inclusion increases with the size of the land holding. No household belonging to landless and marginal farm size category reached the high degree of financial inclusion whereas 78.1% of large farmers reached the high degree of financial inclusion. The chi-square values were statistically significant for the landless, marginal and small farm households. Thus, it could be inferred that SHGs have significantly increased the degree of financial inclusion among the landless, marginal and small farm size categories.

The two way classification of the respondents based on their degree of financial inclusion and the membership in the SHG was made separately for SC/STs and General category and results are given in table 7. Majority of SC/STs are in medium degree of financial inclusion (43.9%) were as majority people belonging to the general category are in high degree of financial inclusion (48.4 percent). Maximum number of SC/ST households without SHGs were in low degree of financial inclusion (45 percent) were as for the households with SHGs it was maximum in medium degree of financial inclusion (54.1). The calculated chi-square value was statistically significant at 1 percent probability level. Therefore, it could be inferred that SHGs transformed some SC/ST households from low degree of financial inclusion to medium degree of financial inclusion. Maximum numbers of household belonging to the general category were in high degree of financial inclusion (48.4%). Among the general category, percentage of households reached the medium and high degree of financial inclusion is relatively more among the 'with SHG' category compared to the 'without SHG' category. Thus, SHGs have significantly increased the degree of financial inclusion among the other categories also.

Arithmetic mean values of borrowing by the households without SHG and with SHG are given in Table 8. Percentage share of institutional and non institutional sources in the total borrowing of the respective farm size group was computed for both the groups of households. Percentage share of institutional sources in the total borrowing is more among the households with SHG compared to the households without SHG in all the farm size group except medium farm group. It is generally believed that the flow of institutional credit to vulnerable groups will increase with the SHG-Bank linkage programme. For the empirical verification of this hypothesis 't' test was applied.

Among marginal farmers, the mean value of institutional borrowing by the families with SHG (Rs.8800) was found to be considerably more compared to the households without SHG (4769). The calculated 't' value between these two means was found to be greater than the critical value at 5% probability level. Therefore, the difference is statistically significant. In case of land less households institutional credit is available only through the SHGs. Though there is difference between the households without SHGs and with SHGs in the mean values of institutional borrowing by the small and medium farm size group they are not statistically significant. Another important finding of this study is that all the size groups of households with SHG excepting landless borrow considerably lower amount from non-institutional sources compared to their counterparts without SHG. This difference was found to be statically significant for overall as well as marginal size group. It might be because SHGs besides creating thrift culture discourage their members to borrow from non institutional sources. Thus SHG have definitely increased the flow of

Table 6: Impact of SHGs on Financial Inclusion among Different Farm Size Groups

Farm Size Group	Degree of Financial Inclusion				χ^2
	Low 0-30	Medium 30-60	High 60-95	Total 0-95	
Land Less Families					
Without SHG	12(100.0)	0(0.0)	0(0.0)	12(100)	
With SHG	8(40.0)	12(60.0)	0(0.0)	20(100)	9.102*
Total	20(62.5)	12(37.5)	0(0.0)	32(100)	
Marginal Farmers					
Without SHG	14(53.8)	12(46.2)	0(0.0)	26(100)	7.363**
With SHG	12(31.6)	18(47.4)	8(21.0)	38(100)	
Total	26(40.6)	30(46.9)	8 (12.5)	64(100)	
Small Farmers					
Without SHG	4(28.6)	4(28.6)	6(42.8)	14(100)	15.412*
With SHG	0(0.0)	24(48.0)	26(52.0)	50(100)	
Total	4(6.2)	28(43.8)	32(50.0)	64(100)	
Medium Farmers					
Without SHG	4(14.3)	8(28.6)	16(57.1)	28(100)	4.395
With SHG	0(0.0)	10(50.0)	10(50.0)	20(100)	
Total	4(8.3)	18(37.5)	26(54.2)	48(100)	
Large Farmers					
Without SHG	2(10.0)	1(5.0)	17(85.0)	20(100)	5.376
With SHG	0(0.0)	4(33.3)	8(66.7)	12(100)	
Total	2(6.3)	5(15.6)	25 (78.1)	32(100)	
Overall					
Without SHG	36(36.0)	25(25.0)	39 (39.0)	100(100)	20.205*
With SHG	20(14.3)	68 (48.57)	52 (37.14)	140(100)	
Total	56(23.3)	93 (38.8)	91(37.9)	240(100)	

Note: Figures in parentheses are percentage to the respective row total.
* and ** indicate significance at 1 and 5 percent probability level respectively

Table 7: Impact of SHGs on Financial Inclusion among Different Social Groups

Social Groups	Degree of Financial Inclusion				χ^2
	Low 0-30	Medium 30-60	High 60-90	Total 0-95	
SC/STs					
Without SHG	18(45.0)	10(25.0)	12(30.0)	40(100)	10.073**
With SHG	16(21.6)	40(54.1)	18(24.3)	74(100)	
Total	34(29.8)	50(43.9)	30(26.3)	114(100)	
General Category					
Without SHG	18(30.0)	15(25.0)	27(45.0)	60(100)	13.387*
With SHG	4(6.1)	28(42.4)	34(51.5)	66(100)	
Total	22(17.5)	43(34.1)	61(48.4)	126(100)	

Note: Figures in parentheses are percentage to the respective row total.
* and ** indicate significance at 1 and 5 percent probability level respectively

Table 8: Arithmetic Mean Values of Borrowings During 1-7-2006 to 30-6-2007

(Values in Rupees)

Sources of Borrowing	Farm Size Group	Without SHG	With SHG	Total	't' Value
Institutional	Landless (32)	0	4000	2500	3.750*
		(0 .0)	(80.0)	(77.7)	
	Marginal (64)	4769	8800	7163	1.684**
		(49.6)	(91.3)	(74.4)	
	Small (64)	19142	18824	18894	0.063
		(58.8)	(71.8)	(68.4)	
	Medium (48)	37428	26900	33042	1.314
		(64.8)	(57.1)	(68.4)	
	Large (32)	29000	41416	33656	1.726**
		(58 .0)	(71 8)	(68.4)	
	Overall (240)	20200	17076	18377	1.29
		(60.7)	(70.1)	(65.5)	
Non-Institutional	Landless (32)	333	950	719	0.885
		(100 .0)	(19.2)	(22.3)	
	Marginal (64)	4846	842	2469	3.684*
		(50.4)	(8.7)	(25.6)	
	Small (64)	13428	7400	8719	1.564
		(41.2)	(28.2)	(31.6)	
	Medium (48)	20357	20200	20292	0.021
		(35.2)	(42.9)	(38.0)	
	Large (32)	21000	16166	19188	0.483
		(42.0)	(28.0)	(36.3)	
	Overall (240)	13080	7278	9696	2.544*
		(39.3)	(29.9)	(34.5)	
Total	Landless (32)	333	4950	3219	4.045*
		(100.0)	(100.0)	(100.0)	
	Marginal (64)	9615	9642	9631	0.01
		(100.0)	(100.0)	(100.0)	
	Small (64)	32571	26224	27613	1.062
		(100.0)	(100.0)	(100.0)	
	Medium (48)	57785	47100	53333	1.018
		(100.0)	(100.0)	(100.0)	
	Large (32)	50000	57583	52844	0.569
		(100.0)	(100.0)	(100.0)	
	Overall (240)	33280	24354	28073	2.242**
		(100.0)	(100.0)	(100.0)	

Note: Figures in parentheses are parentheses are percentage to the total borrowing of the respective farm size group
* and ** indicate the significance of the difference at 1 and 5 percent probability level.

institutional credit to credit thirsty landless and marginal farm households and discouraged non-institutional borrowing through the thrift creation.

4 Conclusions

Results of this study clearly show that the SHGs increased the accessibility to institutional credit by vulnerable groups and inculcated saving habit among the members. Financial inclusion index, which measure the degree of financial inclusion, has computed for each household by giving appropriate weight to the selected financial services. Based on the index value households were classified into the households with low, medium and high degree of financial inclusion. The percentage of households reached the medium and high degree of financial inclusion is relatively more among SHG member households compared to non member households. The chi-square results proved that the SHGs have increased the degree of financial inclusion of the households belonging to landless, marginal and small farm size category. It has also been found that the SHG-Bank linkage programme has increased the flow of institutional credit to landless and marginal farm households and discouraged non-institutional borrowing through the thrift creation.

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Self-Help Group and Asset Creation: A Case Study of Deharkuchi Gaon Panchayat of Nalbari District, Assam

- Prasenjit Bujar Baruah*

Introduction

Microfinance has emerged as an alternative to provide credit to the rural people to make them free from the money lenders who were mostly exploitative in nature; after the failure of the government subsidised credit programmes to achieve their goals (Dasgupta, 2001). Under this programme credit is not provided to any individual rather it is provided to members of some group, which are popularly known as Self Help Groups (SHGs) in India. The responsibility of repaying loan is endowed upon the group and if even one of them does not repay the loan, none of them will be able to get loan in future. So, there is a group pressure on the members to repay loan and this group pressure leads to high repayment of loan provided to the members. Thus, in the initial period SHGs acted only as saving and credit groups. In the later period, along with as an alternative source of credit people started to look microfinance as a tool to alleviate poverty. One of the methods to study the impact of microfinance on poverty is by considering the changing income level of the SHG's members. But an increased income level may not be a proper tool to measure the impact of microfinance on poverty; specially in a society where the labour market is not a well organised one. Again the increased income level may not be a permanent one. But there should be no confusion that to improve the economic condition of the members SHGs must provide some income generating asset to the members. Thus the impact of SHGs on poverty of the members can be substituted by the impact of SHGs on the ASSET CREATION of the members. To create asset the SHG members must use

One of the methods to study the impact of microfinance on poverty is by considering the changing income level of the SHG's members.

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their loan amount for Capital investment. In most cases it is found that the number of loans taken by SHG's members for consumption purposes was higher than that for investment purposes (Kumaran, 2002). As the groups become older the structure of utilization of loan changes and the percentage of loans spend for investment purposes increases (Basu and Srivastava, 2005; and Puhazhendhi and Badatya, 2007). The creation of income generating asset increases the employment opportunity for the members (Basu and Srivastava, 2005) and in some cases provide full employment opportunities to the members (Galab et al, 2003). Due to starting of income generating activities there was a change in the occupation pattern of the members and also increases in their income level (Galab et al, 2003). But in some cases there is the closer of some investment activities, due to the inability of the products to compete with the available products in the market and also lack of adequate technical and managerial skills of the members. This indicates the necessity of some micro planning in those areas (Babu, 2007). Thus Asset Creation or Capital Investment is a necessary condition to provide employment opportunity and increase income level of the members. This paper try to analyze how far SHGs have contributed towards asset creation or the capital investment made by the SHG's members. Thus the objectives of this paper are:

(a) To study the SHGs as an alternative source of Rural Credit.
(b) To study the contribution of SHGs towards Asset Creation of the members.

Chapter Outlines: This paper has six sections. This first section is the introduction section. The second section is the methodology, which contains information about the study area, data source and study methodology. The third section is about the SHGs covered by the study. The fourth section study SHGs as an alternative source of credit. The fifth section is about the asset creation by the SHG's members. The sixth and final section is the conclusion section.

2 Methodology

Study Area: This present Study is made in the Deharkuchi Gaon Panchayat of Nalbari District, Assam. Nalbari is one of the relatively backward districts in the state. So it is assumed that perhaps SHGs may play a major role to fulfill the credit needs of the people of this area. More over this district is familiar to the researcher. So, this district was purposively selected.

***Data Source**:* This study is based on the secondary as well as on the primary data. The secondary data were collected from the sources like NSS Report, Statistical Hand book of Assam, Economic Survey of Assam, various research articles and papers, the Block office, from Banks and NGOs concerned with the promotion of SHGs in the concern area and internet.

The primary data was collected from the field survey made in the Deharkuchi Gaon Panchayat of Nalbari District, Assam. Stratified random sampling was used to collect the required data. Thus, SHGs promoted by NGOs, as well as those come under SGDY were selected. Two kinds of data from these SHGs were collected. In the first stage 14 SHGs were selected. Out of these 14 SHGs 9 SHGs were formed under SGSY and the rest were initiated by an NGO namely Weavers Development Society (WDS). Again these 14 SHGs include both male and female SHGs and also Hindu as well Muslim SHGs. Data related demographic structure of the SHGs; and data about saving, lending, borrowing and investment activities undertaken by the SHGs were collected. At the second stage out of the 14 SHGs four were selected to collect information about the members. These four SHGs include two male and two female SHGs. Again three out of the four SHGs, were under SGSY and the rest one was initiated by WDS. In this stage data related to individual members of these four SHGs were collected. At this stage data related to utilisation of loans taken by the members from SHG and also from out side the SHGs were collected.

***Methodology**:* To study how far SHGs are emerged as an alternative source of credit; loans taken by the members from SHGs as well as from out side the SHGs were taken in to consideration. It is assumed that members will take loans from outside the SHGs if and only if the SHGs are unable to meet their credit needs. Again about Asset Creation, the utilisation of loan itself is assumed to determine whether Microfinance programme is creating asset or not. Here to study about the asset creation the utilisation of loan is classified in to five categories. These are current consumption expenditure, expenditure on consumer's durables, current production expenditure, capital expenditure and expenditures made on other heads. Capital Expenditure is that part of expenditure made to start up new businesses or for large scale expansion of the existing one. Working capital include the on going production expenditures like raw materials or labour cost. Consumption loans are needed to bridge the gap between consumption period and income receipt period or some times due to win fall losses in businesses. The consumption expenditure is divided in to two categories. One is Current consumption expenditure and the other is expenditure on consumers durable. If the loan taken from the SHG is used for capital investment, then surely it is creating asset.

3 About the Self-Help Groups

Assam is one of the relatively backward states of India. According to the census Report 2001, Assam with 2.39% of the total land of the country has to support 2.6% of the total population of the country. The density of population in this state is 340 per square km as per as the 2001 census. Except the four oil refineries large industries are totally absent in the state. Over and above Assam still remains predominantly an agrarian economy where 53% of her total population depend on agriculture and allied activities (Assam Government, 2006). The agricultural sector of this state mainly still depends on monsoon and lower percentage of the gross cropped area (13.33%) has irrigation facility. Thus, although Assam Economy depends on agriculture the condition of agriculture itself is very poor. According to NSS Report in 1999- 2000, in Assam 36.09% of the total population came from below poverty line against 26.1% for the country as a whole. Again while considering the rural poverty this percentage of population from below poverty line is much higher. But the data about the indebtedness of rural households indicate that the percentage of indebted rural households as well as the average amount of credit per rural household was very low in this state. Thus there is a need for an alternative system to provide credit to the rural people of this state. The literature indicates that the SHG- Bank Linkage Programme has emerged as an alternative source of credit for the rural people all over the country and also enables the members to get income generating asset. In Assam too this programme has the potentiality to play an active role in the rural areas. So, it seems to be important to have an empirical study about the impact of Microfinance on the level of poverty of the SHG's members in Assam.

Again within Assam Nalbari is one of the relatively backward districts. Up to 2005, the registered number of unemployment in the district was 88054, which indicates a high pressure of unemployment in the district. More over, the occurrence of flood causes huge damage to the agriculture of this district. In such a situation where there is lesser number of industries available, only self employment activities undertaken by the youths can play a major role. In such a situation the SHGs can play a major role.

The field study was made in the Deharkuchi Gaon Panchayat of Barigog Banbhag Block of Nalbari district. In this particular block up to March, 2008 under SGSY about 600 SHGs were formed and about 250 SHGs completed first grading and got the revolving funds to start economic activity (Field Survey, 2008). Similarly 5-6 active NGOs are also working in this Block. Some of these NGOs initiate SHGs under NABARD's SHG- Bank linkage programme and some other NGOs along with formation of SHGs and their linkage to Banks; also provide Microfinance services to these SHGs. This study makes an attempt to analyse the effect of SHGs on the economic condition of the poor of this gaon Panchayat. As mentioned in the previous section that the economic condition of the poor will improve only if the loan taken from the SHGs are invested in the income generating assets. Thus this study throughs a light on the assest creation by the SHGs in this gaon Panchayat area.

Out of the total SHGs the field study covered, some come under government sponsored SGSY and some others were initiated by NGOs and financed by the Microfinance wings of the respective NGOs. This study does not cover any SHG that come under NABARD's SHG-Bank Linkage Programme

All the SHGs are more or less homogeneous considering all the aspects like caste, religion, land holdings etc. Most of the SHGs are consists of members from single religion and caste. More over, they are the habitant of the same locality. Of course there is a great variety among the members according to the level of education. Lesser numbers of SHGs under SGSY qualify the norm that SHGs should have 70% of members from BPL. The SHGs initiated by WDS contains lesser members from BPL. Those SHGs initiated by WDS are found to be more homogeneous than those come under SGSY.

The monthly savings done by the members of the SHGs ranges between Rs. 20 to Rs. 50. Highest six groups save Rs.30 p.m. and only one group is saving Rs.20. The cumulative funds with the group also ranges between Rs. 1,650 and Rs. 32,000. Out of the total 14 SHGs, four SHGs had stopped their savings. Of these four groups three are male SHGs and the rest one is female SHG. Thus out of 10 female SHGs 9 are continuing saving; only one has stopped savings. But in case of the male SHGs only one out of the four SHGs is continuing saving. Thus it seems that female is better saver than the male.

The present amount of lending circulated among the members ranges from 0 to Rs. 23,000. The zero lending by the SHG means that those SHGs had stopped lending operation among the members. The cumulative amount of lending by the SHGs is between Rs. 6200 and Rs. 65,400. In case of two SHGs the cumulative lending is more than Rs. 50,000 and in case of other 4 SHGs it is more than Rs. 40,000. The cumulative amount of loan seems to be directly related to the age of the SHG. The cumulative amount of lending indicates the huge demand for credit by the members. The interest rate on lending ranges 24% or 36%.

All the SHGs under study have their bank account with the bank and have some form of financial transactions with banks or MFIs. All the SHGs under SGSY got financial help from the government either in the form of revolving funds or in the form of subsidy with credit. Beyond this Rs.10,000 revolving funds one SHG has also qualified for the second grading and able to got an amount of loan Rs. 2,50,000 from the bank with subsidy of Rs. 1,25,000. About the repayment the Bank authority told that the repayment rates of the SHGs are more than 90%, which is far better than the individual lending. The WDS also stated to have 100% recovery while lending to the Self-Help Groups. This point proves the effectiveness of the SHGs as an alternative of the government subsidize credit programmes; where lower repayment was the main problem.

Out of the 14 SHGs, seven undertook investment activities.[1] But, most of the groups were unable to make profits from their investment activities. Only a few groups were making some amount of profit. Actually the SHGs undertook investment activities under SGSY only to have subsidise credit. And when they came to know that they will not be able to get subsidise credit loan in future they stopped their activities. Thus, those activities were undertaken without any commercial motive. So, even after starting their activities they did not give adequate attention to those, which may be the causes of their failure. The important point is that they measured their profit from investment as (Total loan amount- total repayment –other costs of credit[2] + Subsidy). As those SHGs initiated by WDS need not necessarily undertake investment activities, only one of those five SHGs undertook investment activities. And this group was making some amount of profit from the investment.

Moreover, the block and Bank officials also had no professionalism while dealing with the SHGs. This led to adverse selection of the SHGs for lending. According to SGSY rule, the group should have more than 70% of the members from below poverty line (BPL). But among the SHGs studied here only one group satisfies this criterion. And only this group is working properly. People from above poverty line or comparatively rich families generally have higher expectations about income and that is why are not satisfied with the expected returns from the activity that could be undertaken with the subsidise loan from SGSY. Thus SGSY can satisfy the demand for credit of those households belonging to BPL.

4 Self-Help Group as an Alternative Source of Credit

Self-Help Groups emerged as an alternative source of credit to the poor, after the failure of the earlier attempts to provide credit to the poor. It is assumed that the credit from the SHGs is easier and cheaper than the alternative sources available to the clients. Here the question arises whether the loan from the SHG is able to fulfill the credit needs of the clients or not. Credit from outside taken by the members of the SHG is an indicator of the capacity of the SHG to fulfill the credit needs of the members. It is assumed that if the SHGs are able to fulfill the credit of the members, they will not go to other sources for loans.

Borrowings by the Members from the SHGs: Under SHG- Bank Linkage Programme, initially credit is provided to the members out of the savings collected from the members. In the latter period also, when it get loan from external sources with that higher amount of funds it continue its lending. It takes loans from external sources as the savings inside the SHG is not sufficient to fulfill the credit needs of the members. Out of the 41 members of the four SHGs under study, 33 members took loan from the Self-Help Group, whereas the rest 8 never took loan from the SHG. All the members of Ujala SHG and Naba Milan SHG took loan at least once. In case of Arunodai SHG six members have taken loan whereas five never took loan. In case of Ramdhenu 3 members never took loan and the rest seven took loans. The borrowing behavior of the SHG's members is explained by the following Table 1.

Thus from the above table it can be seen that out of the 41 SHG members 33 took loans from the SHG. The total amount of loan provided by these SHGs to their members is Rs. 1, 15,350. This amount indicates huge transactions of funds among the members. Thus the SHGs are becoming an alternative source of credit in the rural areas. Among the four groups Naba Milan SHG has provided the highest amount of loans to its members, followed by Ramdhenu SHG. And Arunodai has provided lowest amount of loans to its members and currently stopped its lending activities.

Details About Borrowings from Outside: The sources of loan out side the SHGs are mainly **money lenders, saving and credit societies, banks and other SHGs**. The amount of loans from out side the group ranges from Rs.1,500 to Rs.50,000. The loans are taken from out side the SHG mostly for productive purposes and for consumer's durables like building of houses or for some specialised purposes. There is also one incidence when the individual took loan to repay old debt from the SHG. The rate of interest on loan taken from money lenders ranges from 24% to 60% in case of money lenders. While the interest rate on loan from banks is found at 18%. The members of a SHG were found to take loan for group expenditure. Actually the group got a tractor from the government under government flood area relief programme. But to get it that group had to provide a bribe of Rs.60, 000. And to provide this amount the members had to take loan from the money lenders. This may be a classic example of the failure of this particular government policy in this study area. One of the members in addition to loan from out side the SHG got an amount Rs.5,000 from the government (non refundable) under Kalpataru scheme of Assam Government. Most of the members repaid the loan either from their own income or from their family income. One of the members who took loans to give bribe for a government job had to sell land to repay the loan. Thus it seems that the SHGs are not able to completely fulfill their credit needs.

Table 1: Borrowing Behavior of the Members

Name of the SHG	Total No. of Members	Total Members Took Loan	Cumulative Amount of Landings (In Rs.)	Interest Rate on lending to Members(%)
Ramdhenu SHG	10	7	31,000	36
Arunodai SHG	11	6	14,000	24
Naba Milan SHG	10	10	53,400	36
Ujala SHG	10	10	17,350	36
Total	41	33	1,15,350	-

Source: Field Study, February, 2008

Comparison Between Borrowings from Outside and SHGs: Having discussed about the nature of the loan from out side the SHG the question arises here is what the main differences between the loans from out side the SHG and that from the SHG.[3] Out of the total 41 members of the four SHGs, 34 took loans either from SHG or from any other agency. Out of the total 33 took loans from the SHGs and 13 took loan from out side the SHG. Out of the 13 members took loan from outside the SHGs, 12 also took loan from the SHGs. It is to be noted here is that for small amount of loan the members go to the SHGs and for higher amount of loan they go to the external sources of credit. Most of the loans taken from SHGs are less than equal to Rs. 2,000. Only a few loans are of more than this amount.

Again the utilisation of loans also indicates that the loans from outside the SHGs are mainly utilised for productive purposes and also for consumer's durables or for some special purposes. No loan from outside the SHG is utilised for current consumption purposes. But most of the loans from the SHGs are utilized for current consumption expenditure including medical expenditure, expenditure on education etc.

The interest rate on loan from outside the SHGs is higher than the loan taken from the SHGs. But the interest on loan taken from bank is far lower than that on loan from SHG. Thus the interest rate on loan from SHG is lower than the interest rate on loan from money lenders, but it is higher than the loan taken from SHGs.

Thus from the above analysis it is clear that SHG although emerge as an alternative credit source for the rural poor, it is yet to reach a position to fully satisfy their needs. For higher amount of loan still the poor depends upon the outside sources, specially on the money lenders. But in case of small and frequent loans SHGs are the main sources of credit.

5 Asset Creation

This section studies about assets created by the members of the SHGs with their loans from the SHGs. It is assumed here that asset creation is related to the utilisation of the loan amount. While talking about the utilisation of loan, Debraj Ray (2000) classified the purposes of loans into three categories. These are Capital Expenditure, Working Capital Expenditure and finally Consumption Expenditure. According to him capital Expenditure is that part of expenditure made to start up new businesses or for large scale expansion of the existing one. Working capital include the on going production expenditures like raw materials or labour cost. Finally the consumption loans are needed to bridge the gap between consumption period and income receipt period or some times due to win fall losses in businesses. Here in this study the consumption expenditure is divided in to two categories. One is Current consumption expenditure and the other is expenditure on consumers durable. Thus while presenting about the utilization of resources here the purposes are divided as Current consumption expenditure, expenditure on consumers durables, current production expenditure (working capital expenditure), capital expenditure and other expenditure. The utilization of loan itself will determine whether Micro- finance programme is contributing towards poverty alleviation or not. If the loan taken from the SHG is invested in some productive activity then surely it is contributing towards alleviation of poverty. Again if the loan is spent on consumer's durables like houses then also it is contributing towards alleviation of poverty. But simply if the loan amount is spent on current consumption then it may deteriorate the economic condition of the clients. In case of current consumption if the loan is to link the gap between the consumption and income periods (i.e. the person has a definite source of income), then it may not deteriorate the economic condition of the client, as he will be able to repay the loan from his future income. On the other hand, if the consumption loan is taken due to lack of income then it will deteriorate the economic condition of the client. The structure of utilisation of loan can be explained by the following Table 2.

In the above table numbers of loans taken by different members for different purposes is shown. The utilisation of loan is classified in to five categories; i.e current consumption expenditure, expenditure on consumer's durables, current production expenditure, capital expenditure and others. The Table indicates that all together 24 loans from SHG were taken for current consumption purposes i.e. 40.67% of total loans were meant for this purpose. Current consumption expenditure includes mainly the consumption expenditure, medical expenditure, educational expenditure on the children etc. In case of Arunodai SHG the members took it mainly to link their consumption and income periods. But in case of the rest three SHGs, most of the members took loans for current consumption purposes are from small and marginal farmer's family or poor weavers. They took loans for medical expenditure and expenditure for their children's study from time to time, which is not to link their expenditure and income periods.

Out of the total number of loans, 13 loans were taken for the expenditure on consumer's durables. Thus this head accounts 22.0% of the total loans provided by the SHGs. The loan taken under this head by members of Arunodai SHG and Naba Milan SHG was mainly to build new houses and repair old one. One member from Ujala SHG took loan for her daughter's marriage. The expenditure on building or repairing of houses, definitely contributes towards the economic wellbeing of the poor members.

Again out of the 59 loans 14 loans were taken for current expenditure on production. This head, in this way it accounts 23.7% of the total loans provided by the SHGs to their members. The members under study took loans under this head for agricultural expenditure and expenditure in the weaving. Current production expenditure includes mainly the expenditure on variable inputs of production such as on labour or agricultural inputs like fertilizer or seeds. Here the group members

Table 2: No. of Loans for Different Purposes

Name of the Self-Help Group	No. of Loan for Current Consumption Expenditure	No. of Loan for Capital Consumption Expenditure	No. of Loan for Current Production Expenditure	No. of Loan for Capital Expenditure	No. of Loan for Others Purposes	Total No. of Loans
Ramdhenu SHG	3	0	2	3	0	8
(%)	(37.50%)	(0.00%)	(25.00%)	(37.50%)	(0.00%)	(100.00%)
Arunodai SHG	3	1	1	0	1	6
(%)	(50.00%)	(16.67%)	(16.67%)	(0.00%)	(16.67%)	(100.00%)
Naba Milan SHG (%)	13	10	8	2	0	33
	(39.39%)	(30.30%)	(24.24%)	(6.00%)	(0.00%)	(100.00%)
Ujala SHG	5	2	3	0	2	12
(%)	(41.67%)	(16.67%)	(25.00%)	(0.00%)	(16.67%)	(100.00%)
Total	24	13	14	5	3	59
	(40.67%)	(22.00%)	(23.70%)	(8.47%)	(5.00%)	(100.00%)

Source: Field Study; February, 2008

under study took loans for current production expenditure mainly for expenditure on agriculture and to buy variable inputs for weaving. One of the members took loan to meet the current expenditure in his vegetable shop and also repaid the loan with the return from the investment. Most of the members who took loan for agricultural expenditure are mainly cultivator and wage employed. They repaid their loans from wage income. Most of these group members did not keep any record about repayment of loans. Those female members took loans for weavings repaid the loan either from their family income or return from weaving. It is to be noted here is that current production expenditure seems to be the dominant cause of borrowing next to the current consumption expenditure. Although it is the expenditure for productive purposes, it is not able to take a family above the poverty line.

Five loans were taken for capital expenditure, made by the members. Thus this purpose accounts 8.47% of the total loans the SHGs provided. Thus this head which is most important for the members to have income generating activities accounts only a small amount of the total loans.

Other than the above mentioned purposes accounts 5% of the total loans the SHGs provided. Out of the 59 loans provided by the four SHGs under study 3 loans were meant for the other purposes. One member from Arunodai SHG took loan to give bribe for a job. One member from Ujala SHG took loans for traveling, and another member from this same group took loan to repay old debt. Thus these loans are not contributing towards economic well being of the members.

Capital Investment Made by Members: The most important purpose of credit taken by the SHG members is the capital investment of loan amount. Only such type of credit has the capacity to take the poor above the poverty line. Capital investment is that investment which creates some income generating asset for the investor. Thus if the credit amount is invested in capital asset there is a future flow of income to the investor. And there is little chance for the investor to face any problem while repaying the loan and his economic condition will not deteriorate in future. The capital investment made by the members of the four SHGs can be shown by the following Table 3.

From the above table, it is clear that there were five incidence of capital investment among the members of the SHGs under study. Out of the five capital investments three were found in a female SHG and the left two were in a male SHG. Again all these capital investments with loans from the SHGs were made by the Muslim members. None of the Hindu members went for capital investment.

Out of the five one took loan to start a vegetable shop, one bought a tailoring machine, one started a poultry farm, one invested in land and one took loan to start micro business (did not specify the exact investment activity). The loan amount ranges from Rs.1500 to Rs.4000. All the loans were taken at 36% interest rate.

One of the female members took loan from SHG to start a vegetable shop for her family. She took an amount of Rs. 3,000 from her group. She sustain in her business and also able to repay the loan from income of her business. Another female member took a loan of Rs. 3,000 to buy a sewing machine. She started her business with that machine but she is not able to be employed herself fully due to shortage of demand for products and her limited skills. She is repaying her loan from the income from the machine as well as family income. One member took loan to open a poultry farm. She borrowed Rs. 1,500 from the group and started business. She repaid the loan out of the profit from the business. One male member took loan from his group to buy land. He also took Rs. 3,000 from his group and he is repaying the loan from his wage income. The rest member reported to take loan from the group to start micro business, but he did not specified about the kinds of business. He was able to make profit in business and also repaid the loan from their income from the business. But later he stopped that business and went for temporary government job.

Although these five members had gone for capital investment it did not enable

Table: 3: Capital Expenditure Made by Members

Sl. No.	Investment Activity	Amount of Loan	Rate of Interest	Total Repayment	Source of Repayment
1	Starting of Vegetable Shop	Rs.3000	36%	Rs.3360	Return from vegetable shop
2	Poultry Farm	Rs.1500	36%	Rs.2100	Profit from Business
3	Sewing Machine	Rs.3000	36%	Going on	Income from the machine and family income
4	Micro Business	Rs.4000	36%	Rs.5420	Return from business
5	To Buy Land	Rs.3000	36%	N.A.	Wage income

Source: Field Survey, February, 2008

them to be fully employed. Most of them are doing these as their subsidiary business. For example, that person who bought the tailoring machine along with running the machine also works at the paddy field and does domestic works as house wife. She hardly runs the machine for half an hour a day on the average. Similarly that member went for micro business left the business when he got a temporary job in a government department. Again the poultry farm is not operated at a large scale. So it is questionable about the return from these investments and how far it will help them to come above the poverty line. Of course, **half a loaf is better than no loaf**. Again the vegetable shop is providing an employment opportunity to one member. And the land bought by the member also permanently increases his asset level. Again all these activities were under took by members of SHGs those come under SGSY.

6 Conclusion

The above discussion reveals that among saving and credit groups, some of the groups are working properly and some other groups stopped all of their activities. The loans taken by the members from out side the SHG indicate that although as an alternative source of credit SHGs were able to fulfill the credit needs of the members to some extent, it was unable to fully satisfy their credit needs. Specially for higher amount of loans, members go either to the **moneylenders or to the formal financial institutions**. This problem may be solved by providing more and more amount of credit to the SHGs for on lending. Again it is clear that, while considering the utilisation of loans most of the members took loans from the SHGs mainly for current consumption expenditure, followed by expenditure on consumer durables and current productive expenditure. Only a few capital investments were found. Although these investments activities provided them employment opportunities to some extent and also increased their income level, these are not of such kind that can provide full employment opportunities to them. Again, the income generated from these activities is also not enough to take them above the poverty line.

But, there is no confusion about necessity of Asset Creation to take the people above the poverty line. So, future policy regarding credit to the SHG's members, should take this point into consideration. From the failure of SGSY in this respect, as found in this study, it may be suggested that the policy should shift from group asset creation to individual asset creation. Again, the amount of loans provided to the members should be proportionate to the capital invested by that individual member. This will increase their responsibility for that activity.

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Notes

1 See Appendix Table 1.

2 These costs include mainly the bribe they have to pay to the bank and block authority to have credit. All the SHGs stated that they provided credit to the bank and block authority. To have the revolving fund of Rs .10,000 these SHGs provide bribe to the block officials ranges between Rs. 500 to Rs. 1,500. In case of the loan of Rs. 2.5 lakh the SHG stated to provide bribe of Rs.45000 to the block officials and also to the bank manager. One SHG gave Rs. 60,000 to the block authority to get a tractor under flood area relief programme. Even while asked to the block officer in charge about it, he did not deny about such type of corruption prevailing in the programme. Of course, these corruptions do not have any proof.

3 Appendix Table 2.

Appendix Tables

Table 1: Detail About Investment Activity Undertaken by the SHGs

Sl. No.	Name of SHG	Investment Activity/ Asset cretated by the SHGs	Loan (in Rs.)	Subsidy/ Revolving Fund (in Rs.)	Rate of Return (per month)	Present Status of the activity	Profit/ Losses made
1	Bholanath SHG	Fishery, Poultry, Cultivation	2,50,000	10,000*; 1,25,000	NA	Only Poultry Farming going on	Earned Profit in Fishery
2	Arunodai SHG	Agriculture, Tractor**	-	9,000*	Rs.5000 pm	The Tractor is Presently Running	The Tractor Earning Profit
3	Larma Yuba SHG	Fishery, Agriculture	-	10,000*	NA	No Activity Running	Losses
4	Naba Milan SHG	Fishery, Agriculture	7,500	10,000*	Rs.350 pm	All are Expanding	Profit in all
5	Ramdhenu SHG	Fishery	25,000	10,000	Rs.200 pm	Continuing	Profit
6	Bidyutmukhi Mahila SHG	Goatary, weaving	-	10,000*	NA	All are stopped	Loss

Notes: * These SHGs got the revolving fund with out any loan so these funds can not be termed as subsidy. In case of the 5th SHG it got the amount Rs.10, 000 along with a loan of Rs.15, 000 from the bank. Hence it can be termed as subsidy.

** This SHG got this tractor from the government under government's flood area relief programme as a gift, so it is not an investment made by the group.

Source: Field Survey, April, 2008

Table 2: Comparison Between the Loans Taken from the SHGs and from Outside the SHG

Sl. No.	Purpose of Loan from SHG	Amount of Loan from SHG	Interest Rate on Loan from SHG	Purpose of Loan from Outside	Amount of Loan from Outside	Interest Rate on Loan taken from Outside
1	Consumption expenditure	Rs.1500	36%	-	-	-
2	Current Expenditure on Agriculture	Rs.500	36%	-	-	-
3	To Start a shop	Rs.3000	36%	-	-	-
4	Current Expenditure on Agriculture	Rs.1000,	36%	-	-	-
5	Tailoring Machine	Rs.3000	36%	-	-	-
6	Consumption Expenditure	Rs.500	36%	-	-	-
7	Poultry Farm	Rs.1500	36%	-	-	-
8	House Building	Rs.2500	36%	House Building	Rs.3000	36%
9	Medical Expenditure	Rs.2000	36%	Group Exp*	Rs.5000	60%
10	Consumption Purpose	Rs.2000	36%	To start a shop	Rs.25000	24%-60%
11	-	-	36%	Current business Expenditure	Rs.5000	36%
12	Consumption Purposes	Rs.1000	36%	Group Exp*	Rs.5000	60%
13	Current Business Expenditure	Rs.2000	36%	Current Business Expenditure	Rs.3000	36%
14	To give bribe for job	Rs.4500	36%	To provide bribe for a job	NA	NA
15	Consumption, House Building , Agricultural Expenditure	Rs.5000	36%	-	-	-
16	Current Exp. on Agri., House Building	Rs.4500	36%	Building of House	Rs.5000	60%
17	Consumption, House Building , Agricultural Expenditure	NA.	36%	-	-	-
18	Consumption, House Building , Agricultural Expenditure	Rs.3500	36%	-	-	-
19	Consumption Purposes	Rs.3600	36%	-	-	-
20	To start Business	Rs.4000	36%	-	-	-
21	Consumption , Medical Treatment, House Building	Rs.5600	36%	To repay old with SHG	Rs.1500	60%
22	Consumption and Agricultural expenditure	Rs.11,500	36%	-	-	-
23	Agricultural expenditure	Rs.2000	36%	-	-	-
24	To buy land	Rs.5800	36%	To Buy Land	Rs.25000	48%
25	To Travel	Rs.2100	36%	To Travel	Rs.6000	48%
26	Current Consumption	Rs.2000	36%	-	-	-
27	Current Consumption	Rs.1500	36%	-	-	-
28	Medical Expenditure	Rs.700	36%	-	-	-
29	Current Exp. On Weaving	Rs.800	36%	-	-	-
30	Current Exp. On weaving	Rs.700	36%	-	-	-
31	To repay old Debt	Rs.750	36%	For weaving	Rs.2000	36%
32	Current Expenditure on Business	Rs.700	36%	-	-	-
33	Consumption Expenditure	Rs.1400	36%	-	-	-
34	Consumption Expenditure	Rs.700	36%	House Building	Rs.50,000	18%

Notes: *Actually that group got a tractor from the government under flood relief programme of the government. But to get the tractor that group have to give bribe to the block official. For that purpose these members took loan.

Source: Field Survey, February, 2008

Back Inside

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Back Cover

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