PREFACE

Microfinance\(^1\) is a strategy consisting of credit provisioning, savings mobilisation and insurance service designs, with the prime objective of small-scale financial provisioning for the promotion of micro-entrepreneurship. In the recent past, microfinance schemes have increasingly been used as an effective tool to address poverty by the policy makers and the development planners in the developing nations of Asia, Africa and Latin America. Through provisioning of credit to the poor who usually do not have direct access to the formal financial institutions, microfinance schemes principally cater to diversify the resource endowment at the disposal of vulnerable households, and thereby considerably impact on poverty and vulnerability. One of the striking manifestations of the efficacy of these schemes can be evident in the innovative design of institutional arrangements in financial provisioning by Grameen Bank\(^2\) in Bangladesh. The Grameen strategy solely focuses on lending to groups of individuals who are jointly liable for a single loan, instead of lending directly to individual borrowers. Grameen or similar group-based credit lending approaches have been adopted by Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), Bangladesh Rural Development Board (BRDB) in Bangladesh, Society for Helping Awakening Rural people through Education (SHARE), Credit and Savings for the Hardcore Poor (CASHPOR), Professional Association for Development and Action (PRADAN), BASIX in India, BancoSol in Bolivia, and many other microfinance institutions (MFIs) in different developing countries to serve the credit needs of the poor or the low income clientele. Apparently, the group-based credit approach emphasises on the basic principle that peer selection, peer monitoring and social capital among the group members can be utilised to overcome many of the problems associated with asymmetric information in credit markets, such as adverse selection, moral hazard and problems of enforcement.

\(^1\) Microcredit refers to provisioning of credit services whereas microfinance includes savings, credit and insurance services. However, both the terms are used interchangeably in the literature without strictly following the literal meaning and so they are used here.

\(^2\) Grameen Bank of Bangladesh was established by Prof. Mohd. Yunus in 1983 to facilitate credit provisioning to the poor households who do not have access to formal financial institutions. As well known, Prof. Yunus got the Nobel Prize in the year 2006 for the popularity of Grameen Experience. For details about Grameen, browse through the website, http://www.grameen-info.org/bank/hist.html.
Despite the enthusiasm of the development practitioners in spreading microfinance to every nook and corner of the world through replication of successful models that have worked elsewhere, scholars divide in opinion about its long run viability and are also critical about the objectives to be achieved. While some exponents have argued microfinance as a poverty alleviation strategy, the critics are skeptical about the achievements. Rather, the later have argued that credit is an input in production and not an effective tool to alleviate poverty. In addition, many studies have questioned the outreach of these programmes to the targeted. While there is a debate among the scholars on whether microfinance can be an effective instrument against poverty, studies have also come out with a synthesis which illustrates the existing tradeoff between outreach and impact, and suggests that the trade-off can be manipulated by appropriate innovations in institutional designing, in particular, provisioning of credit along with support services and incentives for the borrowers. The recent developments in microfinance services affirm this innovative strategy of integrated 'credit-plus' approach instead of simple credit, in many developing countries of Asia, Africa and Latin America.

The growth of microfinance programmes in India has been enormous during the last decade. The variety of microfinance service providers in India can be classified under two broad categories:\footnote{The informal lenders, including moneylenders and various social networks, can also be categorised as microfinance providers. But they are not legal entities or organisations.} \textit{formal}\footnote{The formal financial institutions are regulated by the Reserve Bank of India (RBI) or government.} and \textit{semi-formal}. The formal banking sector constitutes the first category. They include National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Housing Development Finance Corporation (HDFC), Commercial Banks, Regional Rural Banks (RRBs), and the credit co-operative societies. The semi-formal institutions consist of a variety of NGOs/ MFIs who are not institutionalised under the umbrella of financial sector but they obtain the support of formal financial institutions in the formation of self-help groups (SHGs)\footnote{The SHGs can be formal or non-formal group of individuals.} and facilitate microfinance provisioning. These are regarded as alternative institutions, whose emergence in recent years has been mainly attributed to the failure of supply of microfinance by the formal agencies, on the one hand, and there exist large demand for financial services by the poor, on the other. Evidently, these semi-formal institutions have become the dominant players in this sector today.
But microfinance still plays a modest role in India. At the All-India level, less than 5 percent of poor rural households have access to microfinance (as compared to 65 percent in Bangladesh) but significant variations exist across states. The southern states in particular, account for almost 75 percent of funds flowing under microfinance programmes, while in many of the poor states the outreach of the programmes is quite dismal. The approaches of microfinance service providers vary across as also within regions. Some programmes have followed Grameen Bank model, but the most popular approach in India is NABARD's SHG-Bank linkage programme. While there are some commonalities of the SHG approach with Grameen, there are also critical differences among them. However, these programmes have commanded a large outlay in the name of poverty alleviation and many of the rural development policies have been directed to accommodate SHG promotion. Importantly, there is no systematic investigation into the outreach and impact of the programmes on rural poor, especially in the backward regions, envisaging absence of astute regulatory mechanisms.

In this backdrop, the overarching objective of the present study is to evaluate the outreach and impact of microfinance programmes on the rural poor in the backward region in India, where incidence of poverty is high. The scope of this study is confined to one of the poorest regions of the country, namely, Madhya Pradesh. The other major objectives of the present study are as follows:

- to examine the effects of changing financial policy environment on trends and patterns of institutional credit delivery to rural areas, particularly the poor;
- to examine the outreach of microfinance programmes across major states and their interrelationship with poverty;
- to measure the depth of outreach and the impact of the programme participation at household level and also across programmes and regions;
- to assess the sustainability of the programmes by analysing the household, group and programme characteristics that may affect loan arrears.

The present study adopts a comprehensive evaluation strategy by combining macro and micro data to assess various aspects of rural financial institutions in general, and

---

6 Institutional mechanisms vary between SHGs in India and Grameen groups in Bangladesh although both are group-based credit lending institutions. For example, one of the basic premises of Grameen group-lending is joint liability which is not adopted by SHG-Bank linkage programme.
microfinance in particular. The macro findings are corroborated by in-depth micro level evaluations. The estimation from micro data incorporates most advanced econometric techniques in evaluating outreach and impact of possible outcomes and also tests their robustness. It may be noted that the micro data are collected using both quantitative and qualitative techniques. The idea is to explain the quantitative findings by qualitative evidence, because sometimes some exceptional pattern observed from the quantitative questionnaire may not be explained in the absence of more useful qualitative observations. The combination of quantitative and qualitative explanations substantiates our findings to a greater possible acceptable level. In all, attempt has been made to explore a comprehensive assessment of the characteristics of rural households, their access to rural credit market, financial sector policies in influencing rural banking, institutional support to microfinance and the progress of microfinance programmes across regions. That apart, the study also estimates the repayment performance of the group-based credit by taking into consideration the household level, group level and programme level characteristics. The overall structure of the present study is briefly outlined below.

The study consists of seven chapters, apart from conclusion. Chapter one introduces the study by highlighting the theoretical propositions on credit provisioning to rural poor. This follows by overviewing the experience of group-based microfinance approaches in a comparative international perspective along with the relevance of the study for current Indian microfinance scenario. The second chapter analyses the fundamental characteristics of rural households in India and the role of institutional and informal credit agencies in providing credit access to poor. The third chapter examines the trends and patterns of microfinance programmes and attempts to correlate the outreach of the programmes with poverty characteristics. The fourth chapter outlines the framework of the fieldwork, key research issues and empirical research methodology. The rest of the three chapters are based on analysis of survey data. The fifth chapter measures the outreach of microfinance programmes and targeting of the poor. The sixth chapter measures the impact of microfinance programmes on outcomes of credit market participation and also household income. The final chapter measures the delinquency of group-based credit by considering the household, group and programme specific characteristics.
ACKNOWLEDGEMENT

My friends have been my constant support in this endeavour, which perhaps could
not have been accomplished without their steadfast support both emotionally and
intellectually. I am eternally indebted to all of them and owe this piece of work to
them first.

I must take this opportunity to express my heartiest gratitude to my esteemed
supervisor Prof. Ravi S. Srivastava, whose intellectual ingenuity, unflagging support
and avid suggestions have helped me in completing this academic exercise. I am also
grateful to him for his patience with my methodical pace of research. During these
years, I have also worked under him in different academic assignments. While his
passionate research has often inspired me, it has also remained as a challenge for me to
cherish. They have been great learning experience for me for which I remain obliged
ever. I would also like to express my gratitude to Dr. Nisha Srivastava for her constant
support and inspiration.

My sincere reverences and my deep gratitude to our revered teacher Prof. Amitabh
Kundu, for his scholastic co-operation and steadfast appreciation throughout my
research work. Working under his guidance is a blessing and he has been not only a
great teacher, but also an ideal at personal level. I would also like to express my
gratitude to Debolina didi (Dr. Debolina Kundu) for her encouragement throughout
this work.

I express my profound gratitude to a number of eminent academics who have helped
me to bring this research to fruition. I have immensely benefited from Dr. Aliou
Diagne (CGIAR, WARDA) for his timely suggestions on evaluation design, estimation
techniques and also software handling. Prof. William H. Greene has time and again
provided his feedback on econometric model selection. Prof. K. Nagraj at a training
workshop of Foundation for Agrarian Studies introduced me to the complexities of
fieldwork and provided invaluable suggestions in designing sampling framework. Dr.
Anup Karan, Dr. Sandip Sarkar, Prof. Arup Mitra, Prof. D. N. Rao and Dr. Pradeep
Srivastava have provided invaluable comments and suggestions on different aspects of
research at various stages, including measurement issues and analysis of results. Prof.
Saraswati Raju, Prof. R.K.Sharma, Prof. M. Vemuri, Dr. Atul Sood, Dr. Deepak
Mishra, Dr. Dipendra N Das and my department professors have constantly inspired
me with their insightful comments and feedback on the subject of my research. I
express my heartiest gratitude to all of them. I also express my heartiest gratitude to
Dr. Alakh N Sharma for his constant inspiration in completing this academic
endeavour.

I am deeply grateful to Dr. Vijay Mahajan for his invaluable feedback in
conceptualising the study design and carrying out the fieldwork. I am also grateful to
Ms. Madhu Khetan, Dr. Narendra Nath and Ms. Kavita for introducing me to
PRADAN microfinance programmes and providing logistic support in conducting the
fieldwork. Several rounds of discussion with them regarding my field observations
have boosted my confidence on accuracy of my results. My deep gratitude to the staffs
of SAMARTHAN and SEWA for their selfless support in carrying out the field survey;
in particular, I would like to thank Safiqueji, Mukeshji, Dineshji, Chandan, Rolly, Mukhatiji, Santoshiji and Abhilashaji.

I am highly appreciative of Mr. Srinivas Pande for his sincere and able research assistance during the fieldwork. The discussions with him in the evening, after the day's work, were very much enthusiastic and insightful about different aspects of the village and the existing variety of institutions in the village. I remain grateful to him.

I am thankful to Mr. Balwant for organising my field data and giving it shape in computer. I would like to thank the SHARP study team that has not only helped me in arranging my logistics for the fieldwork, but also immensely helped me in making familiar with the local economy of Madhya Pradesh, through the field visits to a number of regions. I thank Sophie, Michael, Anita and Asha and Garry, particularly for his motor bike without which I would have faced much difficulty in reaching my field area, as most of them are in remote areas.

I would be a privilege to express my gratefulness to Dr. Anuradha Rajivan, Mr. Ramesh, Mr. Chune, Ms. Renata and other colleagues at UNDP regional centre, Colombo, who have time and again extended their overwhelming support at difficult times in making this endeavour a success.

My sincere thanks to the library staffs of NABARD (Bombay and Bhopal), RBI (Bombay), NCAER, IEG, NIPFP, ISI, DSE, IHD, JNU EXIM BANK and JNU CENTRAL in Delhi for their active support in sourcing materials and facilitating my study. Moreover, the online journals subscribed by JNU, such as JSTOR and Science direct have immensely benefited me in sourcing materials, which was not possible earlier. The quality of research is certainly affected positively by access to quality journals through on-line search. I, therefore, highly appreciate this effort of our library.

I would like to thank the university administration, Centre office, School office and hostel office staff for their co-operation through out the course of the study. I also extend my thanks to ICSSR for providing me partial research grant to carry out this research.

I have no words to express my gratitude to the timely help of some friends and seniors at different stages of this research. I express my first and foremost gratitude to Bapy. He encouraged me to join JNU and has been instrumental in overcoming any hardship that has come during the course of time of my stay in Delhi. I have no words to express my feelings for all his support, encouragement and care. He remains imprinted in any of my success. Dillip, Sameer, Ramakant, Prabhakar, Allen, Gullu, along with family (Bhauja), also Supriya and family, have been constant source of moral support and immense encouragement throughout this exercise. I also express my gratitude to my friend and family Rama, Deepti, Tulu, Gauranga, Manoj, Debidatta and all my friends from childhood.

Among the seniors, I remain grateful to Nira bhai (Dr. Niranjan) and Bachuda (Mr. Bal Paritosh) for their painstaking work of editing and also timely support. Nira bhai has always been a loving senior. I cherish the moments shared with him for his
intellectually stimulating discussions and the passion for research and action. Bachuda has been a continuous source of inspiration as well as support since I join this university. He introduced me to Prof. Amitabh Kundu. He is always a senior I have depended the most at times. I remain grateful to him ever.

I am also grateful to Samir, Vikas, Partha, Fakir, Ajay and Bibhu for their support in editing of the draft and stimulating ideas for discussion. That apart, it would not have been possible for me to properly organise my work without the dedicated support of Fakir, Ajay and Bibhu who have extended their overwhelming support when I needed the most. My admiration knows no bounds about Nishikant and recently, Marshall. I am also highly appreciative of support from Uma bhai, Bibhuti bhai, Damo bhai, Suman bhai, Basuda (Basant bhai), Anoop bhai, Partha bhai, Vinod bhai, Satyanand bhai, Padhi sir, Bubun, Tolly, Sujit, Samir (sociology), Debasis, Amresh, Prabhas, Johnson, Manas, Prabodh, Jyoti, Dilip among others. I also express my deep gratitude to Pradeep, Netajee, Mrinal, Vincent, Sumanta, Baboo, Prabhu, Manoj, Santosh, Mitu, Saroj, Manoj (sociology), Gopal, Iswar, Sambit, Raja, Tusar, Subhajit, Brundaban, Shravan, Balu, Ajay, Nilu, Deepak, Rati, Virendra, Susanta, Susanta (history), Chitta, Biswanath, Chitra bhai, Motiniva, Animesh, Pritish, Elumalai, Sekhar, Amarjit, Nandan, Nagendra, Prakash, Shashank and many more. My sincere gratitude to Rajnish, Haldhar, Amit, Manish, Kamal, Rajeshji & Bhabi and Jayanandaji & Bhabi who extended their helping hand when needed.

I would like to mention gratitude to my family members, especially to my nephew Lulu, Lipi, Pinky and Satyajyoti, Bhaina and Nuabou, and my mother for their constant source of inspiration and appreciation throughout the work. My special gratitude to Mamali, Bablu, Dharmanand Bhaina and Nuabou for their steadfast motivation and encouragement. I would also like to mention gratitude to Bapini and Papuni, and my Nani and Bhaina for their constant encouragement in completing this endeavour. Further, I owe my gratitude to all my relatives, as it is not possible to write out every body’s name here.

I can never imagine this voluminous work without the support extended to me by all those persons, including the anonymous respondents I have come across in my fieldwork. I bow before all of them, for their active support and kind cooperation in the completion of this work.

I would like to express my sincere gratitude to Ajay, Bibhu, Fakir and Partha for the production of the thesis.

Having been privileged in receiving such sympathy and support, I own responsibility for all the errors or omission that might have crept in the work.

NIRANJAN SARANGI

New Delhi