Micro-Finance and Rural Development

A Critical Review

Kanak Kanti Bagchi

Introduction

KANAK KANTI BAGCHI

Micro-finance is a buzzword nowadays. It has attracted the attention of researchers since couple of years. Micro-credit used by Self-Help Groups (SHGs) has empowered its numerous members in India and throughout the world socially, politically and economically. Especially, it has been a boon to the women members. Although micro-finance is not a panacea for the empowerment of its members residing in rural areas, still it has been able to bring about a lot of positive changes.

The twenty-three papers included in this volume have been divided into two parts. In Part I altogether thirteen papers have been included which have delineated the general and conceptual issues of micro-finance. Part II comprises of ten papers which deal with case studies made by scholars in different states of India. The common tenor of the papers included in this volume is that while in some cases micro-credit programmes have indeed been able to achieve what they had primarily set out to do, namely, increasing the capabilities of the poor women, there still exist many imperfections in the implementation procedures which prevent the achievement of desired or better result.

In what follows we have summarized the findings of each of the paper. This will facilitate the reader, if s/he likes to instantly get an idea of the essence of each of the paper contained in the volume within a short while.

Dhar's paper infers that the enthusiasm about the rapid expansion of the microfinance sector is justified. But according to him care needs to be taken about the rapid commercialisation of this sector. High transaction costs and high lending interest rates need to be balanced, loan portfolios need to be frequently and prudently monitored, and sustainability of client groups and delinquency problems need to be addressed. Moreover, the guardians of the economy should keep a watch that fly-by-night MFI operators do not take the opportunity to spread their wings in the booming sector. Without the support of a good regulatory system for monitoring the sector and an educational system for delivering microfinance professionals, the microfinance boom may not sustain.

Palharya's paper has given a brief macro review of Indian economy followed by concept of inclusive growth, micro finance, and role of NABARD in the development of SHGs in order to make a dent on poverty. The study has not made a presentation of a comprehensive strategy of inclusive growth. It is limited in scope to the discussion of role of micro finance in inclusive growth. Shortcomings of the strategy of micro finance and suggestions have been given to make micro finance more effective tool to combat poverty and make growth more inclusive.

Sowani's paper concludes that if microfinance programs are to make significant contributions to pro-poor development and civil society strengthening, they need to develop explicit gender strategies to address the needs of women. These gender strategies need to look beyond just increasing women's access to savings and credit, and to organizing self-help groups to look strategically at how gender equality and women's empowerment can be promoted.

Suresh Babu in his paper has concluded that microfinance is an effective instrument to alleviate poverty in India. Hence, government should encourage SHGs and increase bank loan. He has suggested that the success of microfinance scheme in South Indian States should also be effectively implemented in north Indian states and north eastern states to reduce poverty ratio in India.

Raziya Parvin's has paper discussed in detail the concept of 'empowerment of women' along with its components, parameters and levels. It has also traced the genesis of self-help groups in India and analyses the basic strategy it adopts to promote the empowerment of women. Finally, the paper has focused its attention on the analysis of how the self-help groups goes along with the levels of empowerment of women and stood as an indicator towards the process of empowerment of women.

Renuka Devi and Nithya Kalyani in their paper express the hope that microfinance can be sustainable, can help the poor and still generate profits. According to them, the poor do repay slower than customers of traditional banks, which creates a trade-off between maximizing profitability and serving the destitute. The challenge for the industry is now to find efficient and reliable ways of providing a richer menu of microfinance products.

Kaur has suggested that proper policies, rules and regulations regarding purpose of utilization, rate of interest, repayment pattern, formation of SHGs, and involvement of each and every unemployed woman, poor men and not only rural but urban poor also in micro finance programme need to be made. Along with credit, training should be given for proper utilization of resources.

Sarvaiya's paper comments that in spite of its commendable success, its aims are far from achieved and MFIs have many frontiers to conquer and their reach has to be broadened. In order to alleviate economic poverty, MF has the onus of reducing the poverty and social empowerment of deprived masses. It has to achieve these objectives by carefully balancing the social factors with

economic factors influencing the rural economy.

Trivedi in his paper observes that while the micro-finance programme started with the objective of sustainably expanding the outreach of the formal banking system to the unreached rural poor, in the process it has created a doorstep microfinance system for the poor. These people's platforms have opened up opportunities for convergence of other social sector intervention and have set in a strong empowerment process leading to creation of a demand driven system

Rita Variyani in her paper states that by itself microfinance can achieve little. Many allied inputs are required—forward and backward linkages, appropriate skills and technologies as well as finance for fixed assets and working capital. Without working out this entire package, micro credit can easily become "macro debt", pushing the poor into traps they find very hard to escape.

Kumar says that micro-finance is now recognized as an effective tool to fight poverty by providing financial assistance that is neglected by the formal credit institutions. Micro-credit helps in reducing poverty, especially women and certain disadvantaged sections have universal access to integrated financial service of banks. The role of micro-credit in reducing poverty is now well documented all over the globe.

Vandra's paper relates microfinance with rural development. He opines that we need to broaden the paradigm from micro-credit to "livelihood finance". According to him the livelihood finance is a comprehensive approach to promoting sustainable livelihoods for the poor.

Patel's paper has suggested that micro finance programmes should provide women with specific adapted products through appropriate methodologies, which can offer competitiveness to their business but also well being to them and their families.

Gowhar Jhan and *Saradha's* empirical paper shows that the good practice of the women SHGs in the study area is repayment of the loan in time. They conclude that

the economic activities of SHGs are quite success. In this way SHGs are very successful to develop women empowerment in both rural and urban areas.

Munian in his study concludes that the SHG-Bank linkage approach is found to be an effective instrument by which very poor people can access hassle free formal credit without any collateral security and simultaneously improve their thrift habits. The approach also contributes to a social empowerment of the women.

Natarajan's study examines the rural women empowerment through Self-Help Groups (SHGs) and micro enterprises functioning in rural Tamil Nadu on case studies of some important enterprises which has been managed by the SHGs. The paper concludes that the members of SHGs should be more active, enthusiastic and dynamic to take innovative steps for women empowerment. In developing countries like India, the role of women SHGs for the eradication of rural poverty, women empowerment and upliftment of weaker sections of the society is very important.

Gowhar Jhan and Hima Bindu's investigation reveals that the respondents are earning more profits per annum after availing large amount of loan through micro credit and a large number of the respondents have known about micro credit through news papers and friends. Thus micro finance has emerged as a savior for the poor and down trodden people in the developing countries.

Antony's study has made an attempt to understand the impact of micro financing programme on the poor and the problems and difficulties of the poor who participate in the programme. He concludes that micro-finance is a remedy to alleviate poverty among poor, particularly women in a developing country like India. He suggests that like micro-finance, micro-insurance can also be encouraged to alleviate poverty and improve the socio-economic and political conditions of SHG members.

On the basis of the findings of his field investigation

Sahoo has provided suggestions to make the micro finance programme more effective for the economic upliftment of the poor. He concludes that though credit provided is micro in nature, it has produced macro changes in the lives of women who received it.

Kumar et al have studied the growth and performance/ functioning of self-help groups in Punjab and to assess the impact of these SHGs on empowerment of women in the state. The study found that the number of SHGs increased substantially in the country but their distribution was skewed at state level as well as at the district level for several reasons. They have prescribed many viable suggestions for strengthening the role of SHGs in empowering women.

Ray Datta's paper has made an attempt to assess the impact of SHG involvement on women in selected areas of three districts of northern West Bengal. She concludes that while micro-credit is not a panacea by itself, it is definitely capable of initiating a positive direction of change in the lives of the women stakeholders. It has the potential to enrich their lives in more ways than one, both in the narrower materialistic sense as well as in a broader perspective.

Ramesh has studied the functioning of the Keelottivakkam Grama Sangam (KGS), an NGO, working in the rural areas of Kancheepuram district of Tamil Nadu regarding its assistance to the physically challenged persons and to analyse the impact of the micro finance assistance provided by the KGS on the economic conditions of the rehabilitated persons.

Ramachandran et al's paper has made an attempt to probe into the role of Self-Help Groups (SHGs) as vehicles of social mobilization in women development in the rural context of Tamil Nadu. The study has found a very high degree of cohesion among the SHGs.

PART - I

CONCEPTUAL AND GENERAL ISSUES

1

Sustaining the Microfinance Boom in India: Role MF Regulation and Education

SAMIRENDRA NATH DHAR

Introduction

The last decade in particular has generated unprecedented interest in microfinance operations, systems, outreach, viability, impact, institutionalisation and regulation, fuelled by the remarkable success of institutions like the Grameen Bank in neighbouring Bangladesh and BRI, BancoSol and others in more distant lands. The performance of organizations like NABARD and other microfinance institutions have convinced many a cynic that microfinance can indeed make a difference in the lives of millions of poverty ridden people by providing alternative mechanisms of thrift and credit. The state of people just managing to scrape out a living in the world is grossly sordid. Over 500 million of the world's poor subsist on $2-3 per day but are economically active. They earn their livelihoods by being self-employed or by working in micro enterprises (very small businesses which may employ up to 5 people). These poor households

often fail to secure the capital they need and miss opportunities for growth because they do not have access to financial resources, loans or a safe place to hold savings. Over 80 per cent of all households in developing countries do not have access to institutional banking services. This includes nearly all the poor people in the developing world. When there are no financial institutions to serve them, poor enterprises and households rely largely on informal sources such as family, friends, suppliers or moneylenders for their financial needs. Here stems the need for financial inclusion so that delivery of banking and financial services can be made at an affordable cost to the vast sections of disadvantaged and low income groups in a country.

Microfinance programs taken up throughout the world are aimed at financial inclusion of the impoverished by providing thrift, credit and financial services and products of very small amount to them in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. Micro finance contains both micro credit and micro savings even though micro finance and microcredit have come to be used interchangeably.

Though the pioneering efforts at providing microcredit was made by Prof. Yunus in the seventies, the worldwide impetus really took off after the 1997-World Microcredit Summit—held in Washington DC-target which targeted at eradicating poverty of 100 million poorest families within 2005. Declaration of 2005 as the international year of microfinance and awarding Prof. Yunus and Grameen Bank with the Nobel Peace Prize in 2006 are recent phenomenon which highlights the significance and recognition of this movement.

Microfinance Initiatives and Boom in India

Eradication of poverty has been on the agenda of government of India since early fifties. However, the

strategy of direct attack on poverty was formulated in the early seventies and special programmes for the poor were introduced in the Fourth Five-year Plan. Expansion of employment generation programme mainly was based on financial assistance or loan. Government and other NGOs generally issued loan and financial assistance to the rural individuals. The development agencies were busy to forbear by providing single dose of financial injection to a fixed portion of vulnerable section of rural mass. The recipient of the financial assistance, very often, was unable to utilise the issued fund for the productive purpose and spent the fund for the consumption purposes. As a result in some cases, it was difficult to find out the existence of micro enterprises in the rural areas. The government of India launched many programmes like IRDP, DWCRA, TRYSEM, SITRA etc, which aimed to finance micro enterprises. As a significant initiative towards antipoverty programme Govt. of India launched Integrated Rural Development Programme in the year 1979-80, which aimed at providing self-employment opportunities to the rural poor through assistance in the form of subsidy and bank credit to enable them to acquire productive assets and appropriate skills to cross the poverty line in a sustained manner. However, it is estimated that only about 20 per cent of the borrowers have crossed the poverty line after assistance.

Sen (2003) observed that IRDP which was vigorously implemented in West Bengal as the single largest poverty alleviation programme during 1989-90 could not create a sizable impact on poverty. He stated that loan under IRDP "equated with benevolent grants of the government. Many did not create assets because of pressing social and consumption needs. Many felt that the loans would eventually be remitted. As a result, very few could cross poverty line. Defaults were all pervasive involving heavy costs all around". Narasimham Committee (1998) observed that "the experience with the implementation of

government sponsored programmes has also not been altogether happy and instead of developing a sustainable ongoing bank-client relationship, the IRDP and other government sponsored programmed have become a one shot operation of lending." Kulshrestha (2000) identified that in spite of administration of these programmes lack of capital was a serious constraint to development for development for women micro entrepreneurs in rural areas. These situations urged to find alternative sources of finance for sustainable development of micro enterprise. This urgency of credit needs has fuelled the emergence of microcredit programmes, or in the wider sense microfinance programme. "In India group based programmes have engaged first and foremost as a mechanism to allow the poor access to financial services that they have historically been denied" (Sen, 2003). Such programmes have been administered for the last two decades in a variety of forms and have multiplied rapidly. The switch from traditional financing programme to microfinance programme was seen as a welcome step by many and the results were expected to be at higher benchmarks witnessed in many countries. Due to the large segment of the population living in poverty, India is tactically important in the global context to alleviate poverty and to achieve the Millennium Development Goal of halving the world's poverty by 2015. Microfinance has been prevalent in India in a variety of forms since the 1970s and is now widely accepted as an effective poverty alleviation strategy. Over the last decade the microfinance industry has achieved significant growth in part due to the participation of commercial banks and other MFIs. Despite this growth, the poverty situation in India continues to be challenging. The pace at which the movement took off in India in the early nineties and the short span in which the microfinance system gained maturity in India is phenomenal. No country in the world having a matured microfinance system works with a single model. In India while the Self Help Group model predominates, there are variations in promotional

and feeder systems to these groups depending on whether the programme is a Government one or is being monitored by NABARD or other MFIs.

In the year 1992, NABARD issued operational guidelines to the commercial banks for a pilot project for linking 255 Self Help Groups to the Banks. The SHG-Bank linkage model was innovative and endeavoured to link the formal banking system to the informal groups in a cost effectual manner. This was an attempt to develop a simple and transparent auxiliary credit system for reaching the rural poor with rewards to both the banks and the rural poor. NABARD's scheme was founded on the understanding that the branch net work of the banks in India was quite large and had the potentiality of considerably increasing the outreach of the banking system to the impoverished specially the poor.

The SHG-Bank linkage programme has registered tremendous growth under the NABARD initiatives and the launching of the Swarnajayanti Gram Swarojgar Yojana. According NABARD reports, at the end of March 2007 total 2294380 SHGs have been linked and financed by banks. The cumulative loans advanced by the banks aggregate to 1425 billion rupees from a meagre 2.89 million rupees in 1992. The rapid rate at which the model has scaled-up, particularly since the late 1990s, is truly remarkable.

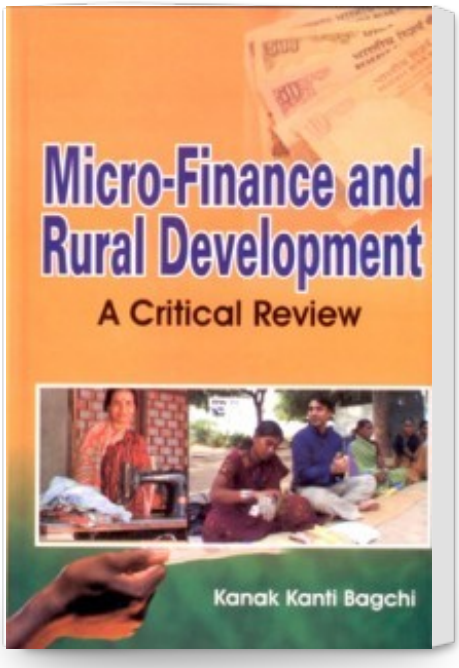
The microfinance movement in the form of SGSY has been initiated in India on 1st April 1999. As an initial breakthrough, total 292426 groups were formed under SGSY in 1999-2000. Registering a ten fold growth in eight years only, the total count of SHGs under SGSY at the end of March 2008 stands at 2869542. The loans outstanding are to the tune of 1934 billion rupees. The cumulative figure under these two programmes have crossed the 5 million mark already, surpassing the target of linking 1 million groups by 2008. The linkage programme has spread all over the country (31 State and Union Territories and 365 district). However, due

to the early start, more than 50% of SHGs have been linked in the southern region (Andhra Pradesh, Tamil Nadu, Karnataka, Kerala and UT of Pondicherry); this is followed by eastern region (Orissa, Bihar, West Bengal, Jharkhand and UT of Andaman & Nicobar Islands) and central region (U.P., M.P., Chattisgarh and Uttaranchal). Micro finance programmes through SHGs, introduced and expanded by non-governmental organisations (NGOs) in several part of developing countries like India, have reduced the problem of inadequate access of banking services to the poor (Rajasekhar 2000). The microfinance system through SHG-bank linkages have also increased individual and group savings as disclosed by several research studies (Rajasekhar 2000, Kumaran 2001, Lathif 2001, Kaladhar 1997, Majumdar 1997, NABARD 2002).

In addition to these programmes many other MFIs have been able to successfully replicate the Grameen model and also provide microfinancial services to joint liability groups, individuals and CDFIs. The network of delivery mechanisms not only includes commercial banks and regional rural banks , but also Local Self Government bodies, Non-Banking Finance Companies, NGOs-registered as societies and trusts, Companies under Sec 25 of the Companies Act, Cooperative Societies, Mutually Aided Cooperative Societies (MACS), Local Area Banks and Urban Cooperative banks. Today 60 largest MFIs in India have more than 10 million clients and outstanding portfolio of $ 769 million. *Forbes* magazine has placed 7 MFIs amongst top 50MFIs in the world. MFIs such as Bandhan, Microcredit Foundation, Saadhan Microfinance Services, are placed at higher ranks than Grameen Bank Bangladesh which holds the 17th position.

The growing microfinance sector can be attributed to the double benefits that are reaped by the SHGs on the one hand and by the banks and MFIs on the other hand. Market based interest rates, recovery rates more than 95%, low NPAs, lower transaction costs, large deposit mobilizations, quick recycling of loans etc. have

Micro Finance and Rural Development : A critical Review



Publisher : Abhijeet Publications ISBN : 9789380031163 Author : Kanak Kanti Bagchi