Raising the 'Beatrice's Goat': The Indian Experience in Microcredit

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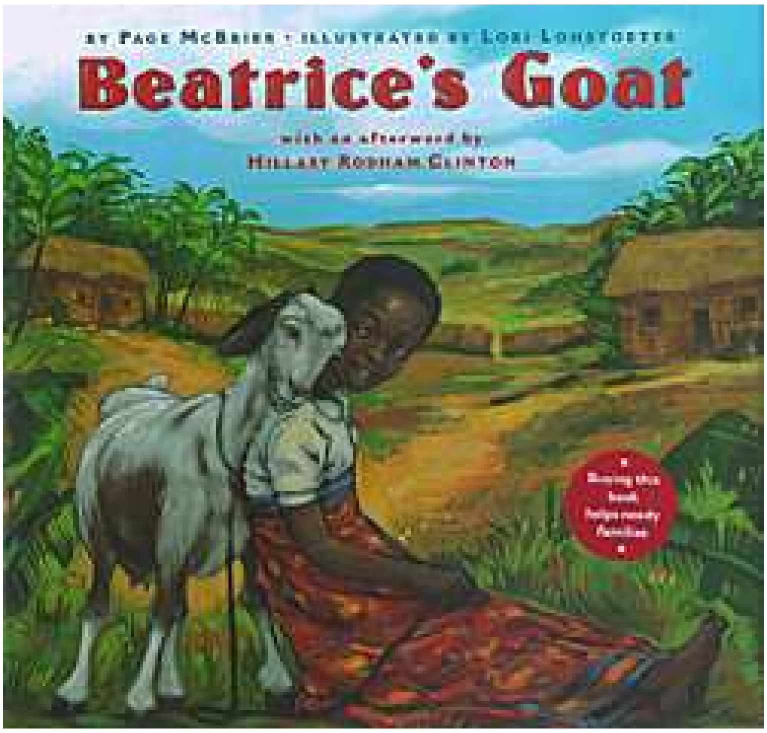
Abstract

Empowerment of the poor entails three basic inter-linked dimensions – generation of employment (and income), reduction of poverty, and erasing inequality. The perspective has now undergone a basic change from the collective care mechanism of a paternalistic state intervention meted out from the top to bottom to a people-centered and participation-oriented bottom up approach. With this new perspective, new practices have emerged through integrated community participation of the poor. Thus the basis of the concept of micro finance is self-mobilization and self-organization of the poor at the community level driven by an ardent desire backed by an unfaltering trust in their own inherent capacity to improve their living conditions by themselves, given an enabling environment. An active realization of such self-mobilization is found in self help groups (SHGs), formed for distributing the microcredit benefits, inspired by the success of the Bangladesh Grameen experiment. This approach has already taken strong roots across the lengths and breadths of India as an effective and viable channel to take the poor to a new domain of economic empowerment and social upliftment. Microcredit, which synergies the thrift and credit habits of the poor in a participatory and informal setting, is now widely acknowledged as a strategic tool in all poverty alleviation programmes. This paper discusses the Indian experience in microcredit.



Beatrice's Goat, written by Page McBrier and illustrated by Lori Lohstoeter, is a children's story based on the true life story of Beatrice Biira, a poor Ugandan girl, whose life is transformed by the gift of a goat from the nonprofit world hunger organization Heifer International.

The picture book (Atheneum Books for Young Readers published by Simon & Schuster Children's Publishing Division, New York, in 2000) shows how the gift of the goat sustains the family, and allows Beatrice to achieve her dream of attending school.

"With all the money donated to help fight famine around the world,
with all the grandiose plans conceived to conquer poverty,
sometimes all it takes to save a child is a goat."

CBS News Magazine
June 12, 2005
"Beatrice's Goat Fed A Dream"

Raising the 'Beatrice's Goat': The Indian Experience in Microcredit

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1. Introduction

'Why are so many people and firms in developing countries excluded from full participation in the financial sector?' This is the fundamental question addressed by the United Nations (UN) in its 2006 Report titled 'Building Inclusive Financial Sectors for Development', more popularly known as the Blue Book.

The United Nations General Assembly adopted 2005 as the International Year of Microcredit to address the constraints that exclude people from full participation in the financial sector. At the World Summit at the United Nations in September 2005, Heads of State and Government recognized 'the need for access to financial services, in particular for the poor, including through microfinance and microcredit.' The Monterrey Consensus[1] that Heads of State and Government adopted at the International Conference on Financing for Development in 2002 explicitly recognized that 'microfinance and credit for micro-, small and medium enterprises… as well as national savings schemes are important for enhancing the social and economic impact of the financial sector.' They further recommended that 'development banks, commercial banks and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing, for such enterprises.'[2]

The fundamental question on financial exclusion ('why are so many bankable people unbanked?') entails a definition of 'inclusive financial sector', defined in the Blue Book as a financial sector 'that provides "access" to everyone in each of the main customer groups. It would provide access to credit for all "bankable" people and

[1] The (First UN-hosted) International Conference on Financing for Development was held from 18-22 March 2002 in Monterrey, N.L., Mexico. The Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus (Doha, Qatar, 29 November - 2 December 2008) resulted in the adoption by consensus of the Doha Declaration on Financing for Development. The Doha Declaration reaffirms the Monterrey Consensus and calls for a United Nations conference at the highest level on the world financial and economic crisis and its impact on development.

[2] http://www.un.org/esa/ffd/ffdconf/ (accessed on 15 June 2009.)

firms, to insurance for all insurable people and firms and to savings and payments services for everyone.' (UN 2006: 1). The Blue Book continues: 'Financial inclusion, thus, has become an issue of worldwide concern, relevant equally in economies of the under-developed, developing and developed nations. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives, instead of a select few.'[3]

A working definition of financial inclusion is provided by the Committee on Financial Inclusion, appointed by the Government of India in 2006, '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. Holding a bank account itself confers a sense of identity, status and empowerment and provides access to the national payment system. Therefore, having a bank account becomes a very important aspect of financial inclusion. Further, financial inclusion, apart from opening and providing easy access to a No Frills account, should also provide access to credit, perhaps in the form of a General Credit Card (GCC) or limited OD against the no frills account. It should encompass access to affordable insurance and remittance facilities. It should also include credit counseling and financial education / literacy. While financial inclusion, in the narrow sense, may be achieved to some extent by offering any one of these services, the objective of "comprehensive financial inclusion" would be to provide a holistic set of services encompassing all of the above.' (Government of India 2008: Chapter 2)

Financial exclusion remains as a major problem among specific occupational groups, specific social groups and in specific regions, either in isolation or in conjunction. This necessitates, according to the Committee, a national-level action plan, the self-help groups (SHG) - Bank Linkage Programme through microfinance.

This paper discusses our experience in microcredit.

2. Microcredit in Poverty Alleviation

When the Norwegian Nobel Committee decided to award the Nobel Peace Prize for 2006, divided into two equal parts, to Muhammad Yunus and Grameen Bank "for their efforts to create economic and social development from below", it was the foremost recognition of the significance of microcredit in poverty alleviation. This has in turn sent an almost euphoric message to policy-makers and aid organizations about the potential poverty reducing effects of microcredit.

Microfinance institutions aim to provide credit to the poor who have no access to commercial banks. In general, they receive financial support from international donors, NGOs or commercial banks, who lend them often against below market interest rates. These institutions in turn lend this money to self help groups (SHGs). In addition to loans, microfinance institutions also provide a wider range of financial services, such as savings funds and insurance services and also play an important role in training the potential borrowers how to run a firm, and deal with health provision.

[3] http://www.uncdf.org/english/microfinance/pubs/bluebook/index.php (accessed on 15 June 2009.)

In this study we consider only the microcredit aspects.

Microcredit movement assumed global significance through the Microcredit Summit held in February 1997 at Washington.[4] The summit representing 1500 institutions and 137 countries is considered a landmark in the collective crusade against poverty undertaken by the developed and developing countries together. The Summit launched a nine-year campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005.[5] According to the 1999 Microcredit Summit Campaign Report, as of June 1999, 925 established microcredit practitioners reported to have reached 22,185,898 current clients, out of whom about 56.6 % belonged to poorest families.[6] And as of December 31, 2007, 3,552 microcredit institutions reported reaching 154,825,825 clients, about 68.8% of whom were among the poorest when they took their first loan. Out of these poorest clients, 83.4 percent were women (Sam Daley-Harris 2009: 3).[7] Now that the goal was reached, the Campaign was re-launched (in November 2006) to 2015 with two new goals: i) Working to ensure that 175 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial

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[4] The Microcredit Summit Campaign is a project of the RESULTS Educational Fund, a U.S.-based grassroots advocacy organization committed to ending hunger and poverty. The Campaign brings together microcredit practitioners, advocates, educational institutions, donor agencies, international financial institutions, non-governmental organizations and others involved with microcredit to promote best practices in the field, to stimulate the interchanging of knowledge, and to work towards reaching the goals. The core themes of the Microcredit Summit Campaign are: i) Reaching the poorest; ii) Reaching and empowering women; iii) Building financially self-sufficient institutions; and iv) Ensuring a positive, measurable impact on the lives of clients and their families.

[5] "Our purpose as an assembly is to launch a global campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self -employment and other financial and business services by the year 2005. We commit to the development of sustainable institutions which assist very poor women and their families to work their way out of poverty with dignity." http://www.gdrc.org/icm/summit/declare-support.html

[6] http://www.microcreditsummit.org/pubs/reports/socr/report99.htm (Accessed on 15 June 2009)

[7] It should be noted here that David Roodman of the Center for Global Development and author of the Commitment to Development Index (that ranks the 21 richest developed countries on their commitment to policies that benefit poor nations) expresses some skepticism regarding this claim on his 'Microfinance Open Book Blog'. He cites examples from the State of the Microcredit Summit Campaign Report 2009 that he believes may result in double-counting of the 100 million number claimed by the Campaign. (http://blogs.cgdev.org/open_book/2009/03/does-the-microcredit-summit-campaigns-100-million-add-up.php accessed on 17 June 2009.)

and business services by the end of 2015; and ii) Working to ensure that 100 million families rise above the US$1 a day poverty threshold adjusted for purchasing power parity (PPP), between 1990 and 2015.

A recent survey among 518 microfinance institutions in Africa, Latin America, Eastern Europe and Asia reveals that the majority of the microcredit borrowers are served by institutions in south and east Asia. The largest microfinance institutions are found in countries such as Bangladesh, India, Indonesia and Thailand. Bank Rakyat in Indonesia serves over 3.3 million clients; Grameen Bank, ASA and BRAC, all located in Bangladesh, have 4 to 5 million active borrowers. In India, large microfinance institutions are SHARE with 814,000 active borrowers and Spandana with 772,000 borrowers (www.mixmarket.org). Surprisingly, the outreach, that is, the extension of services, of microfinance institutions to poor people in the most populated countries in Asia, such as India and China, is relatively low (Weiss and Montgomery 2004).

The advocates of microcredit argue in favour of its substantial poverty reduction potential (Littlefield *et al.* 2003; Dunford 2006). Access to credit can contribute to a long-lasting increase in income by means of a rise in investments in income generating activities and to a possible diversification of sources of income; it can contribute to an accumulation of assets; it can reduce the vulnerability due to illness, drought and crop failures, and it can contribute to better education, health and housing of the beneficiary. In addition, microcredit can contribute to an improvement of the social and economic situation of women. Finally, microfinance can have positive spillover effects such that its impact surpasses the economic and social improvement of the beneficiary.

Notwithstanding the predominantly positive view on microcredit, several authors doubt that microcredit can contribute to a substantial reduction in poverty. Many critics show that microcredit does not reach the poorest of the poor (Scully 2004), or that the poorest are deliberately excluded from microfinance programmes (Simanowitz 2002). First, the extreme poor often decide not to participate in microfinance programmes since they lack confidence or they value the loans to be too risky (Ciravegna 2005). The poorest of the poor, the so-called core poor, are generally too risk averse to borrow for investment in the future. They will therefore benefit only to a very limited extent from microfinance schemes. Second, the core poor are often not accepted in group lending programmes by other group members because they are seen as a bad credit risk (Hulme and Mosley 1996; Marr 2004). Third, staff members of microfinance institutions may prefer to exclude the core poor since lending to them is seen as extremely risky (Hulme and Mosley 1996). Finally, the way microfinance programmes are organized and set up may lead to the exclusion of the core poor. Examples for this exclusion are the requirement to save before a loan can be granted, the minimum amount of the loan that needs to be accepted and the requirement that a firm is registered before the loan can be granted (Kirkpatrick and Maimbo 2002; Mosley 2001).

Several critics also argue that group loans lead to high transaction costs. The main advantage of group loans according to the advocates of microfinance is that group loans drastically reduce monitoring costs, since group members live in the same village and know each other well. Therefore, they are able to assess the riskiness of a project against low costs (some even believe that in group lending programmes monitoring is almost costless). Additionally, group members can prevent any moral hazard behaviour without costs by using social sanctions. This, however, ignores the fact that group members sometimes live far away from each other, and need to spend time and energy to assess each other's projects (Marr 2004). Moreover, most microfinance schemes have regular group meetings. During these meetings, information about the projects is exchanged and repayment problems are discussed. These group meetings often imply high transaction costs (Armendáriz De Aghion and Morduch 2000; Murray and Lynch 2003). Obviously, then, these costs may reduce the positive income generating effects from access to credit.

In addition, it has been argued that sometimes the size of the needed loan exceeds the maximum amount that can be borrowed in terms of a group loan. This especially hampers the future growth of those agents who have invested in successful and growing projects (Khawari 2004; Madajewitcz 2003). Group loans are rigid, and often it is very difficult to adapt the loan to the desired credit needs of individual borrowers within the group.

Finally, some authors criticize the impact of microcredit on women. Many microfinance schemes have a clear focus on women. Research shows that women are more reliable and have higher payback ratios. Moreover, women use a more substantial part of their income for health and education of their children (Pitt and Khadker 1998). Thus women play a very important role in reducing poverty within households. However, the critics argue that often women are forced to hand over the loan to men, who subsequently use the loan for their own purposes. This may lead to an additional burden on women, if they are held responsible for the repayment (Goetz and Gupta 1996).

The theoretical discussion about the impact of microfinance on poverty reduction calls for thorough empirical research. Therefore, it is surprising that there are only a few solid empirical studies available on the possible poverty reducing effects of microcredit. A major problem is how to measure the contribution of microcredit. Three issues are of importance: first, which contribution is seen as the most important (improvement of income, accumulation of assets, empowerment of women, etc); second, does microcredit reach the core of the poor or does it predominantly improve income of the better-off poor; and third, do the benefits outweigh the costs of microfinance schemes (Dunford 2006)?

Most studies measure the impact of microcredit by comparing recipients of microfinance with a control group that has no access to microcredit. This approach may be problematic, however. First, changes of the social and/or economic situation of the recipients of microcredit may not be the result of microfinance. For instance, it is well known that relatively rich agents are less risk averse than relatively poor agents. This may induce rich agents to apply for microcredit whereas poor agents do not apply. In this situation, an ex post comparison of income of the two groups may lead to the incorrect conclusion that microfinance has stimulated income. Second, in order to improve the probability of microfinance being successful, microfinance organizations may decide to develop their activities in relatively more wealthy regions. Obviously, this biases any comparison between recipients of microcredit and the control group (Karlan 2001; Armendáriz De Aghion and Morduch 2005).

The empirical literature on the outreach of microfinance, in terms of the number (breadth) and socio-economic level (depth) of clients who are served by microfinance institutions is vast. However, most of these studies suffer from being anecdotal and case study driven. Moreover, only some of the outreach studies are published in established refereed international scientific journals, so that it is difficult to value their quality. Nevertheless, some conclusions can be drawn based on the existing literature.

Most studies conclude that microcredit positively contributes to poverty reduction. Microcredit, therefore, may help to solve the poverty problem. This seems to be good news. However, there is much discussion about the question of the extent to which microfinance reaches the core poor. Here, a new measurement problem arises, i e, how to identify the core poor (Dunford 2006). Nevertheless, Khandker (2005) and Eda Rural Systems (2004) find that the extremely poor benefit more from microfinance than the moderately poor. On the other hand, several other studies indicate that it is the *better off* poor rather than the *core* poor who stand to benefit most. Evidence for this is given in, for example, Hulme and Mosley (1996) and Copestake *et al*. (2005).

It should be noted that the outreach of microcredit is still small. Despite the enormous increase in microcredit to poor borrowers, in 2004 only 6 per cent of borrowers with an income below $ 365 were able to borrow from microfinance institutions [Daley-Harris 2006]. Moreover, the size of the loans is often small. According to MixMarket (www.mixmarket.org), the average loan size in 2005 was only about $ 470. It is not to be expected that microfinance, without additional measures in the area of education, health, and infrastructure, is able to substantially reduce poverty.

A promising development in the field is the growing involvement of traditional commercial banks in microfinance around the world. In several developing countries large state banks and private banks have started to provide microfinance services. In Pakistan, for instance, a number of private commercial banks have moved into microfinance. In Malaysia, Nepal and Thailand there are programmes stimulating commercial banks to become involved in microfinance. In India the National Bank for Agriculture and Rural Development (NABARD) has initiated a programme to involve private banks also in microfinance. According to recent studies, the growth of microfinance in India is led by a number of commercial banks such as ICICI, HSBC and ABN AMRO, together with private venture capital funds and social venture capitalists [Lakshman 2006; Iyer 2006]. In what follows we discuss the bank – SHG linkage programme of the NABARD.

3. Evolution of Microfinance in India

Empowerment of the poor entails three basic inter-linked dimensions – generation of employment (and income), reduction of poverty, and erasing inequality. Poverty alleviation strategies have had a long history across the globe in line with the historical conditions of the concerned societies. The perspective has now undergone a basic change from the collective care mechanism of a paternalistic state intervention meted out from the top to bottom to a people-centered and participation-oriented bottom up approach. With this new perspective, new practices have emerged through integrated community participation of the poor. Thus the basis of the concept of micro finance is self-mobilization and self-organization of the poor at the community level driven by an ardent desire backed by an unfaltering trust in their own inherent capacity to improve their living conditions by themselves, given an enabling environment. In general, Microfinance is said to rest on the following principles:

i) Self-employment/enterprise formation is a viable means for poverty alleviation;

ii) Lack of access to capital assets/credit is a constraint for existing and potential microenterprises; and

iii) The poor are able to save despite their low-level and sporadic incomes and to write their own history through self-mobilization.

An active realization of such self-mobilization is found in self help groups (SHGs), formed for distributing the microcredit benefits, inspired by the success of the Bangladesh Grameen experiment. This approach has already taken strong roots across the lengths and breadths of India as an effective and viable channel to take the poor to a new domain of economic empowerment and social upliftment. Microcredit, which synergies the thrift and credit habits of the poor in a participatory and informal setting, is now widely acknowledged as a strategic tool in all poverty alleviation programmes.

Over the last decade micro finance has become an accepted institutional framework for taking financial services to the poor. Micro finance has now evolved into a type of independent financial system of its own and there are a number of variants in micro finance institutions and systems. But broadly they can be classified into two—the individual approach and the group approach. An example of the group approach, where the group itself, not the individual member, is the client, is the self-help group (SHG) program in India.

At present, there are two models of micro finance delivery in India: SHG-bank linkage programme (SBLP) model started in the early 1990s and the microfinance institution (MFI) model. The SBLP model has emerged as the dominant model in terms of number of borrowers and loans outstanding, and in terms of coverage, this model is considered to be the largest micro finance programme in the world (Reserve Bank of India 2008: 197). Below we outline the evolution of these two models in India, starting with their prototypes.

Indigenous 'pre-co-operative' microfinance groups

In all countries there have been a wide variety of small, informal and unregistered savings and loans groups, such as rotating savings and credit association (ROSCA), a group of individuals who make regular contributions to a fund which is given to each member in turn.[8] When there are ten participants, each contributing Rs 10 monthly, each one in turn will receive Rs. 100 at every monthly meeting – the individuals chosen in turn by some method such as drawing lots (Bouman 1977). As a result,

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[8] The system is variously called *susus* in West Africa and the Caribbean, *tontines* in Cambodia, *wichin gye* in Korea, *arisan* in Indonesia and *djanggis* in Cameroon. See Clifford Geertz (1956) for a documentation of the *arisans* of Modjokuto in Eastern Java.

each member is able to access a larger sum of money during the period of the group, and use it for whatever purpose she wishes. This method of saving is a popular alternative to the risks of saving at home, where family and relatives may demand access to savings (Rutherford 2000). The whole transaction is transparent to all in the group. Since no money is retained inside the group, there is no need to keep any records. Moreover, the system involves only low risk to members as it is time limited, typically lasting not more than 6 months. This reduces the size of the loss, should someone take funds early and not pay back. The members in the group select each other, and this ensures that participation is based on trust and social forces, and a genuine commitment to participate. Thus ROSCA is a model of transparency, simplicity and low risk that is well adapted to communities with low literacy level and weak systems for protecting collective property rights.

Contractual saving appears the prime mover of these societies, but the credit element seems to become more important with the promise of economic opportunities. In such conditions, the lottery selection system is replaced by a system of competitive bidding for the fund (Bouman 1977). Chit Fund, most popular in India, is such a savings and credit scheme. In a chit scheme, a certain number of individuals come together to pool a certain amount of money at periodic intervals. Usually the number of individuals and the number of periods will be the same. At the end of each period, there is an auction of the pooled money where the members of the chit participate and bid for the money. The money goes to the highest bidder. The bid amount is then divided by the number of members for determining per head contribution during that period. Usually the discount continues to decrease over periods. The person getting money in the last period receives the full scheme amount.

With a long history, rural unorganised chit funds (*chitty*) have been widely popular in the villages of southern states of India. *Chitty* funds have played an important role in the financial development of people of Kerala, by providing easier access to credit. In Kerala, there exists a company under the State Government, called KSFE (Kerala State Financial Enterprises), the main business activity of it being the *chitty* business. Organised chit fund companies are now prevalent all over India. Chit funds in India are governed by various state or central laws, like Travancore Chit Act of 1945, Chit Funds Act, 1982 and Madras Chit Fund Act, 1961. Organised chit fund schemes are required to register with the Registrar of Firms, Societies and Chits. It should also be noted that chit funds are also misused and there are many instances of the promoters running what is basically a Ponzi scheme and absconding with the money.

Cooperative societies

Institutional initiatives in a spirit of microfinance started in 1904, when the Cooperative Societies Act was passed for ensuring production credit loans for farmers through primary credit societies. The formation of long-term cooperative credit institutions to meet investment needs of farmers started in 1928. The Syndicate Bank, started in 1921, concentrated on raising micro-deposits in the form of daily/weekly savings and also sanctioned micro-loans for its constituents. With the various priority sector targets under social banking in 1967 and after bank nationalization in 1969, microfinance concepts in banking institutions came to the fore. However, in the rural areas, the moneylenders and traders did extend loans at high rates of interest and even for consumption purposes. Under priority sector norms, microfinance was extended for investment credit purposes but included elements of production credit and even consumption credit. The Integrated Rural Development Programme and the revamped programme named *Swarnajayanti Grameen Swarozgar Yojana* (SGSY), laid emphasis on investment credit needs only. However, the rural poor did not receive these loans which were instead cornered by the better-off sections of the rural people. Also, repayment rates were poor possibly due to 'rent costs' incurred by the borrowers and poor monitoring and follow-up by bankers.

Another landmark in this context was the inception of the Self-Employed Women's Association (SEWA) in 1972. Though started as a Trade union for women in the unorganised sector, today SEWA boasts of running the first Women's Bank (Shri Mahila SEWA Sahakari Bank) in the country. The SEWA Bank was registered in May 1974 as a co-operative bank under the dual control of the Reserve Bank of India and the State Government. Since then it has been providing banking services to poor, illiterate self-employed women who in general face the two major financial problems of lack of working capital, and non-ownership of assets, as a result of which a big portion of their meager income goes towards interest on working capital and rent on trade equipment. By 2007-08, the SEWA Bank had 307,558 accounts with total deposits of Rs. 739.97 million; the number of loans and advances accounts was 103,679 and the amount of loans and advances, Rs 324.549 million.[9] SEWA has also networked many co-operatives and emerged as the largest federation of co-operatives in the country.

3.1 Official Institutions

In India there are around 1,000 NGOs engaged in microfinance, plus some 90,000 primary agricultural credit societies and thousands of self-help groups. There are at least three official second tier institutions that mange to on-lend to MFIs in India: i) Rashtriya Mahila Kosh, ii) National Bank for Agriculture and Rural Development and iii) Small Industries Development Bank of India.

(1) Rashtriya Mahila Kosh

The most prominent national level micro-finance apex organisation providing micro-finance services for women in India is the National Credit Fund for Women or the Rashtriya Mahila Kosh (RMK), set up in March 1993 as an independent registered society by the Department of Women and Child Development in Government of India's Ministry of Human Resource Development with an initial corpus of Rs. 31 crores, "not to replace the banking sector but to fill the gap between what the banking sector offers and what the poor need".[10]

Its main objectives are:[11]

[9] http://www.sewabank.com/financialdata.htm (accessed on June 30, 2009).

[10] http://rmk.nic.in/ (Accessed on June 30, 2009).

[11] http://rmk.nic.in/ (Accessed on June 30, 2009).

(i) to provide or promote the provision of microcredit to poor women for income generation activities or for asset creation;

(ii) to adopt a quasi-informal delivery system, which is client friendly, uses simple and minimal procedures, disburses quickly and repeatedly, has flexibility of approach, links thrift and savings with credit and has low transaction costs both for the borrower and for the lender;

(iii) to demonstrate and replicate participatory approaches in the organisation of women's groups for thrift and savings and effective utilisation of credit;

(iv) to use the group concept and the provision of credit as an instrument of women's empowerment, socio-economic change and development;

(v) to cooperate with and secure the cooperation of the Government of India, State Governments, Union Territory administrations, credit institutions, industrial and commercial organisations, NGOs and others in promoting the objectives of the Kosh;

(vi) to disseminate information and experience among all these above agencies in the Government and non-government sectors in the area of microfinance for poor women; and

(vii) to receive grants, donations, loans, etc., for the furtherance of the aims and objectives of the Kosh.

The common eligibility norms of all loan schemes are as follows:[12]

1. Three years experience in thrift and credit management (Six months for applying under Loan Promotion Scheme).
2. Above 90% recovery performance during the last three years.
3. Satisfactory fund management and financial performance.
4. Good track record in the field of Socio-economic sector.
5. The office bearers of the organisation should not be elected representative of any political party.
6. The organisation should have proper system of accounting, which should have been audited and published every year and there should not have any serious irregularities.
7. The application should clearly reflect the source of funds utilised earlier for credit.

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[12] http://rmk.nic.in/ (Accessed on June 30, 2009).

8. The bylaws of the organisation should have provision for getting loans from various funding agencies.

As regards security, the common features are:[13]

1. RMK does not take any collateral security for sanctioning loan up to Rs. 2 crores.

2. If total exposure of the borrowing organisation exceeds Rs. 2 crores it has to provide 10% of the sanction amount as security in terms of Fixed Deposit.

3. In case of State Government organisation, borrowing from RMK the organisation/ department has to arrange State Governemnt guarantee if their balance sheet shows deficit/loss.

It is stipulated that the organisation applying for loan to RMK has to contribute 10% of the total credit sanctions. The Fund provides a maximum loan of Rs. 25,000 per woman beneficiary for income generating activities, Rs. 50,000 for low cost house construction, and maximum of Rs. 10,000 for consumption loan per borrower.

Table 1 reports the achievements of the RMK. Note that the amount of loan disbursed in some of the years (1997-98 and the last three years) was higher than that sanctioned. The Fund has so far benefitted a total of 549641 poor women through 55434 SHGs, or approximately 10 women per SHG.

(1) The SHG-Bank Linkage Programme (SBLP) Model

The Fifth General Assembly of the Asia Pacific Regional Agricultural Credit Association (APRACA) held at Bangkok in December 1984, exhorted the agricultural and rural development finance institutions in the region to mobilise savings from the rural areas with the objective of providing loanable funds for agriculture and rural development. The experience in some of the countries where informal self help groups (SHGs) of rural people which promoted savings among members and used these resources for meeting their credit needs, were considered useful innovations. Again, the Third Consultation on the Scheme for Agricultural Credit Development (SACRED) held at Rome in 1985 called for active promotion of linkages between banking institutions and SHGs as a mean for improving the access of low income group to banking services. The Executive Committee Session of APRACA held at Seoul in October 1985 approved the holding of a South-East Asian sub-regional workshop to devise ways and means of improving such linkages. The APRACA Regional Workshop held at Nanjing, China in May 1986 recommended national level consultation and organisation of national surveys of SHGs in collaboration with APRACA and other agencies.

[13] http://rmk.nic.in/ (Accessed on June 30, 2009).

Table 1: Achievement of Rashtriya Mahila Kosh

Year	Loan Sanctioned	Loan Disbursed	No. of NGOs / Others	No. of SHGs	No. of Women beneficiaries
1993-94	439.33	140.82	24	3707	37066
1994-95	512.45	429.53	28	2506	25059
1995-96	861.66	563.83	48	3750	37502
1996-97	1700.55	916.76	70	9106	91064
1997-98	1271.40	1395.39	85	5962	59621
1998-99	1484.62	1141.50	133	5198	51982
1999-2000	1958.75	1384.64	324	5809	58089
2000-01	2118.50	1675.80	151	4656	46559
2001-02	739.11	633.76	154	1618	16183
2002-03	1600.23	1058.37	89	4430	44290
2003-04	2505.60	1446.07	69	3637	36371
2004-05	1549.74	1886.87	40	2232	22321
2005-06	1930.90	2068.42	82	2730	27305
2006-07p	42.00	234.15	09	93	930
TOTAL	18714.84	14987.72	1244	55434	549641

Note: p = up to 31.05.06.
Source: http://rmk.nic.in/ (Accessed on 30 June 2009).

The Sixth General Assembly of APRACA held at Kathmandu, Nepal in December 1986 considered a project proposal on "promotion of linkages between banking institutions and SHGs in rural savings mobilisation and credit delivery to the rural poor". It was decided that each member country would form a Task Force to conduct a survey of SHGs and thereafter, formulate suitable national level programmes. Thus a Task Force was set up in India in the Ministry of Agriculture to identify the existing SHGs, undertake a survey of the groups and draw a plan of action for channeling the flow of savings and credit between the rural poor and banks through SHGs and identify concrete projects for action research in this field.

As a part of its mandate, NABARD initiated certain research projects on SHGs as a channel for delivery of micro-finance in the late 1980s. Amongst these, the project sponsored by the Mysore Resettlement and Development Agency (Myrada) on "Savings and Credit Management of SHGs" was partially founded (with one million Rupees) by NABARD in 1986-87 to enable it to invest resources to identify affinity groups, build their capacity and match their savings after a period of 3-6 months. The grant was based on Myrada's experience in promoting SHGs since 1985 and the initiative of the NABARD chairperson at that time, Shri P.R. Nayak.

As a result of the feedback from this initiative, NABARD, in collaboration with some of the member institutions of the Asia Pacific Rural and Agricultural Credit Association (APRACA), undertook a survey in 1988-89 of 43 nongovernmental organizations (NGOs) in 11 states in India, to study the functioning of microfinance SHGs and their collaboration possibilities with the formal banking system (NABARD, 1991). This report discussed at the 18th Executive Committee Session and 10th Foundation Anniversary of APRACA held at New Delhi in November 1987. After an analysis of such action research, RBI accepted in 1990 the SHG strategy as an alternative credit model and issued a policy circular to all commercial banks to participate and extend finance to SHGs (RBI, 1991). Subsequently, NABARD (1992) issued guidelines to provide the framework for a strategy that would allow banks to lend directly to SHGs. And thus was launched the SHG-Bank Linkage Programme in 1992, with a two-year pilot project to link 500 SHGs. The strategy includes financing of SHGs promoted by external facilitators like NGOs, bankers, socially spirited individuals and government agencies, as also promotion of SHGs by banks themselves and financing SHGs directly by banks or indirectly where NGOs and similar organisations act as financial intermediaries. NABARD also issued a broad set of flexible guidelines in February 1992 (NABARD, 1992) to the formal rural banking system, explaining the project's modalities. The project was extended to the regional rural banks and cooperative banks, in addition to the commercial banks in 1993.

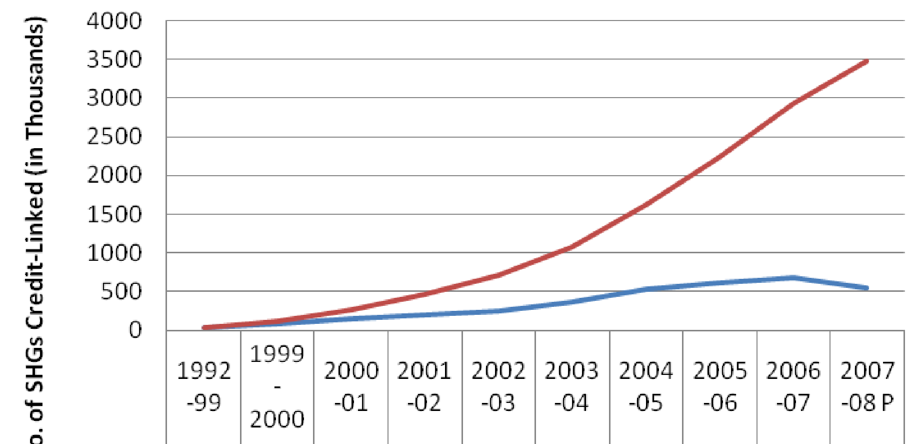
The pilot project was launched by NABARD after extensive consultations with Reserve Bank, commercial banks and non-Governmental Organisations (NGOs) with the following objectives: (i) to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions; (ii) to build mutual trust and confidence between the bankers and the rural poor; and (iii) to encourage banking activity, both on the thrift as well as on credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.

The SHGs were expected to facilitate collective decision making by the poor and provide 'doorstep banking', the banks as wholesalers of credit, were to provide the resources, while the NGOs were to act as agencies to organise the poor, build their capacities and facilitate the process of empowering them. It was expected that the pilot project would prove advantageous to both banks as well as the SHGs. The banks would gain by a way of reduction in their transaction costs due to reduction in work relating to appraisal, supervision and monitoring of loans. The SHGs would benefit by getting access to a larger quantum of resources, as compared to their meager corpus generated through thrift. The banks were expected to provide credit in bulk to the group and the group, in turn, would undertake on-lending to the members. The quantum of credit given to the group by the bank would be in proportion to the savings mobilised by the group and could vary from 1:1 to 1:4. It was prescribed that the purposes for which the group would lend to its members should be left to the common wisdom of the group. The rate of interest to be charged by the SHG to its members was also left to the group to decide. The pilot project envisaged linking of only 500 SHGs to banks. By the end of March 1993, 225 SHGs were actually linked. With the figure reaching 620 at the end of March 1994, the pilot project was a success.

The Pilot phase was followed by setting up of a Working Group on NGOs and SHGs by the Reserve Bank of India in 1994, which came out with wide ranging recommendations on internalization of the SHG concept as a potential intervention tool in the area of banking with the poor. The Reserve Bank of India accepted most of the major recommendations and advised the banks to consider lending to the SHGs as part of their mainstream rural credit operations. Based on very successful feedback of the pilot run of the Programme, NABARD in 1998 crystallized its Vision for providing access to one third of the rural poor through linking of 1million SHGs by 2007. What followed was massive scaling up of the training and capacity building awareness programmes by NABARD covering a large number of officials and staff of NGOs, banks, government agencies and rural volunteers in SHG promotion, nurturing, appraisal and financing. The vision of linking 1 million SHGs was achieved in the year 2004.

With the NABARD programme on self help groups (SHGs) in 1992, the emphasis shifted to loans without collateral, 100 per cent repayment norms and lending to groups of people who would also invest their savings and regulate their groups and group loans, thus reducing transaction costs for the borrowers and for the banks. Other innovative concepts were sanctioning of production-cum-consumption loans, unregulated interest rates, weekly/monthly savings and loan repayments.

Fig. 1: Growth of SHG-Bank Linkage

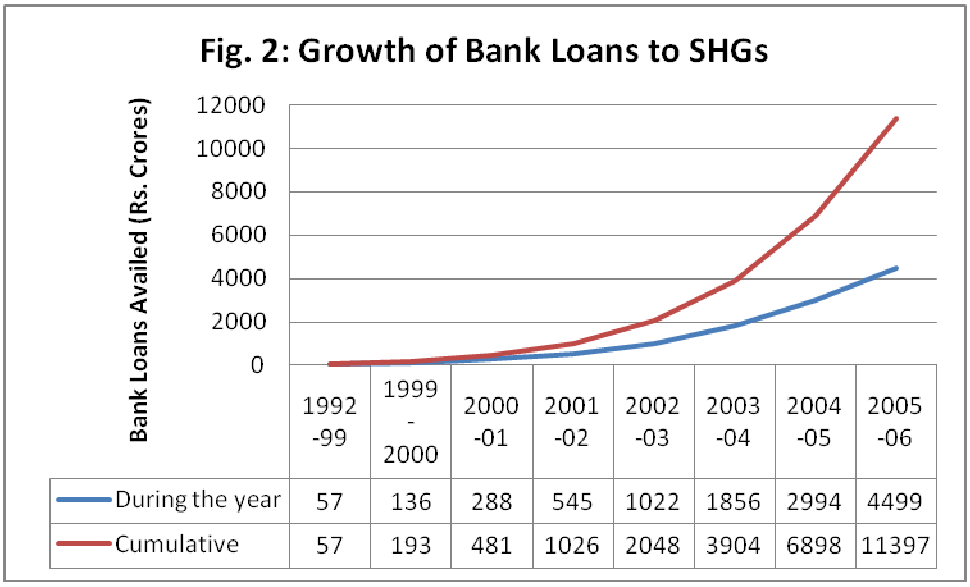


	1992-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 P
During the year	33	82	149	198	256	362	539	620	687	553
Cumulative	33	115	264	462	718	1080	1619	2239	2926	3479

Note: p = Provisional

Source: NABARD Reports

The progress was very slow during the initial years till 1999 as only 32,995 groups were credit-linked with Rs. 0.57 billion loans during the period 1992 to 1999 (see Figures 1 and 2). Since then the SBL programme has been growing rapidly and the number of SHGs financed increased from 81,780 with Rs. 1.36 billion loans in 1999-2000 to more than 620 thousand (with Rs. 44.99 billion loans) in 2005-06 and 687 thousand (with loans of Rs. 65.7 billion) in 2006-07; a provisional number of 552,992 new SHGs were provided with bank loan and 186,883 existing SHGs with repeat loans (a total of Rs. 42.28 billion loans) are reported for 2007-08.[14] It goes without saying that the number of SHGs will have to be more than doubled in order to cover all the 50 million odd poor households in India, and the extent of credit to the members of each SHG will have to be increased substantially.



	1992-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
During the year	57	136	288	545	1022	1856	2994	4499
Cumulative	57	193	481	1026	2048	3904	6898	11397

Source: NABARD Reports

In terms of relative shares of different agencies, commercial banks continued to account for the largest share, both in terms of number of SHGs credit linked and bank loans disbursed, followed by regional rural banks and co-operative banks (Table 1). Among the commercial banks, public sector banks accounted for the largest share of loans disbursed to SHG sector (88.8 per cent) in 2006-07. Out of the total loans disbursed by the commercial banks, 86.9 per cent of the loans were disbursed exclusively to women SHGs (Reserve Bank of India 2008).

[14] From 2006-07 onwards, NABARD reports data on number of SHGs financed by banks and bank loans as inclusive of SHGs and existing groups receiving repeat loans' under *Swarnjayanti Gram Swarozgar Yojna*' (SGSY). Owing to this change, NABARD discontinued the publication of data on a cumulative basis from 2006-07 (with a reported number of 1106 SHGs), as such data for 2006-07 onwards are not comparable with the data in the previous years.

Table 1: Agency-wise SBLP Position

	Agency			
	Commercial banks	RRBs	Cooperative banks	Total
SHGs credit-linked (in thousands)				
2002-03	361.061	277.34	78.959	717.36
2003-04	538.422	405.998	134.671	1079.091
2004-05	843.49	563.85	211.14	1618.48
2005-06	1188	740	310	2238
2006-07	572	381	153	1106
2007-08p	312	241	187	740
Bank loan disbursed (Rs. billion)				
2002-03	11.5	7.27	1.72	20.49
2003-04	22.55	12.78	3.71	39.04
2004-05	41.59	20.99	6.4	68.98
2005-06	69.87	33.22	10.87	113.96
2006-07	39.19	20.53	5.99	65.71
2007-08p	20.43	15.99	5.86	42.28

Note: p = Provisional; RRBs = Regional Rural Banks
Source: NABARD Reports

The growth of number of SHGs has decelerated in recent years, particularly in the southern region, where rapid progress was made earlier. The scheme is catching up slowly in the northern region and the share is increasing particularly in the eastern region, reducing the spatial disparity though the concentration in the southern region still rules (Table 2). The MFIs have also expanded their operations, which might have impacted the growth of the SBLP to some extent.

Table 2: Regional Distribution of SBLP (%)

Region	Regional Distribution (%) of SBLP					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Northern	3.4	4.2	4.9	4.9	5.3	5.9
North-Eastern	0.2	0.3	0.6	1.1	2.1	2.8
Eastern	8.4	9.9	12.7	14.7	16.4	17.6
Central	10.9	10.4	11.4	11.8	12.2	12
Western	5.9	6.4	5.9	5.1	5.9	7.4
Southern	71.1	68.8	64.6	62.5	58	54.3
All-India	100	100	100	100	100	100

Source: NABARD Reports

In order to scale up efforts and reduce the regional imbalances in outreach, 13 non-south Indian States (Assam, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chattisgarh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal) with high incidence of rural poverty and where the micro finance movement had not taken roots were identified by NABARD. Special efforts by NABARD resulted in an increase in the number of SHGs credit linked in these States from 100 thousand as on March 31, 2002 to 1.4 million as on March 31, 2007. Thus, the spread of the programme in the 13 States led to a significant decline in the share of the southern States in SHGs linked to banks.

As on March 31, 2007, the number of SHGs maintaining savings bank accounts with the banking sector was 4.2 million with outstanding savings of Rs. 3,513 crore, thereby covering more than 58 million poor households under the programme. Commercial banks had the maximum share of the SHG's savings (53.9 per cent), followed by RRBs (32.9 per cent) and co-operative banks (13.2 per cent). Among the commercial banks, the public sector banks accounted for the largest share of savings (95.9 per cent), while private sector banks accounted for marginal share (4.1 per cent). It is noteworthy that around 87.3 per cent of the savings were by exclusive women SHGs (*ibid.*).

About 37 per cent of banks reported recovery of above 95 per cent under the programme, 36 per cent banks reported recovery in the range of 80-94 per cent and another 20 per cent banks, in the range of 50-79 per cent. While the recovery rate of public sector banks varied between 52 per cent and 99 per cent, that of private sector banks varied between 60 per cent and 100 per cent. Out of the 26 private sector banks, the recovery rate of four banks was 100 per cent.

It is reported (Reserve Bank of India 2008) that the programme has proved its efficacy as a mainstream programme for banking with the poor, who mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small businesses such as hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep "saving and credit" facility for the poor and exploitation of the untapped business potential of the rural areas. The programme, which started as an outreach programme has not only aimed at promoting thrift and credit, but also contributed immensely towards the empowerment of the rural women (*ibid.*).

There are three different models that have emerged under the SBLP:

i) Model I: SHGs promoted, guided and financed by banks.

ii) Model II: SHGs promoted by NGOs/ Government agencies and financed by banks. This has emerged as the most popular model under the SBLP programme.

iii) Model III: SHGs promoted by NGOs and financed by banks using NGOs/formal agencies as financial intermediaries.

It should be noted that out of these three models, about 80.7 percent of the SHGs were financed by banks under Model II, involving NGOs and Government agencies (Table 3).

Table 3: Model-wise SBLP Position

	2003-2004		2004-2005		2005-2006	
	No. of SHGs (in '000)	Bank loans (Rs. billion)	No. of SHGs (in '000)	Bank loans (Rs. billion)	No. of SHGs (in '000)	Bank loans (Rs. billion)
Model I	218	5.5	343	10.13	449	16.37
Model II	777	31.65	1158	55.29	1646	92
Model III	84	18.9	117	35.6	143	5.61
Total	1079	56.05	1618	101.02	2238	113.98

Source: NABARD Reports

(2) Micro Finance Initiatives by SIDBI

Small Industries Development Bank of India (SIDBI) launched its micro finance programme in February 1994 on a pilot basis.[15] The programme provided small doses of credit funds to the NGOs all across the country. NGOs acted as financial intermediaries and on-lent funds to their clients. Limited amount of capacity building grant was also provided to the NGOs.

With a view to reducing the procedural bottlenecks, expanding the outreach, meeting the huge unmet demand of the sector and striving towards its formalisation, SIDBI reoriented its policy and approach to create a sustainable micro finance model that would significantly increase the flow of credit to the sector. To take the agenda forward, the SIDBI Foundation for Micro Credit (SFMC) was created in January 1999 with a mission is "to create a national network of strong, viable and sustainable Micro Finance Institutions from the informal and formal financial sector to provide micro finance services to the poor, especially women''.[16]

SFMC is envisaged to emerge as the apex wholesaler for micro finance in India providing a complete range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the sector. SFMC is also poised to play a significant role in advocating appropriate policies and regulations and to act as a platform for exchange of information across the sector.

SIDBI was one of the first institutions that identified and recognised NGO/MFI route as an effective delivery channel for reaching financial services to those segments of the population not reached by the formal banking network. As a result of bulk lending

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[15] Small Industries Development Bank of India (SIDBI) is an apex financial institution for promotion, financing and development of small scale industries in India.

[16] http://www.sidbi.in/Micro/aboutus.htm (Accessed on 30 June 2009).

funds provided, coupled with intensive capacity building support to the entire micro finance sector, it has come to occupy a significant position in the Indian micro finance sector. Today, SIDBI is one of the largest providers of micro finance through the MFIs.

SIDBI's pilot programme of 1994 brought out one of the major shortcomings in micro finance lending programme. It showed that collateral-based lending does not work insofar as micro finance is concerned. NGOs/ MFIs acting as financial intermediaries do not have tangible collateral to offer as security for the loans. Doing away with collateral-based lending in MF necessitated that a mechanism be developed which would minimise the risks associated with lending. With a view to catering to this objective, SIDBI pioneered the concept of capacity assessment rating (CAR) for the MFIs. As part of its developmental agenda, SIDBI encouraged a private sector development consulting firm to develop a rating tool for the MFIs which was rolled out in 1999. Today, rating is a widely accepted tool in this sector. SIDBI has also succeeded in developing a market for rating services and has adopted the institutional capacity assessment tool (I-CAT) of Access Development Services (ADS), a private sector consulting organisation, for rating of start-up/small and mid-sized MFIs.. There are now four mainstream rating agencies, *viz*., M-CRIL, CRISIL, CARE and ADS and till March 31, 2009, 497 ratings have been commissioned to them.

SIDBI introduced a product called 'transformation loan' in 2003 to enable the MFIs to transform themselves from an informal set up to more formal entity. This loan is a quasi-equity product with longer repayment period and features for conversion into equity at a later date, when the MFI decides to convert itself into a corporate entity. Consequently, a number of MFIs went ahead with the transformation and some of them have now grown significantly and are serving millions of clients across several states. Recognising the need to offer the MFIs equity capital so as to adequately capitalise them, SIDBI set up a fund of Rs. 50 crore which was christened as SIDBI Growth Fund for MFIs. The fund takes care of equity investment in large corporate MFIs, as well as equity capital in start-up or smaller institutions, along with quasi-equity support for MFIs that are on the verge of transformation.

SIDBI also supports incubation of potential local community based organisations through two-tier/umbrella NGOs/MFIs. The approach not only helps SIDBI to increase its outreach through double intermediation but also enables it to channelize finance to smaller NGOs that otherwise may not meet the criteria for getting direct assistance from SIDBI. SIDBI has also been able to nurture and develop a few new intermediaries set up by experienced professionals. Another approach in this direction involves incubation of new start-up MFIs promoted by first-generation development/micro finance professionals. The incubation support is either given through well-reputed management institutes or through institutions specialising in capacity building and technical support services.

The main eligibility norms of SIDBI assistance are as follows:[17]

(i) The MFI has been in existence for at least five years and /or it has a

[17] http://www.sidbi.in/Micro/apply.htm (Accessed on 30 June 2009).

demonstrated track record of running a successful micro-credit programme at least for the last three years. Any new MFI, desirous of initiating a micro credit programme may also be considered for assistance if it has been promoted and managed by experienced micro finance professionals with experience of at least three years in micro credit. The condition for previous track record of micro finance may be relaxed in case of NBFCs desirous of entering in this field by adding new products or modifying existing products catering specifically to the economically weaker sections of society. However, such relaxation would be considered for only those NBFCs which have been rated AA (or equivalent) by mainstream rating agencies such as CRISIL / CARE / ICRA etc. and have been duly registered with RBI.

(ii) Its micro finance programme is generally oriented towards poverty reduction and majority of its clientele are poor, more so women.

(iii) The MFI has achieved minimum outreach of 3000 poor members (through individual lending / SHGs / partner NGOs or MFIs) or demonstrates the capability to reach this scale within a period of next twelve months or so.

(iv) It should choose clients irrespective of class, creed and religion and its activities should be secular in nature.

(v) It maintains a satisfactory and transparent accounting, MIS and internal audit system or is willing to adopt such practices with SIDBI assistance.

(vi) It has a relatively low risk portfolio or has a definite plan to further improve its recovery performance.

(vii) It has its accounts audited by an external auditor on annual basis or agrees to do so immediately after the loan is sanctioned by SIDBI.

(viii) It has established or agrees to establish within a period of one year or so, after the loan is sanctioned, a separate system of accounts and monitoring for its micro finance operations.

(ix) It is moving on a clear and credible path to operational and financial self-sufficiency.

(x) It has plans to broad-base its resource base further.

(xi) It possesses competent and adequate staff for proper appraisal and intensive supervision.

As on March 31, 2008, the SIDBI had 58 partners in the underserved States, out of its total partner base of 104. The increased thrust on development of underserved States has also resulted in the share of these States going up from 19 per cent (Rs.38 crore) in the total outstanding micro finance portfolio of SIDBI in the financial year 2005 to over 31 per cent (Rs.299 crore) in the financial year 2007-08.

SIDBI has recently initiated a large-scale intervention in the form of a seven-year longitudinal impact assessment study of its microfinance programme pertaining to 4510 households comprising 3253 client households and 1257 non-client households of 25 MFIs.[18] The study (September 2008) was a two stage socio-economic research to assess on a national scale, the development impact of MFI programmes in relation to different product designs and delivery systems in various parts of the country, specifically to view what is most suited for the poor and under privileged classes in the Indian scenario and also to assess the extent to which these programmes have benefited the target group. It also aimed at improving the industry practices and enhancing the understanding of the processes of MFIs' interventions to the beneficiaries. The primary objective was to find out whether the targeted goal of the National Micro Finance Support Project (NMFSP) of SIDBI, i.e. "substantial poverty alleviation and reduction in the vulnerability in India amongst the poor using micro finance services", was achieved.

The study highlights the benefits received by the client households from their association with microfinance, in terms of expansion and diversification of livelihood activities, growth in employment opportunities, income growth, asset acquisition, savings, access to loans from various sources, reduction in vulnerability and enhancement of women empowerment. A Clients' Retrospective, based on in-depth interviews, gives a holistic picture of the changes brought about in their lives, as a result of the assistance. The study has also brought out that there is a vast unfulfilled demand for microfinance in India, and the MFI sector has immense potential and scope to grow, supplement and complement the SHG-Bank Linkage Programme.

Some Recent Policy Initiatives:

Micro Finance Development and Equity Fund

Recognizing the need for up-scaling the micro finance intervention in the country, the Union Finance Minister, in the budget for the year 2000-01, announced creation of a Micro Finance Development Fund (MFDF). The objective of the MFDF is to facilitate and support the orderly growth of the micro finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly for women and vulnerable sections of society, consistent with sustainability. Consequently MFDF with a corpus of Rs.100 crore was established in NABARD. The Reserve Bank and NABARD contributed Rs.40 crore each to the fund, while the rest was contributed by eleven select public sector banks.

As per the Union Budget announcement for the year 2005-06, the MFDF was re-designated as 'Micro Finance Development and Equity Fund' (MFDEF) with an increased corpus of Rs.200 crore. The fund is being managed by a board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge, with the Reserve Bank as a member of the Advisory Committee.

The Union Budget for the year 2008-09 announced that banks would be encouraged

[18] The study is available at http://www.sidbi.in/NOTICES/Impact_study.pdf (accessed on 22 July 2009).

to embrace the concept of total financial inclusion. The Government would request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely: (a) income generation activities; (b) social needs like housing, education, marriage: and (c) debt swapping. Consequent upon this, in April 2008, banks were advised by the Reserve Bank to meet the entire credit requirements of SHG members, as envisaged in the Union Budget.

SHG-post office linkage programme

A pilot SHG-post office linkage programme was launched by NABARD in December 2003. This programme envisaged credit linking 200 SHGs in select 5 districts, viz., Sivaganga, Pudukottai, Tiruvannamalai, Tanjavur and Tiruvarur districts of Tamil Nadu. The objectives of the pilot programme were to (i) examine the feasibility of utilising the vast network of post offices in rural areas for disbursement of credit to rural poor on agency basis; and (ii) to test the efficacy of Department of Posts in providing micro finance services to rural clientele. The salient features of the scheme are:

(i) Post offices open savings accounts in the name of SHGs promoted by identified NGOs.

(ii) The SHGs with savings accounts in the post office and which are six months old are provided loan by the post office, in multiples of their savings, based on the rating exercise on the lines of those adopted by banks.

(iii) Post offices provide term loans to SHGs repayable within two years in 24 monthly installments.

(iv) Post offices charge an interest of 9 per cent per annum on the loans given to SHGs using a reducing balance method.

(v) Post offices do not collect any loan processing charges or any other charges from SHGs.

Under the project, NABARD would provide financial support for capacity building programmes of postal officials. While loans are given at interest rates of 9 percent per annum to SHGs by post offices, post offices would be allowed to retain an interest margin of 3 percent. The amount of actual interest collected from the SHGs would be shared between NABARD and post offices in the ratio of 2:1. As at end-March 2008, an aggregate of 1,963 branch post offices/sub post offices in the identified districts are implementing the project. A total of Rs. 100 lakh has been sanctioned as RFA to the post offices by NABARD. So far 1142 postal staff have been given training and Rs. 49 lakh has been released as loans to SHGs as of March 2008. Roll out of the pilot project in a few other States is under consideration.

3.2 Micro Finance Institution (MFI) Model

While the SBLP model remains the most widely used model of micro finance in India, the MFI model has also gained momentum in the recent past. The MFI model in India is characterised by a diversity of institutional and legal forms in that the MFIs exist in a variety of forms like trusts registered under the Indian Trust Act, 1882/Public Trust Act, 1920; societies registered under the Societies Registration Act, 1860; Co-operatives registered under the Mutually Aided Cooperative Societies Acts of the States; and non-banking financial companies (NBFC)-MFIs, which are registered under Section 25 of the Companies Act, 1956 or NBFCs registered with the Reserve Bank. These MFIs are scattered across the country and due to the multiplicity of registering authorities, there is no reliable estimate of the number of MFIs. The most frequently used estimate is that their number is likely to be around 800. Attempts have been made by some of the associations of MFIs like *Sa-Dhan* to capture the business volume of the MFI sector. As per the *Bharat Micro Finance Report Quick Data 2008* of *Sa-Dhan*, in March 2008, the 225 member MFIs of Sa-Dhan had an outreach of 14.07 million clients with an outstanding micro finance portfolio of Rs.61.24 billion in 398 districts, out of which 207 are poorest districts.[19]

It is worth noting that in January 2007, Sa-Dhan issued a voluntary mutual code of conduct applicable to all the categories of member microfinance institutions, by which the member institutions agree to promote and strengthen the micro finance movement in the country by bringing the low income clients to the mainstream financial sector. They also agree to build progressive, sustainable and client-centric micro finance institutions in the country to provide integrated financial services to the clients. Their aim should be to promote co-operation and co-ordination among micro finance institutions and other agencies to achieve higher operating standards and avoid unethical competition in order to serve the clients better.[20]

A *Bank Partnership Model* has also developed whereby banks can use MFIs as their agent for handling credit, monitoring, supervision and recovery. In this model, the bank is the lender and the MFI acts as an agent for handling items of work relating to credit monitoring, supervision and recovery, while the borrower is the individual. The MFI acts as an agent – it takes care of all relationships with the client, from the first contact through the final repayment.

Another variation of this model is where the MFI, an NBFC, holds the individual loans on its books for a while, before securitising them and selling them to the bank. Such refinancing through securitisation enables the MFIs to have greater funding access.

A recent model developed in this context follows the permission in January 2006 of the Reserve Bank given to banks to utilise the services of NGOs, MFIs (other than NBFCs) and other civil society organisations as intermediaries in providing financial

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[19] http://www.sa-dhan.net/files/Sa-dhan-indian-map.htm (Accessed on 20 July 2009)

[20] Sa-Dhan, 2007. *Core Values and Voluntary Mutual Code of Conduct for Micro Finance Institutions*, available on www.sa-dhan.net/Resources/corevalues.pdf. (Accessed on 30 June 2009)

and banking services through the use of business facilitator and business correspondent (BC) models. This BC model allows banks to do 'cash in-cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem. The BC model uses the MFI's ability to get closer to poor clients – a necessity for savings mobilisation from the poor – while relying on the financial strength of the bank to safeguard the deposits. Pursuant to the announcement made by the Union Finance Minister in the Union Budget of 2008-09, banks were also permitted to engage retired bank employees, ex-servicemen and retired government employees as business correspondents (BCs) with effect from April 24, 2008, in addition to entities already permitted earlier, subject to appropriate due diligence.

4 Self-Help promoting Agencies

An enabling environment is essential for developing micro finance especially through the SHGs; and this comes with self-help promoting institutions (SHPIs) that have appeared since the beginning of the last decade. As already implied in the above sections, in India, the promotional institutions are basically of three types: (i) Government (2) Banks and (3) NGOs. These institutions have over a period of time developed systems and practices, some of which can be emulated as best practices and some others which should be learning points for caution.

4.1 Government as a SHPI

As in all developing countries, in India development was considered to be the government's responsibility and it started several subsidy-linked credit programs where it had a major role right from the stage of identifying of the borrowers to the disbursement of credit and subsidy. The results of these pro-grams were not positive. Experience has shown that the noninvolvement of the people has led to an attitude of total dependence on administrative efforts. This was especially true in credit programs for the rural poor. To overcome this, government started adopting participatory approaches to rural development, particularly the SHG approach. The entry of the government into the self-help group movement was through the *Rashtriya Mahila Kosh*, which started funding NGOs for forming and nurturing SHGs. Later, the *Indira Mahila Yojana* came into existence, which also facilitated the group formation and nurturing process. A few States like Andhra Pradesh, Maharashtra, Karnataka, and Tamil Nadu have taken very successful initiatives in this regard.

In India a number of microcredit schemes have been introduced, first in the form of cooperatives and later in the form of loan *melas* for rural financing. Targeting women-specific programmes however started much later mainly by NGOs such as SEWA, PRADAN, MYRADA etc. The Government later entered this arena through *Rashtriya Mahila Kosh*, *Indira Mahila Yojana*, STEP and through NABARD. Of late the Rural Women's Development and Empowerment Project known as '*Swashakti*' has reached a take off stage in nine States by involving NGOs fully for its delivery of various components of the Project leading to holistic empowerment of women, by making them stakeholders along with the State Government Departments, Banks and beneficiaries.

There has also been a significant shift in the manner of funding the schemes. The Micro-

Credit Rating International Ltd. (M-CRIL) in a study found that micro-finance had started to shift from being almost exclusively donor funded to being significantly finance through debts. Loan funds were sourced increasingly from apex level NGOs and developmental banks like NABARD and SIDBI, cooperative banks such as SEWA and even commercial banks. The Reserve Bank for example has been actively intervening to ensure that development banks and commercial banks play a active role in financing the SHGs and small micro-enterprises without demanding collateral and without putting the women's group through banking loans and such other bureaucratic red-tapes. The Government promoted SHGs through the following programmes in various parts of India to strengthen SHG movement:

(a) DWCRA Groups

Groups with a maximum membership of 15 women are formed by the Department of Rural Development under the Development of Women and Children in Rural Areas (DWCRA) scheme. Thrift is used an important point for entry and micro financing among members. The scheme focuses on organization of women into groups to foster a collective approach to their problems and to enhance their bargaining power. These organized women pull many of the Government programmes into their respective villages for their benefit.

Under DWCRA Rs. 25,000 is provided to the group as lump sum grant. The members can use it collectively or share it on prorate basis and can be used for any income generating activity. DWCRA recognizes that thrift and credit is essential for improving livelihood. Members are encouraged to save their money as a common fund. Training in leadership, attitudinal changes, and skills for income generation is an integral part of the DWCRA scheme.

(b) SGSY Scheme:

Swaranjayanthi Gram Swarozgar Yojana (SGSY) is a modified version of IRDP with a focus on group approach. Cost of group formation and development is met from SGSY funds amounting to Rs.i0, 000 per group over a period of 3- 4 years. Process approach and social mobilization with minimum of 50% of women groups are salient SHGs approaches. Grading of groups is done once in six months to ascertain their status of performance and corrective capacity building is undertaken. Assistance for economic activities is given through bank loan-cum subsidy scheme to individuals in groups as well as to groups.

(c) *Anganwadi* groups:

These groups are formed by the Department of Women and Welfare at the habitation level for implementing health, nutrition, and literacy programmes for women. Micro finance is extended to the members for taking up income generating activities as individual or as group enterprises.

(d) Joint forest management groups:

Village communities in notified forest areas are formed into *Vana Samrakshana Samithis* (VSS) to conserve forest wealth. Social mobilization through the SHG route is being achieved under this programme. Village communities are exhorted to take up alternative income generating activities.

(e) Watershed management groups:

Farmers in the watershed areas are formed into groups for implementing improved techniques of watershed development with the intervention of a facilitating agency, normally an NGO. While on-farm development activities are funded through grant support, these groups are also encouraged to take up microfinance, with thrift as an entry point activity.

(f) *Rashtriya Mahila Kosh* groups (RMK groups)

These are groups formed by NGOs and funded by RMK, a fund set up by the Government of India for associating women to undertake income-generating activities. Credit is extended to individual women in the group mode.

(g) Micro finance programmes of CAPART

The Council for Advancement of People's Action and Rural Technology (CAPART) is set up by the Ministry of Rural Development, Government of India, to fund voluntary organizations (VOs) and community based organizations (CBOs) engaged in serving rural areas. CAPART occupies a significant space in shaping the development innovations of non-governmental organizations (NGOs) and catalyzing development initiatives to reach the poor.

The main objectives of the scheme are:

(i) to fund VOs and CBOs already working with self help groups to extend their reach to new areas and improve the quality of existing groups.

(ii) to extend training support to potential VOs and registered CBOs who are desirous of working in the area of micro finance and self help groups.

(iii) to identify and support VOs and registered CBOs having outstanding experience in formation of SHGs and micro finance who would act as resource centres. The unit cost for the promotion of group is worked out to a maximum of Rs.9,000 per group, which includes expenditure for a 3-year project cycle.

(iv) to fund Rs.10,000 per SHG without interest, where bank linkages are not available as revolving fund.

(v) to finance up to Rs.2.00 lakhs as bridge funds for a federation of over 100 active SHGs

(h) *Swa-shakti* Project (Assisted by International Fund for Agricultural

Development (IFAD) and World Bank)

This is a rural women's development and empowerment project encompassing six important states of Bihar, Gujarat, Haryana, Madhya Pradesh, and Uttar Pradesh with a central project
support unit in the Department of Women and Child Development of the Government of India to facilitate the implementation.

The broad components of the scheme are as follows:

1. Institutional capacity building for women's development:
   promotion of women SHGs, cluster associations, and capacity building.

2. Supporting mechanism for income generating activities:
   mobilization of investment funds, provision of business management, and technical support services;
   mechanism to access social programmes and leverage funds for community asset creation;
   to assist in improving women's access to social services such as health and child care; and
   to create and improve community assets such as drinking water, sanitation, and Day care centres.

3. Provide effective project management systems:
   to strengthen the capacity of central and state level agencies to manage the activities.

(i) The Tamil Nadu Women's Empowerment Project

This project, an IFAD-supported project implemented through the Tamil Nadu Women's Development Corporation, was the first project in the country, in about 1990, to incorporate the SHG concept into a state-sponsored programme. MYRADA was asked to play a lead role, which it agreed to do in Dharmapuri District of the State. It should be noted that this was a year or more before the launch of the SHG-Bank Linkage Programme. The empowerment of women was sought both through SHG strengthening, with capacity-building modules, and through the provision of credit for income-generating activities.

(j) *Kudumbashree* Project

The project is launched by the Government of Kerala with the active support of the Government of India and NABARD for wiping out absolute poverty from the state within a period of 10 years. This project aims at combining the self help group approach with demand led convergence of available services and resources to tackle the multiple dimension and manifestation of poverty holistically. The project is implemented through Community based organisations. This project is based on the successful experience of the Alapuzha model (a district in Kerala) of poverty alleviation with community participation, which won the UN Award at the 50th Anniversary of UN at New York in 1995. *Kudumbashree* aims at

1. empowerment of women through community based organizations;

2. formation of informal banks for the poor;

3. promotion of micro enterprises and establishment of rural marketing networks; and

4. striving for convergent community action.

(k) District Poverty Initiatives project: (*VELUGU*)

This project is being implemented in Andhra Pradesh with the aid of World Bank. The project aims to organize the poorest of the poor in selected districts through convergence of resources.

The project has components of organization capacity building, linkages, and capital support. The project envisages common interest groups to focus on accelerated progress in poverty alleviation. CIG members, mostly drawn from existing groups, are motivated to take up economic activities and community welfare programmes through the provision of revolving fund (Rs. 20, 000) called common investment fund.

(l) SJSRY (*Swarna Jayanthi Shahari Rozgar Yojana*)

SJSRY is an anti-poverty programme launched by the Government of India for eradicating absolute poverty from urban areas. The community development structure provides the channel for the delivery system of the scheme. The scheme has two sub components: Urban Self Employment Programme (USEP) and Development of Women and Children in Urban Area (DWCUA). DWCUA helps urban poor women in setting up gainful employment through group activity.

4.2 Banks as a SHPI

Among the formal institutions, next to government, banks play a major role as self-help promotion institutions in India. For several years, since the nationalization of the commercial banks, there has been a commitment at the highest policy levels, towards improving access to financial services for the poor. Several policy measures have also been in force to ensure this, such as the allocation of committed bank funds to small loans (priority sector banking), subsidized interest rates (ranging from 4% to 10%) for micro loans, and the opening of small rural bank branches. Hence, the mainstream banking system in India has always been involved in microfinance as a special area of their operation.

At the operational level, this policy commitment has been implemented usually by linking bank credit to a targeted program of the government of India. The Integrated

Rural Development Program (IRDP) was a typical example. Based on this program, several projects of the government of India have had a strong microfinance component either through the banks or through government-established financial institutions. A further institutional focus was given to rural lending through small loans by establishing the regional rural banks in 1975. The SHG linkage program is located in this national policy and institutional context, where there is a vast network of primary lending institutions to deliver microfinance on the one hand, and an apex national level institution, namely NABARD, to provide policy support and refinance on the other.

Banks have been slow in entering the field of microfinance from the angle of both promoter as well as lender. In general, banking institutions have treated the formation and promotion of SHGs as an activity which is strictly for voluntary agencies or non-governmental organizations and not for mainstream commercial bankers. But the problem in India is that well-intentioned NGOs, which can take up these activities, are con-fined to relatively smaller pockets of the country. If banks see a new opportunity and a new market in microfinance they can-not always expect a ready-made institution to absorb their lending portfolio. It may be necessary for some banks to take up the work of forming and promoting SHGs on their own if they view it as a profitable market and a profitable business opportunity. Several banks, especially regional rural banks (RRBs), have done pioneering work in forming, promoting, and later financing SHGs.

In this method, the role of mobilizing and forming the SHG is taken up by the bank branch itself. There is no NGO facilitation. Although this model is not common, many banks have shown interest in forming SHGs themselves. However, this alternative is fairly unique, as banks do not usually go into social mobilization roles. Irrespective of the quality of the SHGs formed, the weaknesses of this alternative are obvious. The core competency of a banker is finance and not SHG formation. Even if the SHG formed is for the limited purpose of fund rotation, substantial effort has to be made to form SHGs. Further, SHGs formed only for receiving external funds may not be sustainable. The advantage of this alternative, however, is that it exposes the banker to social realities firsthand. Also, in all the places where NGOs are not operating, some mechanism needs to be found to improve access to microfinance.

The effectiveness of SHG model as an effective conceptual model for empowerment is far from realized. The burden of target has been too heavy to be carried on the shoulders of participating actors. To Make SHG model an effective empowerment model needs addressing important issues. These Issues namely – capacity building, adequate personnel, financial and human resources, market linkages and capacity building at several stages have important bearing on the success of SHG as an effective tool of empowerment for women.

4.3 NGO as a SHPI

Though government and banks have been played positive roles in the promotion of SHGs, in terms of numbers, the non-governmental organizations (NGOs) rank as the premier SHPIs. NGOs have so far been the main innovators in microfinance. They have many advantages. Their very name, non-governmental, indicates that they are outside the framework of government. In India, where governmental systems are fairly rigid and bureaucratic, NGOs are characterized by their flexibility and ability to evolve simplified work systems.

While a group approach has been a developmental concept actively pursued by development practitioners for many years, the focused formation of SHGs under the microfinance framework is a relatively newer concept. It was initiated only in the late eighties by a few NGOs as an exclusive idea. The number of NGOs involved in the formation of microfinance based SHGs has increased many fold in the nineties. Contributing factors in this expansion has been the creation of an enabling environment for this kind of work by several national and international organizations, including multilateral, bilateral, and international NGO donors, plus an encouraging policy environment created by the government of India and the Reserve Bank of India. The SHG linkage program of NABARD through its widening network of institutions has also contributed to expanding the microfinance-based SHG movement.

Because of the expansion of the microfinance-related SHG program agenda, a wide diversity is observed in the approaches adopted by different agencies. Some NGOs act as banking intermediaries, channeling finance to different SHGs formed and centralizing all the accounts and financial systems at the NGO level. Others have formed collectives of several SHGs together, forming a federation of SHGs, and were linked them up with banks. There is also a fair amount of diversity in the levels of competencies and capacities to manage a microfinance SHG program within these agencies.

The non-governmental organizations that are a part of the SHG-bank linkage programs throughout the country have developed and fostered different types of institutional mechanisms for these groups. While most NGOs have opted for a conventional SHG of 15 to 20 members, some others have opted for different forms, notably the *Mahila Mandal* or federal type where the group is a single entity at the village level, as a sort of village level federation.

While basically all NGOs in the SHG movement have the economic empowerment of the poor, especially women, as their goal, their approaches and their working methods differ.

In Southern India organisations like PRADAN, MYRADA, ASSEEFA, MALAR and others have entered into this rural credit system to promote self help. An offshoot of the Total Literacy Campaign in Kanyakumari District of Tamil Nadu, MALAR has emerged as an organization of poor women who share the interest income to sustain a full time structure, office and training schedule. This has kindled a new hope. Already 10 districts in Tamil Nadu have undergone training at MALAR and started similar organizations for micro-credit.

Table 4: Growth of SHGs and SHGs per 1000 Females across the States (1998 - 2001)

States	Growth of SHGs Over the Years			Growth Rate (%)	Growth of SHGs per 1000 Females			Growth Rate (%)
	1998 - 99	1999-00	2000- 01		1998-99	1999-00	2000-01	
Andaman & Nicobar	3	9	10	82.57	0.018	0.051	0.061	86.84
Andhra Pradesh	6579	29242	84939	259.31	0.179	0.786	2.258	255.39
Assam	10	46	156	294.97	0.001	0.004	0.012	288.79
Bihar	121	857	1846	290.59	0.003	0.018	0.046	324.17
Goa	4	14	27	159.81	0.005	0.018	0.041	180.97
Gujarat	879	1345	1375	25.07	0.038	0.057	0.059	24.70
Haryana	4	107	334	813.78	0.000	0.012	0.034	783.19
Himachal Pradesh	133	48	1166	196.09	0.041	0.014	0.390	210.24
Jammu & Kashmir	2	53	137	727.65	0.000	0.011	0.029	725.62
Karnataka	2002	3167	5627	67.65	0.079	0.124	0.217	65.51
Kerala	1291	1709	1826	18.93	0.079	0.104	0.112	18.59
Madhya Pradesh	461	1533	3174	162.39	0.018	0.040	0.110	200.29
Maharashtra	1058	3029	5509	128.19	0.024	0.069	0.119	121.14
Orrissa	975	2021	3850	98.71	0.056	0.114	0.213	95.49
Pondicherry	15	144	150	216.23	0.028	0.257	0.308	233.26
Punjab	1	18	71	742.61	0.000	0.002	0.006	728.69
Rajasthan	465	526	2513	132.47	0.019	0.021	0.093	123.84
Tamil Nadu	2618	7671	16676	152.38	0.087	0.251	0.541	149.99
Uttar Pradesh	1464	7744	5457	93.07	0.019	0.097	0.069	92.59
West Bengal	554	2317	5351	210.79	0.015	0.061	0.138	205.40
All India	18639	61600	140194	173.97	0.039	0.128	0.283	167.91

(Source: NABARD & Micro-finance, 2000 - 01)

5. Impact of SHGs in India

There are several instances of experiments of SHGs that have made a positive impact on the income and employment situation of the poor (see Reserve Bank of India 2008 Box V.7 for a couple of instances). A few assessment studies have been carried out on the impact of the SBLP in India at the grassroots level. Puhazhendi and Satyasai (2000) observed a shift towards higher income slabs between pre and post-SHG situation. About 74 per cent of the sample households were below an annual income level of Rs.22,500 during pre-SHG situation. The proportion declined to 57 per cent in the post-SHG situation indicating increased income levels. Further, involvement in the group significantly contributed to improving the self-confidence of the members. The communication with other group members also improved after association with the SHGs. The members were relatively more assertive in confronting with social evils and problematic situations. In another assessment, Puhazhendi and Badatya (2002) found that availing loans from moneylenders and other informal sources with higher interest rates was significantly reduced due to SHG intervention. It was also observed that consumption-oriented loans were replaced by production-oriented loans during post-SHG situation.

Reserve Bank of India (2008) reports that some studies have also indicated the size of the loans is small and is often not sufficient to take up income generating activities. As a result, the loans are utilised for consumption purposes or for taking up subsistence-income generating activities.

A study conducted by EDA Rural Systems and APMAS (2006) brought out that a significant proportion of sampled groups (40 per cent) had a weak record of account keeping. The study pointed out that financial statements are not being regularly prepared by the SHGs. Only 28 per cent of the SHGs (22 per cent in the South and 35 per cent in the North) prepared an income and expenditure statement and an equal number of SHGs prepared a balance sheet and portfolio information. While members were usually able to provide approximate figures of total savings and total SHG loans outstanding, they were not able to provide information about profits earned or loan outstanding to banks. Further, the SHGs do not have a clear policy on how to deal with defaults or with dropouts, which formed about 10 per cent of membership.

The study also observed that 30 per cent of SHGs in the sample were involved in community actions. These involved improving community services (43 per cent of the total actions, including water supply, education, health care, veterinary care, village road), trying to stop alcohol sale and consumption (31 per cent), contributing finance and labour for new infrastructure (12 per cent), protecting natural resources and acts of charity (to non-members). The most common type of action taken up by SHGs was the attempt to close down local liquor outlets.

The study also pointed out that such community actions inculcated a new boldness and confidence amongst women, often putting pressure on the authorities (*panchayat*, district officers and police) to do their jobs, whether through petitions or by staging rallies and blockades.

6. Conclusion

Self-help groups (SHGs) are fast emerging as powerful tool of socio-economic empowerment of the poor in our rural areas. The self-help group is a small body formed by the people for meeting their specific objectives, particularly credit. However Local literature shows that self-help groups have been developed for a wide range of populations, including the mentally ill and their families, persons with disabilities and their care-givers etc. SHGs are initially formed on the foundation of the accumulated endowment of bonding social capital already existing in the community. The social capital produced by the SHG as it matures through creation of new ties and linkages, strengthens the community's cooperative capacity to the achievement of group government. When the SHGs grow they begin to articulate the community demands as they become aware of their rights and therefore attitude of the government bureaucratic officials changes and they become more responsive to the needs of the community i.e., with the maturity of SHG the state-society relationship begin to change at the local level towards the better.

In this way, SHGs which were originally established to produce economic benefits for members eventually became an associational framework for collaborative actions that produce public goods. As a result a range of other community-level organizations emerge where often members of the SHGs are recruited. Role of SHGs in strengthening local governance and political democracy can be described by the fact that a number of SHGs members are being elected in the *Panchayti Raj* system in India, the lowest tier of local democratic governance.

In self help groups it is assumed that all poor households need to save and have the inherent capacity to save small amount regularly; easy access to credit is more important than cheap subsidized credit which involves intricate bureaucratic procedures, the poor are the best judge of their credit needs and are good users and re-payers of credit when formed in group. A notable feature of SHG is that before its linkage with any financial institution, credit discipline is imbibed among the member by way of SHG with banks has improved the socio-economic condition of its member by way of positive impact on income, saving, and self-confidence. The impact is more pronounced in the case of SHGS linked through NGOs. This and many other aspects of rural credit delivery system need to be studied in a greater depth. SHGs have proved to be successful in addressing the interests of women in a sustained manner. They are extremely useful in generating savings, ensuring successful delivery of credit to individual women and effecting recovery. In addition, they serve as an ideal mechanism for bringing omen out of their homes, making them more articulate and honing their leadership qualities and their skills as motivators. Women led SHGs in Andhra Pradesh have won laurels for their exemplary performance.

Self-Help Group enables the rural poor to earn their own livelihood besides participating in the process of development. The SHG scheme has been extensively used by voluntary agencies for a long time but has been incorporated in the conventional development programmes only recently. A typical rural women's self-help group is a good example of capacity building for prospective entrepreneurs. Its aims include enabling members with no educational or industrial or entrepreneurial background to become self-dependent and self-reliant by developing and enhancing the decision-making capacity of members and instilling in them the strength and confidence for solving their problems. They provide poor people a forum where they can learn about collectively mobilising and managing money and matters. A few other Central and State government schemes aimed at capacity building of women and others for entrepreneurship include the *Stree Shakti* programme in the dairy cooperative sector in Madhya Pradesh, training-cum-employment programme for women called *Swa-Shakti* and *Rashtriya Mahila Kosh* Project —supported by the World Bank and International Fund for Agricultural Development (IFAD).

However, there are some areas of concern also: Reserve Bank of India (2008) reports that owing to the fast growth of the SHG-bank linkage programme, the quality of SHGs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts.

It was reported for several years that the repayment rates of loans under microfinance were above 95 per cent. In fact, the high repayment rates in this sector were considered to be the most prominent feature of micro finance. Recent data published by NABARD, however, suggest that the recoveries in the micro finance sector have not been as high as they were believed to be earlier. Under the SHG-bank linkage programme, the largest microfinance programme in the country, out of the 290 reporting banks, only about 37 percent of banks reported recovery above 95 percent and around 36 per cent banks reported recovery in the range of 80-94 per cent. The recovery of the remaining banks was below 80 per cent. However, when it comes to recovery by the MFIs, most MFIs had a repayment record of above 90 per cent (Reserve Bank of India 2008: 314).

The emergence of SHG federations has posed another challenge. On the one hand, such federations represent the aggregation of collective bargaining power, economies of scale and are for addressing social and economic issues. On the other hand, there is evidence to show that every additional tier, in addition to increasing costs, tends to weaken the primaries. However, keeping in view of the beneficial aspects of federations, especially in terms of increasing the bargaining powers of the SHG members and livelihood promotion, NABARD has decided to support federations on a model neutral basis for training, capacity building and exposure visits of SHG members.

There have been reports from certain parts of the country that the interest rates charged by the MFIs are rather high (Reserve Bank of India 2008: 313). The cost of microfinance delivery depends upon various factors such as the cost of funds, risk and transaction cost, among others. As microfinance services are generally provided at the doorstep of the customers, the cost of operations of MFIs increase substantially. This tends to get reflected in the ultimate interest rates charged to the clients. It is also important that the interest rates structure of the institutions is simple so that the clients can understand it. MFIs should also have appropriate transparent disclosure mechanisms whereby the various costs and other charges payable by the clients are disclosed properly. In order to reduce the ultimate cost to the clients, MFIs can adopt IT-enabled services which may help in reducing the operational costs and interest rates charged to borrowers.

Another area of concern is that the MFIs, which are on the growth path, face paucity of owned funds which is a critical constraint for scaling up their operations. Many of them are socially-oriented institutions and have little access to financial capital. As a result, they have high debt-equity ratios. The Micro Finance Development and Equity Fund (MFDEF), set up with NABARD, helps in meeting the equity needs of MFIs to some extent.

In comparison with earlier years, MFIs now find it relatively easier to raise loans from banks. This change came after the year 2000, when the Reserve Bank of India allowed banks to choose any conduit or intermediary for microfinance delivery and treat such lending as part of their priority sector lending obligations. Some private sector banks have since designed innovative products to fund MFIs and have also started viewing lending to the sector as a viable business proposition. However, banks need to work on choosing the right technologies to assess the risk of funding to MFIs. They also need to improve their capability of appraising MFIs and assessing their credit needs. Appropriate credit rating of MFIs will help in increasing the comfort level of the banking system. In this context, NABARD has introduced a scheme under which 100 percent of the professional fee for the first rating of a MFI will be borne by it, subject to a maximum of Rs.1 lakh.

The SBLP is a home-grown model and unique to India, at least on the scale at which it is carried out. It differs from the Microfinance Institution (MFI model) found worldwide in which the MFI acts as an intermediary, much as the SHG does, but borrows in much larger amounts from the banks (in India mostly the private banks who do not have rural branches to conduct SHG lending) for a much larger number of members (going up to one million in the case of the largest MFI in India). These members are also organized into groups, whether the classic five-member *Grameen* Bank-type group, or larger 'joint liability group' (JLG), or even SHGs. Lending to groups, whatever they are called, entails the joint and several liability of all members, which is more moral than legally enforceable, and is exercised through peer group pressure and the prospect of being denied future loans. The essential difference is that in the case of SHGs, the loan is a single loan to the group as a whole, which decides how to allocate it to its members, while in the case of other groups, the MFI records and tracks loans in the name of individual lenders, although the task of disbursement and collection is made easier and cheaper by the group mechanism. Thus, interest rates charged by MFIs to SHGs are usually lower than on loans to members in other types of groups. Moreover, MFIs also make a few larger, individual loans to 'graduating' members. Loan repayments to MFIs are in the upper nineties.

The major advantage of the SHG model is the empowerment and participation it has engendered in millions of rural women (currently 31 million) of which half are below the poverty line. It also has the advantage that it can spread much faster, taking advantage of India's huge network of bank branches and, potentially, of Primary Agricultural Cooperative Societies (PACSs). Ironically, in view of what has been said above about credit absorption limits, the main disadvantage is that the average loan size goes up much more slowly than in the MFI model because it is tied to savings performance and the loan cycles are much longer (the average tenor of bank loans to SHGs is 2.5 years as opposed to the usual one year under the MFI model). Therefore, every member has to wait till the last member has repaid her loan to the group, so that the group can repay its loan to the bank. Turn-around time among the bank branches also varies and can often take six months depending on the manager's perception of the credit-worthiness of the group for a repeat loan and of the profitability of the programme at existing lending rates. Despite this, the proportion of repeat loans is increasing and the average size of repeat loans is beginning to approach the average size of MFI first loans.

Conversely, MFIs have the advantage that they can borrow huge amounts from the banks and increase loan size according to demand. By enabling pre-payment of existing loans, they enable borrowers to access the next loan before the existing loan has run its full one-year cycle, although at a penalty for pre-payment. The higher average loan size that results from these advantages enables borrowers to invest a higher proportion of loans in income generating as opposed to consumption activities (essential though these may be).

Neither model is exclusively focused on those below the poverty line (although some individual SHPIs and MFIs are). However, the SBLP seems to do slightly better in this respect, even though there is no poverty targeting under the SBLP, and a large number of poor women cannot afford even the small regular savings and repayment obligations, given the uncertainties and seasonality of their incomes, and prefer to exclude themselves. The SHPIs have not been able to introduce the flexibility that would improve inclusion of the poor above about 51 per cent of the total membership, according to the most recent large-scale survey of SHG borrowers (EDA and APMAS 2006). This study has found that on an average only 43 per cent of the borrowers of a sample of 20 MFIs were below the poverty line (BPL), despite the fact that many MFIs lending to Grameen groups tend to be particular about lending only to BPL women, using in one well-known case an easy-to-administer housing index test, and that the more time consuming procedures of MFIs, such as weekly instead of monthly meetings, encourage self-targeting.

A disadvantage of the MFI model (unless the MFI is a cooperative) is that it does not provide for savings, but this is purely a function of the regulatory environment in India (savings are allowed and indeed encouraged as an essential service for the poor in most other countries). The biggest disadvantage of the MFI model, however, is that it is less participatory and empowering, since the 'banking' functions and procedures are taken care of entirely by the field staff of the MFI, who disburse and collect loans.

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