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An Approach towards Self-reliance and Sustainability of the SHG Sector: SHG Sector Own Control

- Hans Dieter Seibel*

The SOC pilot in Andhra Pradesh has demonstrated, in principle, that building the capacity of selected SHG members to manage and govern village organisations as well as higher-level federations is feasible. As a next step, research across several states is needed, examining the experience and capacity of village organisations.

Abstract

Initiated by NABARD in 1992, SHG banking had enabled 7.5 million SHGs, with 100 million members, to open bank savings accounts; 4.8 million SHGs had a bank loan outstanding (31/3/2011). This has been paralleled by the emergence of 163,730 SHG federations, 97% of them village organisations (31/3/2010). While providing an institutional framework to informal groups, the potential of the federations is far from being fully utilised. This paper reports on a project piloting self-regulation and self-supervision of the SHG federation system, or SHG Sector Own Control, in Andhra Pradesh, with some 40,000 SHG federations licensed as Mutually Aided Cooperative Societies (MACS). In interaction with SHGs two support activities have been designed: (i) establishing a cooperative SOC system (standardised bookkeeping, reporting, auditing, rating, annual planning; annual elections; legal compliance as per MACS Act; delegation of representatives from SHGs to all federation levels); (ii) capacity building as the social capital formation process by which the SOC system is inculcated in the minds and practices of SHG members, selecting all trainees (book-keepers, auditors, supervisors, financial literacy facilitators) from within the SHGs and building their capacity as internal service providers. The SOC pilot has demonstrated that building the capacity of SHG members to manage and govern village organisations and higher-level federations is feasible. Upscaling in Andhra Pradesh and other states has been initiated. Research

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across several states is proposed, examining the experience and capacity of village organisations as the emerging "mother organisation" of SHGs, with a wide spectrum of services, including collection of voluntary savings and financial intermediation.

The Evolution of SHG Banking

There are three sectors of financial institutions in India which provide services to lower-income people: regulated banks, unregulated microfinance institutions (MFIs)[1] and informal self-help groups (SHGs). India has one of the most diversified networks of banks in the developing world, comprising commercial banks, regional rural banks and cooperative banks, which in turn are linked to some 100,000 agricultural cooperatives (PACS)[2] with credit as their principal service to their farmer members. Yet, according to the All-India Debt and Investment Survey of 1981, some 250 million of the rural poor still had no access to formal finance, despite years of massive branch expansion, priority credit programmes for rural areas and numerous donor credit lines. The National Bank for Agriculture and Rural Development (NABARD), carved out of the central bank in 1982, analysed the reasons behind the failure of reaching the rural poor: a sole emphasis on production loans, prohibitive transaction costs for lenders and borrowers, failure to mobilise savings, and overly complicated procedures.

During the second half of the 1980s NABARD took a first step turning from the old world of supply-driven to a new world of demand-driven finance, stipulating that programmes with the poor have to be savings-led and not credit-driven; and that the poor have to have a say in their design. Inspired by a new regional programme of APRACA and GTZ/GIZ in Asia, Linking Banks and Self-help Groups, NABARD initiated a study of self-help groups (SHGs) in 1987, led by MYRADA and based on a new paradigm: savings first. Three options were explored, all hinging on prior savings by the groups: matching grants, matching interest-free loans, or bank loans with interest (NABARD 1989: 53-58). In a parliamentary debate NABARD argued against the introduction of the Grameen Bank model of Bangladesh on a national scale, opting instead for a linkage banking approach: using the existing infrastructure of banks and social organisations; being savings-driven rather than credit-led; and using bank rather than donor resources in the provision of credit (Kropp & Suran 2002; Nanda 1992, 1995; Seibel 2005).

With approval from RBI[4] and an authorisation for banks to open savings accounts for informal SHGs[5], NABARD started a pilot project in 1992, contributing to the goal of solving the perennial problem of rural indebtedness and poverty in India. Results were promising, and NABARD decided to mainstream SHG banking on a national scale: setting up a Credit and Financial Services Fund in 1996 for extensive capacity-building and a Micro-Credit Innovations Department (MCID) for programme implementation in 1998, with MCI cells in every state. Transaction cost studies in the 2002s found that SHG banking was highly profitable to banks (Seibel and Dave 2002), and borrower transaction costs were low for SHGs and members (Karduck and Seibel 2007).

Since then the number of SHGs established by NGOs as well as GOs and bank has grown at tremendous speed[6]. As reported by NABARD at the Microfinance Summit 2011[7], as of 31/3/2011 7.5 million SHGs had opened bank savings accounts, with an outreach to some 100 million members[8], covering a population of around half a billion; total bank deposits amounted to Rs 69.26 billion ($1525 million). At the same time 4.81 million SHGs had bank loans outstanding, amounting to Rs 306.27 billion ($6787 million). However, as impressive as these figures are (doubted by some as to their validity), outreach across states is very uneven, and the suitability of SHG banking for thinly population and remote areas has been questioned. Depth of financial services is shallow: on average Rs 9,177 ($204) in bank deposits per SHG, or around Rs 700 ($15) per member, and Rs 63,625 ($1418) in bank loans outstanding per SHG, or around Rs4,850 ($108) per member. Internal resources of SHGs (comprising mandatory savings and profits) are a multiple of their bank deposits, serving as an additional source of loanable funds.

Andhra Pradesh is regarded as the leading state in the development of the SHG movement, accounting for a disproportionate share of outreach in India: 18% of SHGs with bank savings accounts and 16% of the aggregate amount, 35% of SHGs with bank loans outstanding and 42% of the outstanding bank loan balance (Table 1). SERP, with its World Bank supported SHG project Indira Kranthi Patham (IKP), has greatly contributed to this achievement.

Table 1: SHG-Bank Linkages in India and Andhra Pradesh, March 2011 (in bn Rs)

	India	Andhra Pradesh	AP in % of all-India
SHGs with bank savings accounts*	7,547,269	1,351,330	17.9
Bank savings balance	69.26	10.89	15.7
SHGs w. bank loans outstanding*	4,813,670	1,683,993	35.0
Amount of bank loans outstanding	306.27	128.69	42.0

NABARD has focused on quantitative growth of outreach and on credit linkages of SHGs. It has also provided funds for capacity building of promoting NGOs, government organisations and banks; but group quality and operations has been left to the promoters. As a result there is no standardised bookkeeping and auditing system; internal financial intermediation of SHGs is not monitored and consolidated; the financial operations of SHGs are not supervised, neither directly nor indirectly. Contact with bank branches may have given SHG members an opportunity to open individual bank accounts; but their number is limited, and not systematically promoted. There is anecdotal evidence of members establishing microenterprises and some even growing into small enterprises; but SHG Banking has not included promoting graduation to micro and small enterprise finance.

The Development of SHG Federations

Building informal groups without a concept of supporting secondary and tertiary structures of SHGs has had one major consequence, unintended by NABARD: others took the building of such structures into their own hands, among them NGOs and state governments. NABARD did not involve itself in supporting such structures until 2007. As Srinivasan & Tankha (2010: 199) put it, "NABARD does not view the financial intermediation role of federations favourably and is willing to accept the same only as an unavoidable necessity where it could be done with profitability and sustainability."

Among the earliest initiatives were CARE India and Dhan Foundation in the early 1990s and UNDP's South Asia Poverty Alleviation Project (SAPAP) in 1996 in Andhra Pradesh, upscaled during the 2000s by SERP of the Government of AP in its Velugu/ IKP project with World Bank support. In Kerala state government has promoted federations statewide through the Kudumbashree programme. In Tamil Nadu the government has promoted primary federations throughout the state through its Mahalir Thittam (MT) project, similarly the Government of Maharashtra. PRADAN, MYRADA, DHAN and CARE are among NGOs pioneering SHG federations in several states. Overall the result of efforts building a wider institutional framework has been stunning. As of March 2010 there was a total of 163,730 federations (138% more than in 2007), comprising 158,166 primary level CBOs or Village Organisations (96.6%), 5,465 secondary level (3.3%) and 100 tertiary level federations (0.1%). In 11 states there are more than 1,000 federations, the largest numbers in West Bengal (51,354) and Andhra Pradesh (45,752); there are seven states without any federations (Table 1). (N. Srinivasan 2010: 29-30; cf. APMAS 2007: 13)

There is no harmonised system, neither in terms of legal forms nor of functions. The federations have been registered under different legal forms, most prominently under parallel liberal cooperative laws similar to the Mutually Aided Cooperative Societies Act (MACS) of 1995 in Andhra Pradesh. They may function as support organisations including capacity building and monitoring & supervision, facilitators of the flow of credit from banks and other

Table 2: SHG Village Organisations and Higher-Level Federations by State, March 2010

State	Total no. of federations	Village organisations	VOs in % of total number
West Bengal	51,354	49,433	96.3
Andhra Pradesh	45,752	44,502	97.3
Kerala	18,101	17,040	94.1
Tamil Nadu	13,617	13,443	98.7
Orissa	8,895	8,502	95.6
Maharashtra	8,167	8,161	99.9
Jharkhand	6,391	5,944	93.0
Karnataka	4,527	4,517	99.8
Madhya Pradesh	3,819	3,617	94.7
Bihar	1,235	1,228	99.4
Uttar Pradesh	1,102	1,065	96.6
6 states with 33-351 federations			
5 states with 1-7 federations			
7 states with 0 federations			
Total	163,730	158,166	96.6

Source: Srinivasan, N. (2010): Microfinance India - State of the Sector Report.

sources, and financial apexes.

After twenty years of SHG development, one may ask: What is going to be the fate of SHGs in the next twenty years? Will they remain informal? What will be the role of SHG village organisations and higher level federations? Might there be a role for SHG federations meeting the loan fund gap during the time period SHGs have an active loan from a bank?

SHG Federations in Andhra Pradesh and the Role of a Sector Own Control (SOC) Pilot

Andhra Pradesh has been a leading state in the evolution of a comprehensive system of SHG federations. They cover the whole state and are registered as autonomous Mutually Aided Cooperative Societies under the MACS Act of 1995. As of December 2011 there were 38,300 primary level federations at village level, 1,099 sub-district level and 22 district level federations in rural areas, covering about a million SHGs. Virtually all are registered as MACS, except 8% of VOs which are in the process of registration (Table 3).

Table 3: Registration of SHG Federations Under MACS Act in Rural AP, 2011

SHG federations	Number	MACS
District – Zilla Samakhya	22	100%
Subdistrict – Mandal Samakhya	1,099	100%
Village organisations	38,300	92%

The registration of the federations under the MACS Act is a major achievement, as it removes them from direct domination and shareholding by the government and places them under their own bylaws, stipulating: board meetings at least monthly; general body meetings within a period of six months from the close of the financial year; elections in the manner specified in the bylaws of the federations; audit of accounts by a chartered accountant (in addition to internal audits), submitted to the general body meetings of federations for approval; filing of returns annually before the statutory authorities within 30 days from the date of the annual general body meeting.

In 2007 the Registrar of Cooperatives determined that enforcement of legal compliance of federations with the AP MACS Act does fall under his responsibility. Yet the scrutiny of the Registrar does not go beyond ascertaining receipt of the required reports; there is no oversight of financial or non-financial performance. However, enforcement of compliance with the MACS Act had two major effects: First, it has compelled almost 40,000 SHG federations to have their books audited and hold the required general body meetings, where the results of the audits (including the discovery of fraud and other inconsistencies in the books) are presented. Second, it has motivated the federations, together with SERP as a promoting agency to impose the same requirements via bylaws on the SHGs and to control compliance, even though such compliance cannot legally be enforced among informal organisations.

Enforcement of compliance has underlined the urgency of (i) regular and reliable bookkeeping and auditing among 1.5 million SHGs in Andhra Pradesh, requiring the training and supervision of large numbers of bookkeepers and auditors; and (ii) the importance of regular elections and meetings, requiring member education and financial literacy training to disseminate familiarity with rules and regulations, roles and responsibilities.

This corresponds to concerns of SHGs identified by APMAS and the IKP team together with representatives of SHGs and their federations in Andhra Pradesh:

Internal funds: Low levels of savings; no interest paid on (mandatory) member savings; reluctance to increase regular savings; tendency of distributing accumulated surplus among members; idle internal funds due to restrictions imposed by banks.

External loans: Shift of focus from internal lending to external loan channeling; inadequate access to loans of appropriate size and timing.

Systems and processes: Inadequate operational capacities of SHGs and federations; lack of information processing and feedback by federations; inadequate and uncontrolled recordkeeping, leading to mismanagement and fraud.

Sector Own Control: Design and Approach

The interaction between APMAS and SERP/IKP with SHGs and their federations led to the decision of piloting self-regulation and self-supervision of the SHG system, or SHG Sector Own Control, with the overall objective of ensuring that SHG members set their agenda and manage and control the processes, so that the SHG system works effectively and sustainably for their benefit. A three-pronged strategy has been tried and tested: (i) identification and training of eligible members of SHGs as internal service providers (bookkeepers, auditors, facilitators, trainers) and as office bearers; (ii) compensation of internal service providers by the SHGs from their own income as a basis of financial self-reliance and institutional sustainability; (iii) management and control of the system of training and compensation by a tiered structure of federations, which are in turn staffed and self-managed by elected representatives of the respective lower tier: village organisations by representatives of SHGs, sub-district/Samakhya federations by representatives of village organisations, district/Zilla federations by representatives of sub-district federations); along the same lines, the tiered structure is self-financed from below.

Project holder has been APMAS, an NGO domiciled in Hyderabad, which is focused on quality assurance for an envisioned "Sustainable Self-Help Movement in India". Established in 2001, APMAS has done pioneering work in developing various capacity building modules, rating tools and innovative approaches to strengthen the SHG movement. The German Cooperative and Raiffeisen Confederation (DGRV), a national auditing federation backed by a history of emerging self-control and supervision of savings and credit cooperatives since the middle of the 19th century in Germany, has provided capacity building and technical assistance to the pilot project, 2008-2011. SERP, Society for Elimination of Rural Poverty is APMAS' senior partner in promoting SHG federations and upscaling SOC throughout the state. SERP is an autonomous society established by the Department of Rural Development of the Government of Andhra Pradesh and chaired by the Chief Minister of Andhra Pradesh. SERP implements Indira Kranthi Patham (IKP), a state-wide project funded by the World Bank promoting SHGs and SHG federations as the foundation for poverty reduction. APMAS's main instrument of collaboration with SERP is capacity building of it staff and management and piloting innovative approaches such as sector own control, to promote self-reliance and sustainability of the SHG movement in Andhra Pradesh. In a similar vein, APMAS also works with MEPMA, Mission for the Elimination of Poverty in Municipal Areas of AP. The project was evaluated in 2011 by Seibel (2011) on behalf of DGRV.

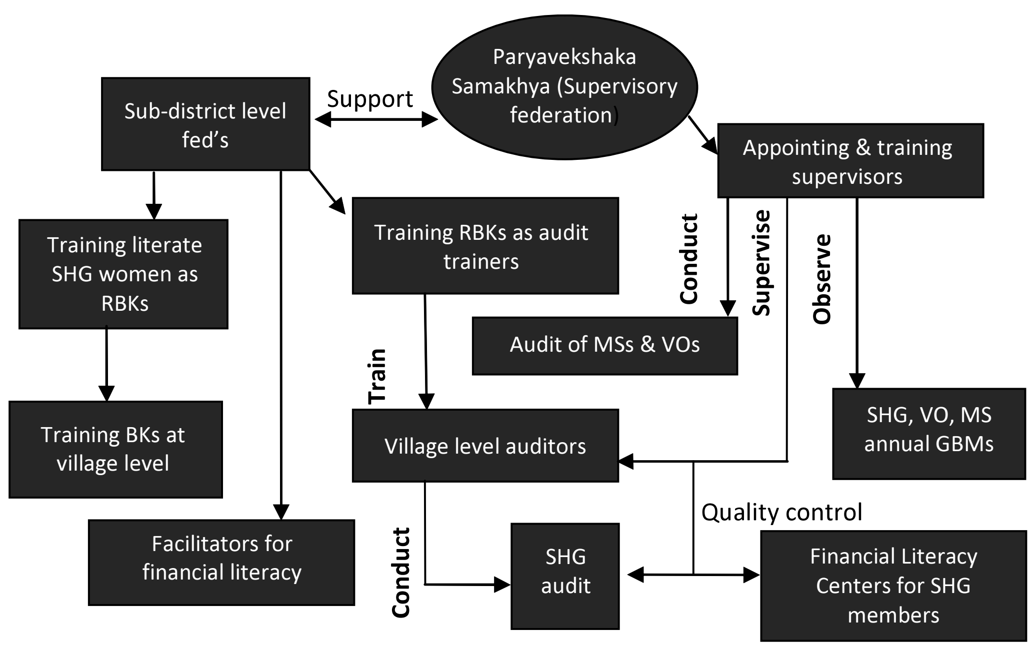
Pilot project area is the Kamareddy Cluster in Nizamabad District, Andhra Pradesh, comprising 128 villages. The cluster comprises six sub-districts or mandals, each with its own SHG federation (Mandal Samakhya); these are multi-service federations, each with a staff of six to nine, half of them paid by IKP and half from the federation's own income. The federations in the cluster are co-members and co-owners of the district level federation (Zilla Samakhya). Since February 2011 they are under a cluster supervisory federation, Paryavekshka Samakhya, the result of institutionalising the pilot project coordination committee. The six mandal-level federations comprise 172 primary federations, or village organisations (VOs), on average 1.3 per village and 30 per Mandal. Each VO comprises on average 35 SHGs: a total of initially 4,408 and now 6,084 SHGs in the cluster, of an average age of 5.8 years (ranging from 1 to 17 years) as of March 2010. The total number of members is 75,000, ranging from 5 to 19 and averaging 12 per SHG. The members of the SHGs are all women, comprising poor and poorest of the poor (PoP) as defined by the government. Of the total number of 34,762 PoP households in the cluster, 99.5% are members of SHGs.

The implementation process proceeded along the following lines: (i) designing and testing capacity building modules & methodologies in Kamareddy cluster (starting with a pre-pilot in 2007 supported by InWEnt); (ii) joint strategic planning and promotion of SOC with SERP/IKP, with technical assistance from DGRV; (iii) capacity building of IKP staff and, on a limited scale, of MEPMA staff through training of trainers (ToT) for implementation throughout Andhra Pradesh; dissemination of the pilot experience and SOC approach among diverse stakeholders, including NABARD, GoI and NRLM (2011).

The support activities under SOC are results-oriented and comprise two steps: (i) establishing a cooperative SOC system, comprising standardised bookkeeping, reporting, auditing, rating, annual planning and monitoring; systematic annual elections (by secret ballot); legal compliance as per MACS Act at all federation levels and similarly in SHGs; delegation of representatives from the lowest (i.e., SHG) level to all federation levels; and (ii) capacity building as the social capital formation process by which the

SOC system is inculcated in the minds and practices of the SHG members and the SHG representatives and office bearers in the federations, selecting all trainees (bookkeepers, resource bookkeepers, auditors, supervisors, financial literacy facilitators) from within the SHGs and building their capacity as internal service providers. The main lines of the implementation process are presented in Figure 1.

Figure 1: Field Implementation Process



At a different level of capacity building, this process model, comprising the establishment of a SOC system and its inculcation in the participants, is transmitted to replicators for upscaling, such as SERP and MEPMA at state level and others at national level; elements of it may also be incorporated in the ongoing reform of the cooperative sector under NABARD (APMAS 2011; Seibel 2011).

Results in Kamareddy Cluster

APMAS has tested and published a complete set of capacity building materials in 18 modules in English and Telugu, covering all basic aspects of SOC; some are also in Gujarati, Bengali, Hindi, Marati and Kannada.

While qualitative responses are difficult to measure, figures of outreach and effective participation speak a language of their own. Table 4 reports the results of establishing a system of general body meetings (GBMs), elections, auditing and

Table 4: Results at Federation Level in Kamareddy Cluster, December 2011	
GBMs of VOs and MSs completed as per bylaws	All 172 VOs and 6 MSs
Elections conducted regularly as per bylaws	All 172 VOs and 6 MSs
Annual reports printed and submitted to GBMs	All 172 VOs and 6 MSs
SHGs internally audited by community auditors	4738 out of 6,084 SHGs
Percent SHGs found in loss[9] (as of March 2010)	31%
Second audit conducted	1190 SHGs
VOs regularly audited by chartered accountants	172 out of 178 (6 unregistered)
VOs audited internally	172 out of 178
MSs regularly audited by chartered accountants	All 6

reporting at federation levels. Coverage is comprehensive: all MSs and VOs hold annual meetings and elections and submit printed annual reports as required by their bylaws, and all MSs and all but one VO are regularly audited by chartered accountants.

Within the framework of SOC it is the task of the federations to organise and supervise the process of general body meetings and elections of SHGs as well as bookkeeping and auditing. This requires adequate social capital, which is developed through capacity building (see Table 6). All this takes time; it is not to be expected that coverage of the total number of SHGs is attained during the pilot project period. Table 5 presents the results of establishing the foundations of a SOC system at SHG level: the number of SHGs covered and the percentage out of a total of 6,084 SHGs in the cluster. At 98% the coverage of bookkeeping is most impressive.

Table 5: Results at SHG level in Kamareddy Cluster (in % of 6,084 SHGs), December 2011

	Number of SHGs	Percent
Internal savings of SHGs monitored	5958	98
General body meetings	4836	80
SHG annual planning	3927	65
SHG level election process	3225	53
Interest paid on members' savings	4056	67
Financial literacy training sessions	5171	85
SHGs with bookkeeping by trained bookkeepers	4758	78
SHGs audited (by 201 community auditors)	4738	78

Table 6 reports the direct results of capacity building in terms of persons trained for the various functions required in a self-reliant SOC, particularly bookkeeping, auditing and financial literacy.

Table 6: Capacity building: persons trained (social capital formed)

Function	Number
SHG resource bookkeepers	195 *)
SHG bookkeepers (target: one for every three SHGs)	1564
Community auditors for SHG audits	201
Audit trainers	17
Audit supervisors at Paryavekshaka Samakhya level	6
Audit subcommittee members at VO and MS level	62
Community resource persons	125
Village Organization bookkeepers	192
Financial literacy facilitators	240

Note: *) 195 trained, currently using services of 60 RBKs (135 employed by IKP).

Conclusions

Achievements: With technical assistance from DGRV, the SHG Sector Own Control pilot project in Andhra Pradesh, designed and implemented by APMAS, has attained the following objectives:

- developing and testing systems and processes of SHG Sector Own Control in Kamareddy Cluster as a pilot, in the framework of the national SHG Banking programme of NABARD
- gaining from inception the approval and partnership of SERP/IKP, a parastatal of state-wide outreach to the SHG federation system, with a mandate of poverty alleviation and women's empowerment
- developing the required modular training materials in English and Telugu and translating core materials into five other Indian languages
- building the capacity of women selected from SHGs as bookkeepers and auditors to implement the bookkeeping and financial reporting of SHGs and federations
- building the capacity of women to manage, govern and control their SHGs
- promoting the capacity of women selected from SHGs as representatives and office bearers to manage, govern and control the federation system
- improving financial literacy among SHG members
- effectively targeting of the very poor
- installing systems of annual assembly meetings of SHGS and federations, including elections by secret ballot and annual planning
- ensuring legal compliance as per MACS Act
- improving transparency and accountability at all levels
- establishing shareholding ownership of federations by SHGs
- installing self-financing through savings and retained earnings from loans and services at all levels
- aiming at promoting growth of funds and profitability of SHGs and federations, addressing the contradictory challenges of smart support and non-smart subsidy policies of government
- documenting systems and processes adopted in the pilot for dissemination
- providing exposure visits and training programmes to potential adopters of the SOC approach
- building the capacity of SERP/IKP to implement the SOC system throughout Andhra Pradesh
- collaborating with ENABLE network members and other governmental and non-governmental agencies in adopting the SHG SOC approach in other Indian states
- communicating with NABARD and GIZ about the potential of disseminating SOC strategies

- integrating elements of the SHG SOC approach in the Government's new national poverty alleviation programme National Rural Livelihoods Mission (NRLM 2011), launched in June 2011.

Risks: The SHG SOC approach is emerging as a strategic component in government programmes of poverty alleviation and women's empowerment at state and national level. Given the incipient success of the pilot project and the support rendered to SHGs and SHG federations from many sides, APMAS together with its stakeholders cannot ignore a fundamental question: Whose agenda will SHGs and SHG federations carry forward, its own agenda or that of the state? Just like the century-old (state-aided) credit cooperative system in India, the new (mutually aided) SHG federation system with its concern for sector own control is facing the risks embedded in the contradiction between principles of institutional autonomy and self-help and government support and subsidies. Much can be learned from the German system of cooperative self-help gained over a period of more than 150 years and similar experiences of other countries.

The Way Forward: Mainstreaming SHG Sector Own Control in Andhra Pradesh

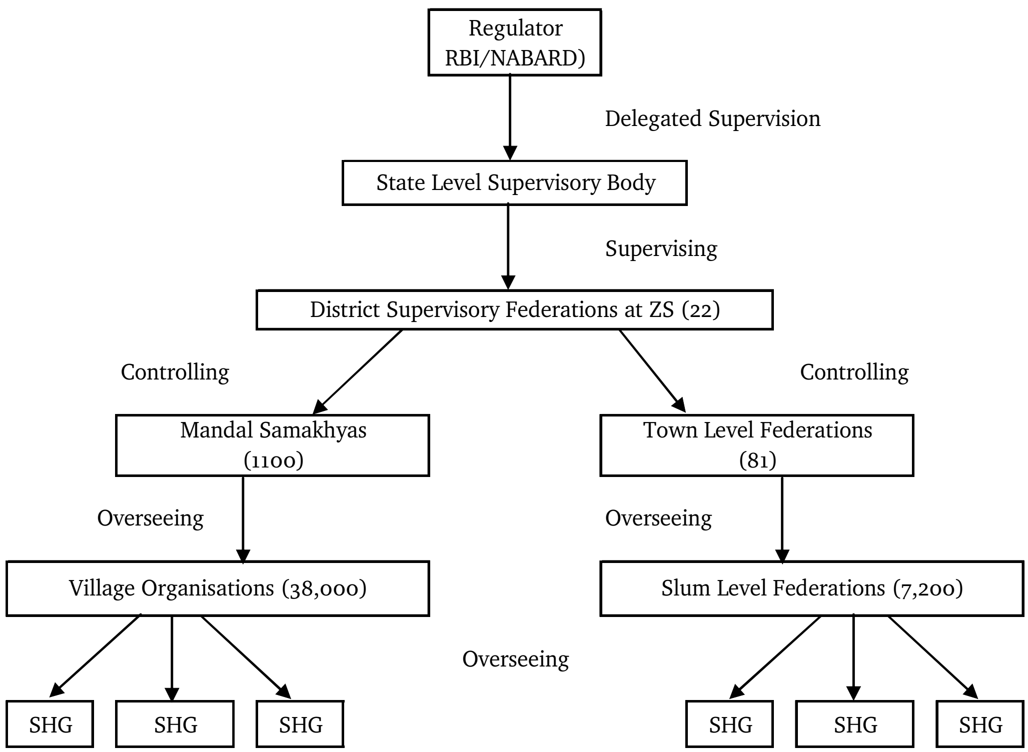
SOC II as discussed at wrap-up sessions aims at establishing a fully self-controlled sustainable SHG federation system in Andhra Pradesh, with its financial component institutions under (delegated) supervision recognised by RBI. This would include four components: (i) upscaling of the SHG Sector Own Control approach throughout Andhra Pradesh, with continual enhancement of autonomy and effective self-control at all levels; (ii) completion of the sector own control structure by establishing an SHG federation at state level; (iii) establishment of a cooperative apex bank of the SHG federation system (accomplished as of end-2011); (iv) establishment of a system of regulation and (delegated) supervision for the SHG federation system recognised by RBI, as presented in Figure 2.

Partners in the process of mainstreaming SOC in Andhra Pradesh include SERP/IKP for rural areas, MEPMA for urban areas, NABARD for bank participants and as a representative of RBI as the national financial sector regulator and supervisor, and the Registrar of Cooperatives for regulation and supervision of MACS compliance at state level.

The Wider Relevance of SOC for Inclusive Finance in India and the Role of SHG Village Organisations

Sector Own Control, implemented by SHG federations, can provide a sustainable organisational framework on a legal (MACS and similar) basis for informal groups nationwide. Core functions are self-organised promotion, capacity building, self-regulation and self-supervision including monitoring and reporting of internal financial intermediation of SHGs, and advocacy.

Figure 2: Regulation and Supervision of the SHG Federations in Andhra Pradesh



SHG village organisations (VOs), as primary level federations, have emerged at the center the SHG system, close to 1,60,000 in number, accounting for 97% of all federations. They are owned, financed, managed and governed by SHGs as shareholders. SHG village organisations are the evolving "mother organisation" of SHGs and perhaps of specialised livelihoods groups/organisations, with the potential of service delivery convergence as envisaged by NRLM (2011). Key functions include:

- Intermediation between SHGs and 2nd tier federations
- Monitoring, supervising and grading SHGs as grassroots financial intermediaries
- Control over multiple borrowings of SHG members, serving as a village credit bureau
- Financial literacy training for SHG members
- Evolving village level financial intermediation ("village bank")

The provision of village-level financial services is of greatest concern to the Government. Banks have not provided such services in the past, and it takes great optimism to believe they might do so in the future as directed by the Government. Also, agency banking services, as in the case of pygmy deposit schemes and recently among several MFIs, have not fared well in India. So far there is no convincing evidence that Banking Correspondents will fill the void (Murdoch and Wright 2011).

In all likelihood there is no single best solution; but SHG village organisations, existing in large numbers and expanding rapidly, might emerge as one of the newly competing village level financial intermediaries. Most importantly, as mutually aided cooperative societies under MACS and similar acts, they are authorised to mobilise voluntary withdrawable savings, in addition to providing credit; in fact they may be the only trusted organisation in sight which might do so at low depositor transaction costs. The evolving spectrum of financial functions and services may include the following:

- Voluntary withdrawable savings of SHG members
- Working with SHGs as collectors of deposits and repayments
- Liquidity exchange between SHGs within a village
- Refinancing SHGs in cooperation with banks and other providers
- Providing individual loans to enterprising SHG members (with soft collateral)
- Facilitating individual bank lending to enterprising SHG members
- Managing insurance (life, health, pension…), presently handled with difficulty by SHGs
- Product innovation
- Evolving division of tasks and responsibilities between SHGs and VOs.

Higher-tier federations, at sub-district and district level, would provide a back-up structure for village organisations, potentially with the following functions:

- Implementing SHG sector own control
- Monitoring and supervising VOs
- Communication with banks, NABARD, NRLM, state government and other stakeholders
- Implementing capacity building for SHGs and VOs
- Back-up facilitation of lines of credit, insurance, other services and programmes
- Advocacy regarding a conducive framework
- Advocacy regarding smart subsidies (geared to institution building)

The SOC pilot in Andhra Pradesh has demonstrated, in principle, that building the capacity of selected SHG members to manage and govern village organisations as well as higher-level federations is feasible. As a next step, research across several states is needed, examining the experience and capacity of village organisations as the emerging "mother organisation" of SHGs, with the potential of service delivery convergence as envisaged by NRLM. The possibility should also be explored whether in states with very low SHG penetration the establishment of self-managed village organisations might be a first step for savings mobilisation and bank linkages, as has been the case in many countries.

The proposed research is expected to contribute to the objective of establishing a self-reliant, self-regulated and self-supervised system of SHGs and SHG federations owned, managed and governed by the poor - as the poor's own microfinance organisations. This in turn is to contribute to the development goal of inclusive access of all, including the very poor, to a full range of adequate financial services for improved livelihoods in rural areas.

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Notes

1 The MFIs are in fact microcredit organisations (MCOs). Due to excessive growth in recent years and a lack of both self- and external regulation and oversight, some of them have come under criticism for breaking up SHGs into joint-liability groups (JLGs), irresponsible lending resulting in overindebtedness and allegedly suicides, and harsh collection methods, particularly by agents. The whole sector has come under international scrutiny and damaged the reputation of microfinance worldwide. To insure customer protection the Government of Andhra Pradesh has reacted with a stop to loan recovery, which is threatening the survival of the MFIs and curtailing access to short-term credit.

2 After a great start during the first thirty years as of 1904, the credit cooperative sector is now in a state of crisis and restructuring, due to decades of government interference and regulatory neglect (Seibel 2009). Due to mergers and closures their number has been declining in recent years.

3 In 1986 linkage banking was taken up by APRACA, an association of agricultural and central banks in Asia and the Pacific, as a regional program and disseminated among its member institutions. With TA by GTZ, Indonesia was the first country starting a pilot, 1988-91, serving as an experimental field station visited by member countries. The Philippines and Thailand (both with TA by GTZ since 1990) and India (with TA by GTZ as of 1998) followed with own projects. (Seibel 1996: 62-75, 2005, 2006)

4 On 24 July 1991 RBI issued a circular to commercial banks (RPCD.No.Plan.BC.13/PL-09-22/90-91), advising them to actively participate in a non-mandatory pilot project, refinanced by NABARD.

5 RBI circular DBOD.No.BC.63/13:01:08/92-93, January 4, 1993

6 The rapid growth in outreach has been made possible by drawing on a wide array of institutional resources as India's social capital: Nabard as the prime mover and refinancing agency; the formal financial sector providing deposit services and credit;

NGOs and GOs with experience in group development as facilitators; RBI which adjusted the policy framework for banking relations with informal groups; and the political leadership at union and state levels. At the same time the program has drawn on India's human capital: the competence and enthusiasm of the staff in participating agencies; and the willingness and of people from the lowest classes to form a group, meet regularly, pool their miniscule savings, lend to members, and establish a documented track record of financial intermediation. On that basis, the groups are then permitted as informal entities to open bank accounts and obtain bank loans, onlend to their members on terms autonomously decided by each group. In India small groups with financial activities attract predominantly women, even if no such bias is built into the program design; over 90% of the group members are women. Neither social nor human capital would suffice were it not for the financial capital created by the program: steadily increasing internal resources of the groups, generated through savings and profits from interest income; high profitability of SHG banking as a financial product of the banks (higher than other rural financial products); and bank refinancing by NABARD. (Seibel 2006)

7 These figures differ slightly from those reported by Srinivasan (2012).

8 Average group size seems to have dropped from around 15 to somewhat above 13.

9 Losses were found to be mainly due to lower interest income from internal loans, as a result of inadequate margins.

SHG[1] Federation[2], an Institutional Innovation to Sustain SHGs

- C. S. Reddy*

SHG federations will have to play the role of self-regulatory organisations. It can play a strong service role in support of their member SHGs of training, rating, auditing and facilitating linkages. A separate legal form at State / National level for the SHG federations would be a great enabler.

Abstract

To address limitations of small informal SHGs, to achieve economies of scale and to sustain SHGs, the institutional innovation called SHG federation has been evolved. There are 1,63,730 SHG federations in India, most of them being primary level SHG federations functioning at village level. Majority of these federations are in the southern and eastern India. Rapid scale up of the SHG federations has been possible with the proactive role played by the State Governments implementing programmes supported by multi-lateral agencies. National Rural Livelihoods Mission plans to scale up SHG federations to all the villages of India following a saturation approach. SHG federations have gained widespread recognition among all the major stakeholders as institutions that promote financial inclusion and enable member SHGs to serve their women members more effectively. Greater attention is needed for improving the governance and systems of the SHG federations to become self-reliant and sustainable. For the SHG federation model to fully serve its purpose, promoters' capacity needs to be enhanced and appropriate legal forms need to be available. There is considerable potential for the SHG federations to evolve into "SHG banks" to serve as bridge-financing agencies to augment SHG-bank linkage. SHG federations will have to play the role of self-regulatory organisations.

Introduction

The Indian Self-Help Group movement began in the 1980s

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Key Words: SHG, Microfinance
JEL Classification: G-21 and G-29

with several NGOs experimenting with social mobilisation to organise the rural poor into groups for self help and mutual benefit for women's empowerment and poverty reduction. The SHG bank linkage programme (SBLP) under the leadership of NABARD, which built upon these initiatives, soon will be completing two decades of existence. The SHG movement has come to mean more than merely the provision of financial services to their group membership composed mainly of poor women. However, it is the role of SHGs in financial intermediation that holds greatest promise as a means of continued financial inclusion and mainstreaming of poor families, as well as a development model with wider application.

As per NABARD's report "Status of microfinance in India 2011", as on 31st March 2011, approximately 7.5 million SHGs have savings bank accounts and 4.8 million SHGs have a loan outstanding from a bank. The total amount bank loans outstanding with SHGs as on 31st March 2011 is Rs. 306 billion, with an average per group loan of Rs. 122,744. The SHG bank linkage programme in India is perhaps the world's largest community based microfinance programme in the world. In spite of the phenomenal success in terms of outreach to the poor, many practitioners and policy makers are of the opinion that the SHG - Bank linkage model has not succeeded as it is still an uphill task for an SHG to open a bank account or to access a bank loan in many states in Northern and Eastern India[3]. Over a period of more than 20 years, the growth of the SHG movement has been phenomenal, being the strongest in South India. Starting from the year 1999, Rural Development department of the State Governments have taken up promoting SHGs under the SGSY[4] either through their partner NGOs or directly through their departmental staff. In some states, Women and Child Development department also played a significant role in SHG promotion.

There are a number of issues and challenges associated with scale as there now are more than 8.5 million[5] SHGs in India. These include the quality of the SHGs being uneven, limited attention paid to the savings of the SHGs, bankers' continued reluctance particularly in the northern and the north eastern India to open bank accounts and to bank with them, limited capacity of the staff of the SHG promoters, book keeping continues to be a problem area and many groups do not have regular meetings and do not follow their own norms. A large number of groups do not have an understanding about why they have come together; there is limited member education, particularly on financial literacy and group dynamics; these SHGs have become a channel for delivery of various Government schemes rather being a strong demand system; political interference is widespread; not much attention paid to annual audits of SHG accounts and leadership rotation at the SHG level; and above all Government being the largest promoter of SHGs, these groups are promoted through a target-oriented approach with limited attention to processes which undermine sustainability of the SHGs. The limitations of scaling up without ensuring quality affected ownership of the SHGs, impairing sustainability. Though these are called self-help groups, in practice many of these SHGs do not follow the principles of self-help, self-management, self-control, self-responsibility and self-reliance.

Major Milestones in Indian SHG movement

Phase I (1980s):	NGOs promote women SHGs as an alternative to mainstream financial services to reach unreached segments of society.
Phase II (1992):	NABARD takes the lead in partnering with NGOs to pilot the well-known SHG-bank linkage model.
Phase III (2000s):	State Governments, particularly in the South, take a proactive role in the promotion of SHGs in a big way, by providing revolving loan funds and other support using SHGs as a channel for delivery various welfare schemes.
Phase IV (2005):	SHG-Bank linkage reaches the scale of over a million bank-linked SHGs, much before the projected year 2008.
Phase V (1990s):	SHG federations, piloted by NGOs, emerge to sustain the SHG movement and to provide value-added services.
Phase VI (2005):	SHGs and SHG federations gained widespread recognition to be partners of various mainstream agencies such as financial institutions, corporate sector, and government.

1 Emergence of SHG Federations

The tremendous success of the SHG movement has relied heavily on promoting institutions to mobilise, train, and support groups. In the late 1990s, the government had become a key promoter of SHGs, especially in southern India. As the number of groups grows with continual addition of new groups, the involvement of self-help promoting institutions (SHPIs) and direct contact with the groups have greatly diminished. The SHPIs find that they are unable to provide groups with similar levels of attention as well as quality of inputs as they did earlier. At this stage, the SHPIs begin to think of setting up an apex level body that is able to take on many of the SHPIs' tasks, thus enabling them to leverage their limited resources in the most judicious manner possible. The SHG federation is expected to address many of the issues and challenges faced by the SHG movement in the country and ensure sustainability of the SHGs.

Considering the fact that these are informal groups, they are less likely to be intergenerational institutions; also these being small groups, economies of scale are an issue; and for the promoters to withdraw from the SHGs, there is need for some institutionalised mechanism that would provide need-based support to the SHGs. Though the SHGs become credible and effective partners to many, they themselves are facing a number of constraints and challenges. These include: (a) Uneven spread of the SHGs across the country, (b) inability to take up livelihood promotion, (c) inability to take up larger issues of gender and social inequality and women empowerment, (d) limitations of promoters to provide capacity building and other necessary inputs at a desired scale, and (e) inability of banks to understand and accommodate the needs of the SHGs in some parts of the country, especially in under- served regions. Thus emerged the idea of shifting the role of promoting SHGs to federations, in 1990s, in a given geographic area of a village or a cluster or a block.

1.1 *Defining SHG federation:*

The dictionary meaning of federation is "an association of autonomous bodies uniting for common perceived benefits". Another definition given by the Tamil Nadu Corporation for Development of Women (TMCDW) is "A Cluster Level Federation is a network of several SHGs and a structure or body evolved by SHGs themselves consisting of representatives from all member SHGs, with a motive of supporting member-SHGs to attain the goals of economic and social empowerment of women members and their capacity building. Ajay Nair (2005) defined federation as "an association of primary organisations. Primary organisations may federate to realise economies of scale or to gain strength as an interest group". According to an APMAS (2005) study, "A SHG Federation is a democratic body formed with certain number of SHGs functioning in a specific geographical area with the objective of uniting such SHGs for common cause and for achieving these causes which an individual SHG would not be able to do. In short, the SHG Federation has to be necessarily of SHGs, by SHGs and for SHGs". A simpler understanding of an SHG federation could be "a federation is a group of groups", the primary groups could be formal or informal, while the federation is formal.

1.2 *Why SHG federation:*

Major objective of promoting SHG federations is to overcome the inherent limitations of small and informal groups - SHGs, such as limited resources, limited capacity, limited negotiation and bargaining powers, inability to deal with the outside world - government, mainstream institutions, market, etc. The benefits of federations include (a) those arising from economies of scale, (b) reduction in transaction costs, (c) reduction in default rates at all levels, (d) provision of value adding services, (e) reduction in the cost of promoting new SHGs (that is, the cost of reaching out to every poor woman) and (f) increasing levels of financial discipline and accountability among SHGs. Other objectives of federations were: inter-group rotation of funds; accessing bulk loans and grants from external sources; gradual handover of functions of SHPIs to the community-based organisations (CBOs); promoting leadership skills and governance among SHG members; developing poor people's own institutions. The

SHG Federations function as per the subsidiary principle, meaning only undertake those roles that their member SHGs are not able to do on their own.

The rationale behind the promotion of federations: i) to strengthen existing SHGs, ii) to promote new SHGs of the poor, iii) to access various services to the member SHGs, iv) to provide a sense of solidarity among members of different SHGs in an area, v) sustainability of the SHG movement, vi) to facilitate linkages, and vii) to empower women. Besides, federations play an important part in SHG capacity building and conflict resolution - both internally and externally. There are a variety of reasons for promoting SHG federations, some of which assist the promoting institutions and others that are of direct benefit to their members. The concept of federation emerged from the felt need of the SHGs that have been functioning well and were keen to come together for sharing experience and learning. Promoters may have different reason for federating SHGs at different levels, such as: i) scaling up, ii) withdrawal strategy, iii) issue-based, iv) collective bargaining power, and v) principle of subsidiary.

Until 2007 NABARD ignored the widespread emergence of SHG federations, excluding them from its mandated innovations. As Girija Srinivasan and Ajay Tankha (2010) put it, "NABARD does not view the financial intermediation role of federations favorably and is willing to accept the same only as an unavoidable necessity where it could be done with profitability and sustainability." Of course financial intermediation by federations is not the only alternative; the other one being their role as a support organisation. Besides capacity building, supervision and other services, this might also include the facilitation of access of SHGs to bank loans. In September 2007, NABARD issued a circular on providing grant support to strengthening existing SHG federations involved in social intermediation. There is a potential role for SHG federations as bridge financing agencies to the SHGs to meet the loan fund gap in the period that they have an active loan from the bank, during which period they are not eligible for another bank loan.

While a strong case for federating SHGs has been made above, based on more than 15 years of experience of working with SHG federations, it must also be stated that there are certain limitations and risks related to SHG federations which must be effectively address in designing and promoting SHG federations to optimise their benefits members. Particularly in the context of many state governments being aggressively involved in promoting SHG federations using external funds from multilateral agencies and the National Rural Livelihoods Mission (NRLM[6]), Government of India, adopting SHG federation model in its implementation framework, these limitations and risks become more pertinent:

- Building SHG federations requires significant investments of funds and a higher level of capability among the promoting agency in institutional development.
- SHG federations face the real risk of political and elite capture.
- Different tiers of SHG federations being co-terminus with the administrative structure of the State Governments, there is a possibility of cooption of these

federations by the state. SHG federation may become a delivery channel for government schemes and not able to evolve into a strong demand system.

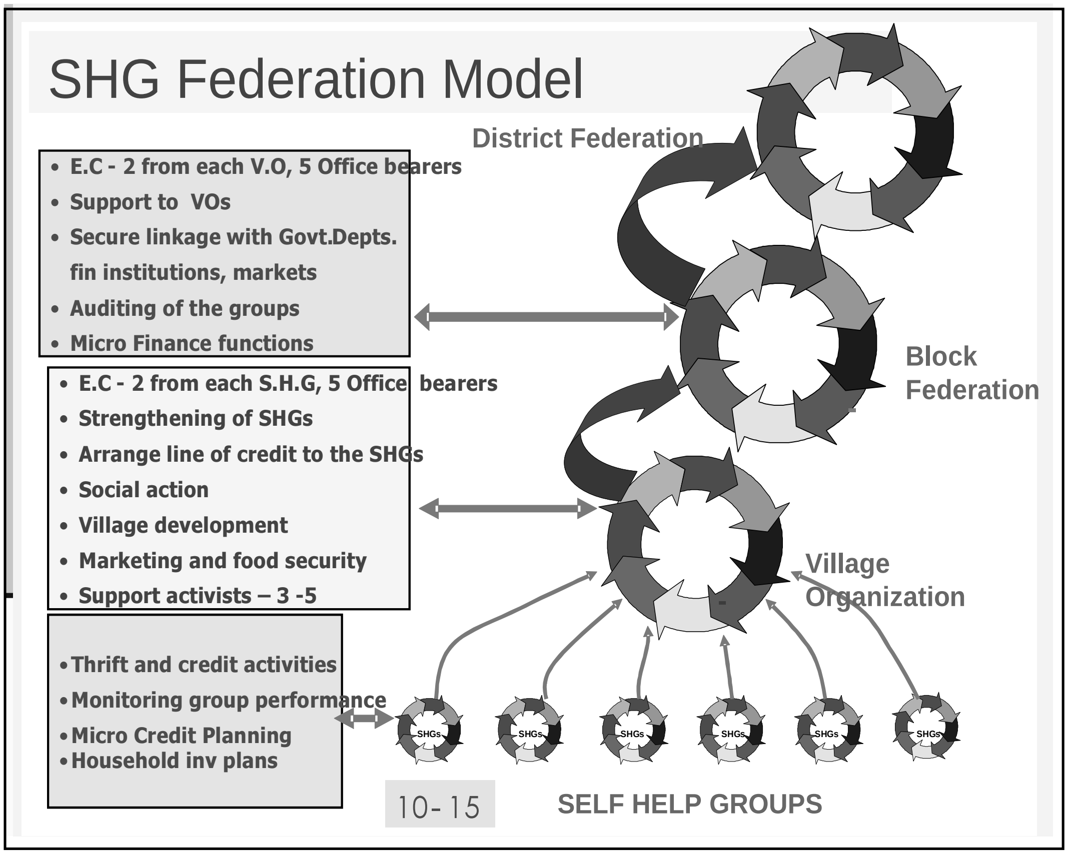
- If an SHG federation fails, it may adversely effect all the member SHGs
- If SHG federations are built on a weak foundation, SHGs not being vibrant and self-managed, a weaker SHG federation may become a burden on the SHGs
- If the SHG federations do not recruit staff emerging from the SHG movement, the women may not be able to manage hired staff resulting in the staff running and controlling the SHG federation resulting in weak governance & ownership.
- There is a strong temptation for the SHG federations to get into financial intermediation, in spite of weakness in governance, management and systems.
- SHG federations may acquire a legal status that may not suit their business.
- Lack of vision of the promoters may lead to a non-sustainable SHG federation
- SHG federations should be promoted only after the SHGs are strong, when there is a felt need among the SHGs to federate and strong social capital built.

There is a need for the promoters to be fully aware of the benefits and the risks of promoting the SHG federations. These must also be effectively communicated to the SHG members during their meetings for them to make informed choices. In the ultimate analysis, the SHG federations have significant benefits even when associated risks are taken into consideration. Based on the experience of promoting autonomous & self-reliant SHG federations, lessons learnt and the emerging best practices, the risks can be minimised, if not completely eliminated, and SHG federations be promoted in a manner that will add great value for the SHGs and their members.

1.3 Multi-tiered federation[7] structures:

In India, the SHG federations are multi-tiered. The women in a village are organised into SHGs, SHGs in a smaller geographic area (usually a village) are organised into primary level SHG federations (PLFs), several PLFs in a given area are organised into secondary level federations at sub-district level. These secondary federations may be further networked into apex federations either at district or state level.

Primary Level SHG Federations (PLFs) are typically village level, sub-village level, Panchayat level or village cluster level or slum level federations of SHGs. Some of these are: (i) Village Organisations (ii) Panchayat level federations. Unlike government, NGOs do not cover all families/ communities in any village in their programmes. As they focus on certain target families and communities in a village, they usually do not get enough SHGs within that village to federate. As a result they federate their groups of few nearby villages into PLFs known as cluster level federations (CLFs). The SHGs being informal group, this primary level network can be the first level of formalisation.



Secondary Level Federations (SLFs) are federations of PLFs. Normally these are sub-district level federations. In India the administrative units between district and Panchayats are called by different names in different parts of the country, such as Mandal, Taluq, Block, Divisions, etc and their sizes are also different. Apex Level Federations are federations of SLFs. They are usually district level federation.

There is a real rush to promote multi-tiered SHG federations, particularly among Government promoters in the states of Tamil Nadu, Bihar, Orissa, Madhya Pradesh, Rajasthan and West Bengal, having federations at each of the administrative levels - village (Panchayat), Block and District. Based on APMAS ratings and assessments of almost 500 SHG federations from ten States and working very closely with more than 1,000 SHG federations, both in rural and urban areas, it is found that the primary federations at the village or cluster level which are closer to the SHGs and their members are the most valued federations by their members as they can demand services, can easily relate to them and participate actively in their management. The process of promoting SHG federations has to follow a participatory approach. After having supported the SHGs to promote their own primary level federation, if at a later date,

Table 1: SHG Village Organisations and Higher-Level Federations by State, March 2010

State	SHG Federations	Village Level Federations
West Bengal	51,354	49,433
Andhra Pradesh	45,752	44,502
Kerala	18,101	17,040
Tamil Nadu	13,617	13,443
Orissa	8,895	8,502
Maharashtra	8,167	8,161
Jharkhand	6,391	5,944
Karnataka	4,527	4,517
Madhya Pradesh	3,819	3,617
Bihar	1,235	1,228
Uttar Pradesh	1,102	1,065
States having smaller number of Federations	770	714
Total	163,730	158,166

Source: APMAS data 2010

the need for a higher order federation emerges, need-based support can be provided by the promoter. In the initial period, the SHG federation can be an informal body and can become a registered body when their by-laws and business rules are finalised. Higher order networking of primary SHG federations could perform the role of self regulatory bodies and for issue-based policy advocacy. Another possibility is, the registered federation of SHG could be at the sub-district level, with SHG federations at village / panchayat level being the branches of the registered federations.

1.4 Growth and Spread of SHG Federations

In India, there is no official data about SHG federations. For the past few years, APMAS has been compiling SHG federation data from web search, direct contact of major resource agencies and from the data base of the ENABLE[8] network members.

While there were very few SHG federations in India till the year 2000 (may be less than 1,000 SHG federations), a sudden spurt was seen during 2003-2010 as a large number of the SHG federations were promoted by the State Governments in Andhra Pradesh, West Bengal and Orissa. As per latest APMAS data (July, 2010), the number of SHG federations in the country is 163,730. Out of these, 158,166 are at primary level. There is a skewed distribution of federations across the country. Out of 163,730 total federations, little over 50% federations are in South India and another 41% are in East India. In fact 4 states viz. West Bengal, AP, Kerala and Tamil Nadu, account for about 80% of total federations and West Bengal and Andhra Pradesh alone account for about 60% of total federations, almost all of these being State Governments promoted. SHG federations are particularly weak in West Bengal. Considerable institutional development work has been done in Andhra Pradesh, Kerala and Tamil Nadu, adopting innovative strategies like the community resource persons (CRPs)[9] for institutional capacity building, providing "seed capital" for SHG federations to engage in financial intermediation and by recognising them as agents for procuring agriculture produce. However, the primary level SHG federations being in very large numbers, as per APMAS ratings analysis of the financial data of the federations, almost 50% of these still require considerable improvement in terms of their governance, management and systems. Unless the SHG federations perform the functions of being self- regulatory organisations (SROs), taking responsibility for internal controls, audit, elections and planning, the existing weaknesses can not be completed addressed.

The above table indicates an uneven spread of the SHG federations which corresponds to the spread of the SHGs in the country. With the launch of the NRLM, by 2017, it is expected that there will be more than 10 million SHGs (just in rural India!) and almost 500,000 SHG federations in the country. There is a possibility of NRLM improving the quality of the existing SHGs, and there will be much greater emphasis on organising the unorganised, particularly the poorest of the poor, into the SHG system. Simultaneously there will surely be a strong emphasis on federating SHGs at village and block levels to channel NRLM benefits, undermining self-reliance.

With NRLM ready to kick start, there is a parallel effort by NABARD to revisit the SHG bank linkage model and come up with the new "avatar" of the SHG model for the future, hopefully with greater emphasis on financial literacy, savings including voluntary savings, annual auditing of SHGs, innovating on bank loan products to the SHGs and identifying a suitable role for the SHG federations. To make bank linkages more effective, NABARD is likely to invest much greater effort in galvanizing the banking sector, through training and capacity building and other strategies.

Financial Services	SHG Strengthening Services
➢ Credit ➢ Mandatory savings ➢ Voluntary savings, ➢ Savings for health, education, etc. ➢ Insurance ➢ Pension savings ➢ Housing loans ➢ Hire purchase	➢ Auditing ➢ Grading (rating or assessing) ➢ Bookkeeping ➢ Training & financial literacy ➢ Monitoring ➢ Bank linkage and other linkages ➢ Problem solving, leadership rotation ➢ New groups formation
Business Development Services	**Social Initiatives Concerning:**
➢ Marketing services ➢ Processing and value addition ➢ Business plan development ➢ Promotion of entrepreneurship ➢ Enterprise financial management ➢ Livestock management ➢ Input supply ➢ Bulk purchasing	➢ Domestic violence ➢ Child Marriage ➢ Gender Discrimination ➢ Child Labour ➢ Social Discrimination ➢ Rights and Entitlements ➢ Drinking water ➢ Health ➢ Family counseling Anti-liquor campaigns

Federations have been providing a number of services to SHGs and individual members. The whole range of services provided by federations could be grouped into four categories, viz. institutional development, financial intermediation, livelihoods and business development services, and social intermediation. Like CBOs in other parts of the world, federations also offer multiple services to their members/SHGs in their initial years. SHG federations specialise as they mature and conditions change. Many federations in south of India undertake financial intermediation using seed capital[10]. In some cases, federations were forced to take up financial intermediation, due to apathy of bankers. Some federations have limited financial intermediation or business to earn sufficient funds to meet their operational costs. Some federation structures have clear role divisions for different layers of federations. In few cases, separate institutional structures have been promoted to take up different sets of services. In India about 50% of federations are providing the financial services.

1.5 Financial and Institutional Sustainability of SHG federations:

Government of India and many of the NGOs that pioneered the SHG model estimated a cost of Rs 10,000 to Rs 12,000 for promoting and sustaining one SHG over a period of five years. In 2010, Srinivasan and Thanka (2010) conducted a study on costs and sustainability of SHG federations engaged in financial intermediation. They estimated that the total cost of promoting an SHG federation, including the SHGs, is in the range of Rs 15,000 to Rs 25,000 per SHG over a period of five years. The policy makers and promoters must carefully assess the costs and returns of promoting the SHG federation. While federating SHGs at village level seems to be justified and the associated costs may be lower, higher tier federations would be costly to promote and even costlier to sustain in the long run.

The institutional sustainability of an SHG federation constitutes the ability of the federation to be self-governed, self-managed and self-reliant. Those SHG federations that become corporate bodies by registering under an appropriate legal form would have to also ensure that they have annual audit by a chartered accountant, prepared annual report, present it in the annual general body meeting and file the report with the registrar of the respective registering authority. APMAS rating findings suggest that the SHG federations that have a weak SHG base tend to have governance deficit and high dependence on the promoter. Also, in government- promoted SHG federations, the system being largely top-down, there is limited space for the women to govern, manage and regulate their own SHG federation system. Based on the SHG federation best practice study conducted by APMAS (2010), once an SHG federation is formed, the federation requires support for at least 3-5 years. After that the federation should be able to manage their affairs.

Financial sustainability of a federation would imply its ability to meet its costs[11]. There are broadly three types of sources of funds for a SHG federation to meet its costs. These are: (a) membership fee and service fee, (b) interest income[12] on its corpus, which includes savings from their constituents, grants received and bulk loans borrowed from FIs and others for on lending, (c) personnel support and recurring grants from promoters. Broadly there are two types of federation promoters: government agencies and NGOs[13]. Initially the rural development and women and child development departments were involved in the promotion of SHGs and federations in different states.

In recent years specialised autonomous agencies are being established in many states by the State Governments to implement the national rural livelihoods program in a mission mode, their predominant role being the sensitive support system for the SHG federation system that will be promoted and nurtured by them. These autonomous societies will be funded by the World Bank under the National Rural Livelihoods Programme (NRLP) and the funds available under the Ministry of Rural Development, Government of India.

APMAS ratings and assessments of SHG federations across India suggest that mature SHG federations that are involved in financial intermediation are both institutionally and financially sustainable. However, various policies of the Central and State Governments may affect the NGO promoted SHG federations engaged in financial intermediation. For instance, the AP MFI Regulation Bill (2010), which is strongly in favor of the Government promoted and supported SHGs and SHG federations, adversely effected the NGO promoted SHG federations. Myrada's experience has shown that the non-financial federations can also be institutionally and financially sustainable if the promoters have a long-term vision and provide effective mentoring and handholding support. Though the Community Managed Resource Centres (CMRCs) promoted by Myrada which are service providers to member SHGs and other user-groups, with SHGs and other CBOs, strictly speaking, are not SHG federations, they have demonstrated that they can be self-sustaining by providing useful non-financial services to members for a fee. Many other SHG federations which are either multipurpose or non-financial are also recovering some of their operational costs through service fee. Some federations offer a wide range of services acting as implementing agencies for government programs. There are several federations which have been prudently cautious about what they would take upon themselves and what they would not.

The SHG federation is recognised[14] by RBI, NABARD, IRDA, Government of India, State Governments, NGOs and the corporate world as important people's institutions providing value-add services to their members. APMAS SHG federation best practice study (2010) suggests a near-unanimity on the need for SHG federations to provide non-financial services to members contributing to SHG sustainability. Registered SHG federations are already working as Business Facilitators of the Banks and in some cases as Business Correspondents in Andhra Pradesh and Tamil Nadu. However, there is divided opinion on federations performing a financial intermediation role. Irrespective of the divided opinion, almost 50% of the SHG federations in India are engaged in some form of financial intermediation role as they manage the "seed capital" given by the State Governments in Andhra Pradesh, Orissa and Tamil Nadu. Some of them term themselves as Community Based Microfinance Institutions (CBMFIs) and have been accessing bulk finance for on-lending. In fact, 17 secondary level SHG federations (mandal samakhyas) in Andhra Pradesh have already got a bulk loan of Rs. 5 million each from commercial banks. Some of the federations call themselves "Mahila Banks" (women's banks), as in Andhra Pradesh and in some other states. They have shown their willingness to develop performance standards, undertake self-rating and have also undergone rating by a third party to access loans from financial institutions. Many financial federations have demonstrated both operational and financial self-sufficiency by covering their costs. They have also begun to offer savings and insurance services to their members.

Evidence from existing data of the SHG federations suggests that they can become both institutionally and financially sustainable having robust systems and processes. To ensure sustainability of the SHG federations as institutions of the poor, there is a need to have a well-developed system of self-regulation and self supervision focusing on internal control, annual audit, annual elections, annual planning and in SHG federations conducting annual general body meetings effectively.

2 Need for an Effective Third Party Rating System:

APMAS has developed four types of tools for undertaking quality assessment of SHG federations: GRADES tool for rating an SHG federation involved financial intermediation, Self Assessment Tool (SAT) for an SHG federation to undertake a self-grading, Social Intermediation Tool (SIT) for assessing an SHG federation involved in social intermediation, Commitment Tool for SHGs of persons with disability to assess the performance of SHG Federations. Using the GRADES rating tool, APMAS has undertaken rating of almost 500 SHG federations in India. The uniqueness of the rating tool developed by APMAS gives 40% to the performance of the SHGs and the remaining 60% for various aspects of the SHG federation performance. Other agencies have also developed rating tools for assessing the SHG federations.

SHG Federation Rating Tool – GRADES Weights

Parameters	Total%	Qualitative Indicators		Quantitative Indicators	
		No.	%	No.	%
Governance	16%	5	14.0%	1	2.0%
Resources	6%	1	1.2%	4	4.8%
Asset Quality	10%	1	1.4%	5	8.6%
Design of Systems & implementation	10%	4	10.0%	0	0.0%
Efficiency & Profitability	12%	0	0.0%	5	12.0%
Services to SHGs	6%	3	6.0%	0	0.0%
Sub Total	*60%*	*14*	*32.6%*	*15*	*27.4%*
SHG Performance	40%	12	21.0%	11	19.0%
Grand Total	*100%*	*26*	*53.6%*	*26*	*46.4%*

3 Issues and Challenges

In recent years, SHG federations have become popular. Except for NABARD, most of the other stakeholders have accepted SHG federations as desirable both as social and financial intermediaries. The number of SHG federations being promoted in different parts of India is steadily growing and is likely to reach saturation by 2020. With more and more number of federations being promoted through a top-down approach, there is a fear among some of the stakeholders that the SHG federation system may go the way the cooperatives have gone in India. Of course, the lessons learnt from the ongoing cooperative reform process must be integrated into the SHG federation promotional processes. Due consideration is to be given for the SHG federations to evolve at the pace at which the women can trust their own institutions, take responsibility to manage them and exploit the full potential there is. Based on evidence from more than 15 years of experience working with SHG federations, a strong argument in favor of SHG federations and evidence about their institutional and financial sustainability has been presented in the previous sections of this paper. However, the following are some of the major issues and challenges faced by a majority of the SHG federations in India:

- A large number of SHG federation promoters have limited capacity & vision on why they are promoting SHG federations and what the implications are.
- A national policy & strategy on SHG federation is absent.
- Except for nine States, there is no suitable law for the SHG federations to become body corporate. Even in those nine States, the self-reliant-cooperative laws are primarily meant for cooperatives and not for SHG federations.
- Banks are reluctant to open bank accounts for SHG federations and in very few cases the bankers are willing to give bulk loan to the SHG federations. The bulk loan is only being given to SHG federations under government pressure.
- Limited work has been done on federations offering a variety of savings products to meet the savings needs of the members. For SHG federations to have much greater ownership among members, their savings and share capital would be very important. Their commitment to the SHG federations is directly proportionate to their stake in the institution
- A well-developed and accepted system of self-rating and third party rating is need for the SHG federations, particularly those that are involved in financial intermediation, to become strong, vibrant and sustainable.
- There is an urgent need for a self regulation and self-supervision system for the SHG movement.
- If SHG federations do not add value, they should not be promoted. Experience suggests that multi-purpose federations are not effective and sustainable in the long-run. In the initial years federations can be multi-purpose and

unregistered. In the medium to long-term, the SHG federations must be single purpose organisations registered under an appropriate legal form like the self reliant cooperative laws (for example, AP Mutually Aided Cooperative Societies (AP MACS) Act 1995.

4 Conclusion

SHG federations have evolved as an institutional base providing sustainability to the SHG sector with the significant scale and widespread acceptance. Though not a panacea, there is great potential for the SHG federation model to address poverty by serving as a platform for providing financial and livelihood promotion services. In many ways, the model is unique - the women are the owners, managers, users and beneficiaries. The SHG federation model is here to stay and will be significantly strengthened under NRLM as there will be significant investments, both financial and human, in making the SHG federation institutional architecture a strong mechanism to serve their members. While there are many benefits of the SHG federation system, it has several limitations. In the future there is a need to focus on financial literacy, voluntary savings and institutional capacity building. Developing the village level SHG federation (village organisation) as a strong institution that takes responsibility to those 15-30 SHGs in that village by playing a strong social intermediation role and where necessary play the role of a "bridge financing" agency within the reach of the SHGs and their members, is most needed. The systems of auditing, elections, planning and rating must be introduced and ensure that all the SHGs follow these. At the least SHG federations can play a strong service role in support of their member SHGs of training, rating, auditing and facilitating linkages. A separate legal form at State / National level for the SHG federations would be a great enabler.

There is a distinct possibility of the SHG federations promoting their own microfinance institutions or "SHG banks" to serve the supplementary financial needs of the SHG members. Some of the SHG federations are already playing a financial intermediation role, though not as effectively as one would expect them to be. Specialised SHG Banks at district level or for a cluster of districts would be interesting to explore. To meet the ever growing financial needs of the SHG members, several innovations are needed, including using the smart card and mobile phone technologies. Mature SHG members could become direct individual borrowers of the banks with SHG / federation recommendation.

A national alliance to support community based microfinance is needed to advocate for sustainability of the SHG system. Though it is a challenging task to sustain a large number of SHG federations, it is doable and must be done. What is necessary is a synergetic effort by policy makers, planners, and implementers. There is also a need for public-private partnership to make it a reality.

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Notes

1 SHG is an informal group of 10-20 members of similar socio-economic background, coming together for a common objective, having developed its own norms and conducting regular meetings to engage in savings & credit activities to improve their livelihoods.

2 An informal or formal association of the informal primary groups.

3 Dr. Y.C. Nanda, former Chairman of NABARD opined that the SHG model has been a success to delivering development interventions through the SHGs, however, the SHG-Bank linkage model not been successful.

4 Swarnajayanti Gram Swarozgar Yojana, a Government of India Programme for Rural Development.

5 Though only 7.5 million SHGs have a bank account as per NABARD's data (not sure how many of these bank accounts are active as some SHGs opened a bank account several years ago and are not active now), there are at least another one million SHGs waiting for the banks to open their account and provide them a bank loan.

6 National Rural Livelihoods Mission (NRLM, called as Aajeevika Mission) is a Government of India initiative to address rural poverty. NRLM's mandate is to reach out, mobilise and support estimated 7.0 crore rural poor households across 600 districts, 6000 blocks, 2.5 lakh Gram Panchayats, in 6.0 lakh villages in the country into their self-managed SHGs and their federal institutions and livelihoods collectives; link them to livelihoods

opportunities and nurture them till they come out of poverty; and enjoy a decent quality of life. In its reckoning, strong and vibrant Institutions of Poor at various levels are central for poor to come out and stay out of poverty.

[7] Like SHG - Village Organisation (PLF) - Block Federation (SLF) - District Federation (ALF) promoted in rural areas, in the urban areas a similar structure is promoted SHG - Slum Level Federation - Town Level Federation - Corporation Level Federation. In smaller municipalities, there is only a 3-tier structure. In municipal corporations, there is 4-tier structure promoted by the Urban Community Development (UCD) Dept. of Corporation.

[8] ENABLE is a network of seven Resource NGOs anchored by APMAS (Hyderabad, Andhra Pradesh) with centre for microfinance (Jaipur, Rajasthan) Chaitanya (Rajgurunagar, Maharastra), Indian School of Microfinance for Women (ISMW, Ahmedabad, Gujarat), Reach India (Kolkata, West Bengal), West Bengal SHG Promotional Forum (WBSHGPF, Kolkata, West Begnal), Sampark (Bangalore), as it members, working together to build capacity of the SHPIs and for policy advocacy for community based microfinance.

[9] CRPs are women who have been in SHG for more than 5 years, have successfully come out of poverty with the support of the SHG and have played a significant role in ensuring her SHG & federation becoming a "best practice" organisation and are willing and ability to go to other Districts and States to strengthen SHG movement.

[10] State Governments provide grant funds to the SHG federations in the form of "seed" capital. The SHG federations offer the funds as loans at reasonable interest rates to their member SHGs and recover the funds from the SHGs in the same as it work in the SHG - Bank linkage. The fund that is available at the SHG federations is expected to grow over a period of time as it generates interest income. A part SHG federation profit is used for meeting the expenses of the federation, including staff salaries.

[11] Costs of federation would include staff honorarium, office rent, travel costs, cost of books, audit fee, interest to be paid on loans borrowed, interest to be paid on savings received from members and costs related to conducting monthly executive committee meetings and annual general body meeting.

[12] Interest income will be mobilised only by those SHG federations that are involved in financial intermediation.

[13] In the initial phase, several international agencies like IFAD, DFID, World Bank and CARE played a significant role in providing funding and technical support in promoting SHGs and SHG federations. NABARD was also one of the important players in supporting the promotion of the SHGs.

[14] The RBI circular on Business Facilitators (BFs) and Business Correspondents (BCs) recognises SHG federations as institutions that can serve as BFs/BCs. Government of India recognises SHG federations as important institutional forms for promoting financial inclusion. State Governments, Central Government and NABARD recognise SHG federations' role in strengthening existing SHGs and in promoting new SHGs (as SHPIs). Companies have signed agreements with SHG federations to work on procurement and marketing of agriculture produce and FMCG items.

Self-Help Group 2 Vs. MFIs - Competing to Serve the Poor

- Malcolm Harper*

Abstract

Indian microfinance is unique, in that it is dominated not by specialist microfinance institutions (MFIs), as in most countries, but by existing commercial banks, through their branches' linkages to SHGs. Banks have always provided a better alternative than MFIs, because they can offer secure savings and other financial services, and are licensed and regulated by the Reserve Bank. MFIs have nevertheless recently captured a growing share of the microfinance market, because of aggressive profit-driven marketing, and in spite of their higher interest rates which are actually of less importance to poor borrowers than speed, convenience and service. The MFIs have recently 'stumbled', however, and this provides an opportunity for the SHG movement to regain its primary position, under the leadership of NABARD. The 20th anniversary of the formal launch of the SHG movement in February 1992 is to be used to launch 'SHG2', a re-engineered version of the original SHG model, emphasising savings as well as credit, with features such as smaller joint liability groups for larger borrowers, cash credit limits to replace term loans, and offering SHG members a 'ladder' to genuine financial inclusion through individual full-service bank accounts. The technological, regulatory and institutional aspects of the environment are conducive for such an initiative, and all it requires is bold leadership from NABARD.

Indian microfinance is said to be 'in crisis', and this is true, if 'microfinance' is taken to mean the services provided by specialist microfinance institutions (MFIs), which are indeed in crisis in India.

Introduction

Indian microfinance is said to be 'in crisis', and this is true,

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JEL Classification: G-21 and G-29

if 'microfinance' is taken to mean the services provided by specialist microfinance institutions (MFIs), which are indeed in crisis in India. In most countries, microfinance does mean services from MFIs, rather than similar services which are provided by other institutions, such as banks, because very few banks provide any form of microfinance. Financial services tailored for poorer people who have not generally been able to access formal financial services, have been and still are provided mainly by specialist 'MFIs', most often modeled on the Grameen Bank system which originated in Bangladesh in the 1970s.

In India, however, most microfinance is not provided by these MFIs; it is provided by banks, through self-help groups, or SHGs. The following summary table gives some basic comparative data for the two types of institutions, as on 31st March 2011.

SHGs vs. MFIs - Comparative data as of 31.3.2011

	SHG	MFI
Members/Clients	62.5 million	31.4 million
Loans outstanding	Rs 306 billion	Rs 207 billion
Average loan per person	Rs 4900	Rs 6600
Growth 2010 to 2011	2.9%	4.7%

Source: Srinivasan N, Microfinance India: State of the Sector Report 2011, Sage, New Delhi.

The SHGs have more members, with more loans outstanding, than MFIs have clients, and although MFIs are growing more rapidly than SHGs, both types of microfinance have grown, even in what was a difficult year. The MFIs are 'in crisis' for a number of reasons, and their crisis has affected the SHGs, but the banks which serve the SHGs and their members are certainly not in crisis; SHGs make up only a small part of their total business, and banks' loans to MFIs, while substantial, and of doubtful quality, are not such as to endanger the banks as a whole.

The Indian SHG movement is still by a large margin the world's biggest microfinance programme, as it should be given India's sad leadership in world poverty, and it enjoys many features which at least give it the potential to be the world's best system for the provision of microfinancial services. This does not mean that other countries should have in the past or still less should now adopt the Indian SHG system. It has evolved in the context of India's unrivalled banking network.

In relation to its level of poverty, India is well banked, with 79,000 commercial bank branches, as well as even larger numbers of financial cooperative outlets which can offer savings and credit services. The population per bank branch ranges from as low as 8,000 in relatively richer places such as the federal territory of Delhi and the Punjab, to 25,000 in Bihar (www.rbi.org.in Publications, accessed 29.12.2011) but the average of around 15,000 people and fifty square kilometers per branch gives a much higher level of coverage than is achieved in countries of similar levels of development, such as Pakistan or Bangladesh, and similar countries in Africa (Harper and Arora, Small customers, big market, ITDG Publications Rugby, 2005)

More important, however, is that the great majority of India's bank branches are branches of public sector banks. They are required to make a profit, which they do, but they also have an over-riding mandate to contribute to development, and their extensive rural branch networks in particular have been created since independence for that purpose. The extent of the banks' success in achieving their mandate is questionable, in large part because of the poorly designed and implemented government poverty-alleviation programmes which they have been required to implement, but the branches are in place, even in the most remote and poorest places, and they generally, if slowly, follow instructions from their ultimate masters, the government.

In most other so-called developing countries commercial bank branches are few and far between, and their locations, their staffing, their physical appearance and their products are not designed to attract or even to admit the poor. Hence, there is a need for new institutions to serve the poor, and MFIs have a real role to play. Indian 'new paradigm' microfinance was started by the existing commercial banks, in the early 1990s, using self-help groups to cover the 'last mile' between the new small customers and the banks. Specialised microfinance institutions, using the Grameen methodology which had evolved in Bangladesh, where commercial bank coverage was much less, and the banks were less receptive to dealing with the poor, entered the Indian market a few years later. They have within a few years been able to capture a substantial albeit a minority market share, as shown by the above table.

It may seem wrong to liken the market for micro-financial services to that for soft drinks, but this situation is in some ways similar to the evolution of the cola drink market in India. For many years after the Coca-Cola Company left India in 1977 'Thums Up', an Indian product, made and marketed by an Indian company for Indian taste, was the dominant brand. When multinational Coca-Cola was readmitted to the Indian market in 1993 it very rapidly gained a substantial share. Thums Up was then re-merchandised (under the ownership of Coca-Cola) and eventually regained its dominant position. Are SHGs the 'desi' microfinance product, like Thums Up, which has to an extent been displaced by MFIs, a foreign-born design like Coke, and can SHGs recover their strong position?

Competition is generally good for consumers, and for producers too; the makers of Coca-Cola and Pepsi accept that if there had only been one contender in the market, instead of two and more, neither of the two main contenders would have grown to anything like their present scale and profitability. Cola drinks presumably do something good for those who drink them, or who buy them for others to drink, and do little harm to their consumers, apart from making them pay an absurdly high price for brown-coloured aerated sugar and water.

Microfinance, as has being shown by many studies, benefits many of its consumers in a significant but generally quite limited way, and harms a few of them quite seriously. The majority of these studies, however, have not studied micro-financial services as a whole, because most MFIs provide only micro-credit that is debt, and sometimes some limited and linked microinsurance.

There have been few if any studies of the long-term impact of the full range of microfinancial services, savings, money transfer facilities, credit and insurance, if only because there are few if any providers of all these services to the poor. Microfinance, everywhere, is mainly micro-debt. This applies as much to SHG microfinance as well as to MFI microfinance; the difference lies more in the potential of the institutions than in what they are actually providing.

When considering the relative positions of SHGs and MFIs in the microfinance market place, it may be useful to apply the familiar 'SWOT' technique, to attempt to list their respective strengths, weaknesses, opportunities, and threats.

Microfinance Instituions - 'S.W.O.T.		
MFIs	Strengths	Weaknesses
	Aggressive, professionally managed, growth and profit oriented institutions One institution controls the total 'value chain', MFI to client Rapid loan approval Short term loans available Flexible fast management decisions Strong group pressure for recoveries, supplemented by incentivised staff	Not permitted to mobilise savings Banks reluctant to provide funds in present crisis; MFIs running out of money to lend No funds transfer facilities
	Opportunities	Threats
	Continuing apathy of banks Government focus on 'financial inclusion'; reduced concern for SHGs	Dependent on banks and mainly external investors Politicians and press eager to discredit microfinance Subject to new and untried regulations Clients may default if new loans are not available

Readers themselves will be able to supplement or shorten these lists, but SHGs, the banks which serve them and NABARD or other institutions which support them are in 2012 clearly in a strong competitive position. This advantage may not last, as MFIs regroup, some may merge, and foreign and Indian institutions are persuaded to support them. If we revert to the cola drinks comparison, brand MFI has stumbled; it's sources of raw material have dried up, it is being roundly criticised nationally and globally, and it products are even said to have poisoned some consumers. This is the moment when the older 'desi' brand SHG must be re-merchandised and re-launched to reassert its position as the Indian solution to financial exclusion.

The above analysis looks at the two contenders from an institutional point of view, as Pepsi and Coca-Cola might compare their competitive positions. A more genuinely consumer-oriented marketing approach, however, would take the clients'

Self-Help Groups - 'S.W.O.T.'		
SHGs	Strengths	Weaknesses
	Linked to strong full service licensed banks	Dependent on collaboration by NGOs, banks and government
	Can offer savings to groups and to members	Loans smaller than required by some clients
	Can access reasonably priced loans from banks	Loan approvals slow
	Members own and build their own groups' profits and equity	Must be managed by their own members
	Lower cost of funds and minimal operating costs = low interest rates	Easily hijacked by more powerful members
	Banks can offer remittance and transfer services	Lack of leadership, within banks or elsewhere
	Opportunities	Threats
	Andhra Pradesh crisis has seriously weakened MFI competition	Continuing reluctance of banks to provide finance
	Impact of AP crisis is still spreading in other states	Susceptible to political inducements, grants and subsidised loans which break groups and drive away banks
	Can offer members a 'ladder' to full service banking	
	Members and SHGs can access individual and group overdraft accounts	MFIs may emerge stronger from the crisis
	Longer established than MFIs, more widely spread	

point of view; the product, in this case, is not merely similar, as are two brands of cola-drink; it is identical, it is money. What differs is the package and form in which it is provided, that is the product, its price, both financially and in time or other intangibles, the place where it is available, and its promotion, the people who provide it. These are the well-known 'four Ps' of the 'marketing mix'.

We should therefore try to put ourselves in the position of a needy village or slum woman (since most SHGs members and MFI clients are women), who needs a loan. In most cases such a person would most likely be guided by a friend or neighbor, but for the purpose of comparison we should ignore that and look dispassionately at both options. If she has the option of joining an SHG or enrolling as an MFI client, what are their respective merits and which should she chose ?

She might if she was a systematic person discuss the issues with friends and list the advantages and disadvantages of each, in her mind or if she was literate even on paper, before making the decision.

MFIs- advantages

- Smaller group, easier to join
- MFI tells members what to do, no decisions required of members
- Controlled and managed by MFI, no need to worry about mismanagement

- Only nominal initial savings required
- Loan applications said to be approved quickly
- No political interference
- Insurance may be offered

MFIs - disadvantages
- Loans expensive (but much cheaper than moneylender)
- Weekly meeting compulsory
- No savings products available
- High pressure recoveries

SHGs - advantages
- Lower cost loans
- Can sometimes access cheap government loans or grants
- Can access individual services from bank - savings, transfers.
- Monthly or less frequent meetings
- Linked to a secure government-backed institution

SHGs - disadvantages
- Slow loan approval
- Several months saving required before borrowing
- Dependent on whims of SHG 'officers'
- Subject to fellow-members' mismanagement
- Safety, use and withdrawal of savings unclear
- Small loans
- Must supervise management or become an officer oneself

Many of the advantages of choosing the MFI are immediate, whereas the SHG's features are longer term and may not become apparent for some time, even some years.

Outsiders, who may themselves take relatively large loans for cars, or their homes, or their companies, are very aware of interest rates. 'We' the readers of such a paper as this, are outsiders, we are not likely to need to borrow from an SHG or an MFI, and we should remember that the rate of interest charged on a small and immediate loan is much less important than immediate access and convenience, for all of us.

In the United Kingdom and the United States better-off financially literate people pay effective rates of 20%, 30% and more on credit card debt. Interest rates do matter, particularly as loans and terms increase, but they are much less important, particularly for poor people, than many outsiders imagine. Price is only one of the four Ps, and good marketing consists of designing a good mix of all four attributes, not merely offering the cheapest product. And, paradoxically, price is often less important to poor people than to richer ones, because they have limited storage space, limited cash and many urgent needs.

How then can banks, NGOs or other agencies effectively use the temporary problems of MFIs to promote and improve SHGs?

One reason for the rapid growth of MFIs was their effective business-like management and marketing. Before they so dramatically stumbled in Andhra Pradesh, they had gained a major market share; not by being the lowest cost option, which they certainly were not and are not, but by being the best marketed. State governments and politicians have reacted to this competition to what they often, albeit wrongly, see as "their SHGs", not by analysing why MFIs have succeeded in attracting SHGs members, but by using the only element of the marketing mix which they can understand and which they have at their disposal; that is, price, the interest rate.

Heavily subsidised loans and grants have attracted and retained many SHG members, but as always happens with any subsidised good, the demand has outstripped the supply. These inducements have generally weakened the groups to which they have been provided, and they have certainly not prevented group members from accessing credit from MFIs in addition to what they can get from their SHGs.

Finally, when this approach to competition did not work, the authorities in Andhra Pradesh used the only other tool at their disposal; they used their legal authority in order effectively to ban the operation of MFIs altogether.

But even this desperate move did not restore the position of SHGs. A study has been conducted into how MFI clients are responding to the effective withdrawal of MFI services in AP, (B. Anjaneyulu et al, What are Clients doing Post the Andhra Pradesh MFI Crisis?, Microsave, 2011), and it is reported that most are replacing their MFI credit with credit from moneylenders. Less than half as many have chosen to borrow from SHGs instead, and they say that this is because SHG loans are too slow, too small and too long-term. They know very well that MFI loans cost between 27% and 45%, when all the compulsory charges and life insurance are bundled with the repayments, whereas SHGs loans cost between 12% and 13%; they also dislike the MFIs' compulsory weekly meetings, but speed and amount are more important than cost.

SHGs must therefore be promoted not merely as the lowest cost option, but as the best. SHG recoveries have fallen drastically, in part because of the malaise which has affected microfinance in general; many people have borrowed from SHGs and from MFIs, and there is no reason why they should distinguish between the two different sources when they are deciding whether or not to repay. In fact, of course, it is rational economic behaviour to repay higher cost loans before those that carry lower interest rates, which may account for some MFIs higher recoveries than SHGs, but when default becomes the norm, all lenders will suffer.

In spite of this, bankers should be encouraged to make new loans rapidly available to SHGs which are up-to-date in their repayments; MFIs are short of cash in the present crisis, and many are unable to offer new loans even to their clients who do repay on time. Banks are not short of cash, and this is one obvious way in which they can use the crisis to strengthen their competitive position vis-à-vis MFIs.

Banks should also exploit the fact that they are full-service banks, and not merely purveyors of micro-debt. They can help SHG members who want to borrow larger sums than their fellow-members to form joint liability groups, of smaller numbers, as many are already doing, and they can offer SHGs cash credit limits instead of term loans, as is also already being done, so that group members can borrow at the times when their activities need investment, and can repay when they earn money; a single term loan is unlikely to match the cash flow needs of all the members of a group.

Banks can also encourage even more SHG members to open their own individual savings accounts, which can in time lead them to enjoy the full range of financial services that the bank offers, not through an SHG but individually. Such accounts will qualify for 'financial inclusion' targets, but are more likely to be fully used than accounts which are opened merely to receive NREGA payments or pensions.

The SHG movement was started in 1986 by MYRADA in Karnataka, with support from NABARD, but it was effectively launched by NABARD on February 26th 1992, when the Reserve Bank of India made it possible for banks to open accounts for unregistered groups of up to twenty people. NABARD, in collaboration with the banks and state governments, plans to use the twentieth anniversary in February 2012 to 're-launch' and re-engineer the SHG movement under the label 'SHG2', much as Grameen Bank of Bangladesh launched 'Grameen Two' in 2002, to take advantage of what had been learned in the first twenty-five years of its existence.

The details of "SHG2" are as yet not finalised, but they will be informed by the following general guidelines as to the future direction of the movement.

- SHGs will under SHG2 be regarded by bankers and existing and potential SHG members not merely as a way of getting loans, but as a way of accessing the full range of financial services that banks (and only banks) can offer, and thus as a route to eventual genuine financial inclusion through individual banking services.

- The present emphasis on credit (that is, on getting into debt) will be corrected. SHGs will be seen as a way of saving, in a group and individually, as a way of accessing pensions and other transfers, and also to get a loan when it is required. The Grameen Bank has successfully made this transition from a debt-promotion to a financial service institution. In 1997 its loans outstanding, at 312 million taka, were about three times its members' deposits. By 2010 members savings deposits, at about one and a half billion taka, were one and a half times their outstanding loans of 970 million taka.

- SHG 2 will not be a 'scheme', with subsidized loans and other incentives. There may be a need for some such expedients to 'kick-start' the re-engineering and revival process, but the overall message will be that membership of an SHG is worthwhile in its own right, as the preferred source of financial services for the poor, and that business with SHGs is good business for banks, both in itself and as a form of customer development, without any need for subsidies.

- Under SHG2, SHGs will not merely be promoted to the stage of taking a first loan, and then abandoned. Most SHGs need indefinite support, which they may be able to pay for themselves or which may for some time have to be subsidized. The concept of 'SHG Linkage' will be revised so that it means an SHG which is making regular use of its SB account, with or without credit, not merely an SHG which has borrowed once, and can then be counted and forgotten.

This is an ambitious long-term programme, and much depends on effective collaboration by bankers, at all levels and particularly in every branch. Many observers of Indian microfinance argue that bankers' inertia is such that a bank-lead microfinance programme can never rival the drive and motivation of microfinance management and staff, but the success of the original SHG movement itself shows that Indian commercial bankers can adopt new and unfamiliar practices and can reach out to the poor, not everywhere, not wholly efficiently, but in such a way as to create the world's largest microfinance programme, reaching almost one hundred million people, in not much over ten years.

A number of concrete improvements and changes have already been made. Many banks have already replaced term loans to SHGs with cash credit limits, which suit the variety of members' needs much better than a term loan which has to be run down and paid off over a nominated period. Lakhs of SHG members who want and can make good use of substantially larger loans than their fellow-members have been 'graduated' to smaller joint liability groups, which can access the sums they need. Millions of SHG members have opened their own individual savings accounts with the banks to which their SHGs are linked, and are making regular use of these accounts for managing their household cash flows, rather than using them merely for withdrawals of official remittances.

There has also been a massive move to federate SHGs. Many such federations can efficiently aggregate the non-financial needs of their constituent SHGs' members in order to access markets, materials and other services, and some can also provide useful intermediation services, particularly if the local banks are unwilling or unable to do so. One critical aspect of SHGs, however, is their members' empowerment. They can be empowered to save, or not to save; to borrow, or not to borrow, to federate or not to federate, to join JLGs, or not to do so. SHG2 will attempt to re-assert this vital element, which has often been eroded by political interference and mis-directed subsidies.

One weakness of the SHG movement which has already been mentioned is that it depends for its success on effective collaboration between a number of different and independent institutions, including commercial banks, NGOs, state governments and politicians. MFIs' services are delivered by field staff who are employed and managed by one single-purpose institution. Services to SHGs are provided by large numbers of different institutions and individuals who have a wide range of sometimes conflicting objectives. SHG2 will have to be delivered in the same way, and its success will depend on the ability and willingness of these institutions to play their part.

It is relatively easy to direct a large profit-seeking business, all of whose offices and staff are ultimately responsible to the same management. It is much more difficult to mobilise many different institutions, but NABARD has successfully initiated and managed the introduction and remarkable growth of the first twenty years of the SHG movement. There is no reason why this should not be possible again, in spite and indeed because of the competition of MFIs.

The environment has of course changed significantly since 1992, but many if not most of these changes should make it easier for SHG2 to be successfully introduced, so long as they are perceived as opportunities, and not as threats.

One major change is technological; Kenya is the leader in popularising electronic funds transfers through mobile phones, and this seems likely to revolutionise microfinance in Africa and in due course in India as well. An MFI can disburse loans and take repayments through clients' phones, as is already being done in Kenya, but a bank's client can also make and withdraw savings deposits, receive and send money to others, at home and abroad, and in general access the full range of financial services that only a bank can provide. An NBFC that has perhaps been licensed to take savings may use the same technology, but a bank can offer far more to its clients, in groups or individually, and SHGs can offer their members direct access to banks.

NBFC-MFIs which succeed in becoming licensed deposit takers will of course benefit from the regulatory change that makes this possible, if and when it is properly implemented. The new and rapidly evolving possibilities for a wide variety of institutions to act as business correspondents, however, are already enabling banks to cover the 'last mile' to un-banked people more effectively than before, and SHGs and their members can themselves benefit from this more directly than MFI clients.

The banks themselves are of course under greater competitive pressure than they were twenty years ago, but it is to be hoped that they will see that their competitive advantage lies in their enormous branch outreach and their solid regulated status, not in trying to compete with foreign banks and specialist financial 'boutiques'. If India's hundreds of millions of un-banked poor people are ever to become less poor, the existing banks will gain enormous numbers of new customers, and SHGs can be the major route to this new business, so long as they are treated as a ladder to genuine financial inclusion and not as a permanent financial ghetto for the poor.

The MFIs are weakened, if only temporarily, and this makes the field more open for SHGs and the banks which serve them. State governments, which instigated the microfinance crisis for MFIs, partly in a misguided attempt to protect SHGs, have also damaged the SHGs, but it is to be hoped that they too will rein in their more extravagant populism, as they have seen that it can seriously backfire. The Centre has also learned that financial excesses need to be identified and curbed earlier, and this should help to limit the harm that is done to SHGs in future. It will be important to co-ordinate SHG2 with the National Rural Livelihoods Mission, but there is no reason why this should not be possible, so long as all the parties which are involved focus on the benefits to target beneficiaries rather than institutional 'turf'.

NGOs and other potential promotion and support agencies will also have to be ready to collaborate in SHG2. Many if not most SHGs are weakly managed, and they will need continuous support and book-keeping and allied services, which have already been shown in Orissa and elsewhere to be a potential source of income for local 'barefoot accountants' and others. These programmes will have to be strengthened and expanded. NGOs are more alive to revenue-driven and business oriented activities than they were twenty years ago, and it is hoped that their collaboration can be secured with suitably designed incentives.

The major condition for the success of SHG2 is leadership. This will have to come from NABARD, which is still the institutional 'owner' of the massive movement which has been created over the last twenty years. In the final analysis, this must come down to the individual commitment and enthusiasm of NABARD's staff, but there is no reason to believe that these qualities are any less available than they were twenty years ago.

On balance, SHGs are better than MFIs, particularly for India which has an unrivalled retail banking network. Competition and choice are best, and MFIs will not disappear, but SHGs should be're-engineered' as SHG2, under NABARD's leadership, in order to reassert their position as India's preferred channel for microfinance.

It is to be hoped that NABARD and other bodies such as the banks themselves will rapidly and sensitively exploit the short-term problems of MFIs, not in order to make immediate profits but to strengthen and expand the SHG movement. They can thus enable millions more disadvantaged Indian women and men to get on the first rung of the ladder towards genuine financial inclusion within strong full-service financial institutions, rather than being trapped in the poor-only debt-only ghetto of MFIs.

Impact and Sustainability of SHG-Bank Linkage Programme (SBL) in Andhra Pradesh: A Diagnostic Study on Indira Kranthi Patham (IKP) Project

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The mission of IKP is reaching the unreached poorest of the poor families in rural areas and facilitating and supporting them in coming out of poverty through social mobilisation building their own institutions, livelihood enhancing interventions, etc.

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Abstract

Financial Inclusion in not new to India. As a part of efforts to reach rural areas, India established regional rural banks in 1970s and as a supplement to it, in the 1980s social entrepreneurs created the self-help group (SHG)-Bank Linkage programme, whereby commercial banks were encouraged to lend funds to groups of 10-12 women groups. The SHG movement received considerable national policy support led by the National Bank for Agricultural and Rural Development (NABARD) and its combination with priority sector lending policies stimulated the banking system to lend to SHGs. The paper seeks to examine the development of self-help groups (SHGs) through SHG-Bank Linkage Programme (SBL) in Andhra Pradesh and their role in financial services delivery and the impact of SHGs on the lives of rural people in Andhra Pradesh, very specifically the SHGs under Indira Kranthi Patham (IKP). The objectives set for the study include analyzing the SBL'S microfinancing outreach and performance in terms of savings and access to credit; assessing the impact of SHG activities on economic and social activities to empower SHG members socially; and finally to trace sustainability factors for the existence and growth of SHGs under IKP. The study has drawn inputs extensively from recent literature on SHGs, very specifically from the Annual Reports of IKP and this has been supplemented by the findings of various published reports, internal evaluations, project submissions, workshop presentations and proceedings.

Key Words: SHG, Financial Inclusion
JEL Classification: G-21, G-29

Introduction

In the pursuit of economic development and planning, microfinance lending was engineered by thinkers and planners to generate income and employment and alleviate poverty especially in the developing countries. It is an established fact that microfinance has come to be regarded as a supplementary development tool that widens the financial service delivery system by linking a large rural population with formal financial institutions through self-help groups (SHGs). SHGs are 'small economically homogenous affinity groups of rural poor, voluntarily formed to save and mutually contribute a common fund to be lent to its members as per group decision' (NABARD, 1997). Singh and Jain (1995) have defined SHGs as 'voluntary association of people formed to attain goals both social and economical'. Local saving groups and SHGs have as many names as the number of languages. They are called Rotating Savings and Credit Associations [ROSAs], Revolving Funds, Chit Funds and even Merry Go Rounds[1] (Malcolm Harper, 1998). While the term 'self-help group' or SHG can be used to describe a wide range of financial and non-financial associations, in India it has come to refer to a form of Accumulating Saving and Credit Association (ASCA) promoted by government agencies, NGOs or banks.

The setting up of SHGs began with an attempt by Friedrich Raffaisem in Germany to formalise these traditional methods by setting the first formal saving and credit organisation in 1854.[2] In India, cooperatives were introduced under a state directive and not as voluntary action and they suffered a set back due to various reasons. Since then co-operatives have been virtually crippled by overdues. On the other hand, informal saving and credit mechanisms continued to exist the world over and popularly known for their qualitative services to the under serviced markets without jeopardising their financial capabilities and viability. In India, we have SEWA (Self-Employed Women's Association), Working Women's Forum (WWF), Mysore Re-settlement and Development Agency (MYRADA) and a large number of Non-Governmental Organisations [NGOs]. These Associations used the concept of self help groups, credit management groups, mahila mandalis or sanghams to undertake saving and credit activities. These groups were highly flexible and adapted themselves to the members and yet managed to recover almost 95 -100 per cent of their advances. Looking at this less default risk, the National Bank of Agriculture and Rural Development (NABARD) was highly motivated and as a result NABARD in 1990 used SHGs as a tool for formal credit system on an experimental basis.[3]

NABARD's pilot project had been a successful endeavour, which led to the formulation of a policy of SHG approach to lending at the national level for the banking sector. Since the partnership of NABARD began with the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) in 1998, microfinance has been steadily spreading through the SHGs in India. (Parida and Sinha 2010). The main advantage of SHGs lies in their joint liability and peer monitoring of and control by member borrowers.

The success of group lending is attributed to various factors such as the ability of the group to mitigate asymmetric information problems in the credit markets through active screening of members (Wenner 1995), social cohesion and heterogeneity of asset holdings, information advantage of the groups about the applicant's creditworthiness (Zellwe, 1998), self selection or assortative matching of members (Ghatak and Guinnane, 1999), group pressure to repay the loans (Besley and Coate 1995), social ties between borrowing groups members (Floro and Yotopoulos 1999), and peer monitoring through intra-group insurance (Wydick 1999) and the information transfer and moral hazard and incentive problems (Llanto 1990).

Several SHGs have been carved out of larger groups, formed under pre-existing NGO programmes for thrift and credit or more broad-based activities. Some have been promoted by NGOs within the parameters of the bank linkage scheme but as part of an integrated development programme. Others have been promoted by banks and the district rural development agencies (DRDAs). Still others have been formed as a component of various physical and social infrastructure projects. There are several models (Appendix A) which operate in India, of which SBLP has three models namely Bank - SHGs, Bank- Facilitating Agency - SHGs and Bank - NGO-MFI - SHGs. To quote an example of a Rural Women Microfinance programme, a project called Indira Kranthi Patham (IKP) has been undertaken by the Department of Rural Development Agency (DRDA), Government of Andhra Pradesh, India, under the society called Society for Elimination of Rural Poverty (SERP)[4] funded by the World Bank which is the single largest project in South Asia. Gender is one of the components included in the programme which helps women groups to monitor their social empowerment agenda along with financial agenda, increase their capacities in decision making at different levels. The other objective of the programme is the protection of women rights through the support systems like Social Action Committees (SACs) and Community Managed Family Counseling Centres at every village covered by the project.[5]

Literature Review

The progress of SHGs in India has been monitored by NABARD, other financial institutions (e.g., MYRADA 2002), and individual researchers (e.g., Harper 2002, Kropp and Suran 2002)[6]. The studies conducted on Self-Help Groups in India mainly focus on assessment of general impact of SHG-Bank Linkage Programme. One such study was conducted by Puhazhendi and Satyasai (2000) on behalf of NABARD. Nanda (1996) suggests that SHGs must transform themselves from pure thrift institutions into groups promoting micro-enterprises. In that situation, the success will depend upon the choice of products to be produced and the markets to be served and the creation of an appropriate marketing mechanism. The study used a multistage stratified random sampling method to assess the impact of socioeconomic[7] conditions of 560 household members in 223 SHGs located in 11 states showing positive impact, followed by another study by Puhazhendi and Badatya (2002), which assessed the impact of the SBLP on SHG members in the Indian states of Orissa, Jharkhand, and Chhattisgarh. The study followed a multistage random sampling with the findings of increased household savings and assets for the SHG members after they formed the group. Ramakrishna (2001) compared the significance of SHGs and IRDP programmes. The access to credit for SHGs is relatively high and SHG members fared better in terms of economic and social empowerment. K.C. Sharma (2001) found that SHGs enabled women to engage in economic activities and decision making at the household and the society levels.

Other studies by Chakrabarti (2004), Nair (2005), Moyle, Dollard and Biswas (2006), focused on specific issues such as the role of SHG federations in the sustainability of SHGs and the economic and personal empowerment of women, as well as the role of microfinance in poverty eradication. Deshmukh, Joy (2004) found that the financial status of households and savings capacities has improved due to improvement in access to formal credit institutions, since SHGs are linked with banks. Access to credit has enabled women to undertake economic activities, which tend to be an expansion or strengthening of existing traditional activities. Roodman and Morduch (2005), in the study on poverty alleviation, found that the potential impacts are associated with reduction of vulnerability and that consumption smoothing is largely driven by income smoothing and not by borrowing and lending. P.K.Singh (2001) conducted a study in UP comparing pre and post SHG situations of women SHGs. He found that the average value of assets increased by 46% and the annual income per household by 28% between pre and post SHG periods. Prabhu Ghate (2006) in his Sector Report, concludes that the non-financial (unquantifiable) benefits of the programme commonly grouped under the rubric of empowerment, includes the increased sense of self-worth within the family and self-confidence in dealings with the outside world, including the banks, participation in panchayat elections, accessing other government programmes, and in some cases launching joint actions against social injustice. GTZ (2006) recommends that in relation to financial transactions, books and records need to be well maintained with systems in place to verify the records and as a basis for transparency with group members, because, the problem lies in the relative complexity of the recording system - the number of records, and the amount of work to record the transactions. NABARD (2006) reports that though micro enterprises are not a panacea for complex problems and chronic unemployment and poverty in rural and urban areas, yet promotion of micro-enterprises is a viable and effective strategy for achieving significant gains in income and assets for poor and marginalised people. SHGs must transform themselves from pure thrift institutions into groups promoting micro-enterprises. APMAS in 2006, found that Community Investment Fund has created a mixed impact at various levels. There has been a moderate employment generation and an increase in household income level. Dependency on traditional sources especially on money lenders has decreased. Its social impact includes increase in self-confidence, group solidarity, leadership qualities and decision making power. Economic impact includes saving habit, ease of access to credit, and increase in family income and independence from money lenders. Niranter (2007) in his study, reveals that there exists a huge gap between the claims of women's empowerment and poverty alleviation and the ground level realities. While SHGs claim to improve livelihoods, there was little evidence to suggest that they do so. Dieter, Hans, revealed that intangible effects reportedly include improved adult literacy, drastic increase in school enrolment, better health, family planning, support for government programmes, and a decline in adherence to the extremist movement. Satish (2008) reports that even for MFIs working outside the SHG-bank linkage programme, have manifold advantages like deepening and smoothening of microfinance services by accessing mainstream banking resources. The linkages also enable the MFIs to overcome the problems related to regulation and supervision, accessing public deposits and reliance on donor and grant funding. Srinivasan (2008) suggests that the SHGs have been able to build a corpus through their financial intermediation and the members while paying high interest rates do not lose the same as it helps the corpus of funds to grow. The linkage to bank branches enables groups to access loans as also their savings safely. Feroze and Chauhan (2011) have reported that microfinance through SHGs has experienced significant advancement in recent years, and the study revealed that NGO-SHGs perform better than SGSY-SHGs and the subsidy disbursed to SHGs under the SGSY scheme failed to improve the repayment performance of the SHGs, than the performance of NGO groups. Raheem (2011) states that there are many factors responsible for lowering the effectiveness of the SHGs viz., illiteracy, lack of proper leadership, management, promotion of income generating activities, etc., though SHGs are considered as a means for the empowerment of women. He observed that demographic factors have greater bearing on the efficiency of SHGs and the rural women are empowered socially and economically.

Plan of the Paper

The paper seeks to examine the development of self-help groups (SHGs) and their role in financial services delivery and the impact of SHGs on the lives of rural people in Andhra Pradesh, very specifically the SHGs under Indira Kranthi Patham (IKP). Hence, the objectives set for the study are:

1. to analyse the performance of SHGs under IKP in terms of institutional and human capacity building, sustainable livelihood and human development programmes using secondary data;
2. to assess the impact of IKP on the lives of women members of SHGs using primary data; and
3. to study the factors affecting the sustainability of SHGs and identification of constraints, if any.

The study has drawn inputs extensively from recent literature on SHGs, very specifically from the Annual Reports available on microfinance in identifying experiences, issues and prospects of the SHG movement. This has been supplemented by findings of published reports, internal evaluations, project submissions, workshop presentations and proceedings and other similar material.

Research Methodology

The paper attempts to assess the performance of IKP in terms of their functions such as food security, Persons with Disability (PWDs), [Human value chain objectives], collective marketing and employment generation and marketing mission [sustainable livelihood objectives] and Institution and Human capacity building (IHCB). The IKP is a success story in Andhra Pradesh. The reflection of the programme based on the reporting has been done using trend analysis and correlation techniques, which is a secondary analysis. Apart from this, face to face interviews were conducted with the women Self-Help Group (SHG) members of IKP. The SHG group meetings were attended for observation and documentation of proceedings of various programmes at the village level where the women gathered at a prearranged time for participation in meetings. Five mandals of Medak District were visited and questionnaires were administered to 75 SHG members of different groups belonging to different mandals from various villages and to those who have been there in the group for more than two years. Women were interviewed based on recollection method about their behavioural change and status change occurred after they became SHG members.

The methodology looks at the women empowerment at four levels given below. The Statistical tool used for analysis is Paired T-test. The hypotheses tested for each empowerment are: The women SHG members have increased their self-esteem and confidence (Personal Empowerment); The women SHG members have increased their control over economic resources (Economic Empowerment); The women SHG members have increased their participation in household decision-making (Familial Empowerment); and the women SHG members increased their ability to participate in extra-familial and social networks (Social Empowerment). Various factors under each type of empowerment were analysed.

Rural Programmes in Andhra Pradesh

Andhra Pradesh has achieved significant progress in reducing poverty over the past few years and the progress at the state level masks substantial variations across different districts in terms of climate, resource endowment, local caste and class configurations. Andhra Pradesh, once upon a time, being one of the poorest state of India, has been using self-help extensively as a primary tool of poverty alleviation by addressing medical issues, livelihood generation, etc. There are National and State government, NGOs initiatives being applied as SHGs since 1979, which keep concentrating more on self-employment and empowering rural poor women. Andhra Pradesh is in the forefront[8] of the SHG movement in India. The activities of DWCRA and Velugu were integrated under a programme called Indira Kranthi Patham (IKP). The basic objective of this integration is to implement various programmes for strengthening of self-help groups with similar implementation strategy by clubbing women empowerment with poverty alleviation.

IKP is a statewide poverty reduction project to enable the rural poor to improve their livelihoods and quality of life through their own organisations. It aims to cover all the rural poor households in the state with a special focus on the 30 lakh poorest of the poor households. It is implemented by Society for Elimination of Rural Poverty (SERP), Department of Rural Development, Government of Andhra Pradesh. SERP is an autonomous society registered under the Societies Act, and implements the project through District Rural Development Agencies (DRDAs) at the District level. The Chief Minister of Andhra Pradesh is the Chairperson of the Society. IKP builds on more than a decade long, statewide rural women's self-help movement. The focus is on deepening the process, providing an institutional structure and developing a framework for sustaining it for comprehensive poverty eradication.

I. Analysis and Findings on Outreach of IKP in Andhra Pradesh

The project mandate is to build strong institutions of the poor and enhance their livelihood opportunities so that the vulnerabilities of the poor are reduced. Community Investment Fund (CIF) is the major component of the project, which is provided to the SHGs/ VOs/ MSs to support wide range of activities for socio-economic empowerment of the poor.

APDPIP is popularly known as VELUGU, a project with Rs 600 crore, carried out under a Society called Society for Elimination of Rural Poverty (SERP). It builds strength on various projects, however, UNDP assisted South Asian Poverty Alleviation Project (SAPAP) is a notable one. In keeping with its long term poverty alleviation strategy, the Government of Andhra Pradesh (GoAP) has launched two major anti-poverty projects, viz., APDPIP and APRPRP, both funded by the World Bank. The central objective of both the projects is to reduce rural poverty in all its forms and to enable the rural poor, particularly the poorest of the poor, to improve their livelihoods and quality of life. The projects seek to enhance opportunities for the poor and the vulnerable, especially women to meet their priority social and economic needs. Originally designed to be a five-year project (2000-2005), the APDPIP has since been extended up to December 2006. It has been implemented in 316 mandals of 6 districts in the state, viz., Adilabad, Anantapur, Chittoor, Mahabubnagar, Srikakulam and Vizianagaram. Encouraged by the early outcomes of APDPIP, the GoAP has launched the second major anti-poverty initiative, viz., the APRPRP in the remaining 16 districts of the state. Thus, APDPIP and APRPRP together constitute the largest antipoverty initiative ever undertaken by the GoAP. In terms of coverage, the projects have no close parallel, being implemented in 860 mandals of 22 districts. While the APDPIP was expected to reach out to 9.3 lakh poor households at a total outlay of Rs 593.12 crore, the APRPRP was designed to cover 20 lakh households during 2003-2007, at an estimated outlay of Rs 1,486 crore[9]. This AP model of poverty eradication through SERP increasingly has come to be recognised as the best method for tackling poverty, by the World Bank, Government of India, other States/Countries and International Organisations. The following are the select programmes analysed under the study:

1. Building strong /sustainable institutions of the poor

To address the need of the more vulnerable sections it is essential to have a focused approach. Their concerns and priorities have to be accorded top priority. For that purpose, strong institutional support is required. To stabilise the livelihoods of the poor, existing institutional strength has to be enhanced for managing relatively complex operations. Institutions should build coalitions of poor people, strengthen community-driven development and transfer responsibilities and resources to communities.

At present, there are 1,14,12,578 SHG members in 10,27,930 SHGs organised into 38,646 Village Organisations (VOs) and 1098 Mandal Samakhyas (MSs). In addition to above (MSs), there are 262 Mandal Vikalangula Sangams, 17 Chenchu Mandal Samakhyas, 7 Fishermen Mandal Samakhyas and 20 Yanadi Mandal Samakyas in the state.

Total savings and corpus[10] of SHG members as on November 2011 are Rs 3600.02 crore and Rs 5333.48 crore respectively.

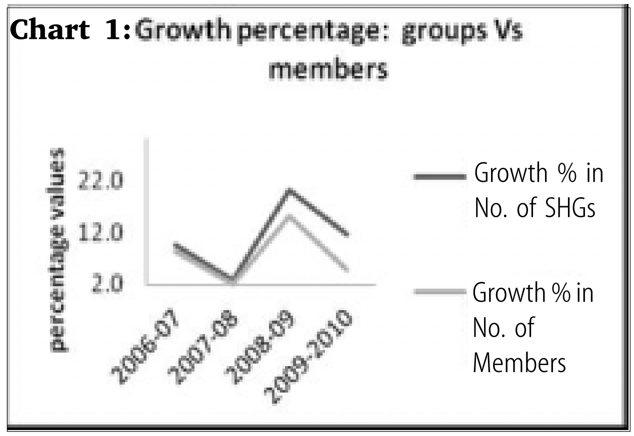
The growth rate in the formation of the groups declined considerably in the year 2008. Again from 2009 growth rate was continuously decreasing. Recent microfinance movement in Andhra Pradesh may be one of the reasons for declining growth rate (Table 1). The savings are closely (0.87 correlation co-efficient) moving with growth in number of groups but at a decreasing rate. The project expenditure is also very low at Rs. 91.13 crore (Appendix C).

Table 1: Growth percentage in SHG Groups and Group Members

Year	No. of SHGs under the Project	No. of Members in all SHGs	Growth % in No. of SHGs	Growth % in No. of Members	Total Savings (Rs. lakh)	Total Corpus (Rs. lakh)
2006	628507	7977241			123173	264026
2007	688253	8651024	9.5	8.4	134034	298890
2008	708315	8832828	2.9	2.1	144407	310969
2009	850671	10182181	20.1	15.3	196250	402555
2010	949066	10675321	11.6	4.8	360002	533348

Source: IKP Annual Report 2009-10

2. SHG groups bank linkage and access to the finance



To encourage the poor including disadvantaged groups and communities to access the credit facility services seamlessly, Community Investment Fund (CIF) from project side, and linkages from bank side are provided to the poor women SHG members to improve their livelihoods. SERP facilitates and ensures that the commercial banks finance and support the activities undertaken by the SHGs. Years of effort have ensured that AP leads in the SHG-Bank Linkage programme and it accounts for almost 50% of all bank loans given to SHGs in India. In the current financial year, SERP has facilitated Rs 3,414.49 crore of bank loans to 1,51,564 SHGs up to the end of November 2011.

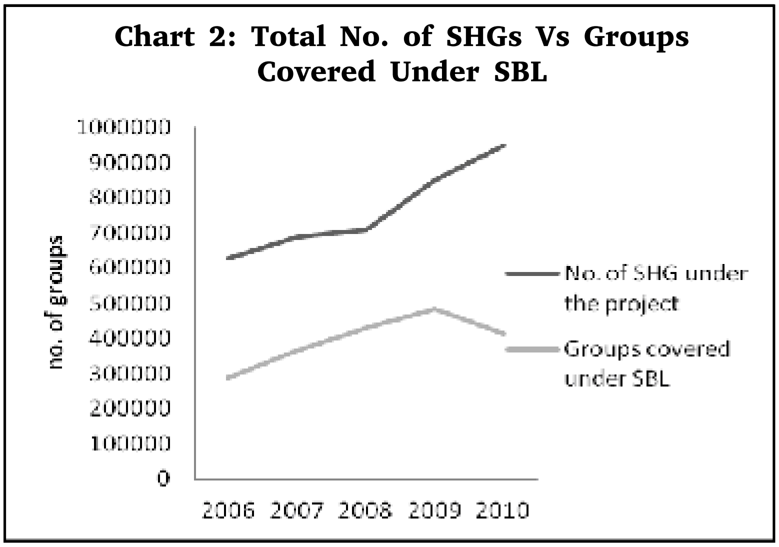
Through this bank linkage programme, IKP covers around 50% of the groups. It was in increasing trend till 2008; after that, it started declining at an increasing rate while the groups under project showing positive movement. Over the years, per group coverage was increasing (Tables 2 & 3) in spite of the fact that the loan amount sanctioned was not increasing at the same rate. This may be because of the number of groups covered in percentage was declining (Chart 2). Forty-four commercial banks (Public Sector Banks and Private Sector Banks), five Regional Rural Banks (RRBs), one State Cooperative Bank and 22 DCC banks consisting of 4,274 branches are participating in the programme. SERP has identified several critical factors in enabling groups to access bank credit and initiated a series of measures, which includes capacity building of SHGs, policy level dialogue and consultation with bankers at all levels.

Table 2: Percentage of Groups Covered

Year	No. of SHGs under the Project	Groups Covered under SBL	% Covered
2006	628507	288711	45.94
2007	688253	366489	53.25
2008	708315	431515	60.92
2009	850671	483601	56.85
2010	949066	413625	43.58
		correlation	0.66

Table 3: Per Group Coverage in Lakh

Year	Groups Covered under SBL	Amount of Loan (Rs Lakh)	Per Group Coverage (Rs. Lakh)
2006	288711	101770	0.352498
2007	366489	200140	0.546101
2008	431515	306387	0.710026
2009	483601	588279	1.216455
2010	413625	669200	1.617891



It also ensures proper bookkeeping, regular repayment and monitoring recoveries of group by positioning trained village and master bookkeepers in village and mandals.

Total Financial Inclusion: Under Total Financial Inclusion (TFI), all financial needs of all SHG members in a village are taken care of through SHG-Bank Linkages. It is a comprehensive solution to the financial needs of the poor. The women members can avail loans for the following:

- Debt swapping - retiring of high cost informal loans.
- Income generation activities.
- Working Capital.
- Long-term investment on land.
- Short-term needs for agricultural investments.
- Social needs.
- House repairs and house construction.

The Community based recovery mechanism ensures more then 99% repayment to the banks. Social audit of loan utilisation and assets created enhance the credit-worthiness of the SHGs.[11]

i. Pavala Vaddi: To reduce the financial burden on the self-help groups, the Government introduced "Pavala Vaddi" scheme w.e.f. 01.07.2004. The Government gives incentive in the form of reimbursement of the interest above 3% per annum on the loans taken by the self-help groups under this scheme. During the year 2011-12 up to November 2011, Rs 377.62 crore were reimbursed to 6,42,805 SHGs, thus totaling to Rs 1476.26 crore since inception of the scheme.

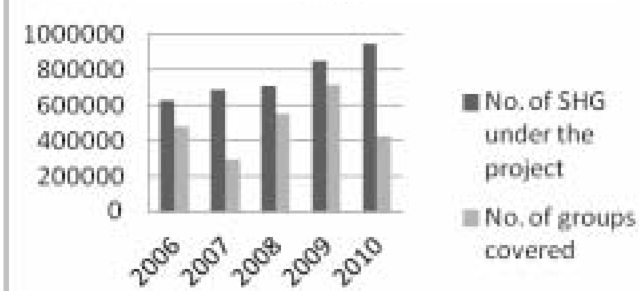
Except for the year 2010, the amount and the number of groups covered have shown an increasing trend. However, the Government of AP has announced an improved incentive scheme for the SHGs repaying installment promptly from the present Pavala Vaddi to zero percent interest (VaddiLeni Runalu) effective from 1.1.2012 as for the eligibility criteria for those SHGs whose borrowings not exceeding Rs 5.00 lakh (Table 4 and Chart 3).

ii. Community Investment Fund: CIF supports the poor in prioritising livelihood needs by investments in sub-projects proposed and implemented by the Community Based Organisations (CBOs). The cumulative CIF expenditure up to November, 2011 is Rs 1,091.84 crore and the total numbers of beneficiaries 28,54,021.

Table 4: Pavala Vaddi

Year	No. of Groups Covered	Amount in Crore
2006	475164	52.67
2007	290825	50.02
2008	554359	112.3
2009	714930	195.31
2010	427000	173.57

Chart 3: No. of Groups Covered Under Pavala Vaddi



Like the above two components in bank linkage programme the percentage of members under CIF also declined in the year 2010. It generally covered only 23% of the total SHG members which is also very less (Table 5). Apart from reducing the amount of interest rates, Government has to take initiatives to increase the number of groups coverage under this programme. Total savings and corpus of SHG members as on November 2011 are Rs 3,600.02 crore and Rs 5,333.48 crore respectively. Social capital created during the project period up to November, 2011 is Rs. 1,73,841 crore.

Table 5: Percentage of Members Covered Under CIF

Year	No. of Members in all SHGs	Total No. of Beneficiaries of IGA SP	% of Members Benefited Under CIF
2006	7977241	1848691	23.17
2007	8651024	2061309	23.83
2008	8832828	2070009	23.44
2009	10182181	2365606	23.23
2010	10675321	2396944	22.45

3. Sustainable livelihood

To provide the Sustainable Livelihoods to the poorest of the poor, SERP has made livelihood based interventions through land access to the poor, sustainable agriculture, dairy, non-farm livelihoods, jobs for rural youth. The Community Marketing strategy of the project is to enable the small, marginal farmers to obtain the best price for their agricultural commodities and forest produce. The marketing interventions through IKP VOs is being promoted mainly to eliminate unfair trade practices, to increase the bargaining power of small and marginal farmers in rural areas and also to generate employment/income to the VOs. The VOs have successfully implemented village level collective marketing of Paddy, Maize, Neem, Red gram, Cashew, and other Agricultural Inputs.

Various marketing initiatives are taken up by SERP, among which, paddy procurement is predominant in many districts. In the current financial year, up to November 2011, the VOs have procured a total of 188.18 lakh quintals of agriculture produce worth Rs 1956.94 crore.

Table 6: Collective Marketing

Year	No. of SHGs Under the Project	No. of Families Covered	Volume (Lakh Quintals)	No. of Commodities Handled	Turnover (Rs Crore)	Per Family Turnover (Rs.)	% of Groups Covered in Total SHGs
2006-07	628507	118497	1.80	57	16	1350.245	19%
2007-08	688253	257280	24.94	81	141.9	5515.392	37%
2008-09	708315	101790	18.25	81	126.38	12415.76	14%
2009-10	850671	301172	47.30	79	320.15	10630.14	35%
2010-2011	949066	216792	59.30	65	492.16	22701.94	23%
Correlation Coefficient		0.53	0.68	0.38	0.55		

Source: IKP report, various issues

The percentage of groups covered is very less ranging from 19 to 35% of the total groups under SERP project (Table 6). Under this project more number of VOs and MOs need to be covered because in Andhra Pradesh rural poor are mostly depending on agricultural products. Mostly these vulnerable groups are suffering a lot to market their products at reasonable cost due to unfair trade practices and lack of bargaining capacity. There is moderate correlation between volumes produced to the number of families covered. In the latest year, per family turnover was Rs 22,702 as the number of families covered declined in the latest year. There is a gap in marketing interventions by SERP in terms of coverage of groups.

i. Food Security: In the lean agricultural season, many of the rural poor have barely one square meal a day. The Food Security Credit is a direct intervention to tackle the hunger gap in rural areas. Village Organisations (VOs) estimate the balance requirement of SHG members, in respect of rice and other essential commodities, negotiate and buy better quality commodities in bulk, from the open market and sell to their members at a price lower than the retail outlets. Under this initiative, 4,07,231 families in 27,897 SHGs in 2,844 VOs were provided food security by June 2010.

x and y are the sample means of total number of groups covered under the IKP project and average of the groups covered under the food security scheme.

Correlation coefficient of the two data sets is -0.19, which shows that at least partly these two sets are moving in opposite direction. Number of groups covered under the project is increasing but coverage of groups under food security credit is reducing over the years (Table 7a).

Table 7a: Food Security Credit Scheme Coverage

Year	No. of SHG Under the Project	No. of VOs Covered for Food Security	No. of SHG Participated Food Security	No. of Households Benefiting from Food Security	% of Coverage
2006	628507	12918	137833	991142	22%
2007	688253	20000	193554	1638608	28%
2008	708315	14101	180785	2110401	26%
2009	850671	15989	206241	2363735	24%
2010	949066	8921	122984	1157877	13%

In spite of the bare truth that India dropped two ranks to 67th among 87 developing countries in the annual "global hunger index"[12] for the year 2010, there is need for a revamped public distribution system and greater coverage under the food security credit.

ii. Employment Generation and Marketing Mission (EGMM): EGMM was set up to address the needs of the next generation of the large network of SHGs created and nurtured by IKP. It aims to create employment/ employability for the rural/ tribal underprivileged youth. It works in a public-private partnership mode to identify, train and place youth in entry level corporate jobs in hospitality, retail, sales, tourism, banking, rural BPOs, manufacturing, textiles and construction sectors. Total number of jobs created up to 2010-11 is 2,69,183. The government of Andhra Pradesh has done an extensive employment survey in the rural areas across the state. It was planned to develop the database of the rural employed youth for assessing the training needs, work interests and thereby provide employment/ employability for the rural youth. EGMM has imparted training for 46,493 rural unemployed youth during current financial year up to end of November 2011. In the

Table 7b: Jobs Provided to Youth

Year	No. of Youths Trained	No. of Youths Placed	Percent Placed
2005-06	12320	11200	90%
2006-07	38194	33800	88 %
2007-08	74750	65000	87 %
2008-09	101645	73891	73 %
2009-10	54938	40292	73 %
2010-11	34584	26339	76 %

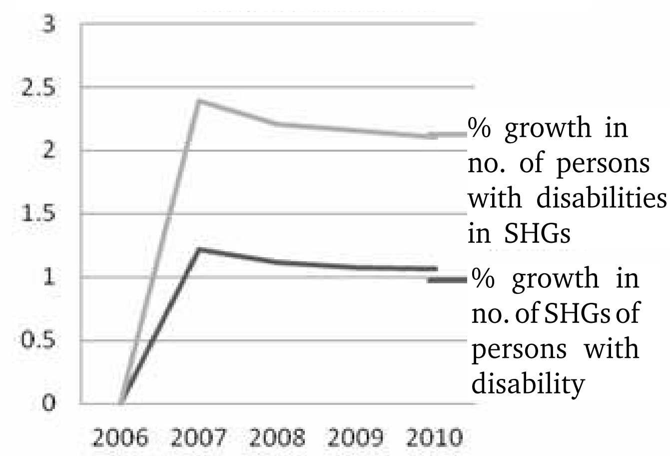
year 2008 total number of jobs created was 112,435 and it declined to 75,748 in the year 2009 and in the year 2010 it further declined to 39,753.[13]

4. Human Development Value Chain

Under Social and Human Development (Addressing Millennium Goals), Social action for gender equity, recognising the people with disabilities, among the poorest of the poor, Health & Nutrition intervention were covered.

Inclusive development of people with disabilities (PWDs) is one of the critical components of SERP's interventions, focusing on enhancing livelihood, functioning, and community-integration of PWDs and their families. The disability interventions of IKP have enabled more than 0.1 million persons with disabilities in the rural areas to be organised. So far 9.53 lakh PWDs are assessed against the target 11.55 lakh.

Chart 4: % Growth in No. of Persons Covered and No. of Groups Covered



The coverage under SERP is increasing constantly at 1 percent (Chart 4). More focused approach is required to reach the target of 11.55 lalk people.

II. Analysis and Findings on the empowerment of SHG (women) members of IKP

Empowerment occurs in different ways over the entire span of lives of members and it varies as there are different stages in the transformation of lives of women due to various opportunities and vulnerabilites, like access to or control over resources, jobs, income, etc., Women empowerment may be defined as a process for them to acquire equal rights including decision making that will enhance their worth. The decisions may include control over material assets, economic resources, and ideology. The well accepted and most appropriate definition of women empowerment is that it a process of challenging the existing power relations and of gaining greater control over the sources of power (Rafiqual 2010). The process of empowerment will be influenced by class, race, ethnicity, location and religeous practices. Hence, empowerment may be context specific and community specific.

Undoubtedly, the facilitation of empowerment process takes place through institutionl building and capacity building programmes, sustainable livelihood programmes and human development programmes offered by IKP. Keeping these advantages offered by the IKP in view, we classified empowerment factors into personal, familial, economic and social, each of which has been analysed based on the primary information collected from IKP SHG members.

i. Personal Empowerment: The capability of a person depends on a variety of factors, including personal characteristics. We can say that changes have taken place to some extent as the women SHG members which were interviewed said that before joining the group, they felt just housewives, being unable to undertake other activities that related to home, feeling dependent entirely on income and word pronounced by their family members especially their husbands. Of the members interviewed, 97% were workers outside, 2% were having their businesses like running provision shops and 1% were housewives. About 96% were uneducated and while 4% were educated. Women other than housewives said that their lives have taken a different path after becoming the members of SHGs, however, they still felt not very comfortable about their future. The following are factors were tested for personal empowerment:

- Learning and leading the family by self.
- Do you have any role model.
- Improve the standard of your living.
- Capability of achieving your goals.
- Fixed future approaches.
- Fighting against violence.
- Overcoming the family problems.
- Hoping to uplift your family.

Of all the factors of personal empowerment discussed, they said that they have interest in learning and leading their families. However, they think that it is not within their reach and most of them said that they have no role models for them, and there is no change in their feelings towards fighting against violence, overcoming their family problems and there is not much hope in uplifting their families. However, there is some impact in their standard of living, ability to achieve their future by fixing their approaches for their future. In other words, they believe that they can fix their future by focusing to achieve their goals with the help of microfinance loans (Table 8). However, to improve personal empowerment factors, the programme may include

Table 8: Personal Empowerment

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor7	Factor 8
Observations	75	75	75	75	75	75	75	75
Hypothesized Mean Difference	0	0	0	0	0	0	0	0
Df	74	74	74	74	74	74	74	74
t Stat	-1	-	-4.657215388	-4.65721539	-9.9949987	-1.65169931	-	-
P(T<=t) one-tail	0.1602847	-	0.00000690208	0.00000690208	0.00000001126	0.051416731	-	-
t Critical one-tail	1.6657069	-	1.665706893	1.665706893	1.66570689	1.665706893	-	-
Accept/Reject	R	A	A	A	A	R	R	R

some self-development with human-centred element.

Hence it is found that based on factors discussed, women SHG members have less self-efficacy and self-confidence in themselves, which is very important for an individual empowerment.

ii. Economic Empowerment: Based on the interview conducted relating to their economic empowerment factors, women SHG members conveyed that their economic conditions have improved a bit because of the microfinance and they have some control over their money flow and their family income, and above all they have gained some control over their resources. And they feel they can improve their economic conditions because of availability of some jobs and self-employment schemes made available through IKP(Table 9). However, 97% were employees outside, the creation of assets for themselves is not found. They could have some savings for their household purposes and could get loans for their urgent needs like education, marriages and for health reasons. All the six factors discussed below have positive impact on their economic lives, however the degree of impact is low.

Table 9: Economic Empowerment

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6
Observations	75	75	75	75	75	75
Hypothesized Mean Difference	0	0	0	0	0	0
Df	74	74	74	74	74	74
t Stat	-7.023769	-4.6572154	-7.22055148	-4.83408948	-5.364492313	-5.3644923
P(T<=t) one-tail	0.000000000444	0.0000069021	0.000000000190277	0.00000353406	0.000000445558	0.0000004456
t Critical one-tail	1.665707	1.66570689	1.665706893	1.665706893	1.665706893	1.6657069
Accept/Reject	A	A	A	A	A	A

- Control over your income.
- Control over your husband's income.
- Access to the credit.
- Control over the micro loan you borrow.
- Access to the family income.
- Access to high paid employment.

iii. Familial Empowerment: The personal empowerment can be augmented by the economic empowerment. When a woman has self-efficacy factor along with finance, it results in familial empowerment. In the analysis made, it is found that the situation has changed in their villages and that they are being consulted for family matters like purchase of articles for the house, child bearing, to some extent they are free from violence because of the Gender Groups existing in their villages. The issues between husbands and wives are resolved by the leaders of the Gender groups who are being trained by the DRDA offices. And they are able to gradually shift to superior goods and good reproductive health services, as IKP runs some nutrition centres for mal nourished. However, they refused to talk about divorce options. Women having family problems do not come forward to represent it, because they do not want to go for divorce options (Table 10). The factors of familial empowerment tested are:

- Participate in home decision-making.
- Participate in childbearing decisions.
- Participation in children's life and marriages.
- Free from violence.
- Shift to superior foods and assets.
- Access to reproductive health service.
- Access to divorce options.

Table 10: Familial Empowerment

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
Observations	75	75	75	75	75	75	75
Hypothesized Mean Difference	0	0	0	0	0	0	0
Df	74	74	74	74	74	74	74
t Stat	-10.535654	-6.475851889	-14.6887384	-14.688738	-1.8278778	-8.12728841	-1.423867
P(T<=t) one-tail	1.1175E-16	4.58644E-09	6.21051E-24	6.2105E-24	0.03579938	3.72062E-12	0.079344
t Critical one-tail	1.66570689	1.665706893	1.665706893	1.66570689	1.66570689	1.665706893	1.6657069
Accept/Reject	A	A	A	A	A	A	R

iv. Social Empowerment: The social empowerment is one which has to come from the top. In a country like India, where women are slowly seeing the light of the day through few national inclusion policies for women as development programmes. The traditions, culture and religion present in the system influence the behaviour of Indian women who accept their status of disempowerment. The programmes inter-twined with social inclusion can bring in some changes in their behavior which may result in their presence and participation outside the houses in the extra-familial and social networks like community development programmes. In IKP, there are social networks like community action groups which conduct and coordinate awareness programmes on various women related and gender issues. The women SHG members responded to our interview so well that they were present at appointed time for interviews. Though they were employed, they did not hesitate to give their time and showed much interest in the participation and shared their views strongly. According to them, they enjoy freedom of participation in the social gatherings and SHG meetings without any restriction from their family members. However, in some of the villages, there is still gender inequality as it was revealed during the interview (Table 11). The factors of social empowerment are:

- Freedom to move easily.
- Gender inequality in your area.
- Participation in extra-familial and social network.
- Access to education.
- Education of your daughters.

Table 11: Social Empowerment

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Observations	75	75	75	75	75
Hypothesized Mean Difference	0	0	0	0	0
Df	74	74	74	74	74
t Stat	-4.834089	-0.57476703	-2.02294	-6.83024	-1.74101815
P(T<=t) one-tail	3.534E-06	0.283596111	0.023346	1.017E-09	0.042918267
t Critical one-tail	1.6657069	1.665706893	1.665707	1.6657069	1.665706893
Accept/Reject	R	A	R	R	R

III. Sustainability of SHGs

The sustainability is of three types namely, organisational sustainability, financial sustainability and operational sustainability.

i. Organisational Sustainability: Nurturing and training facilities make the SHGs stronger as the members improve the skill of leadership, group maintenance services, maintenance of records, book-keeping, audit of books, conflict resolutions, etc., social capital may be one of the indicators to determine the sustainability of the project. Providing continuous and intensive facilitation to the CBOs at grass root level is possible only with the development of social capital. So far, the project has developed a cadre of social capital, viz., community activists, para-professionals, health activists, community reporters, etc. Till date the project has developed 1,59,727 CAs/CFs/MRPs/ Book keepers. Majority of social capital honorarium is paid by the CBOs. The Community resource persons over the years have evolved as functional specialists with each one having own strengths in specific areas like social mobilisation, gender, financial management, book keeping, marketing, procurement, health communication, para legal assistance and so on. They act as guides and role models for other poor individuals and institutions. They provide capacity building support to newer groups and act as consultants to each other to successfully implement their plans to come out of poverty. Since 2004-05, the project has been adopting the VORT- CRP strategy for strengthening of SHG and promoting "Panchasutralu ". As a part of this strategy, the four member CRP team will stay in one village for 15 days, form new groups with left over POP, train a minimum of 8-9 SHGs, update SHG book of accounts, identify and train SHG bookkeepers and community activists, facilitate 2-3 SHGs for MCP preparation and identify internal CRPs. These teams visit villages at the rate of one team per mandal and take up trainings on SHG management, Bookkeeping and Micro-Credit Plan preparation, working 15 days per month in each village for 10 months in a year. A two- member senior CRPs team will visit three mandals per month, at the rate of five days per mandal to streamline MSs meeting process and build executive committee members capacities in conducting meetings in a systematic manner, ensure utilisation of funds effectively and review the staff performance. Also they develop model VOs. Each team consisting of two CRPs women who will work with two or three Mandal Samakhyas on improving MS meeting process, CIF-Management, Mandal Samakhya Accountant role and responsibilities and sub-committee systems at the rate of 12 days per month for 9 rounds in a year. 123 senior CRP teams are working in 14 districts, 454 mandals and have covered 3,241 VOs.

ii. Financial Sustainability: The concept of financial sustainability is the continued existence and functioning of groups providing uninterrupted supply of finance at low cost and at high recovery rates. There are two aspects to this: one is the affordability of interest costs to the members of the groups and the second, easy access to the services. Apart from these two aspects, policy environment supporting and incentivising the microfinance effort at all levels is inevitable in delivery system. The long term availability of financial backing for the programme, the financial literacy, some handholding with voluntary agencies and the soft loans will play a greater role in the sustainability of SHGs. In case of IKP, it has a strong policy environment, with large corpus fund. Bank lending has dramatically increased from Rs 197 crore in 2001-

02 to Rs 6,501 crore in 2009-10. SERP has identified several critical factors in enabling groups to access bank credit and initiated a series of measures, which include capacity building of SHGs, policy level dialogue and consultation with bankers at all levels. It also ensures proper book keeping, regular repayment and monitoring recoveries of group by positioning trained village and master bookkeepers in village and mandals.

iii. Operational Sustainability: Banks' preference for the SHG-Bank linkage model can be measured from the fact that they are promoting groups of their own at their cost. Generally, costs of lending to SHGs appear to be less than that of lending directly to individuals. A NABARD study found that transaction cost on a SHG loan account to be 35.6% less than that of an average priority sector loan on the first loan and 55.7% less on the second loan (Puhazhendi 2000). The account consolidation, reduced paper work and staff time would lead to reduction in the cost of lending. Based on interaction with SHG members, they expressed their comfort with the rates of interest charged by the IKP, which would lead to operational sustainability.

Conclusion

As a financial delivery model, the SHG model group approach is unique, and it has been appreciated very well in Andhra Pradesh than the Grameen model or MFI model as it can be understood from the achievements of IKP. The mission of IKP is reaching the unreached poorest of the poor families in rural areas and facilitating and supporting them in coming out of poverty through social mobilisation, building their own institutions, livelihood enhancing interventions, etc. Generally speaking, the banks are far more comfortable in financing the poor through the SHG-Bank linkage model as they find the risk and transaction costs to be lower. The Indian experience and the IKP experience have demonstrated that the microfinance can be a participatory exercise and the banking system can deliver it sustainably. From the study, it is concluded that the IKP has to keep pace with the requirements as there is large size of population yet to be reached and there is a need to design more programmes empowering women with self-employment qualities to encourage personal empowerment among women.

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Notes

1 Malcom Harper, 1998. Profit for the Poor, Cases in Micro Finance, Oxford Publication.

2 http://www.deutsches-raiffeisenmuseum.de/IRU0109_en.pdf

3 www.microfinancegateway.org/gm/document-1.9.25980/261.pdf

4 It is an autonomous society of the Department of Rural Development of Andhra Pradesh, registered under the Societies Act, chaired by the Chief Minister as the ex-officio Chairman of the General Body (GB).

5 http://rd.ap.gov.in/

6 See Kropp and Suran (2002) for details on the performance of SHGs and self-help promoting institutions and the role of NABARD in promoting microfinance in India.

7 Socioeconomic parameters include savings levels, debt levels, assets, income levels, employment, consumption patterns, self-confidence, communication skills, behavioral changes, and domestic violence.

8 M. S. Sriram, IIMA, "Financial Livelihoods- Providing superior access to financial services.

9 Website of SERP

10 Corpus, which includes savings from their constituents, grants they received and bulk loans they borrow from FIs and others for on lending.

11 See, IKP Annual Report 2009-10.

12 Article: Times of India Dt: 12.10.2010.

13 See, IKP Annual Report 2009-10.

14 See, IKP Annual Report 2009-10.

Appendix A

Channels of flow of finance from apex and wholesale organisations to SHG members

A. NABARD → CB/RRB/Coop. Bank	→ (NGO) → SHG → Member [PRADAN/MYRADA/Holy Cross/ DHAN etc. – predominant bank linkage model]
	→ NGO-MFI → SHG → Member [various bank linkage NGO intermediaries]
	→ (NGO) →Federation → SHG → Member [Outreach CLAs]
	→ MACTS → (SHG) → Member [various AP MACTS]
B. NABARD/SIDBI → FWWB/RGVN	→ NGO-MFI → SHG → Member
	→ Federation →SHG → Member
	→ NGO-MFI → Fed. → SHG → Member
	→ MACTS → (SHG) → Member [various FWWB/RGVN partners]
C. NABARD/SIDBI → NBFC	→ NGO-MFI → SHG → Member [MFI clients of BASIX]
	→ Federation → SHG → Member [BASIX, Sarvodaya Nanofinance SMBTs]
	→ MACTS → (SHG) → Member SHG → Member [BASIX]
D. NABARD/SIDBI → NGO-MFI	→ SHG → Member [various NGO-MFI partners of SIDBI]
	→ Federation → SHG → Member [OUTREACH]
	→ MAC → (SHG) → Member
E. RMK → NGO-MFI	→ SHG → Member [NBJK] Nava Bharat Jagriti Kendra
F. HUDCO/HDFC → NGO-MFI	→ SHG → Individual [various NGO-MFIs]
G. NB/SIDBI/HUDCO/HDFC	→Federation → Cluster Fed. → SHG → Member (nested institutions of DHAN Foundation]

Notes: Institution in brackets acts as *facilitator* and *not intermediary*, e.g. (NGO), (SHG).2. The above channels are illustrative and not exhaustive.

Appendix B: IKP Key Performance Indicators

	Key Performance Indicators	2006	2007	2008	2009	2010
Building strong and sustainable Institutions of the poor	No. of SHG under the project	628507	688253	708315	850671	949066
	No. of members in all SHGs	7977241	8651024	8832828	10182181	10675321
	No. of village organisation formed	27748	31469	34269	35525	36391
	No. of mandal samakhyas formed	910	964	1085	1099	1099
	Total savings	123173	134035	144407	196250	360002
	Total corpus	264026	298891	310969	402555	533348
Sustainable Lively-Hood	No. of income generating sub-projects	56654	69503	NA	NA	NA
	Jobs for rural youth			112435	75748	39753
	No. of SHGs given IGA CIF	216283	241332	238147	NA	NA
	Total no. of beneficiaries of IGA SP	1848691	2061309	2070009	2365606	2396944
	No. of acres of land purchased	2995	4213	4474	4539	4539
	No. of beneficiary of land purchase	3422	4504	5023	5303	5303
	Amount of land purchase in lakh	1735	2788	NA	NA	NA
	No. of persons with disabilities in SHGs	153128	179129	196144	213197	223081
	No. of Vos covered for food security	12918	20000	14101	15989	8921
	No. of SHG participated food security	137833	193554	180785	206241	122984
Human Development	No. of SHGs of persons with disability	15962	19440	21566	23069	24505
	No. of households benefiting from food Security	991142	1638608	2110401	2363735	1157877

Source: IKP progress reports from 2006 to 2010.

Appendix: C

Bank linkage and financial access

Parameters	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Coverage of Groups	261254	288711	366489	431515	483601	413625
Amount of Loan (Rs Crore)	1018	2001	3064	5883	6692	6501
No. of Branches	3853	3853	3950	4000	4150	4274
Per Group Finance (Rs)	38954	69322	83601	136329	137498	157180
Groups Per Branch	68	75	93	108	118	97

Collective Marketing

Item	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
No. of VOs involved	1154	2010	783	2071	1662	1443
No. of Families Covered	118497	257280	101790	301172	216792	279306
No. of Commodities Handled	57	81	81	79	65	67
Volume (lakh Quintals)	2	25	18	47	59	65
Turnover (Rs Crore)	16	142	126	320	492	611

Source: IKP Report November 2011.

Appendix D: Project Expenditure (Rs. Crore)

Component	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011 Nov	Total expenditure
Institutional and human capacity building	90.77	77.49	84.11	125.85	91.13	102.51	141.27	161.82	145.68	1027.25
Community investment fund	232.84	221.35	165.93	135.68	50.84	79.70	28.16	49.96	120.60	1091.84
SPP	0.02	0.12	0.15	0.00	0.07	0.00	0.01	0.00	0.00	0.37
SPD	0.41	0.90	3.33	6.23	4.41	2.33	4.52	0.00	0.00	21.32
SERP total	362.36	321.66	275.57	291.57	167.60	211.53	205.41	247.27	344.36	2431.33

Source: IKP Report November 2011

Self-Help Groups and Borrowing Cost An Empirical Study Addressing Endogeneity Problem

- Maniklal Adhikary* and Supravat Bagli**

The participation in SHG accelerates the access to formal credit and reduces the borrowing cost for the disadvantaged section of people. It reveals the absence of endogeneity problem relating to the participation in SHG

Abstract

Restricted access to formal credit and high cost of borrowing from informal source is a familiar problem to the rural poor borrowers. In the recent years Self-Help Group (SHG) based microfinance programme in India has been functioning against this problem. Addressing the problem of endogeneity, this study has assessed the impact of the participation in SHG on access to formal credit and on borrowing cost. It has also examined whether the SHGs serve the disadvantaged section of people or not. In order to study the nature of accessibility to formal credit we have formulated a logit model. We have fitted a semi-log linear model for assessing the borrowing cost. A probit model has been applied to estimate the decision to participate in SHG. A test for endogeneity related with the participation in SHG has also been conducted. This empirical study is based on a set of primary data collected from 964 rural households residing in the district of Bankura in West Bengal, India. Empirical analysis demonstrates that participation in SHG accelerates the access to formal credit and reduces the borrowing cost for the disadvantaged section of people. It reveals the absence of endogeneity problem relating to the participation in SHG.

Introduction

In India, access to formal credit is limited for a vast section

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of population in general and rural poor in particular. Usually, they borrow from informal moneylenders at usurious borrowing cost. It has been reported that there is a massive credit gap in India as a whole and in West Bengal (Government of India, 2008). The asymmetric information and lack of collateral are the root causes of this situation. During late 1980s the group lending approach has been recommended for bridging the information gap and collateral problem in the rural credit market. With this end in view in 1992 National Bank for Agriculture and Rural Development (NABARD) launched a pilot project on the SHG-bank linkage programme. Since then, several governmental and non-governmental organisations in India have been providing formal banking services following the Self-Help Group (SHG) based microfinance approach. The prime objective of the NABARD's pilot project was to improve credit flow to rural poor with reduced transaction cost, both for the financing banks and the borrower. Keeping this in view, this study has planned to investigate the performance of SHGs in the flow of formal credit and reducing borrowing cost for the rural poor in the district of Bankura. This study is framed as follows. Section 2 has cited the motivation and objectives of this study. Research design and database have been explained in section 3. Section 4 has analysed the empirical findings. Section 5 concludes the paper with policy prescriptions.

Motivation and Objectives

There is a vast literature relating to the impact of group based microfinance on livelihood of rural people. Several studies conducted across India have reported that participation in SHG make the access easy to formal savings facility and credit facility and reduce lending and borrowing cost (Dadhich, 2001), Seenivasan (2005), Varman P (2005), Rajasekhar, et al. (2006), Meher (2007), Adhikary, et al. (2010; 2011). These studies have assessed the impacts of SHGs assuming the participation in SHG as exogenous factor. However, the participation in SHG may be influenced by some unobservable characteristics of the participants like occupation, gender, caste, demonstration-effect, high-expected gain from the programme, closeness with the NGOs and GOs, etc., which in turn affect the outcomes of the participation. If it is true, then the estimation of the impact of the participation does not demonstrate the impact of the participation alone. It produces the combined impact of the participation and the unobservable factors. This is the problem of endogeneity arising in the impact analysis of programme participation. A few novel studies like Pitt and Khandker, (1998), Coleman (1999), Montgomery (2005), Nino-Zarazua (2007) deal with the impact analysis of the group based microfinance programmes outside India correcting the problem for endogeneity. However, study of the impact of SHGs on access to formal credit and on borrowing cost addressing the problem of endogeneity is not common in the literature. Against this backdrop, this study has been designed with the following particular objectives.

First, this study examines the impact of participation in SHG along with some selected socio-economic and demographic traits on the access to formal credit for the rural people.

Second, it has investigated how the borrowing cost is affected by the participation in SHG along with other socio-economic and demographic traits.

Third, whether the SHGs serve the disadvantaged section of the rural people or not.

Fourth, a test of endogeneity has been conducted relating to the participation in SHG.

Research Design and Database

The study of the impact of the participation in SHG on borrowing cost is our prime interest. Before going to this subject we need to examine whether the participation in SHG ensure formal credit or not. The participation in SHG creates awareness of the capability of the person regarding the utilisation and repayment of the loan and group identity of the person to the bank or cooperatives. It bridges the information gap between the institution and the SHG members. In the SHG system, members save recurrently with the group and group with the bank or cooperatives, which act as collateral for loan. So the SHG based microfinance programme solves the problem of collateral for getting institutional loan. Further, the peer monitoring within the group ensures the proper utilisation and peer pressure ensures the repayment of the loan. SHG membership makes the person confident to approach bank or cooperative for formal credit. Bridging the information gap and solving the collateral problem the participation in SHG may reduce the verification and monitoring cost of the lender and the number of visits to the lending institution and thereby transportation cost of the borrower. Not only that we have the experience that being a member of SHG, one borrower do not need to visit the lending institution personally. One member, particularly, president or secretary visits on behalf of the group and the transportation cost and other mutual cost is shared among the members. Therefore, it is expected that SHGs accelerate access to formal credit and reduces the cost of borrowing for the members of SHG. This is the central hypothesis of this study. Further, the concept of group-based microfinance arises mainly for extending the formal financial services to the rural poor people. In India SHG bank linkage programme has also been recognised as a policy in the name of Swarnjayanti Garm Swarozjar Yojana (SGSY) to combat the pangs of poverty through recurrent savings and credit. So we can expect that SHGs serve the disadvantaged section of population.

Availability of loan from a formal financial institution depends on some terms and conditions to be fulfilled by the person concerned. In addition to the participation in SHG, this study has considered some other socio-economic and demographic characteristics of the person/household as determinants of the access to formal credit.

The access to formal credit is specified by the information whether the person has access to formal credit or not.

The borrowing cost refers to the cost borne by the borrowers during the course of applying for and repayment of the loan. No doubt interest cost is the main component of the borrowing cost. Lenders impose some additional cost over and above the interest cost such as processing charge, loan insurance premium, charge for verification, etc., for reducing information gap. In addition to these, there are some monetary and opportunity costs on the part of the borrower. This study has considered only the monetary cost for borrowing. The key heads of borrowing cost are as follows.

Heads of Borrowing Cost

- Cost for interest payment during the term of the loan.
- Transportation cost for visiting the financial institutions.
- Cost for the loan insurance premium, if any.
- Money paid for processing charge, agent's commission, etc., as applicable.
- Expenditure made for purchasing stamp, pen, papers, etc.
- Extra cost, if any, for perusing or delaying the delivery of the loan.

The borrowing cost in this study has been computed by adding these heads. The major part of the borrowing cost is interest cost which varies directly with the amount borrowed. This study has planned to estimate the borrowing cost as proportion to the borrowed amount. In the determination of the borrowing cost we have considered SHG membership along with some socio-economic demographic traits of the borrower and loan attributes as explanatory variables.

In order to explain whether the SHGs serve disadvantaged section or not we have planned to estimate the probability of holding the SHG membership. The SHG membership status is a dichotomous variable indicating whether the person holds the membership of a SHG or not. The decision to hold the membership depends on the availability of the programme in the village. Besides, it depends on the individual and households characteristics like sex, age, social status, income, occupation, education, caste, etc.

The access to formal credit is a binary response variable as it has been specified. We have put value '1' if the person has access to formal credit and '0' otherwise. The formulation of logit or probit model is appropriate when the dependent variable is binary in nature. Here, we have estimated a binary logit model for the access to formal credit applying maximum likelihood method. We are interested to measure the rate of change of the borrowing cost due to participation in SHG. That is why a semi-log linear regression model for the borrowing cost as proportion to the amount of borrowing has been estimated by OLS method. The holding of SHG membership is also a binary variable taking value '1' for the SHG member and '0' otherwise. Further, the participation in SHG is concerned with a particular stratum (low income class) of population. It justifies the application of probit model for estimating the SHG membership status.

To test the endogeneity of the variable "SHG Membership" we follow a technique similar to the Hausman (1978) test for testing the significance of an omitted variable. This technique is designed to test the significance of the coefficient of residual or predicted participation variable estimated from secondary equation (equation of the SHG membership) and inserted in the primary equations which are the equation for the access to formal credit and the equation of the borrowing cost. If the hypotheses of non-zero coefficients of the predicted SHG membership, in the equations for the access to formal credit and for the borrowing cost are rejected, the SHG membership would be treated as exogenous variable. The intuition behind the test procedure is to examine whether the unobserved variables in the reduced form equation help explain the variation in the SHG membership after controlling the observed explanatory variables.

For estimation, we have used a set of primary data collected from the rural people residing in Bankura district which is one of the backward districts in West Bengal. We have conducted a household survey during the year 2009 following four stage sampling procedure. In the first stage purposively we have covered five blocks, namely, Kotulpur, Indus, Patrasayer, Chhatna and Raipur. We have selected two Grampanchayats randomly from each sample block in the second stage. On the basis of personal judgment in the third stage, at least two (two, three or four) villages from each of the sample Grampanchayat have been selected depending on the size of geographical area and population strength. In the last stage, making a pilot survey in each village we have identified the population households suitable for this study and then randomly chosen the sample households. Finally, a sample of 964 persons has been considered. Therefore, we have used a multi stage sampling procedure which is also a mixture of both purposive and random sampling to take the advantages of both. It may be viewed as multi stage stratified random sampling.

Empirical Results and Discussion

Table 1 depicts that 53% of our sample persons are members of SHG and 73% are women. Although 53% of our surveyed persons have access to formal credit, it does not mean that they borrow only from formal institutions; a major portion of them borrow from village moneylenders. More than half of the sample persons are engaged in farm activity. In terms of social status, 27% occupy leadership position. Out of total sample households 35% are basically cultivator, 23% earn from non-farm self-employment and the remaining belong to wage labour class. All the surveyed households took loan from formal or informal or from both sources of credit, out of them 57% have used the loan for productive purposes like cultivation, purchasing livestock, purchasing capital goods or raw materials for their own cottage industry, etc. and others have utilised the loan in apparently unproductive purposes like daily consumption, for meeting social obligations, for health care or for repaying old debt,

Table 1: Percentage Distribution of Categorical Variables*		
Selected Variables	Percentage Distribution of the Variables	
Values	1	0
SHG Membership (1=Yes)	52.59	47.41
Access to formal Credit (1=Yes)	52.90	47.10
Sex (1= Woman)	73.55	26.45
Occupation (1= Farming)	58.61	41.39
Social Status (1= Leader)	26.97	73.03
Traditional Family Occupation (1= Cultivation)	34.96	65.04
Traditional Family Occupation (1= Non-farm self employment)	22.92	77.08
Traditional Family Occupation (1= Wage Labour)	42.12	57.88
Purpose of Borrowing (1= Productive)	56.74	43.26
Type of Family (1= Nuclear Family)	72.30	27.70
Caste (1= General Caste)	27.28	72.72
Caste (1= OBC)	16.39	83.61
Caste (1= Scheduled Caste)	41.49	58.51
Caste (1= Scheduled Tribe)	14.83	85.17

* Authors' own computation

etc. A large portion of our sample families is of nuclear type. Majority of the sample members belong to the Hindu non general castes. Among the surveyed villages, only one is outside the microfinance programme. Table 2 exhibits that the average experience of the microfinance programme for the sample villages is 6.68 years. The duration of SHG membership of our sample persons varies from zero to 180 months with an

Table 2: Descriptive Statistics of Quantitative Variables*

Statistics	Duration of the SHG programme in village (year)	Duration of the SHG membership (month)	Level of education (year)	Highest male education (year)	Highest female education (year)	Agricultural land (bigha)	Age (Year)	Dependency ratio (%)	Annual per capita income (Rs.00)
Mean	6.68	27.65	3.29	6.57	4.84	1.81	37.50	51.61	65.30
Median	6	18	2	7	5	1	36	50	52
Maximum	25	180	17	17	18	22	86	100	750
Minimum	0	0	0	0	0	0	17	0	10.25
S. D.	3.63	31.34	3.91	4.22	3.90	2.45	10.73	22.35	51.61
Skewness	2.92	1.71	0.97	0.12	0.28	3.22	0.58	-0.78	5.00
Kurtosis	15.89	4.24	3.05	2.44	2.28	19.49	3.06	3.05	47.07

* Authors' own computations

average of 28 months. The average of the highest education level of male and female are relatively higher than the average education level of the persons interviewed. The average household's agricultural landholding indicates that sample households are marginal in terms of landholding. In terms of income levels, the sample households was poor. More than half of the family members in average are dependent members who are generally children and elderly.

In Table 3 we have described the statistics of the loan attributes of the sample borrowers. Our sample borrowers have received loan of Rs. 61.35 on an average for utilising in their desired projects. Majority of the sample households have borrowed more than one time for meeting their exigencies over a year. It is revealed that in the area under study, demand for short-term loan is very high though there is a high variability. The borrowers have paid 28.92% interest on average. The average real cost for borrowing except interest cost is Rs. 148. The average borrowing cost (resultant of interest cost and real cost) is Rs. 12.12.

Table 3: Descriptive Statistics of the Loan Attributes*

	Amount borrowed (Rs.'00)	Frequency of borrowing	Term of loan (month)	Interest rate (%)	Interest cost (Rs.'00)	Real cost (Rs.)	Actual cost (Rs.'00)	Borrowing cost as % to borrowed amount (%)
Mean	61.35	3.11	8.59	28.92	10.64	147.99	12.12	17.10
Median	30.00	2.00	6.00	13.00	3.60	13.00	3.81	12.25
Maximum	550.00	25.00	120.00	240.00	504.00	3000.00	504.50	144.14
Minimum	1.00	1.00	1.00	7.00	0.04	0.00	0.08	2.17
Standard Deviation	97.95	2.96	8.88	34.38	35.17	496.02	37.95	15.90
Skewness	0.05	2.08	5.91	2.54	0.09	10.87	0.09	2.93
Kurtosis	0.56	9.88	59.28	10.07	1.18	196.84	1.24	15.69

* Authors' own computations

This study has checked the inter-correlations among the variables under consideration which have confirmed the absence of multicollinearity in the estimation of the specified econometric models. Table 4 and Table 5 show the results of the estimated model for the access to formal credit. The coefficient of the SHG membership, which is statistically significant, implies that the log of odds in favour of getting access to formal credit of the members of SHG increases by almost 0.7 point compared to that of the non-members of SHG. The probability of getting access to formal credit also increases by 60% if a poor person participates in SHG. Duration of SHG membership of person also significantly expands the access to formal credit for the surveyed persons. For extra one month duration of SHG membership the probability of receiving formal credit goes up of 0.4% point. Therefore, the participation in SHG accelerates the access to formal credit for the rural people as we have expected. However, impacts are quite marginal.

It is revealed that women are less likely to have access to formal credit in contrast to men. The probability of getting access to formal credit for women is 5% lesser compared to that for men in our sample. There still exists a sex discrimination against female regarding the access to formal credit. Conventionally, males earn and borrow whenever necessary for family. Further, physical assets of the family, which are used as collateral for loan, usually go in favour of the ownership of male members. As a consequence, male members are more likely to have access to formal loan compared to their female counterparts. Age of the person is another significant determinant of the access to formal credit. Persons holding powerful social status are much more

Table 4: Estimated Results of the Model for Access to Formal Credit (N=964)@

Dependent Variable: Access to Formal Credit (1=Yes)
Method: ML - Binary Logit (Newton-Raphson)
Convergence achieved after 5 iterations

Explanatory Variable	Coefficient	Std. Error	t-Statistic	Prob.
SHG Membership (1=Yes)	0.696	0.261	2.669*	0.000
Duration of SHG membership (Month)	0.091	0.026	3.472*	0.001
Sex (1= Woman)	-0.740	0.258	-2.869*	0.004
Age (Year)	-0.017	0.009	-1.786***	0.074
Social Status (1= Leader)	0.600	0.252	2.378*	0.017
Level of Education (Year)	0.038	0.037	1.025	0.306
Highest Male Education in the Household (Year)	0.105	0.031	3.403*	0.001
Highest Female Education in the Household (Year)	0.021	0.012	1.735***	0.095
Size of Agricultural Land Holding (Bigha)	0.025	0.013	1.863***	0.078
Traditional Family Occupation (1= Cultivation)	-0.146	0.272	-0.537	0.591
Traditional Family Occupation (1= Non-Farm Self Employment)	-0.524	0.330	-1.587	0.113
Annual Per Capita Family Income (Rs,'00)	0.008	0.002	3.470*	0.001
Dependency Ratio in the Household (%)	0.005	0.005	0.956	0.339
Purpose of Borrowing (1= Productive)	0.402	0.212	1.893***	0.072
Caste(1= OBC)	-0.313	0.321	-0.975	0.329
Caste(1= Scheduled Caste)	0.145	0.307	0.471	0.637
Caste(1= Scheduled Tribe)	-0.426	0.353	-1.207	0.227

Summary Statistics

S.E. of Regression	0.323	Akaike Infomation Criterion	0.713
Log Likelihood	-339.439	Schwarz Criterion	0.811
Restricted Log Likelihood	-450.796	Hannan-Quinn Criterion	0.750
LR Statistic (16 d.f)	222.714	Mc Fadden R-squared	0.247

@ Authors' own computation
*, **, *** stand for significance at 1% level, 5% level and 10% level respectively.

likely to get access to formal credit in contrast to the common persons. The probability of getting formal credit for leaders is greater by 4.9% point compared to the rank and file persons. It is a fact that the leaders of any type of organisation have some dominating influence on the local financial institutions and thereby they can get loan if they want. Education of the person is insignificant to affect the probability of getting formal credit. However, highest education level of the male and female in the family have positive and significant impact on the log odds in favour of getting formal credit. Highest education level of male person increases the probability of getting access to formal credit for other family members. Thus, for getting access to formal credit the level of education of the potential borrower does not matter but, education levels

Table 5: Marginal Change in Probability of Access to Formal Credit (N=964).@

Dependent Variable: Probability of Access to Formal Credit (1=Yes)
Method: Least Squares

Explanatory Variable	Coefficient	Stnd. Error	t-Statistic	Prob.
SHG Membership (1=Yes)	0.597	0.007	90.176*	0.000
Duration of SHG Membership (Month)	0.004	0.001	5.208*	0.000
Sex (1= Woman)	-0.051	0.007	-7.412*	0.000
Age (Year)	0.001	0.000	2.724*	0.007
Social Status (1= Leader)	0.049	0.006	7.984*	0.000
Level of Education (Year)	-0.002	0.001	-1.592	0.112
Highest Male Education in the Household (Year)	0.011	0.001	13.972*	0.000
Highest Female Education in the Household (Year)	0.0001	0.001	-0.265	0.791
Size of Agricultural Land Holding (Bigha)	-0.003	0.001	-2.391*	0.017
Traditional Family Occupation (1= Cultivation)	0.036	0.007	5.099*	0.000
Traditional Family Occupation (1= Non-Farm Self Employment)	-0.009	0.009	-1.008	0.314
Annual Per Capita Family Income (Rs,'00)	0.001	0.000	18.395*	0.000
Dependency Ratio in The Household (%)	0.002	0.000	12.706*	0.000
Purpose of Borrowing (1= Productive)	0.166	0.005	30.180*	0.000
Caste(1= OBC)	-0.028	0.009	-3.109*	0.002
Caste(1= Scheduled Caste)	0.032	0.008	3.870*	0.000
Caste(1= Scheduled Tribe)	-0.041	0.010	-4.269*	0.000

Summary Statistics

R-squared	0.938	Akaike Information Criterion	-2.117
Adjusted R-squared	0.936	Schwarz Criterion	-2.020
S.E. of Regression	0.083	Durbin-Watson d-Statistic	1.496
Log Likelihood	1087.149		

@ Authors' own computation
*, **, *** stand for significance at 1% level, 5% level and 10% level respectively.

of the family members are important.

The odds in favour of getting formal loan increases by 2.5% as the size of the household's agricultural land increases by one bigha. Usually, higher the size of household's agricultural land, higher would be the need for amount of fertilizers, pesticides and other agricultural capital goods for which the households prefer to take loan from formal institution. After all, households having agricultural land can get access to formal credit hypothecating the land to the formal financial institutions. Empirical estimation reveals that if a household is able to shift from wage labour family to the cultivator family the probability of getting access to formal credit will increase by 3.6% point. Cultivator families have some agricultural land, which may be used as collateral of loan. Moreover, we have seen that primary agricultural credit cooperative societies serve major part of the area under study. These cooperatives exclusively provide formal loan to the cultivators seasonally for purchasing seed, fertilizer and pesticides or other agricultural capital goods. These are the causes of the higher probability of getting formal credit for cultivator families than that for the other families. It is established that the annual per capita family income, dependency ratio in the family, purpose of borrowing are important determinants of the access to formal credit. In terms of access to formal credit people of Scheduled Castes under study are in a better position whereas people of Scheduled Tribes are in worst in position compared to the people of General castes. It may happen due to the fact that the people of Scheduled Castes are more inclined to participate in the SHG (see, Table 7). But due to their economic backwardness and lack of awareness tribal people are most diffident to visit a bank or cooperatives and even to join the SHG for loan. Moreover, the people belonging to OBC and Scheduled Tribes seasonally migrate from their native place for earning livelihoods. Most of them do not have land ownership. For these reasons local banks and credit cooperative societies keep them away from service zone.

The findings of the estimated model for the borrowing cost have been presented in Table 6. The coefficient of the SHG membership status, which is statistically significant, indicates that the borrowing cost as proportion to the amount of borrowing is lower by 39.34% for the SHG member borrowers than that for the non-members. The coefficient of the duration of SHG membership shows that if the duration increases by one month, the borrowing cost decreases by 0.3%. Therefore, if a person regularly borrows from and repays loan to a particular institution like SHG and follows the rules and regulation of the group not only ensures the access to formal credit it also reduces the borrowing cost gradually, bridging the information gap between the borrowers and the lender. This result is supporting our hypothesis. This study has revealed that sex, income, education, social status and ownership of land are immaterial in the determination of borrowing cost. The coefficients of the traditional family occupations indicates that borrowing cost of the cultivators (self-employed borrowers) is 10.1% (15.6%) lower than that of the wage labourers. Usually, labour class borrows from informal credit institutions with high interest rate whereas cultivators and self

Table 6: Estimated Results of the Semi-log Linear Model for Borrowing Cost (N=964)@

Dependent Variable: In (Borrowing Cost as Percentage of Borrowing Amount)
Method: Least Squares

Explanatory Variable	Coefficient	Standard Error	t-Statistic	Prob.
Constant	3.168	0.153	20.714*	0.000
SHG Membership (1=Yes)	-0.500	0.044	-11.413*	0.000
Duration of SHG Membership (Month)	-0.003	0.001	-5.554*	0.000
Sex (1= Woman)	-0.053	0.048	-1.116	0.265
Social Status (1= Leader)	0.008	0.038	0.211	0.833
Level of Education (Year)	-0.006	0.006	-0.935	0.350
Size of Agricultural Land Holding (Bigha)	-0.008	0.008	-1.000	0.318
Traditional Family Occupation (1= Cultivation)	-0.101	0.043	-2.333**	0.020
Traditional Family Occupation (1= Non-Farm Self Employment)	-0.156	0.056	-2.773*	0.006
Annual Per Capita Family Income (Rs,'00)	-0.001	0.000	-2.860	0.004
Purpose of Borrowing (1= Productive)	-0.161	0.035	-4.663*	0.000
Frequency of Borrowing	0.039	0.006	6.203*	0.000
Caste(1= OBC)	-0.004	0.057	-0.078	0.938
Caste(1= Scheduled Caste)	-0.124	0.052	-2.371**	0.018
Caste(1= Scheduled Tribe)	-0.014	0.061	-0.236	0.814
Summary Statistics				
R-squared	0.44	Akaike Information Criterion		1.470
Adjusted R-squared	0.42	Schwarz Criterion		1.586
S.E. of Regression	0.499	F-Statistic		33.299*
Log Likelihood	-685.536	D-W d-Statistic		1.479

@ Authors' own computation
*, **, *** stand for significance at 1% level, 5% level and 10% level respectively

employed persons borrow from formal institutions with affordable interest rate. It is observed that the cost of borrowing for productive purpose is 16% lower than that for unproductive purpose. Therefore, if borrowers assure the lender that the loan will be used for productive purposes, the lender can averse the risk of default and thereby extend loan at a relatively lower cost. Frequency of borrowing is statistically significant determinant of the borrowing cost. The borrowing cost for the borrower belonging to the Scheduled Castes is lower by 12% than that for the borrower belonging to the general castes. It happens due to more likeliness of the persons under the scheduled castes to get access to formal credit through SHG.

The results of the model for SHG membership status have been depicted in Table 7 and in Table 8. It is found that the experience of the SHG programme with the village increases the probability of holding SHG membership for the villagers under study. Coefficient of dummy for status of sex suggests that women compared to men are more likely to participate in the SHG programme. This result confirms that the government or other organisations working in this field have reached the target group. Powerful social status of the person has a positive and significant impact on the holding of SHG membership. It means that leaders or committee members are more likely to participate in SHG relative to the rank and file members.

Education of the person increases the likelihood in favour of holding SHG membership. If education level of the person increases by one year, the probability of holding SHG membership increases by 0.6%. Further, the highest male education

Table 7: Determinants of SHG Membership (N=964)@

Dependent Variable: SHG Membership (1=Yes)
Method: ML - Binary Probit (Newton-Raphson) Convergence achieved after 4 iterations

Explanatory Variables	Coefficient	Std. Error	t-Statistic	Prob.
Duration of the SHG programme in Village (Year)	0.030	0.015	2.096**	0.036
Sex (1=Woman)	1.321	0.114	11.558*	0.000
Age (Year)	-0.015	0.004	-3.488*	0.001
Social Status (1= Leader)	1.265	0.126	10.081*	0.000
Occupation (1= Farming)	-0.040	0.109	-0.370	0.711
Level of Education (Year)	0.066	0.018	3.649*	0.000
Highest Male Education in the Household (Year)	0.024	0.014	1.656***	0.064
Highest Female Education in the Household (Year)	0.020	0.011	1.733***	0.080
Size of Agricultural Land Holding (Bigha)	-0.032	0.025	-1.297	0.195
Traditional Family Occupation (1= Cultivation)	0.107	0.126	0.854	0.393
Traditional Family Occupation (1= Non-Farm Self Employment)	-0.055	0.160	-0.340	0.734
Annual Per Capita Family Income (Rs,'00)	-0.007	0.001	-5.243*	0.000
Dependency Ratio in The Household (%)	0.069	0.037	1.864**	0.069
Type of the Household (1= Nuclear)	0.033	0.112	0.297	0.767
Caste(1= OBC)	0.073	0.165	0.441	0.659
Caste(1= Scheduled Caste)	0.345	0.151	2.280*	0.023
Caste(1= Scheduled Tribe)	-0.322	0.172	-1.873***	0.061

Summary Statistics

S.E. of Regression	0.395	Akaike Infomation Criterion	0.972
Log Likelihood	-470.886	Schwarz Criterion	1.065
Restricted Log Likelihood	-602.157	Hannan-Quinn Criterion	1.007
LR Statistic (16 d.f)	262.540	Mc Fadden R-squared	0.218

@ Authors' own computation
*, **, *** stand for significance at 1% level, 5% level and 10% level respectively.

Table 8: Marginal Change in the Probability of Holding SHG Membership (N=964)@

Dependent Variable: Probability of Holding SHG Membership (1=Yes)
Method: Least Squares

Explanatory Variables	Coefficient	Std. Error	t-Statistic	Prob.
Duration of the SHG programme in Village (Year)	0.010	0.001	14.048*	0.000
Sex (1=Woman)	0.475	0.006	80.094*	0.000
Age (Year)	-0.001	0.000	-4.892*	0.000
Social Status (1= Leader)	0.303	0.006	54.106*	0.000
Occupation (1= Farming)	-0.045	0.006	-7.811*	0.000
Level of Education (Year)	0.006	0.001	6.043*	0.000
Highest Male Education in the Household (Year)	0.004	0.001	5.621*	0.000
Highest Female Education in the Household (Year)	0.000	0.001	-0.494	0.621
Size of Agricultural Land Holding (Bigha)	-0.008	0.001	-6.136*	0.000
Traditional Family Occupation (1= Cultivation)	0.039	0.007	5.921*	0.000
Traditional Family Occupation (1= Non-Farm Self Employment)	-0.020	0.008	-2.376*	0.001
Annual Per Capita Family Income (Rs,'00)	-0.001	0.000	-23.452*	0.000
Dependency Ratio in the Household (%)	0.001	0.000	12.021*	0.000
Type of the Household (1= Nuclear)	0.041	0.006	6.933*	0.000
Caste(1= OBC)	0.040	0.009	4.573*	0.000
Caste(1= Scheduled Caste)	0.130	0.008	16.348*	0.000
Caste(1= Scheduled Tribe)	-0.073	0.009	-7.902*	0.000
Summary Statistics				
R-squared	0.92	Akaike Information Criterion		-2.208
Adjusted R-squared	0.92	Schwarz Criterion		-2.115
S.E. of Regression	0.079	Durbin-Watson d-Statistic		1.692
Log Likelihood	-1,131.884			

@ Authors' own computation
*, **, *** stand for significance at 1% level, 5% level and 10% level respectively.

and highest female education in the family have positive and significant effect on the likelihood in favour of holding SHG membership. Education increases the awareness and consciousness. It helps the member of a poor family to participate in SHG. We have found that personal occupation is a significant determinant of the probability of holding SHG membership. The probability of holding SHG membership status for the person belonging to cultivator family is higher than that for the person belonging to wage labour family. Usually, the cultivator family members are disguisedly unemployed and most of them, particularly women, are unpaid household worker. So they prefer to participate in the SHG for improving their livelihood. However, the probability of holding SHG membership for the person under a non-farm self-employed family is lower than that for the person under the wage labour family. Personnel of the SHG programme have emphasised to form the SHGs among the people engaged in farm activities and the people of wage labour class who are more vulnerable than others. The coefficient of annual per capita family income confirms that low income group of people has participated in the SHG programme, which is launched for them. The dependency ratio in the family has some positive and significant impact on the probability of holding SHG membership by the family member.

Table 9: Test of Endogeneity of "SHG Membership Status" *vis a vis* "Access to Formal Credit"@

Dependent Variable: Access to Formal Credit (1=Yes)
Method: ML - Binary Logit (Newton-Raphson) Convergence achieved after 5 iterations

Explanatory Variables	Coefficient	Std. Error	t-Statistic	Prob.
SHG Membership (1=Yes)	3.129	0.254	12.338*	0.000
Predicted SHG Membership (1=Yes)	3.835	5.632	0.681	0.876
Duration of SHG Membership (Month)	0.051	0.028	1.776***	0.079
Sex (1= Woman)	1.221	0.623	1.959**	0.045
Age (Year)	-0.020	0.009	-2.153**	0.034
Social Status (1= Leader)	1.785	0.488	3.660*	0.000
Level of Education (Year)	-0.015	0.035	-0.416	0.661
Highest Male Education in the Household (Year)	0.108	0.031	3.523*	0.000
Highest Female Education in the Household (Year)	-0.003	0.032	-0.101	0.934
Size of Agricultural Land Holding (Bigha)	-0.051	0.053	-0.968	0.291
Traditional Family Occupation (1= Cultivation)	0.284	0.265	1.070	0.263
Traditional Family Occupation (1= Non-Farm Self employment)	-0.396	0.315	-1.259	0.223
Annual Per Capita Family Income (Rs,'00)	0.002	0.002	0.869	0.412
Dependency Ratio In The Household (%)	0.010	0.005	1.999**	0.039
Purpose Of Borrowing (1= Productive)	1.119	0.201	5.562*	0.000
Caste(1= OBC)	-0.105	0.314	-0.335	0.756
Caste(1= Scheduled Caste)	0.610	0.335	1.821***	0.065
Caste(1= Scheduled Tribe)	-0.676	0.350	-1.930***	0.072

Summary Statistics

S.E. of Regression	0.304	Akaike Infomation Criterion	0.597
Log Likelihood	-316.149	Schwarz Criterion	0.683
Restricted Log Likelihood	-394.545	Hannan-Quinn Criterion	0.630
LR Statistic (17 d.f)	156.792	Mc Fadden R-squared	0.169

@ Authors' own computation
* Stands for Significance at 1% level; ** for significance at 5% level and *** for significance at 10% level.

Table 10: Test of Endogeneity of "SHG Membership Status" vis a vis "Borrowing Cost@				
Dependent Variable: In(Borrowing Cost as Percentage of Borrowing Amount) Method: Ordinary Least Squares				
Explanatory Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant	2.631	0.188	13.960*	0.000
SHG Membership (1=Yes)	-0.405	0.042	-9.627*	0.000
Predicted SHG Membership (1=Yes)	-0.101	0.115	-0.878	0.864
Duration Of SHG Membership (Month)	-0.002	0.001	-4.709*	0.000
Sex (1= Woman)	-0.003	0.108	-0.030	0.872
Social Status (1= Leader)	0.036	0.081	0.444	0.756
Level of Education (Year)	-0.046	0.061	-0.767	0.798
Size of Agricultural Land Holding (Bigha)	-0.007	0.008	-0.923	0.376
Traditional Family Occupation (1= Cultivation)	-0.079	0.041	-1.914***	0.071
Traditional Family Occupation (1= Non-Farm Self Employment)	-0.128	0.054	-2.388*	0.009
Annual Per Capita Family Income (Rs,'00)	-0.001	0.000	-2.077**	0.023
Purpose Of Borrowing (1= Productive)	-0.132	0.033	-4.017*	0.000
Frequency of Borrowing in the Last Year	0.033	0.021	1.581	0.125
Caste(1= OBC)	-0.002	0.053	-0.046	0.976
Caste(1= Scheduled Caste)	-0.092	0.055	-1.683***	0.064
Caste(1= Scheduled Tribe)	-0.021	0.011	-1.900***	0.074

Summary Statistics			
R-squared	0.418	Akaike Information Criterion	1.251
Adjusted R-squared	0.399	Schwarz Criterion	1.354
S.E. of Regression	0.474	F-statistic	27.059*
Log Likelihood	-651.151	Durbin-Watson d-Statistic	1.462

@ Authors' own computation
* Stands for Significance at 1% level; ** for significance at 5% level and *** for significance at 10% level

It is a fact that more the number of dependent persons relative to the workers in the poor family, the household borrows frequently due to the seasonal fluctuation in income. Consequently, dependents in the family or the persons with more number of dependents are more likely to participate in the SHGs to enjoy formal loans and other financial facilities. The nuclear family structure is suitable for a person to join the SHG. Members of the nuclear family enjoy more freedom than the members of the joint and extended families to take household and social decision and to move outside home.

Coefficient of caste dummies suggests that the persons of scheduled tribe (scheduled caste) compared to the persons of general caste are less (more) likely to participate in the SHG. At the time of pilot survey we have observed that SHG program, particularly SGSY policy, was launched later in the scheduled tribe dominated villages compared to the villages dominated by other castes. Besides, frequent migration and lack of awareness and consciousness of the tribal people keep them away from ambit of the SHG based microfinance program. Therefore, SHGs in the area under study are serving the peoples who are in disadvantageous position in terms of income, occupation, employment, gender and in terms of caste except scheduled tribes.

Based on the estimations of the models for the access to formal credit, the borrowing cost as proportion to the amount of borrowing and SHG membership status we have formulated a testing procedure to test whether the SHG membership status is exogenous or endogenous variable. The results of the tests are shown in table-9 and in table-10. The coefficient of the predicted SHG membership status is statistically insignificant in the determination of the access to formal credit and in determination of the borrowing cost. These two findings indicate that the factors, like availability of the program, sex, education, social status and caste, determining the participation in SHG have no indirect influence on the access to formal credit and on borrowing cost. It ensures the absence of endogeneity problem related to the participation in the SHG in our sample. So in this study the impact of SHGs on the access to formal credit and on the borrowing cost are consistent and efficient.

Conclusion and Policy Prescriptions

This study has established that the SHGs have beneficial impacts on the disadvantaged section of population in the district of Bankura. The test of endogeneity relating to the participation in SHG infers the absence of endogeneity problem. The participation in SHG accelerates the access to formal credit and reduces the borrowing cost for the rural poor. Besides, in the course of field survey it was observed that SHGs have really inculcated the savings habits of the previously unbanked people in general and women in particular. The officials of SGSY in the district of Bankura have reported that they organise the financial and entrepreneurial training programme twice a year for the SHG members at the Panchayat level. It implies that SHGs are suitable for financial inclusion measured by the access to formal credit at an affordable cost for the disadvantaged section of population.

Therefore, the empirical findings of this study suggest for implementing the existing SHG banking policy more intensively and extensively in the district of Bankura for extending formal credit at an affordable borrowing cost. However, this study has shown that the existing SHG programme is not sufficient to alleviate the gender inequality in the access to formal credit. Therefore, a dedicated microfinance scheme for women is required for the rural women in the area under study. The tribal persons in the area under study are financially excluded. Thus, government should take immediate action for implementing the SGSY programme in the area inhabited by the tribal people and launch some suitable microfinance programme for the persons who migrate frequently for earning livelihood. Besides, formal financial institutions should provide extra facility to this community for inculcating banking habits. This study has established that SHGs reduce the borrowing cost. So the SHGs are suitable to curb the hegemony of village moneylenders in the rural credit market. In this regard more and more awareness generation programs and active involvement of the government officials, NGOs, are needed. SHGs solve the collateral problem and consequentially reduce the administrative hazards and the cost of the institutions for handling the resource poor at the same time. It justifies the reduction of interest rate charged from the group by the institutions. We need to draw the attention of the government and financial regulators for lowering the interest rate for the SHG borrowers.

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Is Microfinance a Model for Financial Inclusion of All?

- Radhika Kapoor and Randeep Kaur*

Abstract

The impact of microfinance on poverty has been debated widely in academic circle, and the debate has drawn strong proponents for both sides of the argument. An important reason for the ambiguity is that programme design and its impact is sensitive to programme placement and programme participation, which are endogenous. This paper examines the hypothesis of selection of good borrowers into microfinance by analysis of the characteristics of loan offered in terms of interest rates charged, depth of outreach, and an estimation of self selection of clients into microfinance programmes using a logit model. Our analysis suggests that the microfinance programmes are more efficient in terms of meeting needs of the borrowers, however their impact may be constrained by low depth of outreach as better borrowers are more likely to be selected into MFIs.

The microfinance programmes are more efficient in terms of meeting the needs of the borrowers, however, their impact would be constrained by low depth of outreach.

Introduction

The impact of microfinance on poverty has been debated widely in academic circle, and the debate has drawn strong proponents for both sides of the argument. (Morduch 1998, Pitt and Khanker 1998, Rooman and Morduch 2009, Banerjee Duflo Glennerster Kinnan 2010). Recent criticisms have focused on the dimension of financial inclusion of microfinance, arguing

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that outreach of microfinance, the interest rates charged and other structural features like loan repayment rates by their very design leave out the poorest of the poor. It has also been argued the outreach of microfinance is in fact not significantly different from other sources of formal credit (Doug Johnson and Sushmita Meka 2010).

An important reason for the ambiguity is that programme design and its impact is sensitive to programme placement and programme participation, which are endogenous. Selection of clients is expected to be driven by unobservables like greater ability or initiative taking capacity, and hence, the difference in performance of microfinance beneficiaries and the control group would result in biased estimate of the programme impact. Also, it has been argued that the microfinance model self selects good borrowers via the group lending mechanism, which could in fact make the model of microfinance biased against the very poor. Hence, if microfinance institutions targeted the very poor, the observed impact would be biased downwards as the treatment group would be worse off compared to the control group to begin with. Mostly, institutional design and local economic environment are found to be crucial in determining the efficacy of the credit programmes.

Another important criticism of microfinance has related to the repayment conditions of the loan offered, especially with respect to the rates of interest charged and the mandatory savings rates. It would be expected that stricter repayment conditions might discourage poor borrowers, or (what is more likely), make them tap into other sources of credit like the informal moneylenders for repayment of the loan. This paper studies financial inclusion of microfinance loans, and how the rural credit market has changed over the period of time.

Description Of Data and Methodology

A. Methodology

Financial inclusion of microfinance institutions is assessed through (a) outreach, in terms of both width and the depth of operations. Examination of the hypothesis of self-selection of "good" clients into microfinance programmes through a logit model; and (b) structure of microfinance loans, in terms of interest rates charged.

B. Description of data

This study also looks at two different datasets from different geographical locations in India. This allows a direct study of the outreach of microfinance institutions and the structure of the loans offered, which in turn lends into an analysis of how participants are selected into microfinance institutions. Lending patterns of MFIs are also compared with other sources of credit. This paper uses three datasets: Spandana Baseline Survey (2005)[1], Spandana Endline Survey (2007-08) and Loan Contract Information (LCI) dataset provided by CMF, IFMR[2]. Spandana, a large microfinance lender, launched operations in these slums in a phased manner (introducing it only in 52 slums in the first stage, and the rest in 12-24 months), thus creating treatment and control groups. The baseline and endline surveys thus taken in 2005 and 2007-08, respectively, provide a rich dataset to analyse the impact of microfinance.

Structure and Characteristics of Microfinance Institutions

A. *Outreach of Microfinance Institutions*

Anecdotal evidence suggests that microfinance products and processes by virtue of their design exclude the most vulnerable. As N Srinivasan observes[3], "In terms of coverage of the vulnerable, it is difficult to conclude that the most poor have been prioritised. Studies and anecdotal evidence point to the coverage of the upper strata of the poor and not so much to the ultra poor".

In the following section, we analysed the outreach of microfinance in terms of size and purpose of loans as well as depth as measured through selection of borrowers. It is noteworthy that in the given sample, out of those who did not have any loan in the Spandana Endline survey data only 24.7%did not need one; rest of these people were either unable to get a loan (over 58 percent) or were sceptical about their repayment capacity (almost 17 percent). Though an evaluation of the reason for rejection for their loan application is beyond the scope of this paper, these statistics reveal that a significant proportion of willing borrowers are still excluded from the formal credit market.

1) Outreach through loans characteristics

Besides consumption smoothening, an important rationale in support of microfinance lending is to channel loanable funds into income generating activities so as to facilitate exit of the poor from the vicious circle of poverty. However, a deeper analysis of the data highlights the implementation hurdles that hinder the successful targeting of funds in the desired activities. The Spandana Endline data suggests that only 17.2%of the loans from MFIs taken were actually used for the purpose for which they were taken. Such misrepresentation are not only a cause of concern for the microfinance model of implementation and monitoring through SHGs, but also raises crucial questions regarding the dynamics of MFI lending.

Table 1 has classified the purpose of loan into three broad categories: consumption smoothening, production activities[4] and debt repayment. Production activities would include not only investments which generate immediate returns, such as investment in physical capital, but also investments in human capital (viz. education). Consumption activities include investment in household durables, marriage, funerals, among other

Table 1: Spandana Endline (2007-08)	
Purpose of Loan	Share of Total Loans
1. Production	46.07
Investment/ Physical Capital	88.62
Human Capital	11.38
2. Consumption	33.06
3. Debt Repayment	20.87
Number of Observations: 2175	
Source: Spanadana Endline, CMF-IFMR	

consumption items. As shown, almost 21% of the loans from MFIs were taken to repay old debts. This divergence of funds away from productive activity presents a crucial economic dilemma. While the use of the subsidised MFI loans for repayment of previous high interest rate debts (usually taken from local moneylenders) can be considered egalitarian by the Welfare school of thought, concerns can be raised about the implications on institutional efficiency in terms of allocating funds to this area of demand. The loans could also be channelled away from production purposes, and hence could represent the diversion of scarce funds away from sustainable income generating activities. Moreover, in such cases, probability of default is also expected to be high as repayment capacity would not be generated To further analyse this, we look at the divergence between the stated and the actual purpose of the loan. Table 2 represents the results for all lenders, while table 3 shows it for SHGs and MFIs.

In Table 2, it is seen that the greatest proportion of loans diverted towards consumption instead of other stated purposes of the loan. A significant proportion of these funds were taken for consumption purposes such as house construction and creation of other household assets. Loans taken for repayment of old debt are also channelled to consumption, which highlights the higher priority allocated by borrowers to meeting consumption needs. Our results imply that borrowers as rational utility maximising individuals optimise their credit purchase, and that the employment of loans for other than stated purposes reflect bottlenecks from the supply side of credit institutions. In some cases, it can also reflect unexpected contingencies due to which borrowers divert funds into activities other than what were stated.

Table 2: Total Share of Loans by Stated and Actual Purpose of Loans for All Lenders

Purpose for which \ Purpose for which loans were used		Production		Consumption	Debt Repayment	Total
		Investment/ Physical Capital	Human Capital			
Production	Investment/ Physical Capital	0.74	3.55	5.94	2.23	12.46
	Human Capital	0.08	1.82	26.49	1.82	30.20
Consumption		0.33	12.29	26.90	3.71	43.23
Debt Repayment		0.00	1.98	11.96	0.17	14.11
Total		1.16	19.64	71.29	7.92	100.00

Number of Observations : 1212
Source: Spanadana Endline, CMF-IFMR

Table 3: Total Share of Loans by Stated and Actual Purpose of Loans for SHG/Spandana

Purpose for which loans were used / Purpose for which		Production		Consumption	Debt Repayment	Total
		Investment/ Physical Capital	Human Capital			
Production	Investment/ Physical Capital	3.85	9.21	6.00	3.64	22.70
	Human Capital	0.21	4.71	10.92	2.78	18.63
Consumption		0.86	31.91	14.13	2.14	49.04
Debt Repayment		0.00	5.14	4.07	0.43	9.64
Total		4.93	50.96	35.12	8.99	100.00

Number of Observations : 467
Source: Spanadana Endline, CMF-IFMR

In Table 3, we see that the extent of diversion is lower, but it is not insignificant. The proportion of loans transferred from productive purposes to consumption is lower, and a high proportion of the diversion is within consumption activities. A large proportion is diverted from consumption into investment in human capital. This could reflect an inter-temporal utility maximisation exercise by the borrower, as they switch between pure consumption and investment in human capital. Thus, in the case of SHGs and MFIs, the bottlenecks in credit institutions appear to be less significant in terms of channelling funds into desired avenues of outlay.

To further analyse the distribution of MFI loans over different purposes, we look at the LCI dataset to evaluate the different activities in which the disbursed loans were engaged in two different districts: Allahabad and Bangalore (in the states of UP and Karnataka respectively). This allows us to get a better estimate of country wide trends, as well as get a closer look at microfinance lending in rural areas. As per estimates obtained from the LCI data set, 93% of the total loans given by the Microfinance Institution, BSS, operating in Bangalore were for initiating or supporting non-farm activities and the rest were given to support personal expenditures; only 1% of the total loans were given for agricultural purposes. Similar results were obtained for Allahabad, where 90% of the total credit was provided for non-farm sector activities. The data community including the landless and asset-less including the landless and asset-less. This leads us to the next dimension of financial inclusion - depth of their outreach.

2) Depth of Outreach through Selection of Borrowers

While the width of microfinance institutions has expanded in India, the depth has been found to not reach the poorest sections of the population. In Andhra Pradesh, the "Mecca of microfinance in India", the difference between the average incomes of a microfinance borrower has not been found to be significantly different from that of borrowers from other sources (Bannerjee Duflo 2011).

To study the depth of outreach of microfinance we estimate logit model[5] to assess how various household and individual specific characteristics influence the probability of self selection of individuals into the MFIs:

part$_{ijk}$ = a + â gender$_i$ + ë educ$_i$ + ñ age$_i$ + ä collateral$_i$ + ô multijobs$_i$ + ù purp$_i$ + ø$_i$ + è$_j$ + μ_i + å; where

Part$_{ij}$: dummy for participation in MFIs of individual $_i$ in household $_j$ in slum $_k$

Multijobsi dummy =1 if individual $_i$ has multiple jobs, 0 otherwise 1

Purp$_i$: dummy = 1 if loan was taken for consumption purpose, 0 if loan was taken for production purpose

Ø$_i$: individual specific effects; è$_j$: household specific effects; å$_i$: random error

The outcome variable takes the value 1 when selected into an MFI's (Spandana or other MFI) clientele and 0 otherwise. The rationale for this technique is that even though everyone in the treatment group had access to MFIs, only a few self selected themselves into borrowing from MFIs. Thus, it could be tested if the nature of loan repayment schemes and lending interest rates by itself tailors out those at the bottom of the pyramid and self select the "better-off" among the poor.

When the regression analysis was carried out, a number of variables had to be dropped as they explained failure to select into MFI perfectly. First, if the respondent was not a permanent resident of the slum, or had not been living there long enough, they would not be eligible for a loan from MFI. This is fairly intuitive- if the respondent has not sunk in his roots in the area under question; the force of social bonds and peer pressure would not rest too strongly with him, thereby escalating the probability of default. Similarly, stating purpose of loan as repayment of old debt perfectly explains not being considered credit-worthy.

The estimated regression results are presented in Table 4. The results show that the sign of the coefficient on collateral is significant and positive for explaining selection

Table 4: Results from Logit Regression

Variable Name	Coefficient	Std. Err.	Z	P>z	[95% Conf. Interval]	
Interest rate	-0.0942	0.2699	-0.3500	0.7270	-0.6232	0.4348
Household level	-0.0003	0.0002	-1.1600	0.2470	-0.0007	0.0002
Individual level	-1.1827	1.9163	-0.6200	0.5370	-4.9386	2.5732
Collateral	1.8273	1.0541	1.7300	0.0830	-0.2387	3.8934
Gender	-0.0908	1.9363	-0.0500	0.9630	-3.8858	3.7042
Age	-0.0700	0.0717	-0.9800	0.3290	-0.2104	0.0705
Level of Education	0.0725	0.1494	0.4900	0.6280	-0.2204	0.3654
Multiple jobs	2.4934	1.5484	1.6100	0.1070	-0.5413	5.5282
Purpose of loan	-3.1387	1.1937	-2.6300	0.0090	-5.4783	-0.7991
Constant	1.1956	5.1779	0.2300	0.8170	-8.9529	11.3442

into MFI. It must be noted that the value of collateral is noted ex-post, and hence is not a true indicator of wealth. However, it is a reasonably good approximation, and a positive value confirms our hypothesis that "good borrowers"- the not-so-poor section of the population, self select into MFIs. It is also noted that the probability of selection reduces when the purpose of the loan is consumption. This emphasises the bend of MFI's away from non-productive consumption loans. Thus, it can be inferred from these results that microfinance institutions in the given area favour lending for productive purposes to borrowers who are not too poor- reflecting prioritisation of maintaining sustainability over outreach.

B. Loan Characteristics - Interest Rates and Size of Loans

One of the reasons Microfinance Institutions are so widely felicitated is that they lend to the poor profitably at comparatively low interest rates. However, it is often the case that the often quoted "low interest rates" are charged on per month basis. When aggregated to per annum levels, rates of interest are surprisingly high- the rates of interest for consumption loans for the poorest of the country are higher than rates of interest of 8-10% for home loans of the affluent.

In this section we seek to test the claim that MFIs offer loans at lowest rates of interest. We thus compare the interest rates charged by different sources of credit in a rural economy. For this analysis, we consider the Spandana dataset. The available sources of borrowing have been classified into six broad groups, namely commercial banks, microfinance institutions, SHGs, moneylenders, personal sources and cooperatives. Availability of panel data enables an analysis of the change in the share of different sources of rural borrowing over time, thereby shedding light on the extent to which the formal lending institutions have been able to penetrate the rural markets.

Prior to the introduction of Spandana's services in these slums moneylenders controlled more than half of the loan market. This is in line with our expectations - India's formal banking system had not been able to penetrate the market for credit for the poor. However, the rest of the results from baseline survey do not conform to prior belief. The moneylenders charged an interest rate higher than the commercial banks and personal sources of loans, but lower than those charged by the MFIs, cooperatives and SHGs. This may present evidence of the hypothesis of inter-linkage of contracts that suggests that exploitation by moneylenders may not necessarily be manifested in higher interest rates.

Further careful examination of the baseline data reveals that as opposed to other sources of funds, microfinance institutions do not accept or require "physical" collateral. This absence of collateral, in combination with the high transaction costs and administration costs involved, justify the higher rates of interest charged by microfinance institutions in an actuarial sense but not if we look at egalitarian principles. However,

Table 5: Analysis of Different Sources of Loan

Spandana Baseline (2005)

Source of Borrowing	Average Amount borrowed (in INR)	Average Interest Rate (in % per month)	Range of Interest Rate (in%)	Share of people borrowing from this source (in %)
Moneylenders	17,575	3.9	0-30	51.37
Personal	16,561	3.2	0-40	40.05
Commercial	39,415	3.14	0-20	5.53
MFIs	11,936	4.66	0-15	1.53
Co-operatives	23,318	4.01	0-10	1.04
SHGs	9,333	4.33	0-15	0.47

Spandana Endline (2007-2008)

Source of Borrowing	Average amount borrowed (in INR)	Share of people borrowing from this source (in %)
Moneylenders	25,672	31.53
Personal	15,153	33.54
Commercial	48,467	11.05
MFIs	9,760	12.82
Co-operatives	29,072	9.59
SHGs	15,585	1.47

Source: Spandana Dataset, CMF-IFMR[6]

the range of interest rates is broader for informal sources of credit, implying that though they may offer lower interest rates on average, but based on specific circumstances they may also demand exorbitant rent. The lower ceilings on the interest rate charged by MFIs suggest that even the poorest of the poor can get loans from MFIs without providing any collateral, at a nominal rate of interest, irrespective of their higher risk of default and highly vulnerable economic position. The results from the baseline data are compared with the endline data to assess how Spandana operations have influenced loan characteristics. In 2007-08, the market demand is shown to be comparatively less skewed towards a few sources of credit and the rate of interest charged and their range has decreased over time. Moreover, the penetration of microfinance has succeeded in reducing the dependence on informal market.

Recommendations for Regulators and Conclusion

Our analysis does not assess the impact of these loans on physical outcomes. However, work on similar data has estimated that on average, additional MFI borrowing per household was higher by Rs. 1260 in treatment slums (Banerjee Duflo Glennerster Kinnan, 2009). The low impact results could be due to the short gap between the baseline and endline surveys, however, Bannerjee notes that assessment of microfinance programmes globally has shown similar results.

Our analysis suggests that the microfinance programmes are more efficient in terms of meeting the needs of the borrowers, however, their impact would be constrained by low depth. The analysis of outreach of microfinance as seen through purpose of loans suggests that the SHG model of microfinance is more efficient than other sources in channelling loans into the stated purpose of loans, as observed by lower proportion of productive loans being diverted under MFIs. Our results from analysis of depth shows that "better" borrowers are being self-selected into MFIs. An analysis of MFI loan structure, and a comparison of interest rates charged and loan sizes show that MFI operations, in a competitive market, charge some of the lowest rates. Combined with our results on purpose of loans, these results would be a vindication of market based MFI regulations.

Table 6

Name of Finance Institution	Interest Rate per month	Interest Rate per week	Interest Rate per year
Commercial bank	2.29	0.00	4.00
Cooperative	1.33		
Family member	2.70		4.00
Finance company	3.82	0.00	1.00
Friend	3.63	2.00	2.83
Moneylender (here)	3.72		3.20
Moneylender (village)	10.70		3.23
Neighbor	4.01		2.00
Provident Fund	3.33		
SHG (Self-help group) or other savings group	1.81		2.00
Shopkeeper	2.24		0.00
Spandana	5.31	1.75	5.00
Average Interest Rate	2.25	0.19	1.36
Standard Deviation	2.45	1.09	1.50

Source: Spandana dataset; own calculations

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Notes

1 Spandana database provides information on household level and individual level characteristics of 6798 households sampled room 120 slums in Hyderabad.

2 Details available on request. Also on IFMR-CMF website

3 State of the Sector Report 2008

4 Production activities include activities which generate immediate or future returns in terms of interest income, higher output, higher future wages, etc.

5 Based on CMF's Spandana Endline dataset

6 Questions 10.3 and 10.17 in Spandana Endline Survey

An Empirical Analysis of Microfinance on India Rural Households

- Sangram Panigrahi* and Deepak Shah**

There is no doubt that aside from credit there are numerous other factors that determine the high economic status of the households like the number of adults living in the house, availability of employment, income of the head of the households, etc. Nevertheless, the credit is the basic lubricant that helps people to live with dignity.

Abstract

This study examines the impact of micro-credit on rural households to extricate them from poverty trap in India. Although earlier studies have measured poverty based on income, expenditure and consumption related data of Microfinance borrowers, this investigation is focused on measuring poverty through an alternative approach, which encompasses creating a standardised index of socio-economic status of Microfinance clients, including variables relating to assets, food and shelters. The socio-economic status (SES) index is constructed with the help of principal component analysis, which assigns a single score to each household. The logistic regression is used with standardised SES index, which shows that credit through SHGs significantly increasing level of economic status of borrowers as compared to non-borrowers. The study emphasises upon the need to train the clients with respect to investment credit for micro-enterprises which would provide employment on a sustainable basis.

Introduction

Microfinance has been defined as the provision of thrift, credit and other financial service and products of very small amount to the poor in rural, semi urban and urban area for enabling them to raise their income levels with standard of

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living. It considered as a "silver bullet" or "Golden Stick", helps the poor to avoid distress sales of assets and replace productive assets (Kalpana, 2000). The concepts of micro-credit originated by Noble laureate (2006) and Medal of Freedom (2009) award winner Prof. Muhammad Yunus of Bangladesh. Microfinance in recent times is recognised and accepted as one of the new development paradigms of "New wine in a new bottle" for alleviating poverty through social and economic empowerment of the poor, with focus on empowering women. Experiences of different anti-poverty and other welfare programmes in India and elsewhere have shown that the key to its success lies in the participation of community based organisations at the grassroots level. People's participation in credit delivery, recovery and linking of formal credit institutions to borrowers through the intermediation of Self-Help Groups have been recognised as a supplementary mechanism for providing credit support to the rural poor in India. It leads to the corporate mission set by National Bank for Agricultural and Rural Development (NABARD) for reaching Microfinance services to the very poor. Envisaged coverage of the cumulative number of SHGs credit linked with banks stood at 47 lakh as on 31 March 2010, benefiting around 57 million rural families in India (NABARD, 2010). Thus, micro approach of credit is sustainable and can be implementing on the massive scale necessary to respond to the urgent needs of those living on less than $1 a day of 100 million of the World's poorest. It would undeniably help poorest to live with dignity and transform their dream into reality.

In the light of the above findings, this paper attempts to examine relationship of micro-credit and economic status of rural households. The study is based on analysis of data collected through personal interview in India with reference period as 2011. It focuses on evaluating the impact of micro-credit on raising socio-economic status of households living in rural areas, tracing the factors influencing high economic status as a proxy for measuring relative poverty of households without any bias.

Context of the Study

There are generally two schools of researchers studying the effect of Microfinance on clients, viz. empirical and theoretical. The theoretical literature, demonstrating different aspects of group formation such as self-selection, socio economic cohesion among members within the group and peer monitoring, is Pareto superior outcome compared to individual lending (Wydick, 1999; Ghattak and Maitresh, 1999; Morduch, 1999; Besely and Coate, 1995). It helps in overcoming the problem of gender disparity, raise the social and economic empowerment and increase the bargaining power, gender empowerment of the members in individual and community level (Hoque and Itohara, 2009; Mauox, 1999, 2001; Kabeer, 1998; Ngo and Wahhaj, 2008). The access to savings and credit can initiate or strengthen a series of interlinked and mutually reinforcing 'virtuous spirals' of empowerment by increasing incomes and assets and control over these incomes and assets (Mayoux, 2000).

The empirical studies on the impact of micro-credit through group approaches have been broadly of two types, viz., quantitative and qualitative. The quantitative schools have given importance to the effect of group formation, increase in income, saving, assets, food security and livelihood approach of the participants (Rajasekar, 2002; Borbora and Mahanta, 2001; Puhazhendhi and Satyasai, 2001; Lakshmanan, 2001). Different studies have shown that there has been increase in proportion of production loan and loan repayments and decrease in dependence on outside borrowing, poverty, migration by the clients due to the availability of credit (Nedumaran et al., 2001; Anjugam and Alagumani, 2001). On the other hand, the qualitative schools have given importance to the formation of group on the field of empowerment in the form of leadership, organisational skill and management, reduced violence, increase in decision making, contraceptive use, etc. of the women members (Cheston and Kuhn, 2002; Manimekalai and Rajeswari, 2001; Hasmi et al., 1996; Pitt et al., 1998). The self-help bank linkage programmes in India have helped the members in terms of improving their consumption pattern and making them competent to earn higher incomes and stay above the poverty line (Liu and Deininger, 2009). The inequalities in the distribution of income, savings and borrowings declined after joining in the Self-Help groups in comparisons to before formation of such groups (Puhazhendhi and Satyasai, 2000; Ghate, 2006).

The pessimistic groups are not seen to agree with the above notions and they have pointed out some loopholes in the micro-credit, and they hold the view that the provisions of credit at favorable terms do not automatically increase the standard of living of the clients. The credit as such do not have any impact on measures of health, education, or women's decision-making among the slum dwellers in the city of Hyderabad, India. The poor people do not have the basic education or experience to understand and manage even low-level business activities. They are mostly risk-averse, often fearful of losing whatever little they have, and struggling to survive (Banerjee et.al, 2009). Similarly, the study by Dean and Zinman (2009), which measured the probability of being below the poverty line and the quality of food that people ate, found no discernible effects. The poor households do not benefit from microfinance; it is only non-poor borrowers with incomes above poverty line, who can do well with microfinance and enjoy sizeable positive impacts. More troubling is the finding that a vast majority of those with starting incomes below the poverty line actually ended up with less incremental income after getting micro-loans, as compared to a control group, which did not get such loans (Hulme and Mosley, 1996). Besides credit, other factors like recipient's entrepreneurial skills, moving their products to markets, marketing support helps in the generation of income or output (Pollin, 2007). The client's do not have the skills, vision, creativity, and persistence to be entrepreneurial. Even in developed countries with high levels of education and access to financial services, about 90% of the labour force is employees and not entrepreneurs (Karnani, 2007). This necessitates generation of supplementary services with credit for macro impact of the microfinance for better service to their client. With this background, the present study was evaluate the controversial impact of credit on raising income by taking into account socio-economic status of the clients in the state of Odisha using empirical data. It also addresses several queries relating to micro-credit in increasing standard of living of poor that need to be solved empirically, viz. does micro-credit institutions increase assets position and dwelling conditions of their clients/participants and whether increasing association of these institutions with clients over years raise their economic status, which in turn help in improving their standard of living. These research questions loom large on the horizon when one attempts to assess impact of microfinance on rural households with following objectives.

Objectives

The specific objectives of the study were to (i) measure socio economic status in terms of housing condition, assets possession and consumption pattern of members and non members of self-help groups, (ii) identify the factor determine higher economic status of respondents, and (iii) analyse role of credit to increases economic status of households.

Data and Methodology

The study was conducted in Ganjam district of Odisha in 2011 and the survey included information relating to ownership of asset, availability of food and housing characteristics with respect to new and old clients of Microfinance institutions, and also these information for non-clients[1]. In this study, 40 SHGs from two blocks[2] of Ganjam district were covered. Multistage random sampling was adopted for the identification of old and new clients as well as non-clients of SHGs. In the first stage, the data relating to total clients of Women Self-Help Groups (WSHGs) was collected. The members of the SHGs established 4 to 7 years ago were treated as old clients, whereas members of SHGs associated within 1 to 4 years ago were considered as new clients. The non-clients were those who did not receive credit from these Microfinance organisations. In the second stage, the old and new clients as well as non-clients of SHGs were selected randomly. In all, the study covered 300 Microfinance clients with 127 new clients and 173 old clients. The numerical strength on non-clients was 100. The old and new clients were considered as extension group, whereas non-clients as control group. In order to measure the economic impact of micro-credit on clients in relation to non-clients, especially with respect to alleviation of them above poverty line, multivariate analysis was performed, which included analysis relating to principal component analysis and logistic regression.

Construction of SES Using Principal Component Analysis

The present study has used Socio Economic Status (SES) as a proxy to measure the relative poverty of respondents (McKenzie, 2005; Montgomery, 2000; Henery et.al, 2003). The Socio Economic Status (SES) index approach for measuring poverty is an alternative approach vis-à-vis poverty measured with respect to income or consumption or expenditure. This approach chiefly depends on information collected with respect to ownership of wide range of durable assets such as car, refrigerator, television, radio, bicycle, telephone, etc., housing characteristic like material of dwelling floor, roof and toilet facilities and access to basic services like electricity supply, source of drinking water, etc. The principal component analysis (PCA) is applied to create the SES index based on information collected with respect to ownership of durable goods, housing characteristics and consumption pattern of the concerning households. It would helps to determine as how effectively the information with respect to various indicators can be utilised to measure the household's relative poverty status. Using PCA, the household variables are first converted into dichotomous variables, distinguishing the household that own the particular asset or for which a particular statement about access to services is true and one that do not own the asset or for which the statement is not true. Hence, all variables take the value of zero or one. The use of PCA will create a fewer number of variables, which explain most of the variation in the original variables. The new variables that have been created are linear combinations of the original variables. The first few variables will account for as much variation as possible in the original data. The end results of principal component analysis (PCA) is the creation of a single index of relative poverty that assigns each sample household a specific value, called as standardised score, representing the particular household's Socio Economic Status (SES).

Thus given p variables $X_1,\ldots, X_p$ measured in n households, the p principal components $Z_1,\ldots, Z_p$ are uncorrelated linear combinations of the original variable, $X_1,\ldots\ldots X_p$ given as

$$\begin{aligned} Z_1 &= a_{11}X_1+a_{12}X_2+\ldots+a_{1p}X_p \\ Z_2 &= a_{21}X_1+a_{22}X_2+\ldots+a_{2p}X_p \quad \ldots\ldots\ldots\ldots\ldots \quad \text{(Equation 1)} \\ Z_p &= a_{p1}X_1+a_{p2}X_2+\ldots+a_{pp}X_p \end{aligned}$$

This system of equations can be expressed as $z=Ax$, where $z=(Z_1,\ldots,Z_p)$, $x=(X_1,\ldots, X_p)$ and A is the matrix of coefficients. The coefficients of the first principal component $a_{11}\ldots a_{1p}$ are chosen in such a way that the variance of $_1Z$ is maximised subject to the constraint that $a_{11}^2+\ldots+a_{1p}^2=1$. The variance of this component is equal to $ë_1$, the largest eigen value of A. The second principal component is completely uncorrelated with the first component and has variance equal to $ë2$, the largest eigen value of A. This component explains additional but less variation in the original variable than the first component subject to the same constraint. A further principal component (up to the maximum of p) is defined in a similar way. Each principal component is uncorrelated with all the others and the squares of its coefficients sum to one. The principal component analysis involves finding the eigen values and eigenvectors of the correlation matrix.

Logistic Regression Model

The standardised scores[3] generated by the Principal component analysis (PCA) of the first components divides the economic status of non-clients, old client and new-client households (Vyas and Kumaranayake, 2006). The lower standardised score indicates low socio economic status of the household relative to all others with higher standardised scores. These standardised scores are used to create the break points that define wealth categories (Amaza et.al, 2009). In this study, the household having positive standardised score are considered as belonging to high economic status (HES) groups than all others who got negative standardised score and treated as belonging to low economic status (LES) groups (Sun et.al., 2009; Achia et.al., 2010). Thus

SES 1- if household belongs to HES

if household belongs to LES

Where, SES denotes Social Economic Status

HES denote High Economic Status (those households who got positive score in standardised SES index value generated by PCA are considered as Group "1").

LES denote Low economic status (those who got negative score than the average score of standardised index value generated by PCA are considered as Group "0").

The logistic regression model is used in order to identify the key determinants of High economic status (HES) given by

$$\text{Logit (p)} = \frac{p}{1-p} = \text{in} \ \hat{a}_o + \hat{a}_1X_1 + \hat{a}_2X_2 + \ldots + \hat{a}_nX_n \text{ ------------ } \quad \text{(Equation 2)}$$

Where X1..........Xn were the predictor variables like age of clients, size of household, educational level of the clients, amount of loan, caste respectively and p denoted the probability that the household belongs to High economic status (HES) group.

Empirical Findings

Construction of the Economic Status Index

The survey includes data on 30 indicators to measure economic status that can be grouped into four types: household ownership of consumer durables and livestock, with 14 questions (pressure cooker, chair, bed, table, fan, gold, television, mobile, clock/ watch, bicycle, motor cycle, bulls and cows); characteristics of the household's dwelling, with 9 indicators (two about types of house, three about building materials used on roof and wall, one each about source of drinking water, toilet facilities, main source of lighting and cooking); 4 indicators on types of consumption of (milk, pulses, vegetables and other items); 2 questions related to (stock of rice and dry food in house) and 1 questions related to household land ownership. A principal component Analysis (PCA) was used to determine the underlying structure of the data. The measure of sampling adequacy, Kaiser-Meyer-Olkin (KMO), was 0.877 which is greater than the recommended minimum of 0.50 by Kaiser (1974) (Table 1). KMO values between 0.80 and 0.90 are considered to be good (Hutcheson and Sofroniou, 1999). A value close to 1 indicates that patterns of correlations are relatively compact and so component analysis should yield distinct and reliable factors. The correlation matrix is not an identity matrix since the Bartlett's Test of Sphericity is statistically significant (Chi-Square = 6618.946, df =465, p< 0.000). These tests imply that component analysis was appropriate, indicating that the variables are correlated highly enough to provide a reasonable basis for use of principle component analysis (Hair, 2007). None of the communality indicators are close to zero and the model is seen as adequate.

Table 1: Percentage of Variance and Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.307	30.023	30.023	9.307	30.023	30.023
2	2.729	8.802	38.825	2.729	8.802	38.825
3	1.726	5.569	44.394	1.726	5.569	44.394
4	1.629	5.255	49.649	1.629	5.255	49.649
5	1.314	4.240	53.889	1.314	4.240	53.889
6	1.173	3.784	57.673	1.173	3.784	57.673
7	1.138	3.672	61.344	1.138	3.672	61.344
8	1.013	3.268	64.612	1.013	3.268	64.612
Part-2		KMO and Bartlett's Test				
		Kaiser-Meyer-Olkin Measure of Sampling Adequacy .				877
Bartlett's Test of Sphericity		Approx. Chi-Square				6618.946
		Df				465
		Sig.				.000
Source- Authors own calculation						

Eight interpretable factors were obtained from the analysis using Kaiser's criterion of retaining factors with eigen values greater than one (Hair, et.al, 1998). Table 1 shows the percentage variance accounted for by each of the variables. The PCA of the 30 variables on assets possession, housing quality and consumption pattern listed in the survey resulted in eight factors that accounted for 64.61% of the overall variance[4]. The result shows that 30% of the variation in the original variable is explained by the first principal component, whereas each subsequent component explained a decreasing proportion of variance. The first eight components have sufficiently explains 65% of variation in the original variables and has Eigen value of more than 1. In the construction of the Economic status (ES) index of clients, only the factor score (the eigenvectors) of the first principal component is used (Vyas and Kumaranayake, 2006). The reason behind choosing first component to construct economic status index is as the Eigen value of it is over 1 and the explained variance is relatively high for the first component (30%). Table 2 shows the variables loading on the first components used to construct economic status index.

Scoring factor and summary statistics for variables entering in the first principle Component

Table 2 contains the scoring factors of first principal components and means score of 22 variables included in first component for members and non members of SHGs. The other 8 variables has not included in the first component are excluded from the analysis. These loading results from first principle component represent the correlation among the variables and the factors which the variables belong. The higher loading of variables on the factors represents that factors extract the common variance from the variable in comparisons to the other factor. In this table component loading by variables in factors below .40 has ignored, as they are not well represents by the factors (Leech et.al, 2005). The variables are sorted based on the high loading of the variable to fit in the factors. There is small difference in characteristics of households dwelling between members and non-members of SHGs. For example, the mean score of pucca house is 0.82 for members and 0.75 for non members of SHGs. Similarly, the condition of roof using high quality material is 0.78 for members which are 0.75 for non members. The availability of Indira Awas Yojana[5] (IAY) to the BPL families helps the households to construct good house. However, the mean score of house condition is sound structure 0.66 for members and (0.52) for non members. The members of SHGs have high mean score on ownership of assets and durables as compare to non members. For ex, members have high mean score on ownership of mobile, table, chair, television, bed and pressure cooker than non members. Similarly, around same proportion of the households have equal mean value in case of ownership of electricity, fan, clock and gold, as it can be seen from Table 2. However, non members have high mean score (0.65) on ownership of bicycles the than (0.53) for members. The mean values on frequency of consumption pattern are also higher for members than non members except vegetable consumption. The mean score for consumption pattern of vegetables 0.92 for members and 0.90 for non members. It might be due to due to the availability of vegetables from the farm to the households in the village. The last row of Table 2 shows about the mean score of economic status index constructed from the first component of PCA with reference to old member, new member and non member of SHGs. The mean value

Table 2: Scoring Factor and Summary Statistics of First Principle Component

		Mean Score				
1	2	3	4	5= 3+4	6	7=5+6
Variables[1]	Scoring Factors	New Member	Old member	All Member	Non Member	Total
		N=127	N=173	N=300	N=100	N=400
House Pucca	.771	.8268	.8150	.8200	.7500	.8025
House floor is Cement	.762	.8346	.7341	.7767	.7000	.7575
Own Electricity	.747	.0709	.7168	.7033	.6600	.6925
Own Fan	.733	.7008	.7283	.7167	.7000	.7125
Own Mobile	.722	.5669	.4682	.5100	.4000	.4825
Own Table	.701	.6378	.6301	.6333	.4800	.5950
Own Chair	.696	.8268	.7688	.7933	.6300	.7525
House wall is High quality	.685	.8661	.8150	.8367	.7800	.8225
House roof is High quality	.683	.7244	.8266	.7833	.7500	.7750
Own Color T.V	.657	.4252	.3873	.4033	.2300	.3600
House condition Sound structure	.639	.6063	.7052	.6633	.5200	.6275
Own Bed	.633	.3465	.5260	.4500	.2700	.4050
Pulses Consumption Daily or Weekly	.613	.8425	.8786	.8633	.7900	.8450
Own Pressure Cooker	.585	.1969	.3757	.3000	.2000	.2750
Milk Consumption Daily or Weekly	.566	.5827	.4393	.5000	.4000	.4750
Fruit Consumption Daily or Weekly	.552	.9134	.6474	.7600	.7000	.7450
Own Clock	.519	.9055	.9133	.9100	.9000	.9075
Own Bicycle	.469	.6142	.4740	.5333	.6500	.5625
Stock of dry food Biannually or Annually	.454	.0709	.3295	.2200	.2400	.2250
Vegetable Consumption Daily or Weekly	.418	.8976	.9364	.9200	.9000	.9150
Own Gold	.426	.0709	.1503	.1167	.1000	.1125
Stock of Rice Biannually or Annually	.422	.5591	.6647	.6200	.1700	.5075
Economic status index		.040	.095	.072	-.216	0

Notes: [1] There are 30 variables entered in the principle component analysis. The first principle component analysis included 22 variables and 30% of covariance explained by this component. Each variable takes the value 1 if true, 0 otherwise. Scoring factor is the "weight" assigned to each variable (normalised by its mean and standard deviation) in the linear combination of the variables that constitute the first principal component.

of the index is 0 and the standard deviation is 1 using standardised regression method of saving factor score. The total mean score of all variables included in construction of economic status index is 0.040 for new members as compare to 0.095 for old members. It indicates that old members have high mean value than new members in composite economic status score included in first component. Similarly, the mean values of all variables are 0.072 for members and -0.216 for non members. It confirms about the proposed hypothesis that members of SHGs have higher economic position than non members. Thus, members are enjoying high economic status than non members due to availability of credit with other socio economic benefits.

Based on the recommendation of past research, this study has used first component to construct economic status index (Filmer and Pritchett, 2001; Vyas and Kumaranayake, 2006). The standardised regression method was applied to calculate factor score or economic status score of each household's (Hair, 2007; Field, 2005). Once each household was assigned a score, the sample population was divided into two economic status groups[6]. Those households having positive standardised regression score are considered as high economic status group. However, the households having negative standardised regression score are belonging to low economic status group (Sun et.al, 2009; Amaza et.al, 2009). It is because of standardised economic status score representing the wealth status of the households, higher the score indicates better economic condition of the households than others.

Table 3: Crosstab of Membership and Economic Status in Percentages

	New Member	Old Member	All Member	Non Member	Total
	N=127	N=173	N=300	N=100	N=400
Low economic status	41.7	39.9	40.7	49.0	42.7
High economic status	58.3	60.1	59.3	51.0	57.3
Total	100	100		100	

Source- Authors own calculation

Table 3 analyses about division of the households based on two types of economic status using regression score generated from the first principle component. To ascertain the outreach of SHGs, the respondents were placed in groups according to their economic status index with reference to membership. Overall, 42.7% of households classified as low economic status category and 57.3% households fall under high economic status category. The results revealed that while about 49% of the non-members households were living in low economic status category, this proportion stood at 40% for members of SHGs. There is small difference of 2.8% between new members and old members households under low economic status category. The proportion of households achieving high economic status was found to be 51% for non-members, 58.3% for new members and 60% for old members. In general, 59.3% of members come under high economic status category which is 51% for non members. The above finding are also confirmed in the previous studies (Henery, et.al, 2003; Adjei and Arun, 2009; Zeller, et.al, 2000; Stenbacken, 2005; Ruit, et,al, 2001) suggesting that borrowers have low level of poverty as compare to non borrowers.

Determinants of household's economic status

A logistic regression analysis (Equation 2) was conducted to investigate different household and other socio economic factors that influence high economic status with the help of maximum likelihood estimation technique. Various demographic, socio economic and financial services variables shown in Table 4 presents the estimated results of the logistic model direct bearing on high economic status of the households. The dependent variable is assigned the value of "1' for those households living high economic status and "0" for those having low economic status category. The results with respect to logistic regression have presented several interesting observations. Different variables like education of house head, main sources of income, size of family, any informal debt, migration in the households and location of village in the blocks has insignificantly related on high economic status. However, female headed house, age, marital status of house head, presence of land in house, caste, distance of bank from villages, dependency ratio and membership of SHGs have significantly influences the high economic status of households.

The women headed house are .454 times less in odds move towards high economic status as compare to male headed house. Women's being a head of house forces her spending less time in earning due to household work and limited employment opportunity in rural area. Besides it, the male dominated society and strong patriarchal feeling in rural area narrow the scope for women to work like man that might leads to low economic status. An increase in age of the house head raises confidence to more earning capacity that leads household towards high economic status group. The head of house belong to 41-50 years are 2.14 times more in odds belongs to high economic status. However, age of the household's head belongs to 51-70 years are 1.89 times more likely in high economic status category as compare to reference age (30-40). The head of house being married helps 1.908 times more in odds to belong high economic status category as compare to unmarried, widow and divorces category. Married person being head of house compel him to earn more in order to fulfill the family requirement leads to increases in economic status of the households.

Different socio economic variables are also influences on high economic status of the households. The household's being owner of land are 4.806 times more in odds in high economic status group as compare to no access of land in the house. The availability of land provides food security to the households and improves the economic position of the households. The presence of commercial bank on 3 to 5 km distance from residences leads to .399 times less in odds of being high economic status category to the households. The absence of formal financial services compels the household to borrow from informal sources at higher interest rate that might be weak their economic position. The presences of members of SHGs helps to the households moving towards high economic status support our research hypothesis. The status of membership shows that, households joined in SHGs within 4 years (new clients) were more

Table 4: Factors influences on higher economic status in estimated coefficients (B) and odds ratio (Exp B)

Independent Variables[1]		Estimated Coefficients	Standard Error	Wald Statistics	Odds Ratio[2]
Male headed house	R				
Female headed house		-.789	.333	5.603	.454*
Age of Household Head 30-40	R				
41-50		.762	.292	6.796	2.143*
51-70	.	637	.321	3.940	1.890*
Unmarried, widow, divorce	R				
Married		.646	.390	2.738	1.908**
Education of Household head Illiterate	R				
Primary or more		-.216	.291	.553	.806
Sources of income Agriculture	R				
Non Agriculture		-.283	.300	.895	.753
Households has no Land	R				
Any Land		1.570	.296	28.223	4.806*
Bank distance (1 – 3 km)	R				
Bank is 3 to 5 Km from village		-.918	.386	5.654	.399*
Non Member	R				
New Member		1.047	.435	5.804	2.850*
Old Member		1.027	.425	5.840	2.792*
Caste of Households SCs/STs	R				
OBCs and Others		.687	.295	.667	1.987*
Size of family 1-5	R				
6-10		.191	.256	.556	1.210
No Dependent	R				
Low Dependent		-.122	.423	.808	.885*
High Dependent		-.023	.363	.040	.977*
Any Informal debt	R				
No Informal debt		-.160	.275	.338	.852
Non Migration	R				
Migration		-.267	.279	.919	.765
Constant		-1.057	.638	2.744	.348

LR statistic 82.36*, Log likelihood -231.858, Cox & Snell R Square .186, Nagelkerke R Square .250, Degree of Freedom =18, Pseudo R2=.15, Total observations= 400

Classification table		Dependent=0	Dependent=1	Overall
	No. of correct	96	174	270
	% of correct	63.57	69.87	67
	No. of incorrect	55	75	130
	% of incorrect	36.42	30.12	33

Note: 1 Dependent variable=1 if household has High economic status and 0= Low economic status, R= Reference category. To avoid a multicolinearity problem, reference category is dropped in each group.2 Odds Ratio= Value more than 1 are more likely and less than 1 are less likely influences dependent variable. *, ** represent the 5% and 10% significance level, respectively.

likely to acquire higher economic status vis-à-vis non-clients as the odds ratio worked out to 2.85 for new clients, which also turned out to be significant. Similarly, the old clients (i.e., joined SHGs before 4 years) were better placed than non-clients as the odds ratio in this case worked out to 2.79, implying 2.79 times more likely for them to be placed in higher economic status. The provision of small credit once or twice in a year fulfills the needs of agriculture activities at right time. It helps to increases in employment opportunity with income and further improves economic position of the households. The advanced groups (OBCs and Generals) are 1.987 times more likely in odds belongs to high economic status category. Similarly, the increase in dependency ratio[7] for the households leads to low economic status. The households low dependent are less likely with .977 times and high dependent are .885 times less in odds belongs to high economic status group as compare to non dependent groups.

The likelihood ratio test has a Chi-square statistic equal to 82.36 with 18 degrees of freedom and fails to accept the null hypothesis that the parameter estimates for the model are equal to zero, at the 1% level of significance. It can be concluded that the explanatory power of the logistic model is satisfactory and the model can be used to explain the probability of households in high economic status category. The value of Cox & Snell R Square is .186 and Nagelkerke R Square is .250, suggesting that between 18.6% and 25% of the variability is explained by this set of variables. Overall the logistic model successfully predicts the possibility of households' micro-credit access at 67%. The foregoing observations clearly underscore the fact that the clients of SHGs were better placed in terms of enjoying higher economic status as compare to non clients. In general, the micro-credit institutions were found to have positive impact in raising economic status of rural households, and they were able to alleviate them above poverty line, if achieving higher economic status is viewed as one of the indicators of prosperity in the rural settings.

Conclusions

There is no doubt that aside from credit there are numerous other factors that determine the high economic status of the households like the number of adults living in the house, availability of employment, income of the head of the households etc. Nevertheless, the credit is the basic lubricant that helps people to live with dignity. In the words of Professor Yunus (2003: 171; emphasis added), "Micro-credit is not a miracle cure that can eliminate poverty in one fell swoop. However, it can end poverty for many and reduce its severity for others. Combined with other innovative programmes that unleash people's potential, micro-credit is an essential tool in our search for a poverty-free world." The Microfinance organisations provide small credit through group approach, which not only helps the financially excluded people in rural area but also create a new ray of hope for better future. This may not be possible in the short period but in the long term, it would definitely help to fulfill their basic requirements in a sustainable manner. Besides credit, there is the urgent requirement of supplementary services provided to the clients for the long run existence of micro entrepreneurs. This owes it to the fact that most of the clients are illiterate or half-literate, which create hurdles for the management of micro enterprises. Further, the availability of credit is the one end of the spectrum, the other end being extension of training to the clients, availability of raw material and easy access to local markets so as to sell their product at reasonable prices. These facilities will help the clients to get sufficient profit, which in turn would be helpful for the long run survival of their micro enterprisers. In conclusion, it is found that the small credit has significantly benefited the clients that would definitely bring a big revolutionary change in their life style in the future.

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Notes

1 The study has collected data through personal interview method by the first author personally under junior research fellowship of university grant commission (UGC) to complete PhD.

2 The district has divided into 22 blocks for administrative convinces.

3 The "save as regression method" used to calculate economic status score for each respondent representing economic position of the households.

4 The 62.4% of overall variance accounted for was deemed to be satisfactory. Hair et al. (1998) state "... in the social sciences, where information is often less precise, it is not uncommon to consider a solution that accounts for 60% of the total variance (and in some cases even less) as satisfactory" (p. 104).

5 Under the Indira Awas Yojana (IAY) government is providing Rs 45000 to BPL families for construction of house.

6 Dividing economic status in two group helps to measuring the poverty level (Relative poverty) of borrowers as compare to non borrowers.

7 The economic dependency ratio (EDR), calculated as the ratio of household members without income to household income earners, reflects the economic activity of a household.

Self-Help Groups, Microfinance and Women's Empowerment: Case Study of Purulia District, West Bengal

- Tanusree Chakraborty*

Microfinance has the potential to have a powerful impact on women's empowerment. Strengthening women's financial base and economic contribution to their families to communities has a role to play in empowering them.

Abstract

The paper makes an effort to assess the benefits of microfinance through self-help groups on women's empowerment on the basis of primary survey undertaken in the district of Purulia of West Bengal. Empowerment is measured in terms of decision making autonomy regarding economic, social, and familial decisions on intra-household level relations across social groups in West Bengal. The research is empirical in nature based on mainly primary data collected through field survey of Self-Help Group Linkage Programme by NABARD (National Bank for Agriculture and Rural Development). Microfinance has the potential to have a powerful impact on women's empowerment. Although microfinance is not always empowering for all women, most women do experience some degree of empowerment as a result of it. Empowerment is a complex process of change that is experienced by all individuals somewhat differently. Strengthening women's financial base and economic contribution to their families to communities has a role to play in empowering them. It is unlikely that only one intervention such as the provision of credit only will completely alter power and gender relations. Women often value the non-economic benefits of a group lending programme that is SHG programme as much or more than the credit. Some of the most valued include expanded business and social networks, improved self-esteem, increased household decision-making power, and increased respect and prestige from both

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Key Words: Microfinance, Self-Help Groups, Decision-Making autonomy, Women Empowerment

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male and female relatives and community members. When loans are channeled through women's groups and combined with more investment in social intermediation, substantial shifts in decision-making patterns do emerge.

Introduction

Alleviation of poverty, the core of all developmental efforts has remained a very complex and critical goal for developing countries. Experience has shown that many of the poverty alleviation programmes have not achieved the expected success. In almost all plans for poverty alleviation and social change, disadvantaged women became a "target" in development activities rather than a group to be co-opted as active participants. Lack of capital is a serious constraint to the development of poor women in rural and urban areas who find little or no access to credit. Credit can help women to take-up farm and allied activities, enabling them to respond to the opportunities created by the process of development.

In the present context, microfinance is emerging as an instrument for poverty alleviation and an important means for attaining women empowerment. Microfinance is emerging as a powerful instrument for poverty alleviation in the economy. Microfinance refers to a collection of banking practices built around providing small loans (typically without collateral) and accepting tiny deposits. In India, Microfinance scene is dominated by Self-Help Groups (SHGs) - Bank Linkage Programme, aimed at providing a cost-effective mechanism for providing financial services to the "unreached poor". Based on the philosophy of peer pressure and group savings as collateral substitute, the SHG programme has been successful in not only in meeting the peculiar needs of the rural poor, but also in strengthening collective self-help capacities of the poor at the local level, leading to their empowerment.

2. Literature Review

A great deal of evidence from around the world indicates that gender inequalities undermine the effectiveness of development policies. It has seen that despite progress, gender disparities persist around the world.

It is seen that gender inequality retards economic growth. There is growing evidence to suggest that several aspects of gender relations, the gender based division of labour, disparities between power and resources, and gender biases in rights and entitlements act to undermine economic growth and reduce the well being of men, women and children. It is commonly held that, investment in female education and health tend to increase the incomes of families; educated women who know more about health and hygiene, are also able to practice this knowledge. Different types of gender disparities limit their participation in income generation activities or decision-making autonomy.

Few terms like options, choice, control and power are invariably used while defining women's empowerment. Most refer to ability of women to make decisions and affect such outcomes as are important to them and their families. Control over one's own life and over resources is often stressed. Thus, there is frequent reference to some variant of the ability to "affect one's well being" and "make strategic life choices". "The expansion in people's ability to make strategic life choices in a context where this ability was previously denied to them" (Kabeer, 2001).

Under the credit for empowerment approach, self-help groups are used as vehicles for triggering the process of empowerment, the journey from an unempowered to an empowered state. The SHG offers the canvas to conduct social intermediation, which would, in turn, provide women the opportunity to acquire the ability and entitlement to control their own lives, set their own agenda, gain skills, solve problems and develop autonomy. Empowerment sets the tone for converting the "welfarist ability" to "entitlement", where women do not take hand-me-downs but demand and claim rights.

The concept of gender roles and strategic and practical gender needs developed on the work of Caroline Moser can be useful in planning "empowerment interventions" for the members of the SHG. This concept recognises women as active partners in development. It also recognises that women do not participate in development on equal terms with men because of their subordinate position. There is thus, need to classify planning interventions in terms of those that meet practical gender needs, that is, the needs identified to help women in their existing subordinate position in society and strategic gender needs identified to transform existing subordinate relationships between men and women.

However, because much of this microfinance actively takes place outside the formal financial sector, it has been difficult to accurately assess its effectiveness as a tool for empowerment for women. There have been many studies on the working of SHGs in different parts of India. These studies mostly covered the SHGs working in the States of Orissa, Andhra Pradesh, Maharashtra, Tamil Nadu, and Uttar Pradesh. Bali Swain and Wallentin (2007) studied the impact of microfinance and SHG on women empowerment. The data used have been collected from six States namely, Orissa, Andhra Pradesh, Karnataka, Maharashtra, Tamil Nadu, Uttar Pradesh (two districts from each state). The results demonstrate that there has been a significant increase in women empowerment of the SHGs members. A study by NABARD covering 560 SHG member households from 223 SHGs across 11 states, showed many positive results on the impact of participation of rural poor in the SHGs. It is evident from the existing literature though Self-Help groups may be the dominant microfinance paradigm in India but research which focuses on the relationship between women's empowerment in terms of decision making autonomy and moving out of gender-poverty trap across social groups is still scarce. The study attempts to assess the impact of Self-Help Group Bank Linkage Programme on gender - poverty trap and women's empowerment in West Bengal.

It is essential to examine the effectiveness of this programme across social groups because many of the specific details of women's lives vary because of differences in social norms and because the geography, the physical infrastructure, and the configuration of social, cultural and economic opportunities vary from place to place. At the same time, the impact of giving credit to women has been a controversial issue. At one end of the spectrum, some argue (Pitt at al., 2006, Julia at al., 2007; Pronyk at al., 2008, Mahmud, 2003; Gertler and Moretti, 2008) that microfinance has positive impacts on gender equality, women's empowerment and household well-being. On the other end of spectrum, Microfinance is thought to bring negative impacts for women (Rahman, 1999, Kabeer, 2001).

In particular, microfinance experiences need to be analysed in terms of key factors in their success or failure in order to determine their sustainability for successful replication within institutional frameworks and across different socio economic cultures and economic system.

In this regard another aspect should also be considered. Microfinance programs like Self-Help Group Bank linkage program (SHG); aim to empower women through provision of financial services. Investigation should be making further to determine whether it is the economic (income, loan amount, number of loan) or the non-economic factors (age, education level, duration of membership, training, political participation) that have a greater impact on empowering women in the process.

3. Objective of the Paper

The Research Objectives of this paper are to determine:

1. Whether access to Microfinance through Self-Help Groups enables women to have greater decision making autonomy regarding economic, social, and familial decisions on intra-household level because it has marked consequences on both their well being status and the positions they take in society.
2. Whether access to Microfinance through Self-Help Groups enables to broaden their public domain and self-esteem and self-confidence.
3. Whether it is the economic or the non-economic factors that have a greater impact on empowering women.

4. Methodology and Data

The research is empirical in nature based on mainly primary data collected through field survey of Self-Help Group linkage Programme by NABARD (National Bank for Agriculture and Rural Development). The secondary reference point of the study is based on Microfinance channelised through Self-Help Groups by NABARD.

4.1 Sample Design

4.1.1 Selection of District

A purposive sample selection of districts which was based on microfinance channelised through Self-Help Groups by NABARD. Selection of district is made according to concentration of social group (Scheduled Tribe) in West Bengal, India depending on Census Report 2001 and Credit Programme run by NABARD because Micro-Credit Programme of the NABARD is confined to some specified districts of West Bengal, India. According to Census of India, 2001, Purulia has the highest concentration of Scheduled Tribe population (18.27) among 19 districts of West Bengal. Selection of this district also depends on the value and rank of major Human Developmental Indices like Hunan Development Index (HDI), Gender Development Index (GDI), Education Index (EDI), Health Index (HI) and Income Index (YI). West Bengal Human development Report (2004) admits that around 80% of the rural households in the district live in abject poverty. The district falls in the lower bracket in respect of major district wise developmental indices of the state of West Bengal.

With respect to HDI it achieves the value 0.45 which secures 16th position among all the 19 districts of West Bengal (Table 1). With respect to GDI it ranks 16th position, by EDI 14th position, by HI 12th position and by YI 17th position. All these indicators denote the poor condition of Purulia district. Thus it is necessary to asses how microfinance works for the upliftment of people of this district.

Table 1: Status of Purulia District by Major Developmental Indices

Index	Value	Rank among 19 districts
Human Development Index	0.45	16
Gender Development Index	0.40	16
Education Index	0.55	14
Health Index	0.61	12
Income Index	0.18	17

Sources: Econ. Review (WB)

4.1.2 Selection of Blocks and Villages

The selection of cluster of Blocks and villages with a sizable proportion of above mentioned programme respondents depends on the concentration of Scheduled Tribe population in Purulia district. To identify the villages, cluster sampling technique is used. Then respondents are randomly selected from villages to collect required information. Considering concentration of Scheduled Tribe population in Purulia district of West Bengal the following table is prepared to conduct the primary survey.

This study has been conducted in Purulia district of West Bengal in 2009. A primary

Table 2: Selected Blocks and Villages of Purulia District

District	Blocks	Villages
Purulia	Puncha, Manbazar I, Raghunathpur, Jhalda I	Kenda, Puncha, Jambad Manbazar, Nayadih, Pusti, Para

Source: Primary Field Survey, 2009

survey of about 400 married SHG members in Puncha, Manbazar1, Raghunathpur, and Jhalda 1 Block of Purulia district, West Bengal, have been selected purposively. Kenda, Puncha, Jambad, Manbazar, Nayadih, Pusti and Para villages of four above mentioned blocks are identified on the basis of cluster sampling technique to collect required information (table 2).

4.1.3 Selection design of respondents

The survey is conducted among 400 married women because the research focuses on whether access to Microfinance through Self-Help groups enables women to have greater decision making autonomy regarding economic, social, political and familial decisions on intra-household level relations. Decision-making is an everyday activity that households and their members undertake in different areas of their individual and collective lives. It is a dynamic process of social relations without a beginning and an end (Wilk, 1989). Decisions are made among various alternative choices, and power is exercised when there is more than one individual who is directly or indirectly affected by the respective decision-making outcomes. Blood and Wolf (1960) define power between married couple as the potential ability of one partner to influence the behaviour of the other in the decision-making arena of family life. Samples are drawn using purposive random sampling to assess the benefits of microfinance through self-help groups.

4.1.4 Selection of Control Group

In addition to a purposively chosen group of participants, a control group is also selected. The selection of control group consists of members of NBFC MFIs to compare the role of "Savings Led Approach" (SHGs-Bank Linkage model) and "Credit Led Approach" (NBFC MFIs model). The SHG-Bank linkage Model accounting for about 58% of the outstanding loan portfolio and Non-Banking Finance Companies accounting for about 34% of the outstanding loan portfolio in India from the report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector, 2011. The motivation for choosing the control group is to compare it theoretically with the group of SHG beneficiaries who get real impact of the SHG programme on women's empowerment. To define the control group, method of matching is used, in which a group is identified that possesses all the characteristics of the participants except that of participation.

4.2 Operational definitions of survey variables and Construction of Empowerment index

The study employs qualitative analysis, which ensures the direction and magnitude of each factor's influence on the level of empowerment. When considering the women in general and with regard to women credit borrower in particular, the three most vital indicators of women empowerment are: (a) decision making autonomy in the field of financial, child related and social issues; (b) access to or control over resources; and (c) freedom of movement. Besides these, there are a few indicators that are used in the existing literature, like participation in political activities, gaining any new skill, sense of self-worth and self confidence. Both conceptually and practically, women respondents' empowerment is an important issue and has to be considered, because it paves the way for the empowerment of future generations. Since the term "women's empowerment" is a complex phenomenon and has multifaceted dimensions, a list of variables is constructed for making women empowerment indices and to identifying its determinants. Survey variables are divided into two categories. One, the ten indicators were constructed as scale variables to form the empowerment index. All of the operational measure of empowerment employed in this analysis reduces the empowerment data to dichotomous variable. Second, the independent variables which are used to investigate whether it is the economic (income, loan amount, number of loan) or the non-economic factors (age, education level, duration of membership, training, political participation) that have a greater impact on empowering women.

4.2.1 Empowerment Indicators

(a) Economic decision making indicator: Economic decision making indicator consists of control over income, control over loan channelised through Self-Help groups, control over savings, use of loan and purchasing decision. If respondent herself decides, a score of 2 is assigned; in case of joint control she is assigned a score of 1 and 0 if she does not have any control over economic decision making indicators.

(b) Household decision making indicator: It refers to the extent of women's ability to participate in formulating and executing decisions regarding domestic, child-welfare, reproductive health, socio-political matters. If respondent herself decides, a score of 2 is assigned; in case of joint control she is assigned a score of 1 and 0 if she does not have any control over family decision making indicators.

(c) Personal autonomy indicator: This indicator consists of freedom of movement and decision regarding own health care. If respondent herself decides, a score of 2 is assigned; in case of joint control she is assigned a score of 1 and 0 if she does not have any control over economic decision making indicators.

Based on the indicators of empowerment we have constructed 'scores' of empowerment, corresponding to aspects of decision-making power within and outside the household. Here Index Approach is used to measure women's empowerment.

Within the index approach responses to questions related to economic, household and physical mobility are weighted and summed in an aggregate score. For instance, when the wife made the decision autonomously "2" point might be given, when it was a joint decision "1" point might be given and when the husband exclusively did it "0" point might be given. As the impact of Self-Help Group Bank Linkage Programme on women has been assessed, so highest point is given to autonomous decision. Three exercises were carried out to assess the factors determining whether female respondent made the decision, whether it was a joint decision and whether husband or other persons made the decision. Depending on this result an index of decision making ability is constructed. The final index for the respondent could be the aggregate of all points. Using this index approach we define the index for female decision making autonomy. Then calculate the average (Median, as the variables are categorical in nature) is calculated for that index and point "1" could be given for the value above the average that represents female decision making autonomy and "0" for the value below the average. Thus in the analysis if respondent perceived that she is empowered then the value given is 1, and 0 if otherwise. By this manner the dependent variable was derived in the form of a quality variable, to proceed in the analysis.

4.3 Design of Questionnaire

The main aim of the survey is to accumulate information on the impact of SHG bank linkage programme on gender poverty and women's empowerment measured in terms of decision making autonomy. The complete survey involves a quantitative and qualitative survey of the SHGs by structured questionnaire, Focus Group Discussions and interviews. The survey uses the quasi-experimental design to address the 'problem of attribution'.

The 'problem of attribution' refers to the difficulty in establishing unequivocally that the observed changes in the economic, social and political status of the members of the SHGs are induced by the formation of SHGs and the related components of microfinance, and not as a consequence of other possible causes arising due to the changing economic, political, social, cultural or policy environment.

Survey questions were grouped into the following thematic groups: (1) Resource: general economic power and access to funds; (2) Finance: power regarding household borrowing and ability to borrow from informal sources; (3) Transaction management: balance of power relating to decision, implementation, and spending for household; (4) Purchasing: ability to spend money independently and to make household purchase; (5) Mobility and networks: freedom of movements; (6) Activism: awareness of politics, autonomous action on public matters; (7) Fertility and Parenting: decisions and action for family planning and child rearing; (8) Household attitude and Self Perception: self confidence and status within household.

4.4 Major Hypotheses

The list of hypotheses which have to be empirically tested was: (1) Women in the higher age group will enhance the level of women's empowerment; (2) Higher level of educational qualification will tend to increase the level of women's empowerment; (3) Higher level of duration of membership will tend to increase the level of women's empowerment; (4) Level of monthly income and Training regarding different income generating activities and capacity building module will tend to increase the level of women's empowerment; (5) Higher level of loan and increasing number of loan taken by the women respondents will tend to increase the level of women's empowerment; (6) Participation in political activity will enhance the chance of obtaining wider knowledge and awareness and reduces the problem of asymmetry of information which leads to women's empowerment.

4.5 Empirical Model

The study looks into the determinants of empowerment by employing the Binary Logit Model, where the dependent variable (women's empowerment) is obtained from the respondents' perception about whether they feel empowered or not. Thus in this analysis if the respondent perceived that she is empowered then the value given is 1, and 0 if otherwise. By this manner the dependent variable was derived in the form of a quality variable, to proceed in the analysis. Thus data on Empowerment of women Self-Help group members is now the Qualitative Nature, i.e., it is binary (0 and 1) value. The study then captures the impact of several factors on the empowerment of women Self-Help group members. The binary logistic mode determines the impact of multiple independent variables presented simultaneously to predict membership of one or other of the two dependent variable categories. The Logit method is based on the logistical curve, for all values of the regression, the value of the dependent variable (the probability of positive response) falls between 0 and 1. The probability function is a non-linear function following a logistical curve.

In this study, the probability of women Self-Help group members to be empowered (P_i) can be given as: $P_i = P_i (Y_i = 1) = E (Y_i / X_i) = 1 / (1 + e^{(a + bX_i)})$

Where, X_i's are the Independent variables used to understand comparative impact of these factors on women's empowerment.

Women Self-help group members Empowered = 1 if respondent is empowered
= 0 if otherwise

The qualitative analysis is carried out using the statistical package SPSS 16.

5. Analysis of field report from primary field survey

5.1 Formation of SHGs and other features

From field survey of respondent of Self-Help Group Bank Linkage Programme, the joint liability group known as SHGs share the following characteristics: they consist of SHG of 15 to 20 members; they require mandatory savings deposits from members and a group leader is nominated on the basis of rotation from amongst the group members to conduct meetings; meetings are usually held once in a week and normally, the agenda is disbursement of loans, collection of savings, fines etc; loans are made to the SHG as a group which in turn decides internally how to split up the loan and what interest rate to charge its individual borrowers; a record of loans, savings and fines are maintained by an educated member of the SHG, by the group leader or by a facilitator who is paid honorarium by the group. The SHGs after creation, (here, by an external agency, an NGO) started collecting a fixed amount of saving from each member regularly on a monthly basis, thereby creating a common fund. From field survey it is found that majority of SHGs were formed in less than two months, another 20% within two to five months, and the remaining 20% in more than five months. In fact, a non-negligible number of SHGs (10) were formed in more than twenty four months. So there was considerable variation in the time taken to form SHGs. Major roles were played by NGOs, and Village Panchayat (including Village Level Worker/Gramsevak). Although the role played by friends, relatives and members of the village community was less significant, it was far from negligible. About 65% of

Table 3: Age Wise, Education Wise, Duration of Membership pattern Wise and Amount of Loan Wise Distribution of SHG Members in Purulia

Age-wise Distribution (years)	Education Level	Duration of Membership (years)	Loan Amount (Rs.)
Up to 20 0 (0.0)	Illiterate 115 (28.8)	2 years 8 (2.0)	1000 - 10,000 175 (43.75)
21 - 30 154 (38.5)	Primary (1 - 5) 165 (41.3)	3 years 54 (13.5)	11,000 - 20,000 213 (53.25)
31 - 40 187 (46.75)	Middle (up to class X) 120 (30.0)	4 years 62 (15.5)	21,000 - 30,000 12 (3.00)
41 - 50 59 (14.75)	Higher (up to class XII) 0 (0.0)	5 years 118 (29.5)	31,000 - 40,000 0 (0.0)
Above 50 0 (0.0)	Graduation and above 0 (0.0)	6 years 158 (39.5)	41,000 - 50,000 0 (0.0)
Total 400 (100.0)	Total 400 (100.0)	Total 400 (100.0)	Total 400 (100.0)

Source: Primary Field Survey, 2009

SHG respondents reported (properly specified) entry and exit rules such as entry requirements, size of group, attendance requirements, mandatory savings and refund of savings in case a member opts out. About 69.5% confirmed monthly meetings. About 73.5% reported that members regularly attended these meetings. About 73% confirmed proper maintenance of records. Judging by these indicators, most of the SHGs functioned satisfactorily.

The distribution of women respondents indicates that majority of the members are in the age group 31-40 years, followed by 21-30 age group. Around 38.5% of women are in the age group 21 -30; 46.75% are in the age group 31-40; 14.75% belong to 41-50 years. In other words, about 85% of the SHG members belonged to the group 21 to 40 years, which is the most productive period (Table 3).

In Purulia more than 65 percent of respondent got primary to middle level of education. 28.8% of the respondents are illiterate. 41.3% of the sample obtains primary education; 30.0% got secondary level of education (Table 3).

Duration of membership has a significant effect on women's empowerment. The minimum duration was two years, and over 60% had been members between 2-5 years (Table 3). It follows that survival rates of SHGs are high. Membership in a group gives her a feeling of protection. Congruity with human nature enhances the relevance and utility of human development initiatives. This includes the ability to influence the behaviour of others. The amounts of loan are small, numerous and for a short duration.

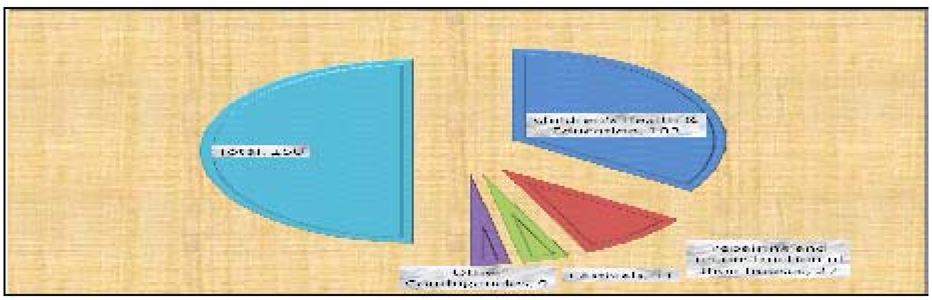
The loans cover an array of purposes and the interest charged is generally a little higher than that charged by banks but much lower than that charged by moneylenders. The majority of the SHGs extend loan at a rate of 2% per month. Generally, the members have moved from small, short, consumption loans to bigger, long-term production loans. Currently, most of the loans are being taken for agricultural activity, small business, allied activities, marriages and house building. In Purulia, major proportion of loan amounts restricted in between 1,000 to 30, 000. 43.75% of the respondents' loan amounts ranged from 1000 to 10,000; 53.25% of the respondents' loan amounts ranged from 11,000 to 20,000 and 3.00% of the respondents' loan amounts ranged from 21,000 to 30,000 (table 3). Lack of education, infrastructural facilities create this kind of asymmetry.

5.1.1 Use of Loan

In Purulia district, out of the total responses of the participants 37.5% used loan for financing investment in children's education and health, House reconstruction and repairing, Marriage and Other contingencies (Figure 1). Out of these respondents 68.67 percent participants make use of loan for children's health and education. According to the respondents after joining the group, they are more self reliant and responsible to betterment of children's health and upgradation of children's educational status.

Now they more independently take decision regarding these issues due to financial support. More than 18% of borrowers used loan for repairing and reconstruction of their houses. One thing must be noted that this financial support channelised through the Self-Help Groups give them impetus to achieve some sort of comfort in their life. 7.33% of the respondent used loan to support partially their family members for festival purpose. This Self-Help group microfinance programme helps them to execute their responsibility towards family in reality.

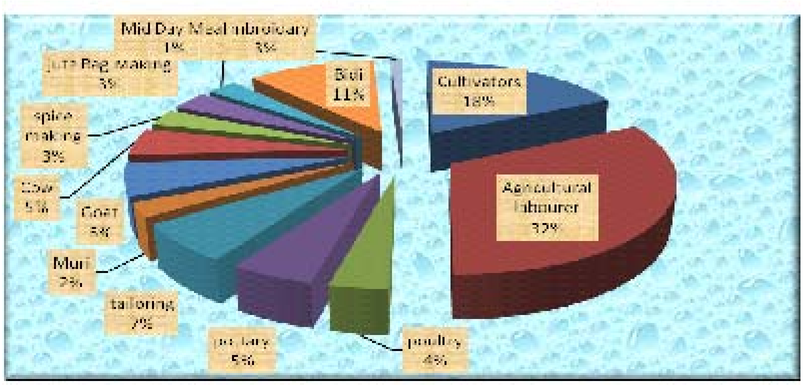
Figure 1: Distribution of Respondent by Uses of Received Loan Amount



Source: Compiled from primary field survey, 2009

Of these borrowers, 18.0% are engaged in cultivating food crops and 32.0% respondents worked as agricultural workers, 3.0% involved in embroidery business, 3.0% engaged in jute bag making, 3.0 percent respondents making spices supplied in the local market, and 5.0% respondents bought cow, 6.0% respondents bough goat, 11.0% engaged in beedi making, 7.0% engaged in tailoring business, 5.0% respondents engaged in pottary items, 4.0% respondents involved in poultry business and 2.0% in muri making (Figure 2).

Figure 2: Distribution of Respondent By their Occupation in Purulia District



Source: Compiled from primary field survey, 2009

5.2 Empowerment

Measuring empowerment requires making judgments about what are appropriate indicators for measuring changes in people's capacity for choice or action in their lives and so is difficult. If we use indicators that look at how people may or may not exercise choices in terms of action, the question then arises - is this because of a lack of power, or are there other factors that influence choice? The concept of 'control' is used as indicator of empowerment. The concept of control is thus an attempt to bring the .passive formulation of the resource dimension closer to a concern with women's agency. A number of different indicators of agency are to be found in the literature, but one that appears most frequently relates to decision-making agency. These indicators are usually based on women's responses to questions about their role in specific decisions. Answers may be combined into a single index or presented separately. Women's empowerment needs to occur along the following dimensions: economic, socio-cultural, familial/interpersonal, legal, political, and psychological. However, these dimensions are very broad in scope, and within each dimension, there is a range of sub domains within which women may be empowered.

Developing valid and reliable measures of women's empowerment was one of the most difficult tasks of this study. Behaviors and attitudes that might be used to measure women's empowerment in one society may have no relevance in another. However, the literature reviews suggest that when considering the women in general and with regard to women credit borrower in particular, the three most vital indicators of women empowerment are: (a) decision making autonomy in the field of financial, child related and social issues; (b) access to or control over resources; and (c) freedom of movement. Besides these, there are a few indicators that have been rarely used, like participation in political activities, gaining any new skill, sense of self-worth and self confidence. Both conceptually and practically, women respondents' empowerment is an important issue and has to be considered, because it paves the way for the empowerment of future generations.

Since the purpose this study is to explore the degree of empowerment by observing the existing conditions of women's problems. A number of studies have shown that women may be empowered in one area of life but not in others (Mather, et al. 1997; Kishore, 2004). However, it need not be presumed that if a development intervention promotes women's empowerment along a particular dimension then the empowerment in other areas would not necessarily follow. In terms of practical measurement, however, it is difficult to neatly separate the dimensions. For example, many aspects of economic or social empowerment overlap considerably with the familial dimension, as in the case of the control over domestic spending or savings, or the limitations on mobility or social activities. An attempt has been made in this regard by taking all these factors into consideration and formulating a model based on the same. Since the term "women empowerment" is a complex phenomenon and has multifaceted dimensions, a list of variables is constructed for making women empowerment indices and to identifying its determinants. Different methods and data sources are used to assess the formation and impact of SHGs Microfinance programmes on the wellbeing of members and others. Attention is given to whether in addition to individual characteristics (e.g. age, education, occupation, caste). In assessing impact, a detailed analysis is carried out of whether credit channeled through SHGs raises incomes, and savings, reduces dependence on local money lenders, whether it enables women to have greater autonomy in economic decision-making, broadens their public domain, and induces a greater sense of bonding/reciprocity.

Empowerment was corroborated by different sources in varying degrees. Clearly, some response errors arise mainly from interpretational ambiguities and a general reluctance to be negative about certain outcomes cannot be ruled out. So taking these responses at face value may be problematic. However, the consistency between different but related indicators of empowerment cannot be overlooked.

Table 4: Distribution of Respondents by Empowerment Indicators

Decision Making	Control Over Income	Control Over Loan	Control Over Loan Use	Control Over Savings	Control Over Purchasing Capacity	Decision Regarding Children's Health and Education	Decision Regarding Family Planning	Decision Regarding Own Health Care	Physical Mobility
Autonomous Decision	126 (31.5)	112 (28.0)	104 (26.0)	150 (37.5)	160 (40.0)	113 (28.3)	0 (0.0)	96 (24.0)	237 (59.3)
Joint Decision	216 (54)	226 (56.5)	236 (59.0)	214 (53.5)	207 (51.75)	252 (63.0)	372 (93.0)	275 (68.8)	111 (27.3)
No decision	58 (14.5)	62 (15.5)	60 (15.0)	36 (9.0)	33 (8.25)	35 (8.8)	28 (7.0)	29 (7.3)	54 (13.5)

Source: Compiled from primary field survey, 2009

Decision regarding economic decision-making indicators

Economic decision making indicator consists of control over income, control over loan channelised through Self-Help groups, control over savings, use of loan and purchasing decision.

Decision on control over income

31.5% of SHG members have autonomously control over their income; 54.0% respondents reported share or joint control over income and 14.5% reported that their husbands have sole control over their earned income (Tble 4).

Although money issues traditionally can only be transacted by men, with Self-Help Group Microfinance programme, women have gained an arena to make vital decisions, collectively and individually. Participation in SHGs has changed this: the women spoke of "feeling of freedom", increases in levels of confidence and self-esteem, a change in perceptions, a feeling of strength and a movement away from restriction and constraints. In short, they experienced "power within."

Decision on loan taking and use of loan

Of central importance is whether or not women retain control over their loans and management power of the activities for which the loans are used. 28.0% of SHG members reported having total autonomous control over the loan; 56.5% women reported that they share control over the loan money with their husbands and 15.5% reported that their husbands have sole control over loan (Table 4).

Although money issue are traditionally seen as 'evil' for women and can only be transacted by men, with Self-Help Group Microfinance programme, women have gained an arena to make vital decisions, collectively and individually, over financial transactions.

Among women who had taken loans for income- generating activities, only 26.0% reported having total autonomous control over the use of loan; 59.0% reported that they share decision making control over the use of loan with their husbands, and 15.0% reported that their husbands have sole control over the proceeds of the loan (Table 4).

Women individually made decisions on loan issue and also participated together with their husbands and their families to decide on loan taking. A similar trend also applies for loan investments. This change in the social value of money shows that women have gained both 'power with' their group members and marital relatives and 'power to' make decisions on money be it in terms of inflow (money channelised through group) or outflows (through investments).

Decision regarding control over savings

An important contribution of SHGs in inculcating financial discipline and in protecting the vulnerable from shocks is to induce the members to save. As savings are a mandatory feature of SHGs, it is not surprising that either all or a large majority of members reported regular savings.

It is assumed that those who save and those also borrow are two different groups of people. Savers stash away deposits in banks while borrowers go to the bank and borrow the savings of others at a price. However, a saver can herself be an investor, as is usual in the case of the poor. Her investment is calibrated in very small steps and any small savings can be ploughed back into investments at any time. Subtle, at times not-so-subtle, peer pressure keeps the group members in line and contributes to the collective strength of the group.

Savings serve several purposes which includes meeting contingencies (e.g., illness, death, loss of income), buying of assets and meeting health and education expenses of children. Basically, savings by women respondent most of the cases used for family purposes. From the above table, it is clear that women have more autonomous control over savings. Male domination is less evident in this context. Such behavioural pattern may be explained by two broad reasons.

It is clear that women have more autonomous control over savings (37.5%); 53.5% reported that they share savings decision with their husbands, and 9.0% reported that their husbands have sole control over the savings (Table 4). Male domination is less evident in this context. Such behavioural pattern may be explained by two broad reasons. Firstly, most of time women save autonomously; secondly, savings act as a safe guard for the family in a crisis period. So it may be the case that male counterpart intentionally less dominant as savings by women share the domestic responsibility at a larger extent. For their own interest male counterpart are less dominant. This is also one side of patriarchy where less interference is more beneficial for male members in a family as it minimises their responsibility and maximises family welfare.

Purchasing decision

Purchasing capacity involves questions in different categories of common household purchases (food, toiletries, candies for the children, cooking utensils, children's clothing, and own clothing) to find out if women (rather than someone else in the household) were able to make the purchase and, if so, whether or not they make the purchase autonomously.

For each issue, 40.0% respondents answered that they themselves decided on these issues alone. 51.75% reported that they share the purchasing with their husbands, and 8.25% reported that their husbands have sole decision making power (Table 4).

Now they more independently take decision regarding these issues due to financial support. One thing must be noted that this financial support channelised through the Self-Help Groups give them impetus to achieve some sort of comfort in their life. This Self-Help group microfinance programme helps them to execute their responsibility towards family in reality. To summarise, the opening up of economic opportunities for women is leading to the probing of patriarchal traditions. 'Women's presence in the public sphere is often perceived as a direct challenge to the patriarchal system,' and microfinance plays a fundamental role in encouraging women to venture beyond the home.

Decision on children's health and education

According to the respondents after joining the group, they are more self reliant and responsible to betterment of children's health and upgradation of children's educational status. Now they more independently take decision regarding these issues due to financial support. It is traditionally expected that male counterpart, take the lead in making enrolment decisions and also lead in deciding on education expenses. However, this trend is more eroded among women group members where women are increasingly participating in decision-making regarding education and health expenses.

28.25% group members are now able to take autonomous decision regarding children's health and education; 63.0% reported that they jointly with their husband take decision regarding these issues and only 8.75% reported no decision making autonomy regarding children's health and educational issues (Table 4).

More women group members participate in such decision-making jointly with their husbands than as individuals. In this way, it can be said that the initial health and educational responsibility entrusted to the men is being shared with their wives. Financial support by women reduces economic scarcity to some degree and gives way to harmonious family relations.

Decision regarding family planning

Family planning involves questions to assess whether women exert their power in family planning practices. Women are more likely than men to be users of birth controls. In this issue economic independence alone does not ensure autonomous decision in family planning matters. Socio cultural norms and traditional rigidity play a crucial role in this context. From the field survey, it is evident that now women are more conscious about this matter, irrespective of existent socio cultural differences among different social groups. Now they are playing more assertive role in this issue.

93.0% of women reported that they jointly decide the family planning matter and 7.0% of women reported no control over this vital issue (Table 4).

It need not be presumed that if a development intervention promotes women's empowerment along a particular dimension then the empowerment in other areas would not necessarily follow. The disparities in power within the household can also affect a woman's reproductive life, constraining her ability to make knowledgeable choices about issues like family planning. Women are hemmed in by duties and responsibilities, which bound their capability to make independent choices that are fundamental to their lives and future. But one thing must be said unambigously that women are more responsive and aware about their role in this context.

Decision regarding own health care

Women are occupied concurrently in childbearing, looking after family members, children and elders as well as participating in income generating activities, thus spelling a great strain on their wellbeing and health. Another constraint is women's limited access to health care; in fact, apart from economic and cultural factors, psychological factors may circumscribe their access to health care. Women are conditioned to consider suffering as their lot. Women perceive taking care of themselves as selfish, especially in economically hard circumstances. Women are married and begin their childbearing while they are still adolescents. With fertility being high - more than four children per woman - the reproductive years place extra burden on a woman's health. The physical and emotional demands of pregnancy, birth, breastfeeding, and childbearing, besides the other responsibilities a woman has, can lead to what has been called the maternal - depletion syndrome. The cumulative effects of a lifetime of nutritional deprivation, hazardous and heavy work, and continuous childbearing and low self-esteem leave them both physically and mentally frail. Each of these can affect women's health, producing additional stresses in their lives.

24.0% of women reported autonomous decision making power regarding their own health care; 68.75% of women reported joint decision making power with their husbands regarding their own health care and 7.25% of women do not have their decision making power regarding their own health care issues (Table 4). From the above table it is clearly stated that women respondents are more aware about their own health problems and independently able to take care of this health problems. Congruity with human nature enhances the relevance and utility of human development initiatives. The core of SHG has been built around an important aspect of human nature - the feeling of self worth.

Women, specifically poor women are less conscious of their own health problems. They are more focused on issues related to family welfare. The concept of self deprivation may be applicable here.

In this regard Self-Help Group Microfinance program plays an important role. Participants discuss their everyday life experience, problems with the other members of the group which life has a number of consequences. When women describe their own experiences, they discover their role as agents in their own world and also start establishing connections between their micro realities and macro social contexts.

Decision regarding mobility outside the household

More than half (59.25%) of the of the SHG members reported that they are allowed to move out of home autonomously for development activities, SHG meetings, training, market, health care centre etc. 27.25% of women reported that they are allowed to move out of home with others and 13.5% of women reported that they do not have any freedom for physical mobility (Table 4). It is evidence of the capability of women to convince their family for moving out of the house in connection with their development activities, earning, meeting, etc.

On the contrary, decision making autonomy power of women respondents' of Microfinance Institution is not satisfactory. Most of the respondents are not engaged in any income generating activities. They bridged the gap between MFIs and their male counterpart by taking loan from these financial institutes. Basically, this system failed to make them realise their true potential for societal development. The original objective of these financial intermediaries is to empower women. But in reality this financial intermediaries deviate from their original objective or promotional agenda of empowering poor women in a devastating way by making a large portion of their participant only a money making instrument. In other words, the only loan facility given by MFI does not necessarily address the deep rooted connection between patriarchy, power and conflict. For this reason, microfinance needs to move beyond the allocation of purchasing power to expand mental mind sets. By assuming an automatic correlation between participation in microfinance and greater security within the home, MFIs presuppose the family to be a harmonious social network where the benefits of social ties and networks are equally enjoyed. This is a dangerous assumption.

5.3 Effect of Various Socio-economic Variables on Empowerment

Table 5: Association of Empowerment Index and Various Socio-Economic Factors

Name of the District	Age	Education	Duration of Membership	Training	Political Participation	Income Level	No. of Loan	Amount of Loan
Purulia	-	1.900*	1.980*	2.143**	3.601**	1.002*	-	-

- means not significant; * means significant at .01 percent level, and ** means significant at .05% level.
Source: Compiled from primary field survey, 2009

5.3.1 Observations

In order to locate which of the variables are significantly related to women empowerment, respondent's age, education, duration of membership to SHG group, political participation, income level, number of loan taken, and the amount of loan are regressed on Empowerment Index. It is found that in Purulia education level, duration of membership, training, income Level and political participation influence empowerment most significantly (Table 5).

5.3.2 Analysis and interpretation of statistical result

1. Duration of membership is statistically significant

Duration of membership has a significant effect on women's empowerment. Congruity with human nature enhances the relevance and utility of human development initiatives. The core of SHG has been built around an important aspect of human nature - the feeling of self worth. It gives the members new opportunities for achieving self-growth, increasing self-esteem, contributing to the community and acquiring a sense of purpose. Women mention that they have found a new individuality through the self-help groups. Membership of SHGs aided the women to move from an inactive state to being dynamic agents and work for their own change. The women elucidate how they had discovered their power. They are fortified with information. They were thrilled about their newly acquired powers. Women who had so far been hesitant and inhibited have slowly shed their reserve and stepped out of the four walls of their homes to acquire an individuality of their own. They developed a sense of self-worth as they understood that self-empowerment comes from within. They have found strength in numbers. Homogeneity of the members is chiefly in terms of similar standard of living and nearness of residence. The group process also instilled mutual trust and faith among the members. The group considers the requirements for loans in their meetings and these are settled by agreement. The loans are given on trust with least amount of documentation and security.

2. Training is statistically significant

A successful intervention for empowering women necessitates several elements - an important one is imparting of new skills: the consequence of women assuming new roles is also support through training for enabling them to perform these roles. Training modules have to make women recognise clearly how society structures their perceptions. This would help in making women aware that society's perception of women's appropriate roles and behaviour should not shape their actions. The training programme must promote critical analysis in women and encourage them to think independently and challenge unequal gender relations and exploitation. Processing and packaging of food products, aachar making, papad making tailoring, farming, terracotta item making, jute product making, hand embroidery help them to earn a substantial amount of income. Besides this kind of income generating training in all districts women provides access to unconventional skills or technology. Training on leadership and capability enhancement, marketing, legal issues, book keeping and accounting, health related issues etc., help the women to challenge the social constraints which impede their role as active participants of development process.

3. Income is statistically significant

The opening up of economic opportunities for women is leading to the probing of patriarchal traditions. Women's presence in the public sphere is often perceived as a direct challenge to the patriarchal system, and microfinance channelised through Self-Help Group plays a fundamental role in encouraging women to venture beyond the home. It has also been experienced by different researches that empowerment of women brings significant improvement in women's participation in household decision making, family planning, children survival rate, health and nutrition and children education especially girls' education (Steele, Amin and Naved, 1998).

Economically active woman with her own independent income share within the household has more economic power. If age structure and educational level are important social parameters influencing the work force composition and its quality respectively, the income level of the women respondent is an integral part of livelihood status in a given condition.

4. Level of education is statistically significant

Education is one of the most important means of empowering women with the knowledge, skills and self-confidence necessary to participate fully in the development process. This is true not only because education is an entry point to other opportunities, but also because the educational achievements of women can have ripple effects within the family and across generations. Self-Help Group Microfinance programme is a participatory approach that helps women to educate informally which act as a tool to enhance their inner strength and indirectly help them to cope up the benefits of the programme. In other words this collective approach helps poor women in enhancing their psychological capability and indirectly reduces the problem of informational asymmetry.

5. Effect of political participation of women respondent on level of women's empowerment is statistically significant

The most obvious illustration of the 'fault line of gender' is the split between the public male world of politics, and the private female world of the family and the household. Participation is a development approach, which recognises the need to involve disadvantaged segments of the population in the design and implementation of policies concerning their wellbeing. The strengthening of women's participation in all spheres of life has become a major issue in the development discourse. Socio-economic development cannot be fully achieved without the active participation of women at the decision making level in society. Participation in political activity enhances the chances of obtaining wider knowledge and awareness and reduces the problem of asymmetry of information which paves way for the empowerment. Due to their political attachment their interactional position in the society has been elevated and they tend to involve themselves in community work, which has once considered men's sphere, and they have got a hold on decision making both inside and outside the household.

6. Conclusion

Microfinance has the potential to have a powerful impact on women's empowerment. Although microfinance is not always empowering for all women, most women do experience some degree of empowerment as a result of it. Detailed investigation about women from Self-Help Group Bank Linkage Programme (SHGBLP) with respect to the control of resources, changes in behaviour and the decision-making reveals that many strides have been made in the right direction and women are in the process of empowering themselves. Examining the evidence on some key issues both within the quantitative and qualitative data of women respondents from Self-Help Group Bank Linkage Programme and the survey conducted among women respondents from control group of MFI-NBFC suggests that a lot of changes are needed to make women truly empowered. The findings of empowerment status of women respondents from the control group (MFI-NBFC) are based on just Focus Group Discussion. Detailed and meticulous analysis may be needed to understand the true scenario in this context. An attempt is made to compare the position of women respondent from MFI-NBFC and women respondents from SHGs-Bank Linkage Programme.

Based on the evidence along with a more strict interpretation of women empowerment, it is difficult to believe that a minimalist microfinance programme would have sustainable impact on the empowerment of women. SHGs, where a majority of groups are linked with the help of NGOs that provide support in financial services and specialised training, have a greater ability to make a positive impact on women empowerment.

In some cases, access to credit may be the only input needed to start women on the road to empowerment. However, power is deeply rooted in social systems and values. It permeates all aspects of lives from family to communities, from personal dreams and aspirations to economic opportunities. It is unlikely that only one intervention such as the provision of credit only will completely alter power and gender relations. Women often value the non-economic benefits of a group lending programme that is SHG programme as much or more than the credit. Some of the most valued include expanded business and social networks, improved self-esteem, increased household decision-making power, and increased respect and prestige from both male and female relatives and community members. If women empowerment is to be pursued as a serious objective by SHG programmes in particular and the larger microfinance community in general, greater emphasis needs to be placed on training, education and creating awareness in order to achieve a larger and more lasting empowerment. When loans are channeled through women's groups and combined with more investment in social intermediation, substantial shifts in decision-making patterns do emerge. There is, overall, a remarkable shift from norm-following and male decision-making to more bargaining and sole female decision-making. These effects are even more striking when women have been members of a group for a longer period and in particular when more attention is given to genuine social intermediation. In terms of which particular features in group-based lending are most important, loanees themselves suggest that peer pressure and the availability of a group fund, which they see as a lender of last resort for consumptive and emergency purposes, increased the probability that the loans were effectively used for the intended productive purpose. They also felt that their position in the household had improved as they had secured access to long-term financial resources through their personal savings account and the group fund. Social group intermediation had further gradually transformed groups into actors of local institutional change. As such they were increasingly involved in extra-household bargaining with the community, thereby strengthening their individual fall-back position within the household.

In a context of increasing donor funds being channeled into microfinance programmes, it is important to put into perspective the assumption that any microfinance programme empowers women. Our research findings indicate that intensive social group intermediation, particularly, raises a programmes potential to increase women's decision-making agency. Given the growing consensus on the importance of the female voice in household decision-making for overall economic and human development, our findings suggest one possible route for increasing female leverage.

Women members also stressed the importance of the 'linkage' project whereby women's groups started engaging in extra-household bargaining with more heterogeneous bodies of public decision-making such as panchayats, village health committees. In their opinion, extra-household bargaining in the community increased their individual leverage in decision-making within the household. Women further emphasised that participation in decision-making in the different public bodies was not only important for themselves but also for their families because, given their low socio-economic status, both men and women were largely absent from these public arenas of community decision-making.

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Two Decades of SHG-Bank Linkage Programme: Different Facets@

- Gyanendra Mani* and T. Sudheer**

The Self-Help Group Bank Linkage Programme, pioneered by NABARD and piloted in 1992, has emerged as the largest and the fastest growing community based microfinance programme in the world.Also there has been significant improvement in terms of socio-economic empowerment of rural poor.

Abstract

The implementation of Self-Help Group Bank Linkage Programme (SBLP) during the last two decades (1992-2012) in the country has given NABARD enough experience and confidence to take the movement to the next higher stage, i.e., the SHG-2 which, in addition to many new features, would focus more on sustainability aspects of SBLP. Among the various initiatives being proposed under SHG-2, the most important of those is the promotion of voluntary savings to generate resources at the SHG level so that dependency on external sources of fund can be minimised. Cash credit as preferred mode of lending, scope for multiple borrowings by SHG members matching with their repaying capacity, avenues to meet higher credit requirements for livelihood creation, need for SHG Federations as non-financial intermediary, rating and audit of SHGs as part of risk mitigation system, strengthening monitoring mechanisms, etc., are some of the other proposed features of SHG-2.

However, some of the unfinished agenda of SHG-1, particularly, the challenges/issues, viz., issues relating to outreach (whether all very poor or hard core poor identified and included in financially under SBLP), quality and sustainability of Self-Help Groups, serious efforts pertaining to convergence of SBLP with SGSY approaches taking the strengths of both for achieving the target of financial inclusion, and graduation of groups from consumption to production to

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investment credit finally leading to graduation to micro-enterprise level posing severe challenges relating to entrepreneurship development, appropriate technology and product design and marketing of rural products, need to be given priority while designing the roadmap for the SHG-2.

Background

At present, the Indian rural economy is probably passing through a transition phase where attempts are being made to effect a paradigm shift in respect of the two most important revolutions, viz., (i) Green revolution and (ii) SHG-Bank Linkage Programme (SBLP). The transition from 'Green Revolution to Ever Green Revolution' is being advocated by none other than Dr. M.S. Swaminathan, the main architect of the 'Green Revolution'. The transition aims at shifting from 'Commodity-centered increase in productivity' approach to 'increasing productivity in perpetuity without associated ecological harm'. The second revolution designed and implemented by NABARD in form of SHG-Bank Linkage Programme gave a new hope to the by-passed society through which millions of rural poor, particularly the rural women, are being empowered both socially and economically. The SBLP is now being redesigned as SHG-2 which aims at taking the movement to a higher stage, in addition to many new features, and focusing more on sustainability aspects of SBLP keeping in view the interest of members in mind.

The Self-Help Group Bank Linkage Programme, pioneered by NABARD and piloted in 1992, has emerged as the largest and the fastest growing community based microfinance programme in the world resulting in 7.4 million Self-Help Groups (SHGs) opening Savings Bank account with various banks as on 31 March 2011. The loan outstanding against SHGs as on 31 March 2011 stood at Rs. 312.2 billion in respect of 4.79 millions groups. The microfinance Institutions (MFIs) too have emerged as strong players in supplementing the role of formal financial institutions in providing microfinance services to the poor.

Further, the banking sector and other financial service providers including MFIs in India have undergone significant transformation in recent years and have initiated the process of product diversification, particularly for those who constitute the lower part of the pyramid. The financial service providers are attempting to become more entrepreneurial and innovative in their approaches with an objective to reduce the overall risk in their loan portfolio.

In addition to the existing large banking network in the country, more and more number of new players, particularly the MFIs, are getting attracted towards the vast business potential available in the microfinance sector. And every institution in this field has got its own set of rules which is making the clients indecisive and confused as far as selection of product and agency is concerned. Although a number of legal frameworks have been introduced in the country for the protection of banks as well as its clients including setting up of an independent Banking Codes and Standards Board of India (BSCBI) to ensure a comprehensive codes of conduct for fair treatment of bank customers, it is felt that there is a need for evolving a regulatory framework in the country aimed at protection of microfinance clients by ensuring transparency of various charges levied and eschew the practices of usury and false advertising.

The use of technology by the banks and other players in microfinance sector has grown beyond developing the MIS for handling and tracking the operations. In rural and other unbanked areas, where accessibility is a problem, banks have explored technology solutions in the form of Banking Correspondents to increase the scale of their microfinance portfolios to bring more people under the ambit of banking services.

In the above background, it is thought to be appropriate to have a retrospection of the SHG programme as well as the sustainability of Self-Help Groups (SHGs) which has completed about 20 years of its existence in various forms in the country. The present article aims at highlighting some selected aspects of SHG movement based on the studies conducted by the Centre for Microfinance Research (CMR) which has been set up within the Bankers Institute of rural Development (BIRD) to take up research activities in the field of microfinance for facilitating policy initiatives and improvements in design and delivery system of microfinance services.

The paper has been divided into three sections. Section A presents the present status of SHG Bank linkage programme in terms of its outreach over time and space followed by various interventions made by NABARD to take bring the SBLP at its present status. The Section B highlights the findings of different studies conducted by CMR covering various issues like Impact of SBLP on living standards of poor, inter-regional disparities in SHG-Bank Linkage Programme, gender issues in SBLP, critical stages of SBLP, graduation to SHG members to micro-enterprise level and the issues relating to delinquencies/ defaults by SHGs. The Section C raises some of issues relating to future roadmap of SHG-Bank Linkage Programme. The paper closes with some concluding remarks derived from the discussions made in the paper.

Section A

A.1. Coverage- cumulative status on savings, outstanding

The SHG-Bank Linkage Programme (SBLP) has been accepted as an effective tool for inclusive growth by extending various financial services to the bypassed society of poor rural households. The SBLP which has grown exponentially during the last two decades and over 97 million households have now access to regular savings through 74.62 lakh SHGs linked to different banks (Table 1). Of these, over 47.8 lakh SHGs also have access to direct credit facilities from the banks. Nearly 12 lakh SHGs were

Table 1: Overall Progress under SHG-Banks Linkage Programme
(Amount Rs in Crore/ Numbers in Lakhs)

	Particulars	2008-09		2009-10		2010-11	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31 March	Total SHG Nos.	61.21 (22.2%)	5545.62 (46.5%)	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7016.3 (13.2%)
	All Women SHGs	48.64 (22.0%)	4434.03 (42.6%)	53.1 (9.18%)	4498.66 (1.46%)	60.98 (14.8%)	5298.65 (17.8%)
Loans Disbursed to SHGs during the year	No. of SHG extending loans	16.1 (31.1%)	12253.51 (38.5%)	15.87 (-1.4%)	14453.3 (17.9%)	11.96 (-24.6%)	14547.73 (0.01)
	All Women SHGs	13.75 (32.0%)	10527.38 (40.8%)	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.4%)	12622.33 (1.6%)
Loans Outstanding against SHGs as on 31 March	Total No. of SHGs linked	42.24 (16.5%)	22679.84 (33.4%)	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.3%)	31221.17 (11.4%)
	No. of all Women SHGs linked	32.77 (12.3%)	18583.54 (39.4%)	38.98 (18.9%)	23030.36 (23.9%)	39.84 (2.2%)	26123.75 (13.4%)

Source: NABARD – Status of Microfinance in India (2010-11)

issued fresh loans to the extent of Rs. 14,548 crore during 2010-11 by all financial institutions. Majority of the groups linked to Banks are women groups accounting for about 82% of total groups formed. About 27% of SHGs have been linked through the Swarnjayanti Gram Swarojgar Yojna (SGSY) programme -the rural poverty alleviation programme of Government of India.

The average loan outstanding per SHG works out to Rs. 65,221 as on 31 March 2011. Together with savings internally generated used for lending (Rs. 16,500 crore), the total loan outstanding against all SHG members can be assumed at around Rs. 47,700 crore. The loan issued by banks to SHGs during a particular year has shown a declining trend during the last two years as far as number of SHGs extended credit is concerned although quantum of loan issued to these groups during last two has shown an increase over the previous years. The increase in NPA level in this particular portfolio during last 2-3 years might have been taken as signal by the bakers forcing them to adapt a cautious approach resulting in decline in disbursement of loan to SHGs over period.

A.2. NABARD interventions at critical stages of SBLP

NABARD has been extending various supports to various stakeholders to facilitate sustained access to financial services for the unreached poor in rural areas through various microfinance innovations in a cost effective and sustainable manner. Some of such support measures from NABARD to support the sector at various critical stages of its life cycle are listed below:

(i) Refinance support: Banks can avail refinance from NABARD to the extent of

cent%for lending to SHGs. The cumulative disbursement of refinance by NABARD to banks for lending to SHGs stood at Rs. 15,407.01 crore as on 31 March 2011. The share of refinance in total loan disbursed by banks to SHGs during 2009-10 was 22% which came down to 17.5% during 2010-11 on account of increased deployment of own resources by the banks.

(ii) Support under Microfinance Development and Equity Fund (MFDEF): The fund has been created (present corpus Rs. 400 crore) to facilitate and support various promotional activities like grant assistance to Self-Help Promoting Institutions, funding of training and capacity building of microfinance clients and stakeholders of the SHG-Bank Linkage Programme, support to MFIs, for supporting introduction of Management Information System (MIS) for the sector, for helping research, studies and publications concerning microfinance related issues. As on 31 March 2011, the cumulative number of participants trained under capacity building programme of NABARD has reached to 26,60,818 as on 31 March 2011. The cumulative grant assistance to partner agencies for promotion and nurturing of SHGs has also reached to Rs. 5106.29 crore in respect of 4,01,071 number of SHGs. The share of NGOs in total grant support from NABARD for promotion and nurturing was Rs. 4471.37 crore (87.6 %) in respect of 2,68,791 SHGs (67 %).

(iii) Support under Micro-enterprise Development Programme (MEDP) for Matured SHG: The MEDP was launched in 2006 to nurture the entrepreneurial talents of members of matured SHGs to set-up and run micro-enterprises as a livelihood option in farm and non-farm sector either on individual or group basis. More than 60,000 SHGs have so far been benefitted under this programme and many of them have since turned into microenterprises.

(iv) Promotional support to Microfinance Institutions (MFIs): The support extended under this scheme to Microfinance Organisations (MFOs) and MFI-NBFCs identified as start-up MFIs is by way of subordinated debt and will be commensurate with the realistic lending plans of MFIs. As many as 40 MFIs have so far been sanctioned capital support to the extent of Rs. 2,739.67 lakh. NABARD has also been extending Revolving Fund Assistance (RFA), on a selective basis, to MFIs for on-lending to SHGs/ individual members of SHGs. Till 31 March 2011, 42 MFIs were sanctioned RFAs to the extent of Rs. 6,078.60 lakh. NABARD also extended grant support of Rs. 19.04 lakh during 2010-11 to various banks to engage the services of rating agencies like CRISIL, M-CRIL, ICRA, CARE and Planet Finance to take up the rating of 15 MFIs in order to facilitate banks to extend credit support to MFIs.

(v) Other supports: The other support viz., region specific initiatives, distance education programme in collaboration with IGNOU, New Delhi, Pilot Project for linking SHGs with Post Offices, Grain Banks and SHGs, Project on "Computer Munshi" - aself-sustaining mechanism to manage SHG account and MIS, Joint Liability Groups, etc., are also available from NABARD as a part of its interventions in the microfinance sector.

Section B

B.1. Impact of SBLP on living standards of poor

During the last two decades, the microfinance initiatives has passed through various stages like Pilot Testing ((1992-96), mainstreaming (1996-98) and expansion (1998 onwards) and has assumed a shape of a microfinance movement in the country by linking around 74 lakh SHGs with the formal banking system by March 2011 (Karmakar and Mohapatra). Studies conducted by various institutions/ experts reveal that the programme has indeed helped in the social and economic empowerment of rural poor, especially women, causing significant up-scaling of social capital while at the same time delivering crucial and much-needed financial services at low transaction costs for both banks and poor borrowers. Today, it has expanded to become the largest microfinance programme in the World in terms of its outreach and has extended financial services to people hitherto under-served by the formal banking system. However, the cases of slow progress of graduation of SHG members have also been reported by various scholars in different part of the country which need to taken into account while designing the road map for the next phase of the SHG programme.

The CMR Sub Centre at Institute of Development Studies, Jaipur conducted a study 'SHG-Bank Linkages in North West India-Experiences and Challenges in Financial Access and Poverty Alleviation' to assess the economic and social impact of SBLP on its members with focus on poverty. The study looked at who are the women who join SHGs, factors for joining the groups, economic background of these women, asset structure of the households they belong to, educational background of members, their occupational structure, income sources of their households, SHG participation in terms of meetings, attendance, saving and inter-loaning behaviour, sources, purpose and usage of loans, nature of involvement in income generating activities, repeat loans, contribution of SHGs in households and impact on households especially on poverty. What could be the higher levels of undertaking of micro- enterprises or livelihood activities? The study was conducted by drawing samples from four states including Gujarat, Rajasthan, Himachal Pradesh and Madhya Pradesh. It covers 1000 member households with 250 from each state and five members from each SHG.

The findings indicate that consumption (26.72%) farm activities (14.59%), medical exigencies (11.32%), house repair (10.74%) and income generating activity (IGA-9.92%) were the five main reasons for which loans were availed by the members. Consumption took the top position in all the surveyed states. The study concluded that the SHG financing has reduced the dependency of its members on moneylenders for financial needs. The income level of SHGs members has also gone up on account of their becoming the member of SHGs. Dairy (buffalo rearing) was found to be the most preferred activity due to familiarity of SHG members with management and availability of regular income from the asset. The availability of raw material and sufficient demand in the local market were the important factors went in favour of selection of dairy activity. Overall, the report has clearly brought out that the dependence of SHG members on informal sources of finance has come down over a period of time.

B.2. Regional pattern in development issues - traditional institutions

SHG-Bank linkage programme was conceived to fill the gap existing in the formal financial network and extending the outreach of banking to the poor. The spread of the SHG-Bank Linkage Programme in different regions, however, has been uneven on account of various factors like pro-active role of State Governments, presence of well performing NGOs, socio-cultural factors, better performance of SHGs, etc. The spread of SHG movement has been skewed in favour of the Southern Region especially in terms of the region's share in the total loans to SHGs linked to banks. There is clear evidence of the fact that the SHG movement in India has spread to other regions/ States, though not to the same extent as in the Southern States. However, a major concern remains the scale of finance in the non-southern regions. The average bank loans to the SHGs in the Western, Eastern, Northern, Central and particularly in the North Eastern Region is much lower than their southern counterparts. Further progress in the SHG-Bank linkage programme needs to reckon these regional variations in the spread of the programme. Notwithstanding the remarkable progress, geographically there has been a skewed development of SHG-bank linkage programme in India. There is wide regional disparity both in terms of the spread of SHGs linked to banks and cumulative bank loans disbursed under the programme. In March 2008, while the Southern Region accounted for 48.2% of the total SHGs, the share of North- Eastern Region was just 3.4% (Table 2). In terms of share in the total bank loans to SHGs, the region-wise differential gets further magnified.

Table 2: Regional Pattern in SHG Bank Linkage Programme as on 31.03.2011
(Amount in Rs. Lakh)

Region	Savings		Loans Disbursed		Loans Outstanding	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
Northern Region	372772 (5)	32857.16 (5)	42493 (3)	37752.11 (3)	149108 (3)	90314.42 (3)
North Eastern Region	324739 (4)	13104.6 (2)	39307 (3)	32095.65 (2)	150021 (3)	69525.09 (2)
Eastern Region	1527618 (20)	140837.61 (20)	247624 (21)	161950.39 (11)	1105533 (23)	420255.20 (13)
Central Region	786436 (11)	60338.01 (9)	48734 (4)	60755.08 (4)	358872 (7)	236539.52 (8)
Western Region	960921 (13)	82901.13 (11)	91954 (8)	62591.40 (4)	316821 (7)	124623.03 (4)
Southern Region	3489460 (47)	371591.77 (53)	726022 (61)	1099628.56 (76)	2706408 (57)	2180859.29 (70)
Grand Total	7461946 (100)	701630.28 (100)	1196134 (100)	1454773.19 (100)	4786763 (100)	3122116.55 (100)

Figures in brackets indicate percentage to grand total

To encourage banks to take keen interest in furthering the SHG movement, perhaps a scheme of performance-linked incentive could be considered. The performance indicator for the banks may be with reference to the credit disbursed under the SHG-Bank linkage programme in the lagging regions. Further, specific funds may be created to address the regional imbalances in the SHG-bank linkage programme (Pankaj Kumar and Ramesh Golait, 2009).

A study on 'Delinquencies of SHG in NER' conducted by Indian Institute of Bank Management, Guwahati, a sub-centre of CMR, Lucknow also highlighted that even within the North East Region, the growth in SBLP is concentrated in the plain areas of Assam and Tripura. The RRBs has been spearheading the growth of the movement in most of the major states like Assam, Tripura and in states where this has not been done, it has been languishing. The SGSY Programme has been dominating the SHG movement in NER unlike the other parts of India where the SBLP leads. There were also a few other programmes which promoted SHGs both in Meghalaya and Tripura. There had been programmes which had been taken up by the North Eastern Council called the North Eastern Region Community Resource Management Project (NERCORMP) where SHGs amongst others were promoted across six hill districts in three states of Manipur, Assam and Meghalaya. This has been followed up by another project called the Meghalaya Rural Development Support (MRDS) programme implemented in the state of Meghalaya through SHGs. This programme focused solely on building up institutional capacities of SHGs, unlike the SGSY programme. However, this programme provided large grant support to the SHGs in order to build up their corpus fund and hence suffered the problems of adverse selection and moral hazard as the SGSY SHGs. In Tripura, the Government of Tripura had announced a programme called the Tripura Support Scheme (TSS) to be implemented by the District Rural Development Agency (DRDA) - an agency of the government by promotion of SHGs. It also followed the similar structure of the SGSY with a state focus and suffered similar problems. However, in both the cases, the numbers of SHGs promoted were not as high as those promoted under the SGSY and SBLP and hence did not have much of an impact in the SHG movement.

B.3. Gender issues

The rigid social norms often restrict women to confine to the homestead and the area immediately surrounding it. Such social norms curtail women's involvement in market transactions and constrain their potential to generate income, in turn, reinforcing their economic dependence.

Contrary to this, participation in microfinance programmes is believed to be contributing to social change as well as empowering women by drawing them out of their homes and strengthening their economic roles. In many MFIs, women have become preferred clients because more of their income benefits their families through improved nutrition, health, education and well-being; because they have higher repayment rates; and because women work better in the group lending programmes that make reaching the poor efficient' (Cheston 2006). Access to the basic financial products like savings and loans enable women to set up new economic activities or expand the existing ones for higher income. The control over this increased income and assets can be used directly for her own well-being and that of her children/family. Moreover, the control over income and assets strengthens women's ability to negotiate change in gender relations within the household and wider community. Thus, besides a popular poverty alleviation strategy, the empowerment of women has become a key rationale for SHG expansion and replication.

A study on 'Microfinance and Gender-Social and Economic Empowerment' was conducted by the Institute of Development Studies, Jaipur a sub-centre of CMR, Lucknow, to explore the relationship between participation in microfinance programme and the improvement of women's empowerment status. Both microfinance clients and equal number of women from control group were interviewed for the analysis. All together, 1000 sample women (500 women from each category) spread over the five states including Rajasthan, Himachal Pradesh, Orissa, Karnataka and Tamil Nadu were covered in the study. In all, 104 villages and 188 SHGs were covered to contact 1000 households in five states. The sample comprised respondents from OBC, SCs/STs and general community. However, majority of the respondents were from OBC (53 %) and SC (27 %) category. About 63% of respondents were from nuclear families and the remaining 37% were from joint family structure. About 31.4% of the sample households were landless and 46% family had marginal landholding (0.01 to 2.5 acres). Only about 3.6% family had large size of landholding (more than 10 acres). Some of the salient findings that emerge from the analysis are:

1. Animal husbandry was the primary occupation for about 20% women from each category. Similarly, wage labour was the primary occupation for about 22% of women from each group of samples. Relatively, a higher percentage of SHG women were engaged in petty business/services compared to control group women. This is possibly because of access to credit by the former group through SHG. Even in salaried job too, relatively more were from SHG women compared to control group.
2. The major sources of family income for sample households include agriculture (658 households), dairy (402 households), non-agriculture wage (262 households), agriculture wage (178 households), NREGA (124 households), salaried jobs (315 households), petty business (206 households), government programmes other than NREGA (86 households) and sale of livestock (76 households).
3. Average annual income of the sample households was Rs.94260 and SHG member households have much higher income compared to control group, in general and Rajasthan, Himachal Pradesh and Tamil Nadu, in particular. Overall, the annual average income of the family was the highest in Rajasthan

(Rs. 1,37,790), and the lowest in Orissa (Rs. 46,553).

4. The average annual income of SHG member was higher at Rs.13706 compared to Rs. 9646 for control group women respondents. Results also indicate that a SHG member contributed more towards her family income (7.5%) compared to a non-SHG member (4.3%). This holds true in all the sample states. This shows that not only the extent of contribution of SHG women towards their family income was more but also the contribution was more in terms of number of contributors compared to control group women. This could be possible as relatively higher percentage of SHG women were engaged in petty business/ services compared to control group women.
5. Though involvement in decisions making is an important dimension concerning women's empowerment about 6.6% respondents stated their non-involvement in the decision- making or group meetings. This seems to be more prominent in Rajasthan (20%) compared to other states. Moreover, 51.4% respondents are partially involved in the decision- making or group meetings and 56% in Karnataka and 44% in Rajasthan stated so.
6. It is found that 48.4% use own income for saving contribution while 51.6% depend upon husband/ son's income to contribute.

Nevertheless, the result of the study suggests that micro finance creates an enabling environment for empowerment. It is found that participation in the microfinance programmes not only enhances women's economic security but also empowered socially, psychologically and politically as compared to non-participants. The participants of the programme have relatively higher levels of income, cash in hand, participation in household financial decision making and control over household assets, leading to their economic empowerment. It is also observed that higher proportion of SHG members are more confident in travelling alone, buy things independently, and take part in public protests and dealing with other members in the society. The level of self-confidence is more among participants than non-participants.

Access to credit enables women to negotiate gender barriers, increase their control over economic resources and improve their relative positions within and outside their households. The majority of the women involved in these programmes maintain a significant control over their incomes. Although the magnitude of their income is small, its effect on women's empowerment is substantial. This is visible from participant's view on their significant improvement of spending on household consumption needs, children's education and personal things as well as their involvement and bargaining power in household decisions making.

B.4. Identifying critical stages of SBLP

As the SBLP has already completed two decades of its implementation and an attempt is also being made to launch the second phase of SHG in order to speed up the process of social and economic development in the country keeping in view the specific requirement of rural poor, it was thought necessary to make an attempt to identify the interventions required at different stages of life cycle of SHG which were critical not only in proper functioning of the groups but also for the long term sustainability of these informal community based organisations. In the above backdrop, a study 'Life Cycle of SHG - Critical Interventions Required' was conducted by the CMR, Main Centre, Lucknow in three Indian states namely, Andhra Pradesh, Tamil Nadu and West-Bengal. The overall findings of the study suggest that a systematic and scientific approach in the formation of SHGs including clear goal of SHGs; homogeneity and solidarity among members; existence, evolution and enforcement of bye-laws; participation of members in decision making and transparency in the operations and functions of the groups is of vital importance for the long term sustainability. The study also reports that the assistance provided by various SHPIs and NGOs in overcoming the difficulties faced by the groups starting from the group formation to further graduating to micro-enterprises/producer groups/ individual borrowers, were very critical in the development process of the groups.

The study reported that out of 290 surveyed SHGs, 96% (i.e., 279) of them reported getting second loan, i.e., entering into growth and expansion phase of their life cycle. Regarding the subsequent bank linkages; 78%, 52% and 30% of sample SHGs reported getting third, fourth and fifth bank loans respectively. It was observed that with the increase in loan linkages, SHG members utilised the loans either for initiating new economic activities or for diversifying their existing activities. This helped not only in increasing members' level of income but also in generating asset base and further reflected on members' ability to directly borrow from the bank without the group support. In this context, overall 60%of the sample SHGs in the selected States reported that on an average 4 member per group are in a position to directly borrow from the bank without the group support.

Based on the observation made from the field, the study recommended the following measures, which can be taken into consideration, while preparing the suitable policy for further improving the functioning and long-run sustainability of the SHGs in the states or regions where the performance is poor:

1. There is a need to develop policies to ensure better book keeping, effective training programmes and helping them to devise viable incentives for participation in the system.
2. The study also highlights the need to further strengthen the capacity building and skills of the self-help promoting institutions (SHPIs) on various aspects of group management practices.
3. While preparing the strategies for graduating SHG members from micro borrower to micro enterprises or diversifying their economic activities, the package has to be designed by giving attention on their investment capacity,

indigenous knowledge, skill of SHG members and availability of local raw material and market demand for the produce.

4. In the context of training on income generation activities, there is an urgent need to give prior attention on the specific requirement of group members related to their economic activities before organising any such training programmes.
5. In order to encourage banks to take interest in furthering the SHG movement - there is an urgent need to develop a scheme of performance-linked incentive for banks, like credit disbursed under the SHG-Bank linkage programme.
6. Though, NABARD has already taken initiatives in setting up rural marts exclusively for SHG products, there is a need to further strengthen this initiative particularly in areas/regions where there is no such initiatives have been taken up so far. While preparing the policy frame work, NABARD can make provision for at least two such rural marts for these areas.

B.5. Graduating to micro-enterprises

In the international realm, government, non - profit organisations, community and development agencies have targeted microenterprise development by viewing it as one of the most sustainable paths of local economic growth, employment creation and poverty reduction (Eversole, 2003). The widely held recognition of the benefits of microfinance is further supported by tumultuous economic period that our society is currently facing, thus opening the doors for small business ownership around the world (Edgecob and Klein, 2005). Microenterprise development helps micro-entrepreneurs combine their knowledge and determination with microfinance services to attain standard of living and generate income through business (Sandra Macious Del Villar, 2008).

According to the Quick results of "4th All India Census of MSMEs (2006-07)", there are a total number of 2.61 crore MSMEs in 2006-07. This includes 0.15 crore registered units and 2.46 crore un-registered units. Of the total, 28% are in manufacturing and 72% in services. These units are largely in Apparel (14.03 %) followed by Food Products and Beverages (13.53%) and Maintenance of Personal and Household goods (9.25%). The MSME sector accounts for employment of 5.97 crore persons, of which 0.95 crore are in registered units and 5.03 crore in the un-registered units.

NABARD in 2005-06 had launched a pilot project 'Micro-Enterprise Development Programme' (MEDP) to motivate and assist members of matured SHGs to take up income generating activities on a sustainable basis, in nine districts in nine states, involving 14 NGOs. Since then the sphere of MEDP grew tremendously. Till 31 March, 2011, total 4700 MEDPs have been conducted covering 131678 participants.

The major activities covered under MEDPs were animal husbandry, bee-keeping, mushroom cultivation, vermi-compost/organic manure, horticulture, floriculture, readymade garments, bag making, Agarbatti making, embroidery, bamboo-craft, beauty parlours, etc.

A study on scope for promoting microenterprise activities through SHGs in select districts of Bihar (Bank and Sitamarhi) and Uttar Pradesh (Sultanpur and Rae Bareli) covering 456 respondents was conducted by Chandragupta Institute of Management, Patna. Out of 456 total sample respondents having covered under Priyadardshini Programme, 90.35% respondents were matured SHG members who had undergone MEDP/REDP training, 3.95% respondents were NGOs who had conducted MEDP/REDP trainings and 5.70% respondents were NABARD and Bank officials. The study highlighted that hardly 15% of the matured SHG members in U.P. and Bihar had graduated to micro-enterprises and that too at lower level business. Difficulties in getting adequate credit, low level of awareness and lack of skills were the main reasons for not graduating to micro-enterprises. Those 15% who had graduated to micro-enterprises were still at the nascent stage and their business size was not economically viable. Major micro-enterprises started by beneficiaries were Agarbatti Making, Papad Making, Dairy, Sikki Dalia Making, Mithila Painting, Kirana Store, Retail Shops, etc. The study suggested that Value chain for raw material, packaging and marketing would help in micro-enterprise development and should be established through assistance from Microfinance Innovation Fund. Common service centre for packaging and use of latest technology for packaging will help in marketing of the produce. Making available technologies/tools to micro-entrepreneurs, transfer of technology, regular technical support and linking of micro-enterprises with related research organisation would help in micro-enterprise development.

Another study 'Post Evaluation of MEDP in Karnataka and Tamil Nadu' was conducted by Chandragupta Institute of Management, Patna in order to assess the graduation level of those matured SHGs members who were covered under MEDP. As on 31 March 2011, 747 MEDPs covering 18977 beneficiaries and 346 MEDPs covering 10404 beneficiaries were conducted in Tamil Nadu and Karnataka respectively. A total of 552 respondents covering trained SHG members (500), NGO (23), DDM (4), Banks (17), NABARD Official (RO) (8) were interviewed for the purpose. The study observed that the establishment of an enterprise by the SHG member was higher in case of those who had undergone MEDP training (51.7% in Tamil Nadu and 47% in Karnataka) as compared to those who could not get opportunity to attend a training programme under MEDP(14.33% in Tamil Nadu and 18% in Karnataka). The incremental income from the units established after attending the MEPD was found to be varying from activity to activity and location to location depending upon the availability of raw material and the market for the product. The study highlighted that the coverage of SHG members under micro-enterprise development programme had definite and positive impact on their income generation level.

B.6. Issues relating to delinquencies/ defaults by SHGs

Repayment rates of SHGs are considered excellent at above ninety percent. However with fast expansion in terms of numbers and geographies, delinquencies are creeping into SBLP. As per NABARD's status of Microfinance in India, 2010-11, the Non Performing Assets of banks against loans to SHGs has gone up from Rs. 823.04 crore (2.94%) as on 31 March 2010 to Rs. 1,474.11 crore (4.74%) as on 31 March 2011.

Table 3: Agency wise NPAs of Bank Loans to SHGs – All India

Agency	Loans Outstanding against SHGs		Amount of NPAs Reported		Percentage of NPAs to Loan Outstanding	
	As on 31.3.10	As on 31.3.11	As on 31.3.10	As on 31.3.11	As on 31.3.10	As on 31.3.11
CBs (Public Sector)	19724.42	21412.75	513.53	1019.9	2.6	4.76
CBs (Pvt. Sector)	440.29	470.51	23.93	47.09	5.44	10.1
RRBs	6144.58	7430.05	218.53	272.82	3.56	3.67
Coop. Banks	1728.99	1907.86	67.04	134.3	3.88	7.04
Total	28038.28	31221.17	823.04	1474.11	2.94	4.72
Region	Region wise NPAs of Bank Loans to SHGs					
Northern Region	815.13	903.14	53.91	63.66	6.61	7.05%
North Eastern Region	673.48	695.25	37.13	58.56	5.51	8.42%
Eastern Region	3694.91	4202.55	118.74	181.07	3.21	4.31%
Central Region	2462.40	2365.4	198.65	254.04	8.07	10.74%
Western Region	1369.49	1246.23	61.06	90.42	4.46	7.26%
Southern Region	19022.88	21808.59	356.53	826.36	1.87	3.79%
Total	28038.28	31221.17	823.04	1474.11	2.94	4.72%

Source: Status of microfinance in India 2010-11, NABARD

The trend of increasing NPAs is observed across all regions of the country. The trend of increasing NPAs in this programme may force bankers to go slow on SHG lending which in turn may affect the financial inclusion drive as SBLP is one of the important tool for financial inclusion. The higher level of NPAs against the SHGs in central and northern regions needs to be addressed as these are states where the financial inclusion levels are at the lowest. Therefore, there is an urgent need to probe the causes for delinquencies in SHG lending and take corrective steps before the situation goes out of control.

In this background CMR launched three studies on delinquencies by SHGs in different regions of the country, viz, Rajasthan (by Centre for Microfinance, Jaipur), North Eastern Region (CMR Sub Centre at IIBM, Guwahati), Odisha and Madhya

Pradesh (by CMR Sub Centre at IDS, Jaipur). Major findings of these studies are analysed in the following paragraphs:

(a) Defaults by SHGs in Rajasthan

The study covers 213 default SHGs and 691 SHG members spread across five districts along with 20 best qualities SHGs with 100%repayment. The Self-Help Promoting Intuitions (SHPIs) featured in the study include Department of Women & Child Development (DWCD), Watershed department, NGOs, panchayat and banks. 69%of the sample groups were from DWCD department and on scheme basis almost same percentage, i.e., 69 percentages were from SGSY. The study highlights several reasons for default. Major findings of the study are given below:

- Improper process of group formation is the foremost reason of default as accepted norms like area selection, proper selection of members, concept seeding etc., was not followed in any sample groups while the other set of samples of 18 groups with 100%repayment have gone through some localised established process. Further, it was observed (in the defaulting SHGs) there was progressive decline in record maintenance, updation and regularity of meetings.
- The study revealed that prime objective of 66%of members (in the default groups) were to get bank credit only and 13%said that subsidy was the main driving force. On the other hand, 84%members from groups with 100%re-payment said that savings and credit both are the major purposes and they start with savings and then graduate to credit.
- Savings behavior of these groups revealed that after year 3 there has been decline in average member savings. Decline in average savings is one of the main characteristics of defaulter groups and it starts after bigger loan amount being sanctioned to groups which in turn reflects that groups were formed to avail credit only.
- Almost 44%of the defaulting groups were in age bracket of 3-5 years and 35%in the age bracket 6-8 years. This age bracket of 3-5 years is also the time when groups get bigger loans or activity based loan from banks. Groups need special attention/ input when they are 3-5 years old. In other words, perfect credit planning, hand holding and business development services at group level is required to manage the bigger loan amount.
- In many SHGs, there is manipulative intermediation by the President or Secretary, who takes the lion's share of the loan and distributes the rest among the members. This is further aggravated by multiple group membership of leaders. Permanent leaders, often the ones with power and resources, form convenient groups and use it to source bank loans for themselves.
- As far as the external factors are concerned, continuous drought situation,

low levels of economic activity and poor income were found as the major triggering factors that accelerated the process of group degeneration and eventual default. About a fifth of the groups cited poor economic status of members as the major reason for them defaulting repayment.

(b) Delinquencies of SHGs in North Eastern Region

The study followed both primary and secondary methodology. In primary research, the study has covered 409 SHGs in 19 districts of five states in the region covering both delinquent and non-delinquent SHGs. It also covered 37 bank branches. Adequate care was taken to make the samples representative in terms of geography, sponsoring agencies and programmes.

Quality of the SHGs in NER has been affected primarily because of non-adherence to some basic tenets of SHG management. The study analysed the effect of key parameters such as regularity of meeting, attendance of members in the meeting, regularity of savings and maintenance of records with delinquency rates and found that non-adherence to them are sure sign of poor quality and consequently has led to poor outcomes and delinquencies. Non adherence to the basic rules is because of the role played by different agencies involved in the SHG movement. Agencies which have given time during the formation and subsequent stages have demonstrated that the SHGs can be formed of Grade A quality.

The study stated that although, the delinquency rates do not seem to differ considerably between the SGSY and the SBLP, some of the actual figures related to SGSY could be different as bank branches adjust the defaulting amounts of SHGs under SGSY with the subsidy amounts. This is not available with the SHGs under SBLP and hence the figures of SBLP would be more real than the SGSY-SHGs. However, more alarmingly, the bank branches have resorted to various practices for underreporting the NPAs of SHGs under both the programmes through various methods and practices. For example, although the sampled SHGs in the region reported a delinquency level of 22% at the bank branch level, whereas the actual figure at the field was 52%. In some states, like Mizoram the reporting figures of 37% at the branch level was actually 74% at the field level. Thus, the scale of the problem is much more serious than as reported and urgent steps needs to be taken to correct the problems.

(c) Loan Defaults by SHGs in Orissa and Madhya Pradesh

A total of 200 SHGs and 1000 members were selected to assess and analyse the status and reasons of default - from members to SHG and from SHG to bank, in respect to bank loans to SGSY and non-SGSY SHGs and to suggest measures to address the issue of loan defaults at Banks/SHPIs and SHGs level.

As in the previous two studies this study also confirmed that flawed foramtion of SHGs without adhereing to the basic principles of SHG functioning was the root cuase for defaults.

- It was observed that about 58.5% of the defaulting SHGs expressed of availing loan as the prime objective of group formation. Many of the groups were not fully aware about the basic function of a SHG including purpose of savings mobilisation and inter-loaning.
- Apparently, out of 200 sample SHGs, 59.5% of them had already stopped collecting mandatory saving from members once the bank loans were disbursed. Of the SHGs who had stopped collecting savings from members, 92.4 of them were defaulters. Out of 119 SHGs who had stopped collecting savings from members, 31.9% of them had done so within one year of disbursement of last loan. Nearly 60% of sample SHGs which were disbursed bank loans were disbanded and another 9.5% were in dormant condition at the time of survey. Thus many of such SHGs were formed just to avail bank loan with subsidy. Irregularity and/or discontinuation of group meetings were also characteristics of these defaulting groups
- It was observed that around 62.2% of internal funds remaining idle for entire sample SHGs.
- It was also found that the average rate repayment of SHGs who had attended/ participated in either IGA related or capacity building training programmes was more than that of groups who were not part of any such programmes.
- The percentage of active groups increased with age of an SHG suggesting that most SHGs pass through a critical stage when they are within five years old. Thus, if a group survives for five years, there is a higher chance of it to sustain.
- Field observations showed that grading is not done properly by banks as well as DRDA/block officials. Had there been proper grading, most of the sample SHGs would have not been eligible for availing loans from banks and to that extent default could have been avoided.
- Another factor observed (more in Odisha) was that post 2006 when the division between BPL and APL members got more accentuated, some members suddenly became ineligible for government subsidy. In many of the SHGs, APL members were denied subsidy. Although loan component was equally shared among all members, the subsidy component was equally divided exclusively among BPL members only. Many also quoted that this was the main reason of group conflict and thus default by the new 'APL' members. In few cases, it is also observed that the APL members had taken internal loan equivalent to subsidy amount and did not repay to the group. In such cases this too led to internal conflict and adversely affected repayment behaviour of the members.
- Expectation of debt relief, failure or low income from IGA at the group/ individual level, death or migration of member(s) who had outstanding loan,

Non-receipt of insurance claim of died animals purchased through loan, internal conflict, utilisation of loan on household expenditures were some of the other important reasons reported by groups/members for their non-repayment of loans.

The above three studies unraveled many interesting dimensions of the defaulting groups and reinforced the significance of focusing on the core principles of SHG formation and promotion as identified by some of the earlier enquiries into SHG quality and performance. The studies revealed the following as the defining characteristics of the groups that defaulted.

- Ad hoc formation of groups
- Lack of emphasis on group development
- Widespread laxity in writing and absence of basic books of record
- Lack of attention to member savings
- Low incidence of inter-loaning
- Appropriation of benefits by the leaders/ office bearers
- Credit to group without estimating credit needs of members

Section C

C.1. Next stage: SHG-2

The SBLP is now being redesigned as SHG-2 which aims at taking the movement at higher stage, in addition to many new features, and focusing more on sustainability aspects of SBLP keeping in view the interest of members in mind. Among the various initiatives being proposed under SHG-2, the most important of those is the promotion of voluntary savings to generate resources at the SHG level so that dependency on external sources of fund can be minimised. Cash credit as preferred mode of lending, scope for multiple borrowings by SHG members matching with their repaying capacity, avenues to meet higher credit requirements for livelihood creation, need for SHG Federations as non-financial intermediary, rating and audit of SHGs as part of risk mitigation system, strengthening monitoring mechanisms etc. are some of the other proposed features of SHG-2.

Lack of formal financial institutions in many parts of the country, particularly the NE region and the problems associated with the access of rural poor to these institutions in areas where institutions already exist has resulted in the emergence of a plethora of informal systems based on socio-economic structures and needs. Most of these informal institutions have helped the rural poor in strengthening social bonds and some economic help to perform some religious and social ceremonies and have been able to help the poor during the stress period arising on account of social, economic or natural imbalances in their own family, village or the region. However, these informal institutions could not do much to help the individuals/ families to take up some income generating activities and come out of the vicious circle of poverty. In the next stage of SHG movement, an attempt should be made to prepare region and a state specific strategies for convergence of these traditional institutions with various developmental initiatives of government, banks, MFIs/ NGOs, etc., in order to put these states on a higher growth path.

Emergence of SHG Federations has also attracted lot of attention from policy makers as well as practitioners of microfinance. Networking of SHGs into Federation has been inspired by the felt need of the SHGs that are not able to deal with issues that are beyond their reach. SHGs having a membership of 10-20 women are too small and informal to deal with larger issues to realise the needs and aspirations of women members. Inter-group lending, ability to negotiate with higher level structures and to gain greater bargaining power, were the reasons as to why informal SHG networking was initiated by NGOs. SHG Federations have been promoted by the NGOs and the Government from mid 1990s to address the issues of ensuring quality while up-scaling, ensure that costs of promotion are low, and create sustainable institutions to facilitate withdrawal of the promoting organisation, from some of its functions and roles. The National Rural Livelihood Mission (NRLM) expected to replace SGSY has also proposed a great amount of dependence on SHG federations.

Conclusion

The review of the performance of SHG bank linkage programme implemented during the last two decades in the country has significantly contributed in terms of outreach of financial services to unreached people thus far. Also there has been significant improvement in terms of socio-economic empowerment of rural poor, particularly of women, across states in India. However, certain challenges/issues remain to be addressed fully. Some of these are: (i) Outreach challenges - whether all very poor or hard core poor identified and included in financially under SBLP?, (ii) Quality and sustainability of Self-Help Groups as a grassroots level financial inclusion, (iii) Convergence of SBLP with SGSY approach taking the strengths of both may be given a serious thought for efficient and effective outcome, (iv) Graduation of groups from consumption to production to investment credit or in order words graduation to microenterprise level poses severe challenges relating to entrepreneurship development, appropriate technology and product design and marketing of rural products. Some of these concerns hopefully will be take care off in SHG-2 and NRLM, (v) even after 20 years of SBLP, bankers are yet to own SHGs as their valued customers whether it is through SBLP or government supported programmes like SGSY, and (vi) The declining trend in the disbursement of loan to SHGs by financial institutions should also be viewed seriously and attempt should be made to reverse this trend by some policy or non-policy interventions including that of providing some incentives to the bankers engaged directly/ indirectly in promotion and financing of SHGs.

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Overcoming the Obstacle of Lazy Microfinance: The Challenge for SHG-2

- P. Satish*

If NABARD is able to put its act together and mobilise all its human, financial and other resources for grounding the SHG-Bank Linkage Programme, there is no doubt that it would be successful in taking the SHG-2 to all the potential microfinance clientele of the country.

Abstract

Two decades after its launch the SHG-Bank Linkage Programme continues to be the mainstay of the Indian microfinance scene. What has occurred in the last two decades is of course spectacular, but at the present juncture when SHG-2 is being launched, it is necessary to lookout for false turns and fair-weather friends. The SHG-Bank Linkage model was neither an easy nor a soft option. It requires tremendous amount of social mobilisation and organisation at all levels especially at the grassroots. Formation and nurturing of groups is an intensive activity. In contrast to this difficult and time taking task the sector has experienced the phenomenon of lazy microfinance. Lazy microfinance comes in two variants. One is the MFI (NBFC) variant and the other is a host of government sponsored, subsidy linked programmes, which aim to ride on the SHG concept. Though the seeds of lazy microfinance were sown with the launch of SGSY in 1999, it came into full bloom with the partnership model of funding MFIs by banks starting in 2003-04. The challenge of both these variants is real which SHG-2 needs to overcome. If the SHG-Bank Linkage Programme in the modified variant of SHG-2 has to grow into a widespread movement taking into its fold all the left over population groups, it has to clearly delineate a path which is separate from the lazy microfinance as manifested by the NBFC-MFIs on the one hand and the governmental sponsored SHG based programmes on the other. This would require attention at the

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level of formation and nurturing of groups and at the level of linkage with the banking sector for savings and credit. Unless a strong focus is given at these two levels- SHPIs and Banks- the obstacles posed to SHG-2 by lazy microfinance cannot be overcome.

Introduction

In India, some variants of microfinance programmes especially for the women were in operation as early as mid-1970s. The most prominent of such initiatives were the SEWA Bank model pioneered by Elaben Bhatt in Ahmedabad, Working Womens' Forum founded by Jaya Arunachalam in Chennai, Annapurna Mahila Mandal started by Prematai Purao in Pune and Mumbai, etc. Though these initiatives were by dedicated women leaders, they were broadly confined to the areas of their origin. The true mainstream microfinance programme happened only with the SHG Bank Linkage Programme. The programme started initially as a mechanism of savings and credit management in the rainfed areas of south India. This evolved into an action research programme under the auspices of MYRADA, supported by NABARD and later blossomed into a pilot project in 1991-92. This pilot which was initially aimed at linking 500 Self-Help Groups to Banks has since been transformed into a normal mainstream activity for banks. In a timeframe of two decades, the SHG-Bank linkage programme has emerged as a programme which covers the largest number of microfinance clients in the world. Two decades after its launch, SHG-Bank linkage programme continues to be the mainstay of the Indian microfinance scene with 74 lakh SHGs covering over 100 million households saving with the formal banking system with savings balance of over Rs 7,000 crore as on 31 March 2011. About 49 lakh of these SHGs have also accessed bank credit and have over Rs 31,000 crore as outstanding credit from the banking system. In other words, the SHG-BLP has so far been the most preferred and viable model for financial inclusion of the hitherto unreached poor (NABARD, 2012). What has occurred in the last two decades is of course spectacular, but at the present juncture when SHG-2 is being launched, it is necessary to look out for false turns and fair-weather friends.

It may sound a trifle hyperbolic, but the pilot project pioneered by the apex bank for agriculture-NABARD and backed by the central bank-RBI revolutionised banking in India. Allowing banks to open savings bank accounts of unregistered groups of people and lend to them, lending without any specific activity or purpose, lending without any collateral were some major breaks with the historic baggage. The SHG-Bank linkage programme attained the status of a normal mainstream activity for the banking sector with the Reserve Bank accepting the recommendations of Kalia Committee and coming out with a comprehensive circular in April 1996 (RBI, 1996). While the basic tenets of SHGs being savings-led-credit-product remain true even today, many recent developments require crucial changes in the approach and design of SHG-BLP to make it more flexible and client friendly. SHG -2 guidelines include the following elements to enable financing banks to respond to the changing requirements of members of SHGs:

1. Allowing voluntary savings;
2. Modifying the credit product to include cash credit/ overdraft system and enabling it to cover all credit needs of members;
3. Enabling Joint Liability Groups within SHGs;
4. Improving risk mitigation systems by introducing features like self-rating, local level audits, etc.; and
5. Building second tier institutions like federations, group centres, etc. (NABARD, 2012).

Promotional efforts in Microfinance

The SHG-Bank Linkage model was neither an easy nor a soft option. It required tremendous amount of social mobilisation and organisation at all levels especially at the grassroots. Formation and nurturing of groups is an intensive activity. In the pre group formation stage the promoters are required to visit communities and gather information about various facets of their life, environment and people, and also build up rapport. Later, while promoting the groups, in the forming stage, people come together informally and are encouraged to raise problems and issues and based on the input from the promoters and the felt need, homogenous groups emerge. At the storming stage conflicts between individual and groups interests surface and are dealt with. Leadership emerges and rules and roles are established. In the norming stage, trust develops among group members leading to cohesiveness in the group. The final stage of performing leads the group to become operational and start functioning for the benefit of its members (Gain and Satish, 1996). The formation is only the beginning. The group has to function vigorously with the active participation of its members in the development process. As such, organising the members, stabilising the groups, nurturing them and inculcating in them the basic tenets of financial management and livelihood promotion are all time consuming activities, which cannot be accomplished with perfunctory efforts. To accomplish the task of group formation NABARD roped in a large number of partner institutions- NGOs, Government agencies, Banks, Co-operatives as also individual rural volunteers. Nearly 4,500 partner agencies were supported as SHG Promotion Institutions. The grant support extended to them was nearly Rs 190 crore.

Further, as it is completely a new activity for the mainstream bankers, there was a need for re-orienting the banking sector. The first stage of this reorientation had to be focussed on top management. Unless there was a commitment from the managements of banks the programme could not take off, as it involved totally unconventional approaches to banking. The branch managers and field officers were important intermediaries in the linkage programme. They had to be trained and oriented for this programme, so that they could take up the linkage and financing of self help groups. This was a stupendous task as the bankers were being asked to unlearn what they had learnt with regard to priority sector lending and project finance for which they were trained since the nationalisation of banks. Furthering, it also involved such unheard of activities like opening savings bank accounts of unregistered groups, lending to unregistered groups without any collateral, etc. The human and financial capital expended by NABARD in these training efforts were huge. NABARD designed and rolled out a large number of training and capacity building programmes for bankers of all levels. The total number of officials and functionaries trained at various levels was 26.61 lakh.

It goes to the credit of Indian banking system that these hiccups were overcome and lending to SHGs was adopted by all banks as their own programme. Many banks today are proud to show off their achievements with regard to the linkage and financing of these groups. Many banks have opened SHG Cells, some have opened specialised SHG Branches and some banks have designated dedicated officers for this purpose. In a sense, this variant of microfinance - the SHG-Bank Linkage-was difficult, involved lot of hard work from all the partner institutions, was time-consuming and also at times prone to failures, if not taken up in a very systematic manner.

Addressing a Bank Economists Conference in 2002 , a Deputy Governor of RBI had described the tendency of banks to avoid lending operations, which involved a host of activities like borrower identification, loan processing, servicing, monitoring and recovery, but instead park their funds in investment portfolio, especially government securities as lazy banking. (Mohan, 2003). Similar to lazy banking we have experienced the phenomenon of lazy microfinance. Lazy microfinance comes in two variants. One is the MFI (NBFC) variant and the other is a host of government sponsored, subsidy linked programmes which aim to ride on the SHG concept. Though the seeds of lazy microfinance were sown with the launch of SGSY in 1999, it came into full bloom with the partnership model of funding MFIs by banks starting in 2003-04.

Microfinance by NBFC-MFIs

About a decade after the SHG linkage programme got mainstreamed, the other variant of microfinance in India viz. lending by Microfinance Institutions (MFIs) started picking up. Initially these MFIs were NGOs, but undertaking financial operations as NGOs was proving to be problematic for MFIs, including the basic financial operations of borrowing and lending. Gradually these NGO-MFIs started transforming themselves into NBFC-MFIs.

The rapid growth in MFI lending took place after 2003, with the introduction of ICICI Bank's 'partnership' model. In this model, the MFI becomes an agent of the commercial bank. While it continues to evaluate, recommend, disburse, track and ultimately collect the loans, the loans sit on the books of the bank and not of the

MFI. For the services that the MFIs provide, a service charge is collected from the borrowers by the MFI and it gets some commission from banks for its efforts in lending and recovering the money. This model helped overcome the growth constraints that the MFIs had faced till then and greatly stepped up lending to MFIs, especially by ICICI Bank, which accounts for over two-thirds of total bank lending to MFIs in the country (Shylendra, 2006).

As nurturing the microfinance clientele was time-consuming and involved pains-taking efforts as described above, most MFIs had to perforce, extend lines of credit to clients who had already proven themselves as SHG members. This involved unhealthy practices like breaking up the existing groups, multiple financing, etc. In their eagerness to expand their microfinance portfolio many banks threw all caution to the winds and extended easy and large lines of credit to MFIs. The banks that were involved in large scale MFI financing were either new generation Indian private sector banks or foreign banks. These banks did not have the rural branch network which the public sector banks had and consequently could not match their outreach in the SHG-Bank linkage programme. But these banks had to meet the norm of lending 18 percent of their total portfolio to agriculture as a part of their priority sector lending obligations. In addition there was a growing realisation that they needed to look beyond urban markets where competition was intense and margins were thin. And yet, expansions into the rural credit markets can be problematic, as most private sector and foreign banks have few rural branches, and lack local relationships that might bring rural customers to them. Given that backdrop, they have come to see MFIs as a hassle free conduit for rural credit disbursal. MFIs were operating in a system where they could charge interest rates to cover all their costs and yet ensure a reasonable return and at the same time cover a large clientele of small and dispersed borrowers in rural India. It is this mix of reach and sustainability that made MFIs so attractive for such banks.

This rush to grow is evident when one looks at the balance sheets of Spandana and Share Microfin. The gross loan portfolios (GLP) of both show an abrupt jump in between 2004 and 2005. Spandana's GLP, having taken six years to reach the $10 million mark at the end of FY 03-04, rose to $55.5 million the next year. Similarly, Share Microfin's GLP, $18 million at the end of FY 03-04, climbed to $82 million over the next two years (Shylendra, 2006).

This model attracted the attention of public sector banks also as it turned out to be an easy way to fulfil their priority sector lending targets. It was a comparatively attractive proposition for the banks to extend a bulk loan of a few tens of crores to a single MFI rather than deal with 1000 odd SHGs at a branch in addition to the attendant problems like opening the bank accounts, servicing them, extending lines of credit, monitoring, etc. This lazy microfinance has saved the banks as well as the MFIs from dealing with a large number of groups, organising them, nurturing them, linking them to banks, financing them and monitoring them. Instead of such arduous and difficult task, lazy microfinance of dealing with bulk loan to MFIs and financing the members of existing SHGs was an easy and profitable option.

A related issue was that MFIs were dumping money on borrowers who were finding it difficult to repay and having to borrow money from money lenders at higher cost in order to stay in good standing with the MFI. This is an extremely complicated issue . While banks are in a position to lend to salaried borrowers, whose total income is relatively easy to assess, MFIs lend almost entirely to the self-employed whose relative income is that of the household as a whole. There are no doubts about over lending, but detailed case studies are required as to assess how some borrowers got into repayment difficulties. It is not easy to define the tipping point beyond which the borrower over borrows. Clearly when borrowers default, involuntarily they have over-borrowed. But, not all over- borrowing leads to default, as when a borrower sells a valuable asset, or cuts back on educational expenses, or is forced to work when ill in order to meet the next weekly instalment, she can still repay her dues. Reports from field reveal that a large cross section of the women who were given loans by MFIs used the money for consumption, not productive purposes. When the time to pay up came, several of them had no option but to take fresh loans to retire the old ones. Debt traps were inevitable.

Merely lending to the borrower when she has a loan outstanding to the existing lender, as libertarian in these matters would advocate, restricts her freedom of choice to a larger and timelier loan. Is there an obligation on the new lender not to lend to her unless she has fully repaid her existing loan or is the lender only obliged to ensure that she will be able to pay back both her loans? Is it necessarily irrational to borrow from the higher cost moneylender for a few days to repay the MFI? The effects of such a practice have to be analysed still further. Another part of the phenomenon of unhealthy competition was rooted in banks' exploding interest in lending through MFIs. Total bank lending to MFIs in India is estimated to have doubled every year in the three years leading up to March 2006 and after the MFI crisis in Andhra Pradesh it tapered down.

A common concern raised pertains to the trend of competitors with aggressive growth plans; opening branches where an incumbent already exists and actively poaching their clients. This is done to take advantage of both the local familiarity with MFI rules and the incumbents' client screening and training, as well as to gain access to the clients' passbooks and hence credit histories. The clients are recruited by offering higher loan sizes faster, leading to multiple borrowing which could lead to defaults. Poaching is viewed negatively by all incumbent MFIs and is a source of frustration. They feel a sense of lack of control over the client, and the incentive mechanism of an MFI to deny new loans to a client in case of default is lost since she has another option now. The expansion strategies of MFIs seem to be similar to that of banks which tend to open branches more in banked areas. New branch locations tend to be closer to urban branches. The marginal cost of opening a remote branch is higher than that of catering to a village near a branch in a town. This results in more MFI branch outlets getting concentrated in urban and developed areas and the consequent competition for same clientele leading to allegations of poaching (Krishnaswamy, 2007).

Due to the forbearance of banking sector, the MFIs had much more capital to lend than before. But, deploying these funds in microfinance operations was hard and long drawn task. Sensitising and preparing the clientele for microfinance ordinarily takes six months to one year. Most of the MFIs were impatient with these requirements, as adhering to these would imply that they could not expand their operations in a short time span. The results were predictable. The MFIs flooded the existing and known areas with loans. Going, in some cases, door to door carrying wads of cash. Livelihoods training, which are an essential feature in all microfinance credit programmes were given a go by in these loaning programmes. Thus this variety of lazy microfinance is constantly on the prowl, the challenge of which SHG-2 needs to overcome.

Microfinance in government sponsored programmes

There is another variant of lazy microfinance which has arisen from the involvement of Government in microfinance programmes. Government is a major player in development and finance in most of the developing countries. A supportive role of the government is necessary for microfinance to flourish, but when government or its agencies directly enter the arena of promoting and financing microfinance, negative externalities enter the field. Dangers lurk behind the state intervention in microfinance. The state tends to assume that microfinance can be promoted by decree and it tends to promote programmes that do not operate on market terms

The train of microfinance runs smoothly and briskly conquering new territory and expanding frontiers. Government, however, watch with envy this rapidly passing train: they want to board it, they want to add their name to it, they want to control it and to take it where it would serve their purposes. But government is a heavy passenger; uphill it slows down progress; downhill, it may accelerate derailment. The best variants of microfinance may be able to survive systemic shocks, intense competition, and constraining prudential regulation and supervision, but the microfinance industry will not be able to survive the excessive enthusiasm and impatience of governments (Gonzalez-Vega, 1998). Though government participation in microfinance was present in a limited way in programmes like Indira Mahila Yojana initiated in 1995 and through the funding mechanism of Rashtriya Mahila Kosh, it took on a mainstream role with the Swarnajayanti Gram Swarozgar Yojana (SGSY) in 1999.

The whole approach of SGSY was oriented to the selection of beneficiaries for loans right at the initial stage, whereas loans are not discussed in successful SHG programmes as the primary motivation for the formation of the group. Groups need time to gel, to develop a spirit of unity and working together. Studies have indicated that groups which were not obliged to keep their savings as bank deposits and which were able to postpone their application for bank loans at least for a year were able to develop a sense of self reliance, solidarity and a repayment culture. In fact it is suggested that no loans should be given till groups have acquired the habit of regular savings credited to a common fund and they have gained experience in revolving these savings as internal loans. (IFAD, 2001) SGSY on the other hand with its highly pressurised programme, wants to accelerate this process of group development. It prescribes an age level of six months for the first gradation at which the group is expected to get a revolving grant equal to group corpus of Rs 5,000 - 10,000 and a loan of upto four times the group corpus. This is described as the 'microfinance stage'. It may be noted that the release of nurturing and training grants to NGOs is linked to this critical passage with bankers as the officiating high priests. Thus, even before the SHG is adequately trained, the programme expects it to clear a fitness test, failure to clear which will curtail the further release of training funds to the NGO or the promotion agency. These conditionalities ensure the premature demise of the SHGs, since their constant capacity building and training for the first two years is crucial to their very survival.

The dubious role of subsidy in promoting the wrong kinds of groups under SGSY is observed in several studies. Instead of developing qualitative groups by concentrating on their basic training and capacity building by NGOs, the availability of subsidy appears to necessitate the elaborate procedures for BPL identification(often by bypassing the poor who have not been vocal enough to get into the list in the first place), bureaucratisation of the process with the involvement of Block level functionaries at every stage and repeated visits for this to BDO and banks. The availability of subsidy inevitably attracts the wrong type of members, who have little commitment to a loan repayment culture and are out to stage a repeat performance of the IRDP. SGSY has not succeeded because is has not outgrown the IRDP mindset of making subsidy the cornerstone of undertaking poverty alleviation. The formation of SHGs is basically process oriented but the target chasing under the SGSY has led to the formation of groups that are bound to fail. The programme itself will have a negative impact on the development of SHG movement in the country. (Thekkekara, 2008)

Design-wise, the major shortcoming in these programmes was the element of subsidy, while other features were all well intentioned. But, the main focus of achieving a numerical target - blockwise and districtwise every year and utilising a certain amount of subsidy and credit every year, distorts the focus of the programme. Normally, enthusiasm to become members of SHG is generally not spontaneous as the first stage involves hard work and investment of time. Only those members who are genuinely in need of the group as an instrument of social and economic empowerment come forward as members. However, when there is capital subsidy available, it attracts larger number of enthusiastic participants who may not really need this variant of microfinance. Wherever there is free money in the form of subsidy coming in, there are issues of moral hazard and adverse selection. Furthermore, since the numbers are to be completed regardless of quality, the tendency on the part of government functionaries is to complete the process of formation, linkage and credit flow whether or not the groups attain the level of maturity. Since there is an element of subsidy and also the loan received from the bank is at concessional rate, the tendency is to equally divide the loan and subsidy among all the members rather than the group going through the process of internal financial and credit management.

Another major government programme which would work on SHG methodology is the National Rural Livelihoods Mission (NRLM). The NRLM is a sequel to the SGSY and is modelled on the poverty alleviation programme implemented in Andhra Pradesh. The chief features of the programme are that the mobilisation of rural poor especially women would be done through SHGs and these groups will then be federated into village and block level entities. These federations will guide the SHGs and also to some extent attend to their financial services requirements. Revolving fund and capital subsidy are to be provided only to those SHGs with more than 70 percent members from BPL families. Interest subsidy will be provided to ensure that loans to SHGs are available at 7 percent. Universal financial inclusion, implying linking SHGs with banks for savings and credit and insurance companies for managing life and other risks, to be ensured. Since most of the mechanics of NRLM continue from SGSY, one apprehends that many of the negative features observed in the implementation could recur.

If low cost loans are delivered to members of groups, then the groups, will no more be able to decide on which members require the loans most and to what extent. A low cost loan is seen as a benefit given by the government to members and members would want to share the same equally. The experience of the Pavala Vaddi scheme in Andhra Pradesh clearly shows that groups tend to divide bank loans equally among all members notwithstanding the differential needs for the resources that exist among the members. Those who receive low cost loans without an identified need use the same for onlending it to others in private moneylending operations leading to significant abuse of the entire scheme. (Srinivasan, 2012). Though the government-sponsored programmes riding on the SHG mechanism have given a tremendous boost to the numbers in SHG movement, the collateral damage was a huge lazy microfinance programme, which severely brought down the quality of the SHGs.

Concluding Observations

A study on microfinance and access to rural credit in India attributes the success of the SHG-bank linkage programme to the fact that it is well aligned with Indian history and circumstances, and capitalises on the country's vast network of rural bank branches. The idea of local savings-and-loan clubs enjoying access to formal financial services by becoming corporate customers of banks is a good one and is practiced in a small way in many countries. A well-run club can keep its reserves at the bank and intermediate bulk loans to its members at a premium, covering its costs and rewarding its savers in the process. In India, this practice seems particularly appropriate on two counts: first, the country has active NGOs that have been zealous in their efforts towards group formation; NGOs view SHGs as having many benefits (such as women's empowerment) beyond microfinance; and second and perhaps even more important, the SHG-bank linkage seems particularly suited to India because the model leverages existing assets broadly within existing regulations by capitalizing on the country's vast (and unique) network of rural banks that are otherwise unable to reach out to the poor. Equally important, the success of the SHG-bank linkage underscores just how important a role skilful leadership, good policy, and a conducive legal and regulatory framework can play. Indeed, the role of government in establishing the necessary policy and legal framework, and the leadership role played by NABARD in championing the movement, cannot be underestimated. Government recognised the potential of SHG banking very early in the movement's history; NABARD was given the task of leading this effort and it took to this task with exemplary diligence. It involved NGOs, commercial banks, RRBs and even cooperative banks in forming SHGs and then linking those up with nearby bank branches. Legal obstacles were removed and the RBI issued guidelines in 1992 to experiment with a pilot of 500 SHGs to link with banks. This pilot programme as well as the work of a number of NGOs was reviewed by a Working Group on Bank Lending to the Poor through NGOs and SHGs in 1995 and detailed guidelines were drawn to encourage banks to use this method. To encourage banks to lend to SHGs, NABARD made available subsidised refinancing to banks for their lending to SHGs. Additionally, banks were allowed to count SHG lending towards their legal obligations to direct a fraction of their loans to the poor (priority sector lending obligations).

With significant achievements in recent years, the SHG-bank linkage needs to be actively supported since, amongst alternatives in the microfinance sector, this appears to have maximum potential for scaling up while leveraging on India's vast network of rural banks. Scaling up the SHG-bank linkage requires attention to the quality and sustainability of groups, their promoters and lenders (banks). A strong focus on quality of SHGs by their NGO promoters was a key factor in the success of this model in its pilot phase. But, in recent years, growing concerns have emerged about group quality as well as the ability of the partner banks to properly assess, monitor and manage risk on their SHG portfolios. Going forward, if the SHG-bank linkage is to be scaled up, NABARD and its partners face several challenges, key among which include ensuring that high quality groups are created and maintained, and that concerns over numeric targets of group creation and linkages do not override attention to group quality and resilience. In particular, the success and sustainability of the SHG-bank linkage depends crucially upon greater clarity about who is to play the key role of maintaining quality, and how the costs of doing so are to be met. A clear strategy is required on how new groups will be promoted and who will fund this. If NGOs remain involved as promoters and 'minders' of the groups, they will need to be paid to do so. But, the banks themselves whose business is financial services, are unlikely to want to do more than ensure that their loans are safe, and will not take on the time consuming task of helping groups manage the bookkeeping of their internal savings and loan accounts. Left to themselves, without outside assistance, most groups will have great difficulty in maintaining quality, and poorer they are the truer this will be. Equally, efforts need to focus on ensuring that banks price their loans to SHGs at rates that would cover their costs and ensure financial sustainability of SHG banking. Banks also need to focus more on monitoring and managing SHG lending risk. Proper targeting of clients is microfinance's raison d' etre. Yet, there exists an apparently steely trade off between reaching the poorest and costs of doing so, resulting in an ongoing conflict between the dual pursuit of social ends and financial profits in microfinance. While the analysis of the SHG-bank linkage indicates that the model has so far successfully targeted the poorer segments, mission drift is a common fear as pressures mount to show good financial results by serving richer clients with larger loans (and thus lower costs). Keeping focused on its target population is thus critical to the success of microfinance in India as elsewhere (Basu and Srivastava, 2001).

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

These observations are significant as NABARD ventures into SHG-2 at the beginning of the third decade of SHG bank linkage programme. Various variants of lazy microfinance are major obstacles for the SHG-2. If the SHG Bank Linkage Programme in the modified variant of SHG-2 has to grow into a widespread movement taking into its fold all the left over population groups, it has to clearly delineate a path which is separate from the lazy microfinance as manifested by the NBFC-MFIs on the one hand and the Governmental sponsored SHG based programmes on the other. This would require attention at different levels.

The first level of attention has to be on the non-governmental organisations and SHPIs. NABARD has to have a firm dialogue and understanding with all such institutions on the exact modus operandi to be adopted for the formation of nurturing of groups and later their linkage with the banks. This would also pre-suppose a greater investment of financial and human capital in group formation efforts. The existing concepts of add-on activity has to be given up and the realistic costs towards group formation have to be met. But there has to be utmost care exercised as far as the shortlisting and selection of SHPIs are concerned. There is a need for each SHPI to have a proper set of personnel for formation and nurturing of groups, animators to works with communities, etc.

The second agency whose wholehearted involvement is a must for the success of SHG-2 is the banking sector itself. This in turn presupposes that the banking regulator would be on board as far as SHG-2 is concerned. The success of the SHG-Bank linkage programme in the initial decade was due in no small measure to the unstinted backing received from RBI, right from the then Governor Dr C. Rangarajan. NABARD should enlist similar support for SHG-2 from RBI. There is also a need for NABARD to engage more vigorously with the banking industry so that after the formation of the groups, the problem of linkage with the banking sector would not arise. There has to be a huge programme of training the Branch Managers and field level officials on the modalities of SHG. Senior bank officials and officials manning Controlling Offices have to be sensitised to ensure that the bank linkage and extension of credit proceed without any problems. As vast technological changes are taking place in the banking industry and utilisation of the services of Business Correspondents (BCs) and Business Facilitators (BFs) is also increasing, it is necessary to work out newer methodologies of linking SHGs to the banks through the BC mode and the use of BFs for group formation and linkage efforts could be explored.

Unless a strong focus is given at these two levels- SHPIs and Banks- the obstacles posed to SHG-2 by lazy microfinance cannot be overcome. If NABARD is able to put its act together and mobilise all its human, financial and other resources in a manner in which it had done in the nineties for grounding the SHG-Bank Linkage Programme, there is no doubt that it would be successful in taking the SHG-2 to all the potential microfinance clientele of the country.

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Interventions and Innovations by RGMVP under SBLP Programme of Microfinance

- P. Sampath Kumar* and Aparna Krishna**

The RGMVP programme is currently functioning in partnership with NABARD and SERP and has chosen the not for profit structure to keep itself focused on the development motive of the microfinance and to deal with the multiple dimensions of poverty.

RGMVP - Rajiv Gandhi Mahila Vikas Pariyojna is a flagship programme of the Rajiv Gandhi Charitable Trust working since 2002 in areas of poverty reduction and women's empowerment. In its decade of existence, the programme has strived to demonstrate potential in the SBLP approach to microfinance and help negotiate planners' imperatives and thus reshape policy packages to have them better fit live realities of the targeted segment.

Policy context: The programme bears its origin to the widespread recognition of micro-credit as a powerful tool for poverty reduction and has its goals aligned with the salient principles set by the microfinance summit, 1997 of reaching the poorest, empowerment of women, building self-sufficient financial institutions and ensuring positive and measurable impact on lives of families and clients goals. Along with the global recognitions, efforts by agencies like SERP which streamlined an effective model of SHGs and federations relevant to existing societal structures and by NABARD which played a significant role in matters of planning, policy development and operationalising of microfinance related credit greatly helped shape programme design. The RGMVP programme is currently functioning in partnership with NABARD and SERP and has chosen the not for profit structure to keep itself focused on the development motive of the microfinance and to deal with the multiple dimensions of poverty.

Programme: RGMVP has presence in 34 most backward districts[1] of Uttar Pradesh and has currently reached out to 109 blocks. With more than thirty-five thousand SHGs and

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Key Words: Microfinance, SHG
JEL Classification: G-21, G-29

federations under its fold, over four lakh women are now directly linked with the programme. RGMVP functions with a belief that the poor have innate abilities to come out of poverty and just require an enabling environment and sensitive support. The support is provided in terms of timely information, inputs for institution and capacity building and easier access to agencies that can help them rebuild their lives.

The basic unit of intervention is self-help groups formed of poor women and complying with standard NABARD sizes and specifications with actual poverty and not a BPL accreditation being criteria for identification. SHGs are the main point of financial intermediation and the members primarily use the platform for its collective strength, which helps them, access collateral free cash credit limit. SHGs in a village are integrated into village organisations, which help members' access entitlements available at gram panchayat level with special focus on interventions, by government in areas of livelihood, education, health and governance. The village organizations are further federated at block level. The block organisations facilitate cross-learning between different village organisations under it and between different regions of the programme. The block organisations act as resource organisations by providing continuous institution and capacity building support to the SHGs and their village level federations.

Engagement, negotiation and struggle: The programme has retained the basic traits of SBLP[2] approach and yet has uniquely nurtured its SHGs and federations to be suitable for three situationscharacterizing women'sinteraction in society namely engagement, negotiation and struggle. Engagement is with members of the same group in form of building and sustaining a collective identity, maintaining and using a collective fund etc. and also with other supporting actors in the initiative chiefly RGMVP itself and the supporting banks. To enable interactions among members, best practices[3] are promoted and non-negotiables[4] are set for each level of federations. These help members derive maximum benefit out of the federations and help federations keep focus on their primary objective namely welfare of their poorest of poor members. The role played by RGMVP staff undergoes a change as an SHG matures and as women require a higher level of support; having mastered a lower level one. Women thus engage with RGMVP to effectively communicate the assistance as required by them. Main part of engaging with banks is realising the symbiotic relationship shared by them with the institution and thus their rights with regards to financial inclusion and their deposits as well as duties with regards to the loans received.Under negotiations, SHG takes into consideration various economic and social compulsions imposed on it and how best it can deal with them to continue on its path to progress. Members individually negotiate on factors like intra-house disagreements about their participation and restrictions on mobility and collectively negotiate on factors of external environment like meeting and training spaces for the federations, etc. The most prominent feature of the promoted federations; however; is struggle. Struggle takes place for factors which cannot be negotiated and cannot be addressed individually thus comprising of conflicts within and across households over social dynamics. The strength of the collective, the confidence instilled from recognition of contribution in household's income and renewed understanding of the non-financial factors contributing to poverty help the once marginalised women engage in struggle to improve the material conditions in which they engage in work, access their rights and entitlements and also fulfill requirements previously left unarticulated.

Negotiation has been enabled through nurturing of social capital from within the community, which provides support to the members' arguments through her own personal experience and case study. Struggle is enabled through provision of knowledge from trainings and nurturing of best practitioners, which contribute in capacity building of institutions and the members. Also through a systematic federation model which enables members to draw collective strength depending upon the problem classifying from household level, village level or even higher level. Also assisting in struggle against economic adversity is availability of need based investment in income generating activities. The provision of cash credit limit ensures that the credit requirements are demand driven and the members take decisions on basis of need and the confidence that members have on the micro-livelihood opportunities that are available and whether or not the household circumstances are conducive to permit such investment. Non-financial dimensions of poverty are also addressed through community based livelihood initiative, information on sustainable livelihoods, community based health care and supplementary education programmes for children. Through these interventions the programme strives to ensure that livelihood alternatives other than self-employment are introduced to members and the multi-dimensional interventions for moving from below poverty line to above poverty line are enabled.

To enable the three, the main innovations have been in making engagements with supporting actors like banks and other service delivery institutions. Bankers have been sensitised, dedicated micro-credit units have been setup, distance between banks and members have been shortened with mobile units and bank procedures have been simplified with high level engagement with bank heads. The women are now able to make sense of various activities and follow the same with minimum assistance.

The programme aims at understanding and addressing correlation of income and empowerment. As women fulfilled their need for safety and security and displayed need for recognition and a chance for proving their unrecognised capacities, the organisation altered its implementation design to give them space and opportunity for participation. Rigorously nurtured social capital is now playing an important role in strengthening programme reach in specific areas like bank linkage, livelihood, SHG nurturing and in taking the SHG programme reach to newer areas. Keeping the programme close to the community has also resulted in lowest possible costs in institution and capacity building and is a major step towards sustainability. The health, education and livelihood interventions are all community based wherein major investments are in identifying and training best practitioners and encouraging them to use the federations platform to share the information as available with them. Having best practitioners from within the community leads to internalisation of the concepts and helps spread the intervention faster.

Way forward: Having generated a significant amount of social capital, in central UP, the programme has expanded its presence to seven regions of the state namely Jhansi, Gorakhpur, Varanasi, Banda, Shajahanpur and CSM Nagar and Raebareli. While expansion would look to the widening aspect of programme, efforts are being made towards deepening of it through convergence of the federations with different agencies for capacity building.

Notes

1 Backward districts have been identified through the ranking of districts as stated in composite index of Uttar Pradesh circulated by International Institute of Population Sciences, Mumbai. The rankings have been given on thirteen socio-economic and demographic parameters.

2. Refers to SHG-bank linkage programme is promoted by NABARD wherein NGOs are provided incentives to nurture SHGs and help link them to banks.

3 Self-help groups are encouraged to follow seven best practices namely weekly savings, weekly meetings, regular internal lending, regular loan recovery, good book-keeping, micro-credit planning and initiative for human development. While first five are commonly followed across similar programmes; the last two have been introduced keeping in mind the need for a systematic planning of credit flow at household level and huge requirement of intervention for human development.

4 All three federations follow the non-negotiable of keeping interest of all members in mind while undertaking any initiative, ensuring equal participation of all members, giving leadership in hands of poorest of poor and maintaining transparency in all operations.

Innovations in the SHG-Bank Linkage Programme

- Aloysius Prakash Fernandez*

The SHG-Bank Linkage Programme began to be influenced by policies and programmes especially the SGSY which was well constructed but poorly executed. The other area where more attention needs to be given is to policy intervention in the area of insurance (life, health and livelihood).

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Abstract

NABARD pioneered the concept of SHG-Bank Linkage Programme way back in 1992 and made several innovations thereafter and guided banks and other stakeholders to support about 74 lakh families in the country to find a livelihood options in one or the other way. The crucial role played by NABARD over several years was to introduce lessons from feedbacks into the SHG-Bank Linkage strategy. These may have not been major structural innovations always, but they were innovations which were crucial for the programme to move forward, become more customer oriented and spread to new areas.

Introduction

The Self-Help Group concept itself is a major innovation. It places an institution, constructed and managed by the marginalised and poor, in control of the last mile as regards financial management which includes both savings and loans[1]. The SHG also provides the social space for growth in self confidence and management skills and the institutional base for lobbying for entitlements and rights. The members self select themselves against being selected by criteria established by a Government scheme - this is another innovation. The members are united on the basis of affinity which includes mutual trust and support which exists in our society and is a major strength and not on the basis of needs which is the starting point of several programmes and which breeds dependence. The objective of promoting SHGs is to make the members subjects of envy

Key Words: SHG-Help Group, NABARD
JEL Classification: G21 and G-29

by others and not objects of pity.

What does "control of the last mile" imply? In the SHG Model the banks give one loan to the SHG which in turn decides on the quantum and regularity of savings, on the size, purpose, re-payment schedules of loans to individual members and imposes sanctions for dysfunctional behaviour. This makes the SHGs the most appropriate institutions to cope with diversity[2], with sudden stresses which affect cash flow (and must be responded to quickly) and with dysfunctional behavior (which monitoring institutions at the State and District levels cannot do).

Innovations led by NABARD and RBI between 1991 and 1992, prior to the launch of the SHG-Bank Linkage Programme (and which made the SHG-Bank Linkage Programme possible) included decisions : i) to allow Banks to give one bulk loan to the group leaving the group to decide on individual loan requests (NABARD Circular to all Comm. Banks dated 26 February 1992); ii) to lend to unregistered groups provided they functioned according to the norms required of registered groups and iii) to extend loans without physical collateral. It must also be kept in mind that the SHGs were not primarily meant to provide credit but to mobilise and manage savings and credit. In Myrada's experience they are groups that broke away from existing Cooperative Societies since the leaders captured funds and on lent at high rates and used this power to ensure that many borrowers worked as laborers on their lands . The SHG which were controlled by the marginalised and poor were genuine cooperative institutions. This was recognised by NABARD in late 1990 after several studies of pilot experiments including the first one by Myrada for which NABARD provided Rs 1 million in 1987.

This model was up-scaled by the SHG-Bank Linkage programme which was launched by NABARD in 1992. It grew and spread thanks to NABARD's persistence over 20 years (though support declined between 2002 and 2010). NABARD provided financial support, lobbied with financial institutions and integrated lessons gained from regular feedback which made the programme more customer friendly.

The crucial role played by NABARD over several years was to introduce lessons from feedback into the SHG-Bank Linkage strategy. These may have not been major structural innovations always, but they were innovations which were crucial for the programme to move forward, become more customer oriented and spread to new areas. Some of these initiatives taken by NABARD which helped the programme to grow are: i) promoting SHPIs and linkages with RRBs, Cooperative Banks and Post Offices; ii) integrating SHG strategy in State Projects starting with Tamil Nadu (IFAD supported) in the late 80s; iii) technology integration (smart card, computer munshi, e-grama; iv) promotion of Federations and Community Managed Resource Centres; v) extension into un-reached areas and vi) the BC Model. More recently there have been initiatives to pool training resources to improve the quality of SHGs; to capture initiatives taken by SHGs like management of savings of savings; to develop a financial and organisational support system for federations which have organically emerged and introduction and management of Nabyukti software to help track progress of groups.

Since 2002, the SHG Bank linkage programme began to be influenced by policies and programmes especially the SGSY which was well constructed but poorly executed. The SGSY included: i) training in institutional capacity building @ Rs. 10,000 per group which was the critical input to turn a hitherto individual focused loan policy (IRDP) into a group approach. Unfortunately, this amount was hardly ever used by the states for the purpose intended; ii) an assessment of the SHG before providing the major loan which was hardly every done. In fact failure to focus on these two inputs which were crucial to turn an individual based approach into a group strategy was a major cause of the SGSY not performing up to expectations. To add to this scenario the NBFC/MFIs led by those housed in AP grew at a scorching space and were supported by some well placed officials who assumed that they were filling in the gaps left by a Banking sector which failed to deliver as expected. Until Dr. C. Rangarajan questioned this model as an effective strategy to mitigate poverty, hardly anyone in position raised any concern even though the NBFC/MFIs broke up several SHGs to form what they called JLGs. With no criteria to distinguish a JLG (till recently), NBFCs went ahead calling any group a JLG since it legitimized their strategy. The Banks also began facing internal constraints: inadequate staff/ many retiring shortly; amalgamations of RRBs ,making them larger entities which make small loans unviable; an easy (and less riskier) way of providing bulk loans to MBFC/MFIs became the norm; all these developments undermined the SHG-Bank Linkage programme which declined sharply during 2010 and 2011.

Recent innovations: Of late there are major signs of a renewed focus on the SHGs. NABARD is launching SHG-2. The present Chairman of NABARD Dr Prakash Bakshi has strongly supported the SHG model (and SHG bank Link age) since the 80s and this gives confidence that SHG-2 will bring back the original concept of the SHGs into focus. Priority in SHG-2 will be given to: i) fostering the habit of regular savings and their management, ii) adequate institutional capacity training (ICB)to improve the quality of SHGs (including training in self assessment/rating and record of minutes of meetings and proper accounting); iii) initiatives to reduce risks that banks are taking on exposure to SHGs; iv) shift to cash credit for groups (more on this in the next para) and v) focus on livelihoods. The last will require support from other support institutions providing marketable skills (or upgrading skills) as well as investment in second level institutions which seek to aggregate, add value and market produce like producer Companies and Cooperatives. More thinking has to go into building supporting financial scaffolding for these second level institutions as the type of capital required differs at each stage as well as the risks. The other area where more attention needs to be given is to policy intervention in the area of insurance (life, health and livelihood).

A major innovation which has recently been introduced (by the department of Financial Services in a pilot project covering 24 Districts vide circular dated on 17th

November 2011 and 19th December, 2011) is the conversion of the single loan from Banks to SHGs from a term loan to a cash credit facility. Initially some Banks were concerned that this would reduce the discipline of regular repayments which (like savings) needs to become a habit. However NABARD has clarified that the interest will be repaid regularly. The concern that the limit (ceiling) may not be adequate to meet demand has been partly addressed by the decision to link it to savings on a 1:4 ratio. However, as the SHG grows this limiting factor requires to be reviewed and periodically raised. The provision of Rs 10,000 per group for Institutional Capacity Building (ICB) is welcome and should be used for the purpose intended.

Cash credit will clear the hurdles faced by SHGs in controlling the last mile. They can now decide on the purpose and size of loans, schedules of repayment schedule etc…as the original concept and strategy envisaged. The cash credit strategy will also support the livelihood strategy of each family which comprises many purposes and are not only agriculture related. In fact a small and marginal farmer family has a livelihood strategy comprising several income generating activities as well as long term investments (like education), urgent needs which are related to their ability to work (like health) and desire to repay high cost debts. A cash credit facility makes it easier for the SHG to respond to this diversity. After all, no moneylender works on a term loan basis. It is capital outstanding which generates an income.

However the high interest rates on the cash credit facility (base rate plus 5%) which comes under the SHG-Bank Linkage programme and the decision to hold the NGO responsible for default by any SHG (which is presently in the pilot project promoted by the Banking Division but could be universalized) needs to be reviewed. While the theoretical basis for both changes is understandable, in practice it will obstruct the programme from taking off. It will be more "doable" to invest in promoting a good SHG and leaving it to access loans from various sources. Several States have programmes through Banks where interest rates are lower. The SHGs should be able to access these as well. Other suggestions to encourage banks to extend loans could be to extend the cash credit facility only after the SHG has managed successfully one or two term loans and to allow the Banks to choose between providing a term loans or cash credit depending on the Banks assessment of the strength of the SHG.

Notes

1 This distinguishes the SHG from the NBFC/MFI model where the NBFC staff control the last mile in matters financial - usually restricted to loans).

2. Myrada's assessment of the loan portfolio of individual members indicates a high degree of diversity which a centralised management system which is standardised cannot cope with; loans are given for a variety of purposes - on farm and off farm activities, trading, housing and sanitation, education, repayment of high cost loans; there is also diversity in sizes even regarding loans for the same purpose).

Social Impacts of Microfinance Institutions in Pakistan

- Rizwan Mushtaq* and Shahnaz A. Rauf**

Abstract

Microfinance is not a new development. It is a practice to provide small amount of loans. These loans create a spark in the lives of poor people. There are different views regarding impact of microfinance on borrowers. Microfinance is considered as one of the powerful tools to reduce poverty and it has a positive impact on the social and financial standing of the borrowers. However sometimes these views are contradictory and are totally opposite. This study aims to investigate the impact of micro-credit on social indicators of the borrowers of microfinance institutions. The primary objective of the study is to explore the impact of micro-credit on the lives of the borrowers, and whether the borrowers are able to pull themselves out of poverty and high interest rates. Regression analysis and T-test are used to measure the impact of microfinance and to make comparisons between borrowers and non-borrowers. Primary data were collected from a sample of two hundred households from district Kasur of Punjab Pakistan. Four major MFIs were selected for this purpose as a sample including a public sector microfinance bank of Pakistan. Analysis shows us mixed results regarding impact of microfinance. In some cases, it has higher significant impact on social indicators of borrower households and vice versa.

Poverty reduction is the main objective of most of the developmental institutions and development projects. Microfinance is considered as one of the powerful tool to reduce poverty . Micro-credit has a positive impact on the social and financial standing of the borrowers.

Introduction

Poverty reduction is the main implicit or explicit objective of most of the developmental institutions and development

Key Words: Microfinance, Impact, Social, Pakistan, Micro-credit, Poverty

JEL Classification: G-21, I-3 and I-38

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projects. The need to understand is that whether these development projects are playing any role to reduce poverty or not. Micro-credit is considered as the most effective tool to reduce poverty from the world now a days. The aim of micro-credit summit Campaign was to reach the100 millions world's poorest people with credit by the end of year 2005. It claimed that micro-credit is a powerful tool for alleviating poverty; it is naturally interesting to find out whether it actually has this effect? In addition, the member states of the United Nations also realised the importance of microfinance and its potential to reduce the poverty; these states are committed to achieving the Millennium Development Goals (MDGs), including the goal of halving extreme poverty by 2015 and microfinance is recognised as the most effective tool to reduce poverty. Microfinance Institutions claim to provide the poor an access to capital giving them opportunity to climb the economic ladder. However a close examination of few microfinance operations around the world have indicated that very small percentage of poor who use the microfinance products and services are able to uplift themselves from poverty, and those who manage to escape from poverty, they normally take 5 to 10 years.

The borrowers who confronted the difficulty to repay the loan and trap themselves in the burden of debt they just want to return the loan, and also desire someone can repay their credit and they do not want to take a loan in the future. The drop out of the clients of MFIs is lower than targeting the new clients. In earlier researches about the impact, assessment of microfinance in poverty alleviation the emphasis was given to the basic indicators of poverty like food, shelter, water, and clothing that represent the access to basic needs to survive. The multidimensional approach of poverty includes the basic indicators and in addition to these access to education, access to health and access to other services. Poverty reduction is the main goal of any development institution by the way of providing directly credit or providing other services like schooling for children and free health and medical facility etc. Today microfinance is providing services to their clients according to the requirements and their needs. However, the problem is whether all the clients of microfinance are able to increase their income and improve their standards of living and pull themselves out of poverty? Very poor people take more time to improve their conditions,and initially they face difficulty in every aspect of socio-economic activity but for the time being if they are doing business and tackling with uncertainty consistently they are able to say good bye to the poverty. Raising capital either for starting a new business or for working capital needs is a difficult task for a small and micro level enterprise, because the lender (institution or individual) may not find the return from such an investment as profitable as compared to from investment in large enterprises, due to economies of scale. Littlefield, Murduch and Hashemi (2003) reported that the poor people in most developing countries virtually have had no access to formal financial services. In addition, lenders are also dubious about repayment of amount from a small and micro level enterprise. To address these challenges to small and micro level businesses, the concept of Micro-credit came into picture and it attracted a large clientele in the developing world. Microfinance has gained more repute and expansion in its operations in developing countries because in developing countries per capita income of the people is very low and large number of people are living below or on the poverty line. The formal financial sector takes no interest to finance the poor because of no collateral and the ability of poor to repay the loan. At the end, microfinance remains a last hope for the poor; it provides them loans without collateral on the basis of group guarantee.

There is high probability that the borrower will improve his standard of living, by investing the loan in income generating activities. Microfinance institutions do not provide credit for one time; these institutions provides credit regularly as the previous loan is repaid. Similarly as the loan cycle of the client increases the amount of loan also gets bigger. Access to finance was very difficult for the poor because of the lack of collateral and their poor economic situation, but microfinance institutions make it possible for the poor. Morduch (1998) stated that development in microfinance industry is based on a strong assumption that the poor have the potential and ability to implement income generating activities and can improve their standard of living, but they cannot do so because of lack of access to credit, savings and insurance facilities. Microfinance has now become an industry at the global level it includes not only the government banks but also non-governmental organisations like NGOs, cooperatives, and other types of rural and urban societies that assists the poor. On the other hand, MFIs are charging very high interest rates on their loan, the poor instead of pulling themselves out of poverty, and improving their standard of living, which puts extra burden in the shape of loan repayment with high interest rates. Repayment of loan and high interest rates also put psychological pressure on the client as to how they repay the loan from their meager means of earnings. Because the profit margin from any micro business is not higher than the interest rates of MFIs. The clients, who take loan for the first time, are left with nothing after repaying the loan installment and spending on their basic needs. Small amount of loans charge very high interest rates and one cannot start a profitable business.A basic thing regarding access to credit is that the poor demand credit, not 'cheap' credit. Generally, it was observed that raising interest rates does not reduce the demand of loans. Arguments in support of those MFIs charging higher interest rates includes, the sustainability of the institutions, salaries of the employees and other hidden costs of the institution. Amount of investment in any economic activity is the key issue in initiating, operating, sustaining and earning from the business. The clients can use the loan only for their short-term consumption and working capital needs they cannot invest this small amount of loan for any long-term reasonable productive activity. On the other hand Richard Rosenberg (1996) in consultative group to assist the poor (CGAP) asserts that, whether microfinance borrowers can pay higher interest rates? He observed microfinance institutions charge very high interest rates but instead of that, most of the clients repay the loan, and demand more loans, therefore he argues that this practice shows that the borrowers are earning more than the interest rates or the poor borrower earns enough to repay the loan and is able to pay the high interest rates. However, there are also many borrowers who are not able to pay the high interest rates normally as observed in South Asia. The ability and potential of the borrower to repay is an empirical issue and it is dependent on the amount of loan that is being used for business and on other basic infrastructure. It is not viable to conclude on the basis of one group of poor and poorer borrowers that they can pay the high interest rates.

Review of the Pertinent Literature

Various researchers from all around the world have measured the impact of microfinance and present mixed results with negative and positive impacts of microfinance on clients. Khandker (1998) reported that access to credit have the potential to reduce poverty significantly. According to Johnson and Rogaly, (1997) microfinance has positive impact on socio-economic conditions of the client like education of the children, nutritional status of the household and women empowerment, etc. On the other hand, Morduch (1998) reported that micro-credit has very low impact on poverty reduction. However, most of the evidences regarding impact of microfinance on poverty provide positive results. Micro-enterprises in developing countries are making significant contribution to economic output and employment. Approximately 30% of employment in underdeveloped and developing countries generated by the informal sector and about 18% of employment is created by the Small and Medium sized Enterprises (SMEs) (World Bank). Barnes, (2001) suggested that the main variables used in the impact assessment of microfinance are the changes in income, consumption pattern of the households and asset based indicators etc. It is observed that assets based indicators are important in impact analysis because these do not change greatly as compared to economic indicator.

Microfinance: Health and Education

Health and education both are the most important elements of non-financial impact of microfinance at household level. Small loans reduce poverty directly and also provide wider social benefits that improve the health and education of the children. According to research studies that have been previously done to measure the impact of microfinance on poverty alleviation most of these studies show that successful microfinance projects have significant impact on health and education of the clients' children. Income of the clients improves due to micro-credit and as a result, clients can provide better education to their children and can have access to better health facilities. On the other hand, some microfinance institutions started programmes like health and education and opened their centers in different areas to provide better health and education facilities free of cost. Mostly, Non-government organisations do that to provide better facilities to the poor for human development. In developing countries infant mortality rate is very high and the illiteracy rate is high due to poverty and lack of basic facilities. Hashemi (2003) states that the borrower households of microfinance institutions have better health and education facility than the non-borrower households. It is a basic strategy of the microfinance institutions to reduce the poverty while health is considered as a main element for the reduction of poverty. It is the mission of the microfinance institutions to build up a society that is free from illiteracy and disease. And it is also included in the goals of the organisation to provide opportunities for education and health facilities at the door step of the poor.

Littlefield, Murdoch and Hashemi, (2003) conducted a study on the clients of the Foundation for Credit Community Assistance (FOCCAS), a microfinance institution of Uganda, based on a campaign in favor of breast feeding and family planning. As a result of that campaign it was observed that 95% health and nutrition practices of the clients' households improved as compared to 72% improvement of non-clients, and children of the clients stay longer in the school than children of the non-clients. Francis (1998) concluded that the quality of education of children of the poor is very low because poor cannot send their children to private schools, as they cannot afford the expense therefore they send their children to public schools or even may not afford to send them to public schools. Wright (2000) reports that there are a fewer studies on health, nutrition and education of the clients but those are very conclusive and shows positive impact of micro-credit. MkNelly, Barbara and Christopher Dunford (1998) concluded that the health and standard of education of the children of the participants improved as compared to non- participants of the programme. Studies show that microfinance has a positive significant impact on education of the children of the clients. Pitt and Khandker (1996, 1998) found an interesting finding about the relationship of micro-credit and education of the children is that, the boy's education increases irrespective of male or female borrower and the education of the girls only increase when females are the borrowers. It shows that the poor men do not want to educate their girls but the women as clients of microfinance institutions are able and want to educate their girl child.

Microfinance and Nutrition Status

Food is a basic need of any human being for their survival. Without food they can't live and survive in the world. Poverty is a general phenomenon of this world and lack of food is a basic problem now a days in developing countries. Food security remains a major issue among the objectives of the developing countries. Zeller, M.; Meyer, Richard L. (2002) reported that food security defined in the basic form is that, the access to the food by all family members at all time needed for their healthy life. WHO reported that malnutrition of infant and young children is still one of the worst problems of the world, which cause nearly 5 million deaths of pre-school children each year world-wide. The impact of micro finance programmes on nutritional status of the household and on food security has been studied by the various researchers and diverse results are reported. For example microfinance has a positive impact on household caloric availability, and also shows that in many countries nearly 91% of the household income is spent to meet the food requirements of the household [Zeller and Sharma (1998)]. Saito et. al. (1994) observed that lack of food mostly affects the women and children. There is improvement in nutrition of the children of the clients as compared to the children of non-clients MkNelly, [Barbara and Christopher Dunford (1998)]. Several studies observed that microfinance has positive impact on nutritional status of the clients. Chowdhury AMR, Bhuiya A. (2001) reported that in microfinance participants, lower rates of malnutrition are noted as compared to non-participants. In Pakistan, there are approximately 6.5 million poor people, who need microfinance services, and microfinance institutions in Pakistan are serving only about 5%. In Pakistan, various research studies have been carried out to assess the impact of microfinance on the poor. Some of these studies are discussed in this section. The Oxford Policy Management (2006) carried out a research Poverty & Social Impact Assessment, Pakistan Microfinance Policy: for (DFID), UK department for international development. This research was based on access to microfinance services and measuring the impact of the micro financial services on the poor especially on women. Evidence shows that the poor have very limited access to the financial services, and access to financial services significantly changes the lives of the poor. Some evidence of misuse of loans was also reported, however it was concluded that microfinance has positive and significant impact on the income of the clients.

Another important study that measured the impact of microfinance in Pakistan was sponsored by European Union-Pakistan Financial Services Sector Reform Programme. This study was conducted by an independent consultant in April 2007, titled as Social Impact Assessment of Microfinance Programmes. The main objectives of the study were to measure the impact of various microfinance products and services on clients. Six different types of microfinance institutions including MFBs, and NGOs were selected as a sample to represent a diverse representation. Difference in difference (DID) approach was used to measure the impact of microfinance. The main findings of this study were that, the microfinance impacted the lives of the poor positively but this impact is not significant, and has limited impact on socio-economic conditions of the participants. Secondly the loan amount, frequency of loan and duration of the loan has significant impact, the greater the amount the greater the impact, and joining for longer time period, microfinance programmes has relatively greater impact. There were 23% of urban clients below the poverty line (Rs.1000 per capita) from the official poverty line of Pakistan, and 61% of the agricultural borrowers were below the poverty line. Another important finding of the research was that microfinance has no significant impact on the aspect of women empowerment. On the basis of these findings, the researcher has made recommendations and suggestions, that microfinance institutions should develop a long-term relationship with the borrowers and they should define the poverty if they claim to target the poor. In addition, it was observed that the microfinance has no significant impact on the health and education of the poor. This requires other integrated programmes as microfinance alone cannot create a change in the socio-economic conditions of the poor. Asian Development Bank (ADB) carried out a research in 2005 to assess the impact of the Kushhali Bank.The main objectives of the research were to measure the social and economic impact of the Khushhali Bank on its clients. A borrower and a control group of prospective clients, who had not yet received the loan, were selected to measure the impact of the bank. The findings of that research were encouraging as compared to previously discussed researches; it was observed that participation in Khushhali Bank's programmes has the positive social and economic impact on the clients. And it has positive impact on employment and income generating activities.

In the same year Kashf Foundation conducted a study to measure the impact of the foundation on its client. The mature borrowers who were in Kashf's microfinance programme for the period of more than three years and relatively new clients who have taken the first loan were compared on the basis of certain indicators. The major findings of the study includes, about 90% of the clients are living on the income of less than US$1 a day. It was observed that the income of the mature clients was 51% higher as compared to the income of the new clients. Indicators relating to the women empowerment show that more than 75% of the clients irrespective of maturity level were involved in making decisions of the household and have some control over the income of the household. Moreover Roshaneh Zafar Founder and Managing Director of Kashf foundation in Pakistan reports that about 34% of their clients are able to pull themselves out of poverty after a period of three years from the first loan.

A recent study was conducted by Sununtar Setboonsarng and Ziyodullo Parpiev (2008) titled as Microfinance and the Millennium Development Goals in Pakistan. Basically, it was an impact assessment study conducted under the umbrella of Asian Development Bank, to measure the impact of Khushhali Bank on borrowers in Pakistan. The survey included 2881 households from all over Pakistan from which 1416 are the borrowers of khushhali bank and the rest are non-borrowers. The researchers used Nearest-Neighbor (or one-to-one) matching method for selecting the non-borrowers. They used propensity score method to measure the impact of products and services of Khushhali bank on its borrowers. This conclusions of the study are concluded very positive and encouraging. They found that the borrowers of khushhali bank had more agricultural production than non-borrowers and the borrowers are using more pesticides and they also owned more animals as compared to non-borrowers. But, the consumption expenditure, educational expenditures and on durable assets are less than non-borrowers, but it has not proved to be statistically significant. Further, the borrowers of the khushhali bank had better health than non-borrowers. And mainly it has a positive impact on income generation activities and animal raising. In general, there is not much of a great difference between microfinance and commercial financial operations, the main difference is that microfinance serves a totally different client segment, who are poor and are near or below the poverty line. Microfinance institutions have to address the challenges that arise from their clients dire circumstances. The most common problems that any poor faces are health, lack of dwelling, illiteracy and education of the children, access to necessities, and unexpected threats such as natural disasters that endanger their lives. Influence of these factors on individuals' economic activity cannot be ignored. Micro Finance institutions should mainly focus on these kinds of problems to reduce poverty in the country.

Impact assessment is based on the framework of comparing borrowers and non-borrowers of the programme or in some studies before the intervention of the microfinance institution and after intervention. The socioeconomic situations of the clients are observed and then compared with the non-borrowers to find out the impact of microfinance. All the changes in socio-economic conditions also affected from mediating variables other than micro-credit like household characteristics village characteristics and these affect the behavioral characteristics of the clients too, in that sense the impact assessment is a very difficult task (Sebstad et al., 1995). There are infinite numbers of variables that can be included in impact assessment but a careful selection requires selecting the variables of interest that could be measured. It is important to understand that microfinance services are means to achieving development and not an end by itself. The attributes of microfinance revolution has changed in a way to help the poor in Asia and in some countries like Pakistan, India and Bangladesh. It has provided substantial flow of credit, often to very low-income groups or households, who would normally be excluded by conventional financial institutions.

This study is based on assessing the impact of microfinance on poor clients of district Kasur of the Province of Punjab. Kasur was the part of Lahore but in July 1976 it came into existance as a separate district. Total area of the district is 3,995 square kilometers. And for administrative purpose it is divided into four tehsils and 141 union councils. Total population of district kasur is about (2.9 million) and it has near 0.58 million potential market for microfinance institution. Almost all MFIs of Punjab are operating in the district including Khushhali bank.

Theoretical Framework

Dependent Variables

The researcher's main focus revolves around dependent variables to describe and explain the variability and change due to change in independent variable and results are made on the basis of that change. This study takes a few social indicators like access to health, access to education, dwelling and its quality.

Independent Variables

The study attempts to measure the impact of microfinance on various social variables related to poverty level of the clients. So in this study, the main independent variable that we have included is micro-credit. Besides micro-credit, some demographic variables like gender of the household head, education level of the household head, size of the family, number of persons contributing to the income of Household and number of dependents in the households, are also taken as independent variables.

Hypothesis

Ho1: Micro-credit does not have any significant impact on food status of the clients.
Ho2: There is no relationship between micro-credit and health status of the clients.
Ho3: There is no relationship between micro-credit and dwelling soft he clients.
Ho4: There is no statistical significant difference of food status between clients and non-clients.
Ho5: There is no statistical significant difference of health status between two groups.
Ho6: There is no statistical significant difference of dwellings between clients and non-clients.

Sample Selection and Method of Data Collection

The population of this study includes the clients and eligible clients of microfinance institution of district Kasur located in the province of Punjab, Pakistan. Large number of microfinance clients and eligible clients live in the district.

Population: The potential market of microfinance in district Kasur and the Active borrowers are:

Potential Market:	5,86,427	Active borrowers:	56,863.
Total population:	6,43,290		

Sample Size: To get the representative sample a well-known formula (Yamane taro 1967) was used.

Formula: $n = N/(1+N*e^2)$
Here n = sample size
N= Population size
e= Possible error
For e= 8 %
$n=643{,}290/1+ 643{,}290(.08)2 = 156$
Sample size taken in the study: 200.

As the total population of Kasur District including clients and eligible clients of MFIs is 6, 43,290 and from this a sample of n=200 is taken for study, out of which 100 are active borrowers and 100 are potential borrowers. A sample of five villages and town of district Kasur Balloki, Olakhbunga, Nizampura, Kamalpura and Rungpur, were selected, where main microfinance institutions of Pakistan are operating. And from these villages, the sample size for this study consists of one hundred clients of microfinance institutions and one hundred eligible non-clients of same income level from neighbourhood of the clients. Each non-client was matched with the specific client on the basis of certain indicators besides that he/she fulfilled the requirements to be a client of MFI in Pakistan. Four MFIs were selected:

i. KASHF
ii. DAMEN : Development Action for Mobilisation and Emancipation
iii. RCDS : Rural Community Development Society
iv. KB : Khushhali Bank

The clients of above mentioned institutions were selected on random basis. The sample of clients consists of new, medium and old in terms of time period of joining the microfinance programme. The addresses of the clients were obtained from the local people and from the group leader of the micro-credit programme. The data collection procedure was started from the village Balloki and then continued to Olakhbunga, Nizampura, Kamalpura and Rungpur in District Kasur.

Demographic Profile of the Respondents

We use cross tabs for making comparisons. Table 1 shows the detail regarding gender of the household head of the respondents including clients and non-clients. There are 6 females who are the heads of household from the group on non-clients; and 94 households are headed by male in the group of non-clients. If we look at the group of clients there are 13 females who are the heads of household.

Table 1: Gender of Household Head

	Female	Male	Total
Non clients	6	94	100
Clients	13	87	100
Total	19	181	200

Table 2 reporting the education level of the household head of our sample 49. Non-clients have no or less than primary education and 47 clients have no or less than primary education these statistics are somehow encouraging in case of clients. 22 non-clients and 33 clients have the primary education the same is in terms of percentage because the samples are of hundred each. If we look at the education of two groups with the level of middle the 10 non-clients and 6 clients are at this level. And 15 non-clients and 14 clients have education of metric. And only (4) non-clients have inter level diploma.

In table 3 named as Summary Statistics - Individual Household Characteristics. Information regarding family size, female children who are 17 years

Table 2: Education Level of the Household Head						
	No Education	Primary	Middle	Metric	Inter	Total
Non Clients	49	22	10	15	4	100
Clients	47	33	6	14	0	100
Total	96	55	16	29	4	200

and below, male children who are 17 and below are provided. It also contains the information regarding no. of dependent in the households and number of income contributors in the households including females. Descriptive statistics is used to show the minimum and maximum numbers, the mean score and standard deviation. If we look at the mean score of the male income contributors, non-clients have 1.46 and clients have 1.42 and the mean score of female income contributors it shows that 0.10 in case of non-clients and mean score 0.40 in case of clients households. It shows that the borrowers of microfinance institutions have some empowerment and have control over the resources of the households and making decisions of the households. And they are more willing to work with their man and to support their families by making investment in any productive activity from which some revenue might be generated.

Table 3: Summary Statistics-Individual Household Characteristics					
	Obs	Minimum	Maximum	Mean	Std. Deviation
Non-Clients					
Male Children of 17 years or below	100	0	7	1.51	1.374
Female Children of 17 years or below	100	0	6	1.37	1.323
Male Adults of 18 years or above	100	0	7	1.87	1.300
Female Adults of 18 years or above	100	1	5	1.61	.909
Total family size	100	2	20	6.30	2.680
Males in household contribute to the income	100	0	7	1.46	.904
Females in household contribute to the income	100	0	1	.10	.302
Clients					
Male Children of 17 years or below	100	0	6	1.76	1.357
Female Children of 17 years or below	100	0	4	1.47	1.159
Male Adults of 18 years or above	100	0	6	1.80	1.054
Female Adults of 18 years or above	100	1	6	1.79	1.094
Total family size	100	1	12	6.87	2.196
Contributions of males in income of household	100	0	4	1.42	.669
Contributions of Females in income of the household	100	0	2	.40	.550

Estimation Methods

John Weiss; Heather Montgomery (2005) stated that rigorous tests of counter-factual are required for assessing the impact accurately that how income can be compared, and careful selection of the control group for making comparison is not an easy task. It is not an easy task to assess the impact of microfinance and to generalise the results on the basis of studying some borrowers, of course conducting a rigorous impact assessment is a challenge for any researcher. So, in the first step of data analysis, regression analysis is used to measure the impact of micro-credit on social indicators of the clients. Ordinary least square (OLS) is used. And in the second step, independent sample t-tests is used to find out the statistically significant difference and to make comparison of socio-economic indicators between clients and non-clients. As independent sample t-tests used and suggested by Manfred Zeller, Manohar Sharma, Carla Henry, and Cécile Lapenu in June (2001) for making comparisons between clients and non-clients on the basis of certain socio-economic indicators. Regression models used for impact assessment are as follows:

$$Nutrition = \propto + \beta_1\, familysize + \beta_2 edulevel + \beta_3 income + \beta_4 microcredit + \varepsilon \ldots\text{i}$$

$$Dwellings = \propto + \theta_1\, familysize + \theta_2 edulevel + \theta_3 income + \theta_4 microcredit + v \ldots\text{ii}$$

$$Health = \propto + \delta_1\, family\ size + \delta_2 Nutrition + \delta_3 microcredit + \mu \ldots\ldots\ldots\ldots\ldots\ldots\text{iii}$$

Table 4 demonstrates the output of regression results, in first model food and nutrition status of the respondents used as a dependent and the rest are explanatory variables as shown in table. An index was developed on the basis of questions asked in the questionnaire regarding food and quality of food. Table 4 displays that size

Table 4: Regression Results for Effect of Microfinance on Dependent Variables

	B	SE(B)	β	t	Sig.(p)
Model: 1	.064	.901		.071	.944
Family Size	-.134	.021	-.511	-6.474	.000
Education Level	.020	.012	.132	1.679	.096
Income	.318	.113	.263	2.814	.006
Micro-credit	.277	.097	.274	2.863	.005
Model: 2	2.913	1.372		2.123	.036
Family Size	.031	.032	.084	.997	.321
Education Level	.087	.019	.394	4.672	.000
Income	.562	.172	.327	3.269	.002
Micro-credit	.296	.147	.206	2.012	.047
Model: 3	-3.681	1.587		-2.320	.022
Family Size	-.094	.051	-.189	-1.856	.066
Food	.409	.200	.215	2.041	.044
Micro-credit	.815	.183	.424	4.454	.000

Note: R^2 for Model: 1, 2 and 3 = .40, .30, .32 (ps <.05) of the family has significant but negative impact on food status. It is significant at 1% level. It means larger the family size lower would be the nutritional level as there would be many members of the household to be fed.

The second independent variable used in regression model (1) is education level of the household head; this variable has a significant impact at 10% level of significance on the dependent variable, i.e., food status. And the beta value is also positive but it is slightly low. Income affects the food status significantly and the beta value of income is also positive. We can say that if the income level increases, the food status of the clients also improves. Finally, our main variable of concern the micro-credit, it has positive significant impact on food and nutrition status of the household, the beta value of the micro-credit is also positive which shows the positive relationship between micro-credit and food status. If the amount of micro-credit increases, the food status might also tend to improve. Our null hypothesis is rejected because micro-credit has positive and significant impact on food status of the clients. Dwelling ownership and its quality represented by regression model 2. An index was constructed on the basis of certain indicators related to ownership status and quality of housing. Table 4 describes the output of the regression model 2 where the first independent variable, i.e., total family size it has no significant impact on housing quality and ownership. On the other hand, education level of the household head shows a positive significant impact on the dependent variable, it is highly significant and beta value is also positive. It means that if the education level of the household head is high the dwelling ownership and quality should be good and vice versa.Income was taken as the second independent variable that can have impact on dwellings. It is estimated that income has significant and positive impact on dwelling ownership and quality. Hence we can say that if there is an increase in income, the housing quality will also improve. The micro-credit has also a positive significant impact on dwellings ownership and quality. It means that as the amount of credit increases, the status of ownership and housing quality also tends to improve. Our null hypothesis about dwellings is rejected because micro-credit has positive significant impact on housing quality and ownership.Regression model 3 is about Health Status, where index of the health status on left side of the model 3 is the dependent variable and on the right side various independent variables that could influence health status includes demographic variables are included. According to the table 3 family size has negative significant impact on health status of the clients as the beta-coefficient value is negative. It is possible to say that size of the family has negative significant impact on health status. The greater the sizes of the family lower the health status. On the other hand food and nutrition status has positive significant impact on the health status of the clients. We can say that good and better food leads towards better health. The beta value is positive and it is significant at 5% significance level. Finally, the micro-credit, it has also positive and significant impact on health status of the clients. By changing one unit of micro-credit the dependent variable health status will be change by 81%. It means that greater the micro-credit the better the health status. Our null hypothesis is rejected because micro-credit has significant positive impact on health status of the clients.

Independent Sample T-Test

Independent sample t-test is used to compare the mean score of any continuous variable of two different groups of people or conditions. An independent sample t-test tells us that whether there exists a statistically significant difference between two given groups or not. Here we used independent sample t-test to compare the clients of microfinance and non-clients of microfinance to find out the statistically significant difference on the basis of certain indicators between two groups. The variables that are compared with the help of that t-test includes health status, food and nutrition status, expenses on children's education, dwelling ownership and quality, livestock assets, transportation assets, appliances and electronics and total assets. In health, food and dwelling indices are made on the basis of weighted average basis and made them continuous variables that will be used in t-test. The numbers of assets owned are multiplied with their respective market value and then natural log is taken for making comparisons of both groups. T-test tells us the statistically significant difference between two groups of a given variable it gives the mean differences but not provide the information regarding magnitude of the differences between two groups. SPSS

Table 5: T-test Results for the Effect of Microfinance on Dependent Variables

	Clients	Non-Clients	t-value	df	p(two-tailed)
Food status	2.13	1.80	4.672	198	.000
Health status	4.51	3.72	5.061	198	.000
Dwelling	6.70	6.62	0.791	198	.430

does not provide values of effect size and magnitude of differences. There are large numbers of different effect size statistics used to calculate the magnitude of difference between two groups. But to calculate the magnitude of differences between two groups the clients and non-clients we have used Cohen'd. Eta squared it is often reported as effect size statistics as it is most commonly used. It has the range from 0 to 1 and provides the proportion of variance in the dependent or underlying variable due to group difference or independent variable. It is calculated from the information that SPSS provide in t-test's output the detail formula for calculating eta squared and calculations for our each variables are given following the output of SPSS.

$$H_0: \mu_1 = \mu_2$$

$$H_1: \mu_1 \neq \mu_2$$

Null hypothesis about difference of certain indicators between clients and non-clients are tested through independent sample t-test; the mean score of food status is equal between clients and non-clients. The alternate hypothesis is the difference of mean score of food exists between two groups. The first t-test was applied on index of food and nutritional status of the sample of borrowers and on the sample of non-borrowers to test the null hypothesis. Table 5 of t-test provides the information regarding means score and standard deviation of the samples. The *t* statistic to test whether the means are different can be calculated as follows:

$$S_{X_1X_2} = \sqrt{\frac{S^2_{X_1} + S^2_{X_2}}{2}}. \quad t = \frac{\bar{X}_1 - \bar{X}_2}{S_{X_1X_2} \cdot \sqrt{\frac{2}{n}}}$$

Where S^2 is the unbiased estimator of the variance of the two samples, n=number of participants, 1 =group one (clients=1), 2=group two (non-clients=0).Mean score of food index of clients is higher than non-clients but we cannot say about the statistically significant difference now we have to move further to check the statistically significant difference or statistically insignificant difference of food status between two groups. The table of independent sample t-test shows in the column named as sig - (2-tailed) the p value is less than 0.05 we will reject our null hypothesis. And we can say that there is statistically significant difference of food status between two groups. We can conclude that the food and nutrition status of the clients is better than non-clients. In second step of t-test results we calculate the eta squared, to calculate the effect size and proportion of variance of health status between two groups due to group differences. The formula to calculate eta squared is as follows:

$$\eta^2 = \frac{t^2}{t^2 + (N_1 + N_2 - 2)}$$

Replacing the formula with the appropriate values, those are provided by SPSS in table named as independent sample t-test.

Eta squared= $4.672^2/4.672^2+$ (100+100-2)

Eta squared= .099

According to (Cohen1998) the value of eta squared can be interpreted as

.01=small effect

.06=moderate effect

.14=large effect

In our eta square results it is .099 we can say the effect of participation in microfinance programme has moderate effect on food status. When we multiplied the value of eta square by 100 it becomes 9.93%. Now we can say that 9.93% variance in food status is explained by the participation in microfinance programme or this difference is due to participation in microfinance programme. An index of health status was developed for comparisons between two groups. The maximum score of that index represent the better health and access to better health facilities and relatively minimum score represents the poor quality of health. Table 5 discloses that the clients have higher mean score of health status 4.5061 as compared to non-clients who have lesser mean score of 3.7177. The mean difference is equal to .78834, ($t = 5.061$, $p=.000$). In other words we can say that the clients have statistically significantly higher mean score on health status than non-clients. As ($p = .000$) and it is ($p < .05$) so our null hypothesis is rejected. Eta square of health status is calculated as follows:

$$\text{Eta squared} = 5.061^2/5.061^2 + (100+100-2)$$
$$= 0.11$$

In our eta square output as calculated above it is 0.11 we can say the effect of participation in microfinance programme has moderate effect on food status. It shows the moderate effect of group difference due to independent variable, i.e. micro-credit, however it is close to large effect size 0.14 as stated earlier. When we multiplied the value of eta square by 100 it becomes 11%. Hence it might be possible to say that 11% of variance in food status is explained by the participation in microfinance programme or we can say that this difference is due to participation in microfinance programme. It shows the group differences of clients and non-clients.

Table 5 illustrate that the clients have more mean score 6.700 as compared to non-clients (6.6158) but we have to see next table for significance of difference. And ($t= .791$, $p=.430$) in other words we can say that there is no statistically significant difference of mean score of dwelling ownership and quality between clients and non-clients, as mean difference is (.08417). We can say from the above t-test the clients and non- clients have almost same quality of dwelling and living standards. Because the difference is not statistically significant on mean scores. As it is described above that there is no statistically significant difference of standard of livings between clients and non-clients. Our null hypotheses is rejected because the p value = .430 that is greater than significance level 0.05.

Conclusion

The aim of this was to investigate the impact of microfinance on nutrition status, health status and standard of livings of the borrower households of microfinance institutions. On the basis of certain selected social indicators, comparisons between borrowers and non-borrowers are also made using independent sample t-test. The study found that due to micro-credit, expansion of existing business or starting a new business is possible for the poor, by doing this they might be able to get better food, better health facility, better standard of livings, etc. It is not as obvious as it is written. The condition is that the amount of micro-credit must be invested for fruitful propose from which something could be earned. It is not a one day game; it takes normally about three years. It was also observed that inspire of higher interest rates of microfinance institutions the borrowers are repaying their loans and also have demand for more credit. On the basis of comparisons between clients and non-clients, it was found that the client households of microfinance institutions have higher mean score of health and nutrition status and this difference is proved to be statistically significant. However, the difference of mean scores of dwellings assets is not statistically significant. Microfinance is a means to obtain the financial services but not an end by itself.

Recommendations

The study found that micro-credit has a positive impact on social indicators of the borrower households. And the standard of livings of the borrower households is better than non-participants to microfinance programmes. Participants of microfinance programmes are performing well on the basis of health, food, and housing quality, etc. However, the following recommendations are presented for further improvements in microfinance institutions programmes.

1. It was observed that the dropout ratio is increasing in the survey district, so the (MFIs) should find out the reasons of dropouts and try to overcome these problems.
2. It was observed that the sales officers of the institutions charges extra money from the borrowers to enter the name in final sanctioned lists it create a bad image of (MFIs).
3. Interest rates on micro-credit are very high. This requires a review.
4. Repayment schedule is very severe and it needs to be flexible in some exceptional cases.

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The microFINANCE REVIEW: Important Milestones

- The maiden issue of microFINANCE REVIEW, a journal fully devoted to publication of research on microfinance and related issues was launched by BIRD on July 25, 2009. This journal was unveiled by Dr C. Rangarajan. So far, six issues have been released.

- The journal shaping into its present form owes to contributions made by several committed people: Dr. Gyanendra Mani, Faculty Member, BIRD, for conceving the idea of the journal, the design and journal content, for being the Managing Editor of the journal since its incepton and coordinating the National and Regional Seminars on Microfinance; Shri S. K. Chatterjee, Director, BIRD (Jan 2009 to March 2012) for continued guidance and being the Editor for the first three volumes; Shri S. Balan and Shri R.K. Das in their capacity as Joint Director, BIRD for providing valuable inputs in maintaining the quality of the journal and guidance for conducting series of seminars. The contribution made by the officers of Centre for Microfinance Research, viz., Shri R. K. Thanvi, Shri T. Sudheer, Shri S. Krishnan, Shri P. C. Lenka in bringing out the journal on time and providing all administrative support should also be highlighted. The contribution of Shri. K. Kanagasabapathy and Smt. Rema K. Nair of EPW Research Foundation for editing, printing and distributing the journal need a special mention. The contribution of Micro-credit Innovation Department (MCID), NABARD for various supports including financial assistance is also placed on record.

- It would be worth recording the important milestones that the journal has traversed:

Date	Event
2008, 14 March:	The idea of launching a journal by BIRD conceived by Dr. Gyanendra Mani, Faculty Member, BIRD was approved by Shri V. S. Bhaduria, Officer on Special Duty, BIRD.
2008, 28 March:	The proposal for launching the journal containing details such as the concept, aims and objectives, membership and subscription was approved by the Governing Council of BIRD in its twenty eighth Meeting.
2009, 25-26 July:	The first National Seminar on Microfinance: Issues and Challenges was held deliberating on three themes namely, (i) Microfinance & financial inclusion; (ii) Microfinance and women empowerment; and (iii) Sustainability of microfinance operations and related issues. The inaugural session was presided over by Shri U C Sarangi,

Chairman, NABARD and Dr. C. Rangarajan, Hon'ble Member of Parliament was the distinguished guest of honour. The papers presented at the seminar were published in Vol-I, No-1 of the The microFINANCE REVIEW.

2011, 28-29 January: A special Seminar on 'Microfinance in North-East' was conducted by BIRD, Lucknow in collaboration with its sub-centre at the Indian Institute of Bank Management, Guwahati. The seminar deliberated and discussed on the following three themes: (a) Traditional microfinance forms, groups/ institutions and products (savings, credit, remittances, etc.) of North East Region; (b) Coping mechanism for various risks arising on account of the natural, social and economic interventions; and (c) Status and effectiveness of formal microfinance programmes (SBLP) including SGSY in North East Region in replacing the informal/ traditional system. The inaugural session was presided over by Dr. A K Bandyopadhyay, Executive Director, NABARD. Dr. Jayanta Madhab, Chairperson, RGVN, was the distinguished Guest of Honour. The papers presented at the seminar were published in Vol-III, No-1 of the The microFINANCE REVIEW.

2011, 21-22 February: The Second National Seminar on Microfinance: Issues & Challenges was held deliberating on four themes namely, (i) Agriculture and Microfinance; (ii) Tribal Economy and Microfinance; and (iii) SHG Bank Linkage Programme - Looking Ahead - The Roadmap; and (iv) Migrant Workers : Tackling issues relating to remittances. The inaugural session was presided over by Shri Amaresh Kumar, Executive Director, NABARD. Professor B. B. Bhattacharya, Former Vice Chancellor of Jawaharlal Nehru University, New Delhi was the Chief Guest. The papers presented at the seminar were published in Vol-II, No-2 of the The microFINANCE REVIEW.

2011, 02-03 December: The Third National Seminar on Microfinance: Issues & Challenges was held deliberating on four themes namely, (i) Regulatory challenges for client protection in microfinance; (ii) Enhancing outreach of microfinance: Role of Technology; (iii) Microfinance through co-operatives: Performance and prospects; and (iv) Revival of rural artisans, handloom and handicraft cluster bases: Potential role of microfinance. Shri Y.C. Nanda, former Chairman, NABARD was the Chief Guest during the inaugural session and Shri H R Khan, Deputy Governor RBI was Chief Guest during the valedictory session of the seminar. The papers presented at the seminar were published in Vol-III, No-2 of the The microFINANCE REVIEW.

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