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CHAPTER FOUR
MICRO CREDIT

4.1 Introduction:
The formal banking sector is disinterested towards finance for the poor. The formal sectors ready to give loan for productive activities and higher amount whereas the poor people, majority of them landless and non-cultivators, need credit mainly for financing income consumption gap or tiding over occasional crises and emergencies. Obviously the poor people are not able to complete terms and conditions of formal sectors. Over the last decade government financial and NGO’s made efforts for the finance to poor. To develop new financial delivery approaches to combine the safety and reliability of formal finance and to convey about flexibility, which is typically associated with informal sector, these are main objectives of the efforts. These micro finance approaches has involve providing thrift, credit and other financial services and products very small amount to the poor. The aim is to raise income levels, to improve the earning capacity and improve living standards.

Micro finance plays a modest role in India. At the all India level less than 5% of the poor rural households have access to micro finance, in Bangladesh it is 65%. The beginning was made with NABARD pilot project in Karnataka (1991-92) of linking self-help groups with formal banks mediated through the NGOs, Mysore settlement & development agency. This project was expected to be advantageous to the banking sectors form the angle of both fulfillment of its social goals & achieving operational efficiency.

The project got success in building a bridge between the banks and the poor. There was institutionalization in 1996 by the Reserve Bank of India as a normal ending activity of banks under priority sector and service area approach.
The NABARD initiative clearing brought in an additional constituent in the financial sector in the country. What started, as a “pilot” has now become a movement?

4.2 Definitions:

1) The Micro Credit summit held in Washington DC during February 1997 has defined Micro Credit as “Programmes that provide for self-employment and other Financial and business Services.”

2) Micro Credit as defined by Grameen Bank, symbolizes small loans extended to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families.

3) Micro Credit is the means to meet the credit needs of the poor.

4.3 Need For Micro Credit:

The poor have traditionally been dependent for their credit needs on the money lender, who are not only easily associable but are also exploitative source of credit. The formal credit system of banks, by and large is beyond the reach of the poor except for farming communities or those covered under, the target oriented programme like IRDP.

Thus, meeting the credit needs million of poor men and of poor men and women engaged in traditional handicrafts, hand looms, artisan actives, agriculture and the allied occupation, vending retaining, repair and services sector actives is not only socially but also politically desirable.

4.4 Rural Micro Credit:

Credit is important in the lives of the rural poor in a developing economy. As the distribution of land in the countryside remains skewed the majority of the rural population is left with an inadequate resource base for production. Faced with a weak social security system to fall back upon, this section of landless or near landless rural population is forced to depend upon credit for its livelihood.

Social Banking can be described as “the elevation of the e of entitlements of previously disadvantaged group to formal credit even if this may entail a weakening of the conventional banking practices” Under this policy the initiative
and direct involvement of the state was central to the development of the banking system. In India this policy led to nationalization of major commercial banks in 1969, adoption of the directed lending programme, development of credit institutions such as Regional rural Banks and implementation of the Integrated, Rural Development programme (IRDP), a credit based poverty alleviation programme implemented through commercial Banks.

4.5 Micro Credit Finance Models in Bangladesh:

Bangladesh, with per capital Annual income of around US$ 254 only is one of the poorest and least developed countries in the world. Among the rural population the incidence of poverty was high at around 50%. It was equally high at around 42% among the urban population. Significantly, both among the rural and urban poor around one third were the hard core poor. Under such policy imperatives the government of Bangladesh evolved multi-pronged strategies and programmers to address the problem of poverty in country. The post independence era in Bangladesh i.e.1971 on words, witnessed emergence of a new phenomenon in the country, mainly in terms of social re-engineering and growing sensitivity of the people at large and the womenfolk in particular.

By the late 1970 some of the micro finance institutions such as Grameen Bank and BRAC had not only experimented with the new concepts of credit but also developed their firm roots to provide greater access to different sections, including the hard-core poor. The operational network is of micro finance in Bangladesh in a little less than two decade has assumed the scale and intensity to cover almost the entire width and length of the country.

4.5.1 Features:

(i) **Mission & Visions:**

The selected micro finance institutions operated under well defined missions and visions often with similar and common corporate goals and objectives, prominently, they included empowering the landless and disadvantaged rural people, raising income levels and economic status of these people, eliminating exploitation of the poor by village
moneylenders, and above all reversing the age old vicious circle of poverty by injecting credit input.

(ii) **Target Groups:**
The target groups for all of them were invariably the landless poor, particularly the women.

(iii) **Development Programmers:**
There were programme and projects that encompassed to render and facilitate development of people’s institutions, education promotion, and social reengineering. In some cases they had launched specific programme to promote literacy drive and awareness building with frequent occurrence of natural calamities, they had also incorporated disaster management schemes/projects as part of their missions and visions.

(iv) **Group**
The ‘group’ formed the basis of their structural and operational design. The method of group operation was, by and large, the same for different micro finance institutions. First these institutions would select their area of operation and make some formal or in formal survey of identify and understand the scope of launching their activates.

(v) **Relationship**
A Strong institutional linkage had been built up to help their groups in discharging their mandatory roles, for example for every 15-20 groups a village /fieldworker was provided to act as friend, philosopher and guide to the groups, as also the individual members. In the next tier one centre I Kendra was created for every 4-5 field workers. In some cases one centre I Kendra was opened for every 15-20 groups depending upon the activities of the groups under their command. In the final stage, there was one branch with a set of staff for every 8-10 centers I Kendra’s.

(vi) **Sanction and Disbursements:**
The sanction of loan as also disbursement there have invariably hassle free, as it did not involve much of formalities and running around to fill in forms. Moreover, there was commonality in the procedure of sanction and
disbursement of loan across these institutions. The branch had to communicate the sanctions and make disbursements in two weeks time. Again, in the case of large loans, then disbursements were made in 2-3 installments whereas for small loans the disbursements were made in single installment only.

4.5.2 Nature of Credit:

(i) **Type of Credit products:**
The micro finance institution in Bangladesh had introduced a wide range of credit products to meet the varying credit needs of the member borrowers largely, it included general loan scheme, supplementary loan scheme, disaster loan scheme, special loan for sanitation scheme, project loan scheme, entrepreneurship development loan, saving loan and seasonal loan, capital recovery loan and educational loan. Stipulations as also the terms and conditions of different credit products were designed by each institution separately to suit their clientele of specific credit products and were tailored in such a manner that one credit product did not cross over the other.

(ii) **Size of loan:**
The size of loan varied depending upon the nature of credit product. It was Taka (TK) 3000-15000 for general loan. TK 15000-50,000 for medium size, entrepreneurial activities and TK 1-10 lakhs for large size investment. The size of the disaster loan was relatively small in the range of TK 500-1500 to meet the emergency needs a rising out of floods and cyclones. For educational purposes it was up to TK one lakh, depending upon the needs and credit worthiness of the member borrower.

(iii) **Duration of Loan:**
The general loan that constituted the major chunk (70-80%) was given for one-year duration only Disaster loan us well as savings loan was also given for one-year duration. However, in the case of entrepreneurial activities and education purposes it was given for larger duration, mostly for 2-3 years.
(iv) **Rate of Interest:**

The rate of interest was not regulated by the central Bank of the country. As a result, each micro finance institution charged its rate of interest, depending upon the nature of credit product. Buro Tangail charged relatively higher rate of interest at 24% p.a. Again it was 12% for disaster loan and a mere 9% for educational loan, the rate was relatively high (15-18%) for general and entrepreneurial loans. The effective rate of interest in these cases, however, ranged between 24% to 36% due to monthly/quarterly compounding and levy of service charges etc.

(v) **Risk cover:**

With uncertainties of loan recovery due to variety of factors including moral hazards, personal calamities and investment becoming in fructuous, they seemed to adopt some mechanism to cover risk of their lending portfolios and buildup hedging fund. For example, ASA had introduced a product to cover risk on their lending. It was in the form of levying one-time insurance charges at the rate of 0.3% of the loan to be deducted at source from the disbursed loan amount.

(vi) **Nature of Collateral:**

Significantly none of these institutions insisted for any form of collateral for security and risk cover. Loans were collateral free. A simple agreement would be made between the borrower and the branch in case of large loans before loan was disbursed. Informal group guarantee was the hidden collateral in all these cases.

(vii) **Grace Period:**

All these institutions offered varying grace periods for loans repayment, depending upon the nature of the credit product. For example, Grameen Bank offered grace period of two weeks. ASA offered a little longer grace period of one week. In the case of Burro Tangle it was 8 weeks. However, the rationale behind offering grace period was not based on the time lag concepts of project financing, but simply to account for public holidays.
4.5.3 Repayment Ethics:
There seemed to be uniformity in the repayment norms as fixed and stipulated by different microfinance institutions in the country. For all types of credit products repayment of loans was to be made in equated installments, consisting of the principal as well as the interest. The repayment was to be made on a weekly basis to be paid in the weekly group meeting.

A) Performance Assessment:

The microfinance institutions in Bangladesh have been in operation for a sufficiently long period of time. How far have they succeeded in achieving their missions and visions? What is their efficiency profile? Are they sustainable in the long run?

(I) Coverage:

The three institutions under reference are among the few largest microfinance models in Bangladesh with relatively large coverage and outreaches among the rural mass. For example, the Grameen Bank with almost 7 Lakhs groups and 2.2 Crore members had spread its network all over the country. ASA on the other hand had location and region-specific presence with almost one and a half lakhs and nearly 10 lakhs memberships, mostly women, besides, ASA had associate members of nearly 5.4 lakhs persons. The associate members were not part of any group, but were enrolled simply to facilitate them to make deposits under various savings schemes promoted by the institution. Buro Tangail was relatively small and operatively mostly in Tangail region. It operated about 12000 groups with nearly 60,000 membership, mostly females.

(b) Loans and Advances:

The Grameen Bank had extended a cumulative loans and advances of TK. 18,800 million to its members as up to December 1998. In the case of ASA, the cumulative disbursement of loans and advances up to December 1998 was TK. 13588 million. For Buro Tangail, it stood at TK. 1737 million as on December 1998 per member disbursement of loans and advances. Thus worked out at TK. 8300 for Grameen Bank, TK. 10700 for ASA and TK. 6380 for Buro Tangail. It
may be clarified that a member might have taken as many numbers of loans as
may be his years of membership, working out the yearly loan disbursement per
member it comes to TK550 for Grameen Bank, TK 1500 for ASA and TK 1060
for Buro Tangail.

(c) Saving products:
These institutions also promoted thrift habits among the poor by introducing
various savings products popular savings products were general savings scheme;
contractual group’s schemes and time fixed deposit scheme as in the case of Buro
Tangail. ASA had introduced a number of savings schemes such as weekly saving
schemes, voluntary savings associate savings and long term savings. Grameen
Bank offered a still larger range of savings products viz. Weekly saving schemes,
contributory saving, emergency fund saving, children’s welfare fund and disaster
fund.

(d) Resource Base:
Significantly, these institutions were donor dependent, as almost 50% of their
resources were donor based. Concessional refinance support from PKSF, the apex
micro finance institution constituted nearly 15% of their resource base. Borrowing
from market, mainly the commercial banks constituted nearly 12%, whereas the
savings and deposits formed 18% only share capital and other resources
constituted nearly 5% of the total resource base of these institutions.

(e) Efficiency Profiles:
Data indicating efficiency profiles were available only in respect of ASA and
Buro Tangail. Strikingly, transaction cost was only around 5.3% Portfolio at risk
was around 1.0% Growth in financial assets was around 50% Effective yield was
29% for ASA and 40% for Buro Tangail. All these clearly suggest that financial
health of these institutions was sound.

A Centre had on an average 40 members, all females. A committee headed by a
chairperson city one secretary & four members managed it. The committee was
elected from among the group members for one year.
4.5.4 Adequate Income:
On being asked as to whether the loan was actually utilized for the stated purpose the members expressed readiness for verification of the assets subsequently. Some of the residences of the members were also visited & assets acquired out of the borrowings from the institution were found further pointed out that the investment made out of the loan generated adequate income. For e.g. Khursida, who had availed of a loan of TK 2000 for vegetable cultivation, responded that on daily basis for around 3 months she earned up to TK 50 after selling vegetables in & around the village.

4.5.5 Repayment:
They were making repayment of loan on weekly basis, failing which the member as well as the group had to face penalty charges. The repayment amount varied depending upon the size of loan. In consisted of both principle & interest as their payment obligation was fixed following equated installment method. The repayment ethics was of high order, as they were not found to default in making weekly repayment obligation. In the case of activities generating daily or weekly income, it was not difficult to effect the repayment. However, in the case of the investment having gestation period, the income earned from other sources by the family would be utilized for repayment.

4.5.6 Familiar:
The members seemed to be familiar with the general rules and regulations, governing the operations of the group. They also received non-credit services from these institutions. It related mostly to literacy programme, extension in health and hygiene, family planning measures etc. The members agreed that there was initial hitch, particularly among make members of their family.

4.5.7 Team Spirit:
Besides the team spirit was strong among them and it worked even outside the group-related work. Further, the groups were homogeneous with members having similar socio economic background. Members also seemed to have broken the traditional past and joined the development stream.
4.5.8 Branch Visit:
Some of the branches under whose jurisdiction that particular under group were conveniently located with access to all weather roads. One of them was right on the national highway itself. Those branches had average staff strength of one branch manager, supported by 6-8 assistants and one peon. They managed on average of 415 groups operating in the vicinity of around 50 Km

4.5.9 Weakness and Strengths:
(a) Weaknesses:
A closer scrutiny of the operations of micro finance models in Bangladesh revealed a number of weaknesses in terms of both conceptual framework as well as the operational design, adopted to achieve their missions. There was no doubt that they had to introduce a wide range of credit needs of their clientele. Important With increasing presence of these institutions, the credit accessibility level of the rural mass in Bangladesh and certainly improved in recent years. However, the accessibility continues to be restricted to the relatively better off sections, leaving aside the vast chunk of the hard core poor. Besides, it may be recalled these institution had introduced an inbuilt insurance premium in some of the credit products to be charged to the borrowers as a risk cover.

b) Strengths:
Weaknesses not withstanding, the micro finance models in Bangladesh did demonstrate a number of positive attributes, which rendered the negatives of these institutions look insignificant. These institutions function by and large with well-defined corporate missions, often enlarging their service I product basket to include both credit and noncredit functions.

4.5.10 Linkage:
More important linkages between and among the members, groups, centers! Kendra’s and the branch were observed to be well defined with strong bondage. Again the procedural simplicities in the sanction and disbursement of credit made these institutions flexible and accessible to rural mass. For example a member of the group could raise loan in a particular group meeting without making much paper work and visiting the branch office.
4.6 Worldwide Micro Credit Scenario:

Informal and small scale landing schemes have existed in many parts of the world since a long time recognition given to micro Credit lines in the success of micro credit programmes more ever, micro Credit summit held in Washington D.C in February 2-4, 1997 with representation by 13 7 countries generated interest in micro credit program.

CASHPOR is a network of 23 Grameen bank replications in nine countries of Asia. David Gibbon founder of CASHPOR claims to have the identified a very cost effective way of reaching the poor. The basic troll he describes as the housing index, which holds from china to Vietnam to the Philippines, Indonesia, India & Bangladesh. This indicator ‘house index’ which needs no interviews is used in all the countries. The three dimensions of the house for qualifying as poor are the size the physical conditions, building material and the material of the roof.

Bank Rakyat of Indonesia serves 12 million small savers & relies an character references. Thailand Bank of Agriculture & Agriculture co-operatives serves one million micro borrows & 3.6 million micro savers other institutions such as Association of Cambodia local Economic Development Agencies, self Employed Women’s Association Bank of India & Amanah Ikhtiar in Malaysia have progressed tremendously.

In later America the programme of “Banco Solidario” in Bolivia &“Press so” in Africa are characterized by relatively small loans. Women here are found to be the major beneficiary and the destination of funds comprises mainly agriculture distribution, trading, small craft and processing industries. Banco Solidario of Bolivia has grown from a modest credit providing Non Governmental Organization to fully commercial bank It provides financial services to more than one half of the total number of clients in the entire Bolivian has begun licensing a class of intermediaries (Private financial funds with lower minimal capital requirements).

4.7 Micro Finance in India:

First official interest in informal group lending in India took shape during 1986-87 on the initiative of the National Bank of Agriculture and Rural Development
As a part of this broad mandate, NABARD initiated certain research projects on self-help group as a channel for delivery of Micro finance in the late 1980's. Amongst these the Mysore Resettlement and development Agency (MYRADA) sponsored action research project on “Saving and Credit management of Self help Groups” was partially funded by NABARD in 1986-87. Other than NABARD list of organizations Mysore Resettlement & Development Agency (MYRADA) - Mysore Self Employed Women's Association (SEWA) - Gujarat Working Women's Forum (WWF) - Tamil Nadu Shreyas — Kerala Professional Assistance for Development Action — Madurai (PRADAN).

4.8 Performance of Micro Credit Programmes:

The performance indicators used in this review are discussed below:

i) Targeting the poor:

Micro credit programme institutions have generally performed better than the state led institutions for credit provision in vouching the targeted poor population. The performance of IRDP in targeting has been found to be strikingly poor. An expert committee of the Reserve Bank of India and IRDP found that, in many states, even the necessary preliminary surveys of the families below the poverty line had not been conducted. If also found that the attendance at village assemblies, where the beneficiaries were selected, was extremely poor. Independent evaluations by NABARD and the planning commission estimated that on average, the percentage of ineligible beneficiaries in IRDP were about 15-26 percent; in some places it was even estimated to be between 40% and 50% (Nabard 1984, Gol 1985, cited in Guhan 1986). Dreze (1990) argued that only in one among the eight households in the poorest (the unambiguously poor population) received any benefit from IRDP. The average beneficiary income in his study village was twice as high as cut off income specified under the programme. He also found that none of the landless household in the village received any benefit through IRDP.

Swaminathan’s (1990) Study villages were in two states, West Bengal and Tamilnadu. She found significant differences in the targeting efficiency of IRDP in these states. In West Bengal only 7.5% of the sampled beneficiaries were not
eligible for assistance. By contrast in Tamil Nadu 24-27% of the beneficiaries were not eligible for assistance. Under some specific categories, this leakage extended even up to 50% in Tamil Nadu. By absolute contrast Grameen bank has reported high success in reaching it targeted population.

ii) Increase in Earning and asset Holding of the Poor:
It has been pointed out by Swaminathans (1990) that the methodology of calculating income changes requires accurate estimates of base year as well as final year incomes A reliable methods can be to calculate income mobility of household given that one has income data collected during the two corresponding years. It is found that only Swaminathans study adopted such a methodology using panel data set for a village in Tamil Nadu between 1977 (before IRDP) and 1985(After IRDP), she found that the overall share of productive assets in total wealth remained unchanged over the period There was no difference in the patterns of income mobility between beneficiaries an non beneficiaries between 1977 and 1985. She concluded that the income impact of IRDP loans on the beneficiaries was only marginally positive.

Apart from the gains in income studies from Bangladesh found that there was smoothing of income and consumption for borrowers households due to micro credit (Morduch 1998, Zumain 1999, Khandkar 1998, cited in FAQ 2000). While Khandkar found that increase in and smoothing of consumption occurred together, in Morduch’s study, smoothing of consumption was not accompanied by an increase.

The period of retaining assets was longer for Grameen Bank participants that for IRDP beneficiaries. In case of IRDP, the share of households not keeping assets gained through IRDP for more than two years varied from 25% to 50%. However, in the case of Grameen Bank, Hossain (1988) found that there was a threshold increase with a period of 27 months in the amount of working capital employed by members; enterprises started with Grameen loans, further it was also found that the number of cattle owned by the members increased by 26% every year.
Employment generation and skill improvement:
Before examining the question of employment generation, it would be useful to consider the debates about benefits of generating self employment and wage employment. Scholars have taken two extreme positions on this issue. Dhandekar (1986) Rath (1985) and Dreze (1990) have argued that the generation of wage employment through large scale public works is the most effective strategy for the alleviation of poverty. Contrary to this others like Dantwala (1986) have supported the strategy of generating self-employment opportunities towards achieving this aim. While the latter school focuses on rational, such as self reliance, the former school has pointed out that market uncertainty and heavy debts can erode the self reliance of poor entrepreneur as well as their entitlement to employment (Dreze 1990)

For SANASA in Sri Lanka Hulme Montgomery and Bhattacharya, (1996) found that for non-agricultural loans, the increase in family employment was only 0.7 persons per enterprise. However, there was an increase in employment of four persons per household in the case of paddy loans.

4.9 NABARD and Micro Finance:
NABARD's efforts of improving the access of the rural poor to formal banking services through self help groups (SHG) gathered momentum during the last two years. The policy support for these efforts was provided by the Reserve Bank of India, which urged banks to mainstream financing of SHGs as a business activity.

4.9.1 Highlights of NABARD Achievements:
1) 18700 SHGs were financed by banks during 1998-99 taking the cumulative number of SHGs financed by banks to 33000.
2) Bank loans aggregating Rs.333 million were provided taking cumulative loans to Rs 570 million.
3) 560000 extremely poor families have been supported through micro credit with a per family loan averaging just Rs. 1000(US$25)
4) Over 200 banks participated in the programme through 3000 and odd branches.
5) 550 NGOs have participated as facilitators or financial intermediaries
6) Banks and government agencies were encouraged in some states to act as self-help group promoting Institutions (SHPIs)

7) Over 2000 bank officials were trained in micro finance (MF) besides 21 faculty members or training institutions of banks.

8) Over 250 officers of NABARD were trained through specially designed or (tailor made) programmes.

9) Resource NGOs were developed to facilitate entry of new NGO partners.

10) GOI Gal recognized the efforts successive Union Budgets.

11) An action plan for credit linking one million SHGs by 2008, which would cover almost one third of India’s rural poor, was evolved.

12) A high power task force was setup to examine and address various critical issues for the healthy and orderly growth of the micro finance sector in the country.

The proportion of exclusive women SHGs has been constantly rising and almost 89% of SHGs linked during the year were women groups. The cumulative share of women groups, which stood at 78 percent in 1997-98, therefore raise to 84% during 1998-99.

During the year 1998-99, SHG bank linkage programme made a beginning of the linkage in the states of Manipur, Sikkim and Jammu & Kashmir. Gradually the program spread to 22 states and 2 UTs and has linkage with 18,678 SHGs.

Over the past few years three broad models of SHGs bank Linkage program has emerged. These are:

1. Bank SHG- members
2. Bank (Facilitator Agency)- SHG- members
3. Bank NGO -MFI -SHG- members

In Bank SHGs members mode the bank itself acts as SHPI. It takes initiatives in forming the groups, nurtures them over a period of time and then provides credit to them after satisfying itself about their maturity to absorb credit. Although, the number of SHGs formed the linked by banks have more than double during 1998-99, the share of number of SHGs financed under this model remained almost constant at 17%. At least initially at some of the difficult function of social
dynamics are externalized and bank-tend to graduate to model after gaining sufficient experience.

The year witnessed a major shift in the strategy adopted, with government agencies in some states being equipped and encouraged by NABARD to take on the role of forming and nurturing SHGs, which was traditionally undertaken by NGOs. The innovation paid good dividends, resulting in the number of SHGs under the model increasing from 6587 in March 1998 to 18556 in March 1999. The share of SHGs financed under the model rose of 56% showing an increase of 10 percent points.

During the year 1998-99 total of 52 additional banks participated in the programme as partner banks for the first time making the total participating banks at 202 comprising 38 commercial Banks, 129 (RRBS) and 35 co-operatives.

Table 4.1

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<tr>
<th>Sr. No.</th>
<th>Bank Category</th>
<th>No of SHGS</th>
<th>% to Total</th>
<th>Bank Loan</th>
<th>% to Total</th>
<th>Refinance</th>
<th>% to Total</th>
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<tr>
<td>1</td>
<td>Commercial Banks</td>
<td>20,115</td>
<td>61</td>
<td>386.8</td>
<td>68</td>
<td>354.6</td>
<td>68</td>
</tr>
<tr>
<td>2</td>
<td>RRBS</td>
<td>11,610</td>
<td>35</td>
<td>166.6</td>
<td>29</td>
<td>152.4</td>
<td>29</td>
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<td>3</td>
<td>Co-Operatives</td>
<td>1,270</td>
<td>4</td>
<td>17.3</td>
<td>3</td>
<td>13.6</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
<td><strong>32,995</strong></td>
<td><strong>100</strong></td>
<td><strong>570.7</strong></td>
<td><strong>100</strong></td>
<td><strong>520.6</strong></td>
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During the year 28 new Regional Rural Banks (RRB) joined the linkage programme. The total number of RRBs participated in the programme rose to 129, forming 66% of the total RRBs in the country. Among the participating RRBs south Malabar Grameen Bank (GB) in Kerala has linked maximum number of SHGs (921) followed by Manjira Grameen Bank in Andhra Pradesh (850), Cauvery Grameen Bank (687) and Sahayadri Grameen Bank in Karnataka (622) and Kanpur Grameen.
Bank in Uttar Pradesh (434), many other RRBs had also started acting as Self Help Promoting Institutes.

NABARD has been promoting capacity building of its partners since the beginning NGOs have been the prime movers in the SHG Bank Linkage programme and have been involved in promoting, nurturing and training SHGs and affecting their images with banks. NABARD selectively provided grant assistance to help them achieve the task. During the year 1998-99, 27 NGOs were sanctioned such assistance for a total amount of Rs.9.4 million of their own capacity building as well as meeting some of the costs of promoting and training of SHG5.

4.9.2 Pilot Project of NABARD:

NABARD issued a board set of flexible guidelines in February 1992 to the formal rural banking system, explaining the projects modalities. The project was explaining the projects modalities. The projects were extended to the regional rural banks and co-operative banks in addition to the commercial banks in 1993.

The main objectives of this project were:

1) To evolve supplementary credit strategies for meeting the credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal financial institutions.

2) To build mutual trust and confidence between the bankers and the rural poor.

3) To encourage banking activities both on the thrift and credit sides in a segment of population that the formal institution usually find difficult to reach.

4) To improve, felicitate credit flow to rural poor with reduced transaction costs, both for the financing bank and to borrower (NABARD 1992).

The SHG linkage programme therefore attempts to bring together four trends and derives strengths from the positive environment created by these, independently of each other.
The trends are:

1) The maturing and expanding SHGs movement initiated by NGO sector
2) The focus on micro finance to the poor as strategy for poverty alleviation.
3) The ongoing national policy commitment to improve access to finance by the poor.
4) The policy environment for financial sector reforms within India.

4.10 SIDBI and Micro Finance

SIDBI has launched its new initiative viz. SIDBI Foundation for Micro Credit (SFMC) in November 1998 which become operational on January 1st SFMC provides need based financial support through loan and adequate capacity building support by way of grant to select potential MFI’s with the objective of developing them as strong and sustainable institutions delivering efficient credit to the poor.

In view of the productive steps taken by SIDBI responding to the needs of the Indian Micro finance sector received international recognition when SIDBI was awarded the coveted Asian Banking Award 1999 in the Development Finance Product I Programme category for its Micro credit scheme. The award, which is presented annually by the Association of

Since the inception of the Micro Credit Scheme till end March 1999 SIDBI had sanctioned a cumulative assistance of Rs 307.1 million to 142 Micro finance Institutions with a membership of around 0.2 million poor, especially women.

Features of SFMC and its operations are enumerated as follows:

1) Emphasis on promoting a separate channel for micro credit:
   SFMC focuses on developing a supplementary channel for providing micro finance services to the poor, in view of the inadequacy of the financial services available from formal financial sector. The endeavor of SFMC is to shortlist the well run MFI’s with potential for growth and support them to become successful financial intermediaries for servicing the poor.

2) Focus on financial viability:
The operations of SFMC are strongly oriented towards financial self sustainability combining financial acumen with the sensitivity needed to service a largely non-formal financial sector. The operational style of SFMC is dovetailing with the local ethos, culture and attitude of the clientele it sub serves.

3) Assured supply of long-term resources to the micro finance sector: One of the major constraints found by the MFI’s in India is access to long term loan funds, SIDBI foundations for micro credit having simplified the systems and procedures for its operations is geared to provide substantial long term funds besides much needed equity capital to the MFI’s based on track record and performance.

4) Networking with formal financial institutions:
SFMC is adopting a two-pronged strategy in its operations. Working with the MFI’s to make them more formal financial institutions and of the same time encouraging formal financial institutions to deliver micro finance products to the poor.

5) International linkages:
SMFC based on past experience and dynamic relations seeks to play a strong intermediation role in accessing internationally avoidable technology and skills on behalf of its MFI clients and to ensure transfer of knowledge across various levels in the sector.

6) Policy and Advocacy:
SFMC plays a strong advocacy role in policy forums on behalf of the sector. Thus SFMC is placed uniquely to operate a national level programme for promoting and developing the micro finance sector in India.

Thus with a long six years experience in its fold and given the support of Government of India and Reserve Bank Of India SFMC is poised to meet the various requirements of rural poor and uplift their standard of living by fostering enhanced flow of micro credit
to the poverty driven people of India particularly women in the years to come.

**SIDBI’s Financial Assistance in the year 2008-09**

During the FY 2008-09, SFMC has sanctioned an aggregate financial assistance of Rs. 1915.78 crore as against Rs. 768.74 crore during the previous year. Of this, sanctions by way of term loan assistance stood at Rs. 1872.15 crore to 76 MFIs as against Rs. 745.95 crore to 61 MFIs during FY 2008. Transformation loan assistance of Rs. 8 crore was extended to 10 MFIs during the year under review. The aforesaid assistance is expected to provide income generating avenues to about 19.62 lakh poor, mostly women. Total disbursements during the year stood at Rs. 1741.61 crore, as against Rs.713.73 crore in FY 2008. The comparative operational highlights are given in following table:-

**Table - 4.2**

**Assistance under Micro Credit (Rs.crore)**

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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Term Loans</td>
<td>745.95</td>
<td>695.80</td>
<td>1872.15</td>
<td>1686.75</td>
<td>3692.75</td>
<td>3252.02</td>
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<tr>
<td>2</td>
<td>Liquidity Management Support (LMS)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>6.60</td>
<td>6.47</td>
</tr>
<tr>
<td>3</td>
<td>Transformation Loan (TL) / Corpus Support for Transformation</td>
<td>0.00</td>
<td>0.00</td>
<td>8</td>
<td>8</td>
<td>23.05</td>
<td>19.05</td>
</tr>
<tr>
<td>4</td>
<td>Equity Support</td>
<td>13.71</td>
<td>5.71</td>
<td>24.18</td>
<td>24.05</td>
<td>39.89</td>
<td>30.76</td>
</tr>
<tr>
<td>5</td>
<td>Capacity Building grant to MFIs</td>
<td>5.36</td>
<td>7.00</td>
<td>3.28</td>
<td>12.15</td>
<td>67.04</td>
<td>58.78</td>
</tr>
<tr>
<td>6</td>
<td>Risk Fund for smaller MFIs</td>
<td>2.98</td>
<td>2.98</td>
<td>4.30</td>
<td>4.30</td>
<td>7.28</td>
<td>7.28</td>
</tr>
<tr>
<td>7</td>
<td>Risk Fund for Two-Tier</td>
<td>0</td>
<td>0</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>
### SIDBI Annual Report -2008-2009

The annual report of SIDBI gives information about the Micro Credit

#### 4.11 Conclusion:

There are some strengths and weaknesses in micro credit system. There has been growing excitement about the SHG bank linkage; this is the countries dominant system of mass outreach banking for the poor. Growth in the number of SHG’s formed and the scale of their interaction with banks, has been very fast in the last three or four years, and is still accelerating.

<table>
<thead>
<tr>
<th></th>
<th>MFIs</th>
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</thead>
<tbody>
<tr>
<td>8</td>
<td>Other capacity building grants</td>
<td>0.74</td>
<td>2.24</td>
<td>0.87</td>
<td>3.36</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>768.74</td>
<td>713.73</td>
<td>1915.78</td>
<td>1741.61</td>
</tr>
<tr>
<td>9</td>
<td>Loan outstanding</td>
<td>950.38</td>
<td>2136.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>No. of beneficiaries assisted (in lakh)</td>
<td>12.88</td>
<td>19.62</td>
<td>65.95</td>
<td></td>
</tr>
</tbody>
</table>