Researchers have deliberated on different matters relating to microfinance. But few evaluation studies have been done in India and abroad worth the name.

2.1. REVIEW OF LITERATURE

In one such concept paper of Microfinance Institute of India Piyush Tiwari and S.M. Fahad of HDFC give a model of microfinance and analyze the present scenario of microfinance activities in the country. In India presently two models are working namely, a) Group based Financial Intermediary and b) NGO linked Financial Intermediary. In the first category NGOs like SHARAN in Delhi, federation of thrift and credit association in Hyderabad and SPARC in Mumbai have adopted the first model where they initiate the groups and provide the necessary management support. SEWA in Ahmedabad or Baroda citizen’s council pertain to the second model. Beyond these two models there are also wholesalers like NABARD, RMK and Friend of Women’s World Banking in Ahmedabad, who provide funds to other NGOs for subsequent financing. Indian microfinance has lapped in the Grameen blueprint; it has replicated some aspects of the Indonesian and the Bolivian model, In addition to the imported artifacts of microfinance we have also home grown models of microfinance.

They have suggested models to explain their viewpoint.
The basic dilemma in the two forms of microfinance activity may be analyzed as follows:

Table 2.1. - Two forms of microfinance activity

<table>
<thead>
<tr>
<th>Community Based</th>
<th>Investor owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Community Managed</td>
<td>• Professionally Managed</td>
</tr>
<tr>
<td>• Community financed</td>
<td>• External and Internal fund</td>
</tr>
<tr>
<td>• Integrated</td>
<td>• Finance only</td>
</tr>
<tr>
<td>• Non Profit/ Mutual Benefit</td>
<td>• Profit based</td>
</tr>
<tr>
<td>• Only for poor</td>
<td>• Members may be reach or poor</td>
</tr>
<tr>
<td>• Self Regulated</td>
<td>• Externally Regulated</td>
</tr>
</tbody>
</table>

On the basis of strengths and weaknesses experienced in our country the microfinance activity has been defined by them in four parameters:

1) Demand
2) Supply
3) Intermediation
4) Regulation

This is analyzed taking into consideration the existing situation and the expected environment desired for effective microfinance activity for upliftment of the poor.
Table 2.2 - Demand for Microfinance

<table>
<thead>
<tr>
<th>Existing situation</th>
<th>Expected Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fragmented</td>
<td>• Organized</td>
</tr>
<tr>
<td>• Undifferentiated</td>
<td>• Differentiated (on the basis of purpose like housing,</td>
</tr>
<tr>
<td></td>
<td>consumption and livelihood)</td>
</tr>
<tr>
<td>• Addiction of subsides</td>
<td>• No subsides</td>
</tr>
<tr>
<td>• Lack of Knowledge on rights and</td>
<td>• Awareness of rights and responsibilities</td>
</tr>
<tr>
<td>responsibilities.</td>
<td></td>
</tr>
</tbody>
</table>

Table 2.3 - Supply of Microfinance

<table>
<thead>
<tr>
<th>Existing Situation</th>
<th>Expected Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Grant driven (national and international agencies)</td>
<td>• Regular source through accumulation of interest and deposit</td>
</tr>
<tr>
<td>• Corruption unwillingness in credit system</td>
<td>• Credit promotion</td>
</tr>
<tr>
<td>• No link with mainstream</td>
<td>• Integrated system of all financial institution</td>
</tr>
<tr>
<td>• Credit focused</td>
<td>• Equal importance to Credit, savings and insurance</td>
</tr>
<tr>
<td>• Monopoly of any specific agency</td>
<td>• Competitive environment with alternative sources</td>
</tr>
</tbody>
</table>
Table 2.4 – Intermediation in Microfinance

<table>
<thead>
<tr>
<th>Existing Situation</th>
<th>Expected Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Non specialized</td>
<td>• Specialized in financial services</td>
</tr>
<tr>
<td>• Lack of expertise in finance</td>
<td>• Expert in financial analysis and MIS</td>
</tr>
<tr>
<td>• No profit</td>
<td>• For profit</td>
</tr>
<tr>
<td>• No linkage with financial intermediaries</td>
<td>• Link to financial institutions</td>
</tr>
<tr>
<td>• Unorganized</td>
<td>• Corporate Structure, Self managed</td>
</tr>
</tbody>
</table>

Table 2.5 – Regulation in Microfinance

<table>
<thead>
<tr>
<th>Existing Situation</th>
<th>Expected Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No coverage to informal service provider</td>
<td>• Include both formal and informal agencies</td>
</tr>
<tr>
<td>• Regulation on interest rates</td>
<td>• Regulate functioning instead of interest</td>
</tr>
<tr>
<td>• Multiple agencies (FCRA, RBI, IT, ROC)</td>
<td>• Integrated regulatory mechanism</td>
</tr>
<tr>
<td>• Control instead of facilitation</td>
<td>• Facilitation instead of control</td>
</tr>
</tbody>
</table>

Ms K Kalpana in her article 'Shifting Trajectories in microfinance' explains the unacceptability of Bangladesh model in India. She feels that the Bangladesh brand of microfinance is standardized, centralized, top down, supplier driven. In India it is not possible to expect this structure because we have several agencies working in a crisscross manner where the donor, NGO and group all are one way or other, are bound by such compulsions. Moreover in India we do not follow a standard form of microfinance model. So the complexity is enormous leading to tardy growth of SHG movement. In a federation type of structure although the success and sustainability of the microfinance activity is better achieved, the numerous goals of the SHG movement like empowerment,
enlightenment, social correction can not be achieved due to the absence of group activity within the group.

Since the Microfinance concept gained currency in different part of the world few evaluation studies and impact analysis have been done. We can cite one such study by Mr Otto Hospes(Wageningen University), Muli Musinga (African Centre for Economic Growth), Milcah Ong’ayo(Pet Consultants, now Farm Africa) was done during November 2002 sponsored by the Dutch Co-Financing Programme. The study derives various interesting facts relating to the microfinance activities in Kenya. We have extracted the summary of the study in terms of the observation on the general findings of the study, which may be applicable to Microfinance programme in any country.

During 1992-1994, the Government of Kenya (GOK) has been implementing a Structural Adjustment Program which has resulted in the liberalization of the economy. To counter the possible initial negative social impacts of the liberalization process, the Government of Kenya identified areas and project needing external donor support, including small-scale and micro enterprises. Lack of access to credit was considered a major bottleneck for entrepreneurial development. The international donor community responded generously. Microfinance agencies (in particular client-based ones) became donor darlings. **Client-based microfinance agencies** comprise of all microfinance providers, formal or informal, where customers are not owners of the institution, have little direct involvement in the management of the institution, and do not have a share in the returns made by the institution. These include about 130 Non-Governmental Organizations banks and private companies as well as hundred thousands of informal Microfinance providers, such as traders, shopkeepers, specialized money lenders, family and friends. By mid 1999, it was estimated that the formal segment of this category comprised of 86 institutions, with a total of 134,612 active clients and a loan portfolio of Kshs 2.5 billion. **Member-based microfinance agencies** comprise of formal and informal mechanisms where resources are mobilized from members, management of the arrangement is in the hands of members and it is members who constitute the main target group for service provision. The formal segment of this largely comprise of both urban and rural Savings and Credit
Cooperatives. Various approaches to credit for micro and small enterprises have been tried in Kenya by different institutions with varying degrees of success or failure. Major approaches include: minimalist versus integrated approaches; group based lending versus lending to individuals; village banking and linkage programs. Minimalist approaches and group-based lending have been very popular and much tried by leading NGOs in the field of micro-finance. Minimalist approaches basically concentrate on the provision of loans, giving no or at most some functional attention to training or technical assistance. Group-based lending schemes have been very often based on the Grameen Bank method. Key features of the Grameen Bank method as applied in Kenya are:

- Group-lending approach: organization of clients into groups or use of informal groups for purposes of attaining economies of scale from the small sized transactions and instituting group guarantee mechanisms;
- Character-based credit appraisal: credit appraisal is based on character assessment, rather than traditional collateral (ownership of land or other assets) and viability of projects to be financed;
- Focus on micro-enterprises: a special focus on financing very small businesses and the poor.

**Loan products**

Loans are provided by all the formal and informal providers of financial services and they all levy an interest. Interest rates are quoted in many different ways. The standard banking way is to quote annual interest rates based on the reducing balance method. Non-bank financial institutions also use this method. However, NGO-MFAs and moneylenders tend to quote their interest rates based on monthly flat rates. This tends to reflect their interest rates as lower than the formal providers of financial services, although this is not in fact the case.

It has been observed that MFA clients with substantial businesses may take loans and invest them in businesses that prosper and grow, because they have means to satisfy their remaining needs for lump sums of cash. However, for the majority of poor clients, it makes sense to use a borrowed lump sum for whatever is the most pressing need at the time, and to repay it out of whatever capacity they have to save out of their normal cash flow.
Clients' attitudes to NGO-MFA loan products are varied. While many are appreciative, the following reservations are usually expressed, often related to aspects of the group-lending approach:

- They dislike the group guarantee system. It is unnerving to have to take into account the behavior of others, whom you scarcely know, when planning your finances and embarrassing to have to harass your friends about their business.

- Some clients dislike weekly meetings; most dislike the time it absorbs, older clients dislike being told what to do with young credit officers, and no one likes it when there are repayment difficulties that have to be resolved.

- Most would like more control over the size, timing and term of the loans.

- Some find the price of the loans high in relation to other devices. The impact of the financial service provision by KWFT at the enterprise level is positive in many respects.

**Enterprise size and employment generation**

Both the quantitative and qualitative assessment show that the provision of loans by KWFT has helped women to keep them going even in the most difficult times, to contribute to providing continued employment to the women and their families, and to increase the number of employees in their business, either on temporary or permanent basis. Some more specific but extremely relevant lessons from the sample survey are:

- Not only the number of loans a client receives but also the cumulative total amount of those loans is important in determining the extent to which an enterprise is likely to expand its activities in a way that it requires to increase its workforce.

- Relatively high levels of education among clients and the fact that KWFT recruits its clients largely from above the average firm in the MSE sector, may very well explain part of the success of KWFT in helping business women to expand and generate employment.
• Though traditionally targeting areas with relatively high business potential (close to cities and with high population), findings suggest that financial services may have a higher influence on the capacity of enterprises to expand in rural/low potential zones than in urban/high potential areas.

**Enterprise turnover**

The quantitative assessment shows that monthly sales volumes of first generation clients are more than four times of those registered by third generation clients. The qualitative assessment both confirms and nuances this finding. On the one hand, a number of women have indicated that their business stock has increased as a result of the credit available to them. On the other hand, women emphasized that KWFT has helped them to diversify their businesses and to take advantage of seasonal opportunities, herewith securing income all throughout the year.

**Enterprise profitability**

There are clear indications that KWFT loans make a significant difference in the profitability of enterprises. Like with enterprise size, the impact of KWFT loans on profitability is much higher in rural/low potential areas than in urban/high potential areas. Also, the education level of women seems to be very significant in influencing the level of profitability of enterprises as they access more KWFT loans.

**Enterprise stability and skill development**

The quantitative assessment shows that there is no significant change in management practices among clients of KWFT after receiving various cycles of loans; the number of owners working at the enterprise largely remains unchanged indicating no change in ownership structure. The qualitative assessment focusing on skill development, provides a different picture. The perception of many women clients is that they have gained substantial skills and experience in business management as well as saving and credit management.

In addition, the qualitative assessment found that access and use of KWFT credit has created an environment of positive competition and creativity among entrepreneurs. Though impact of KWFT credit at the enterprise level is quite impressive, improved living conditions for the household were mentioned in the sample survey as the key positive change experienced, not business expansion and the creation of employment. This
suggests that the business women are primarily very much concerned and directed at improving household living conditions. They consider their businesses and KWFT loans as means to cope with events affecting the insecurity of the household (heavy school fees demands, ill health of the client or a member of the household and death in the family) that were ranked as most severe by KWFT clients.

To have or not to have impact at the household level is thus a critical thing. The most important findings of the sample survey regarding the impact at the household level are:

• Enterprises that have received more loans contribute a higher proportion to household income than those that have less number of loans.

• The quality of education for children increases with loans. The sample survey shows that first generation clients spent twice as much on education as third generation clients.

• The volume of living space increases. There is a statistically significant negative correlation between density of people per room and number of loans so far received from KWFT.

• Quality, rather than quantity, of household assets (furniture, major electrical appliance, and transportation assets) is improving.

• The diet of households of KWFT clients has improved over the years following continued access to financial services.

• There are indications that clients start accessing higher quality health care services with the number of loans they receive.

• There is no clear relationship between ownership of land and the number of loans so far accessed.

• There is no clear pattern of influence of increased accessibility to financial services to the number and type of livestock kept by clients of KWFT.

• Regardless of the generation of the client (or rather the number of loans received), the major fallback position for clients when faced with common adverse events is to borrow. There are good indications that continued accessibility of financial services by KWFT clients has increased their household security.
The amount requested by poor clients is generally too small.

Poor clients are considered as not sufficiently solvent by conservative lenders, as unable to pay interest, and (especially women) as incapable of taking up responsibilities.

Poor clients cannot show a business plan or account (for instance, because of illiteracy).

Only a few institutions provide good quality, adequate services to poor people.

Financial institutions have not tuned the service supply optimally to existing demand.

Poor clients have not articulated their needs optimally.

Existing saving and credit programmes are not optimally effective because: - financial sustainability is often weak, therefore no long-lasting effect; - risk that outreach is limited to the poor beneficiary groups; - pressure of donors to show immediate effects, both regarding financial sustainability and regarding outreach;

Service providers are both subject to and actor in local (competitive) markets, influencing, and possibly disturbing existing economic processes; - donors do not always provide the most appropriate financing instruments.

The more specific objectives of the Dutch CFAs contribution to the financial service provision can be summarized as follows:

- Improved, equitable access of poorer groups of society to financial services, both in terms of quantity and in terms of quality. This implies that existing obstacles for the use of these services need to be addressed while social and environmental clauses are taken into consideration.

- Improved conditions for poorer groups of society to undertake their economic activities for which they use the capital obtained by the financial services programmes. This involves the appropriate support to these economic actors by means of all kinds of ancillary activities that facilitate their access to acquire knowledge, skills and means. Both objectives are related to the overall development policies of the CFAs in the countries in which they work, which generally consist of a range of other actions addressing causes of poverty and encouraging empowerment and organisation of poor groups of society.3
We find the above study as one among the most effective and exhaustive study made on microfinance. But it has not focused on the knowledge, growth, empowerment, member responses on external dynamics. We have tried to do justice on this aspect in our study.

Prof R Srinivasan and M.S. Sriram in their article Microfinance: An Introduction have opined that "there is the fear that the state while building up few good groups may build a large number of groups that have all the properties of a good group on paper but not in spirit. The nicest thing one can say about many such groups is that they are harmless parodies but as a collectivity they have the potential to bring the SHG into disrepute. Regulation is another consideration. Already because of the restrictions placed on non banking financial companies (NBFCs) we have platypus structure. It involves NBFC that lends (but is unable by law to raise deposits) and a large number of trusts/ mutually aided cooperatives, that take deposits. Allowing a hundred organizations to bloom where one would suffice is a recipe for disaster. The third issue is business promotion. There are a large number of micro enterprises that need skills in elementary business management, such as marketing and production. Delivery of these skills has never been resolved satisfactorily."

Although they have deliberated on certain basic issues it is too broad to comprehend. The basic factors like 1) legality 2) marketing 3) creation of SHGs to match the number game of government are crucial factors to be addressed to.

An appraisal was made by Mr Sanjay Sinha Managing Director of Micro Credit Rating International limited on the state of affairs of micro credit in India.

He looks into different aspects as pointed out below:

1) There are primarily two types of micro credit organizations, a) Self Help Group models and b) Individual Bank Programmes. In India 60% of the micro credit organizations are SHG linked.
2) Few number of micro credit organizations are having sizable amount of deposit worth the name.

3) On a sample of 59 a savings of Rs. 650 per member is quiet minimal in comparison to Rs. 2550 for the Individual Bank Programme clients.

4) It was observed that there is dissimilarity among different states in terms of the deposits made by the members.

5) On an average one staff for 205 members is quiet low in comparison to 114 in international level and 131 in Grameen.

6) The older SHGs have a poor performance against the newer ones because the former devote more to welfare measures.

7) The SHGs mostly depend on the donor funding for their operation. But recently it was found that 30% of the resources are funded by their own resources. 17% are the member funds.

8) The average return on portfolio in India is 19.2% in comparison to 36.6% in the international level.

9) Most of the microfinance organizations in India now depend on subsidy to manage their operational expenses. Out of the 43 organizations only six were able to meet their own expenses.

10) 13 out of the total MFIs had effective MIS.

11) Financial control system was quiet good in most of the MFIs.

12) 30% of the MFIs had satisfactory internal audit system.

Overall it was found that the microfinance movement in India is experiencing teething problems. The reach of the movement covers hardly 5% of the needy, who want microfinance for their economic development. The parameters of this analysis have also become the basis for our study in the state of Orissa.

2.2 RATIONALE OF STUDY
The mammoth poverty stricken population of India is a great concern to planners and researchers for finding out a mechanism of economic support service. The role of finance cannot be underestimated in economic upliftment of the poor when banking can reach only 27% of the rural poor. Orissa, being the poorest state in the country with
46.6% of people living below poverty line, the challenge is still bigger and the problem is still more acute.

The framework of economic upliftment in the state may be analyzed under the following circumstances:

1. 22% and 17% of the population of Orissa belong to scheduled tribe and scheduled caste respectively. Besides the inaccessibility of their habitat in terms of infrastructure like road, electricity, irrigation, banks and marketing facility they also suffer from social stigma of untouchability.

2. The village moneylenders exploit their ignorance and put them in credit whirlpool by charging huge amount of interest.

3. Although 40% of the total loan extended by banks must be in the area of priority sector as per RBI guideline, bankers fall below this target due to lack of entrepreneurship by those people and high overhead cost of the banks in these areas.

So since 1999 many entities have emerged on the background of group lending process, which is otherwise known as Self Help Groups.

Financial Institutions registered under any of the following legal framework operate in the area of microfinance:

1. Societies Registration Act 1860
2. Section 25 of Indian Companies Act 1956
3. The Cooperative Societies Act 1912.
4. NBFC under Prudential Norms of RBI

They may be working exclusive in this area or may be focusing on microfinance besides their social intervention. In a primary interaction with different players it was found that:

1. Some organizations working on commercial basis are looking into their profitability. Here the service provided is broad based.
2. Few others focus on the holistic development where may be economic development takes a back stage.
3. Several initiatives are taken by the government organizations but not properly understood by the other players.
4. Beneficiaries are unaware of what is going on although they are at the forefront.
5. In terms of numbers, SHGs have grown whereas qualitatively they are far behind.

2.3 OBJECTIVES OF STUDY
The state of Orissa is fourth most active state in the Country in microfinance activity. Unfortunately no study is done in the state to evaluate the present scenario and provide a direction to microfinance.
This study tries to make a humble beginning and evaluate the activities of microfinance in terms of:

1. Knowledge
2. Growth
3. Role of government
4. Responsiveness of banks
5. Empowerment
But the primary focus was to find out the scenario of employment generation through microfinance. The factors considered above may boil down to:

1. Focus
2. Facilitation
3. Status of beneficiaries
4. Ownership of the microfinance programs
The study tries to suggest ways and means to make this novel mechanism successful in the state of Orissa.

2.4 METHODOLOGY
The methodology adopted in the study is exploratory interviews with the knowledgeable stake holders.

2.4.1 SOURCES OF DATA
Data are collected from both:

1. Secondary Survey -
   • Websites
   • Books, Magazines
   • Newspapers
   • Literatures of Organizations
2. Primary survey is divided into two parts:
   • Survey of Facilitators and leaders of SHG - Detailed
   • Survey of Beneficiary only. - General

2.4.2 SAMPLING AND SAMPLES
The sample of the detailed study covered many of the major MFIs and NGOs. Samples were taken from costal area of Rajkanika, Nimapada, tribal area of Jeypore and Urban pockets of the Khurdha District. The general study of beneficiaries was concentrated in the slums of Bhubaneswar.

The exhaustive survey consists of a population of 44 respondents consisting of the following:

1) Heads MFIs -08
2) Heads of NGOs -10
3) Employees -11
4) Govt. Official -02
5) Banks -04
6) Leaders of SHGs -11

Questionnaire for the first category consists of six parameters i.e.

1) Knowledge
2) Growth
3) Employment Generation
4) Government role
5) Bank
6) Empowerment

Altogether 50 questions are asked to cover individual components of each parameter. The exhaustive survey was more of an interview with lot of interactive information gathered from the respondents.
100 beneficiaries were asked 15 questions on various aspect of microfinance. It is more general in nature because the poor beneficiaries are usually uneducated and it is not expected from them to deliberate issues and challenges of microfinance. So information were gathered through direct questions.

2.4.3 STATISTICAL TECHNIQUES

Statistical Tools used are

1) ANOVA
2) Multi-variate factor Analysis

Besides these, analytical tools like SWOT Analysis, Gap Analysis and 7s Analysis is also done to draw important conclusions.

References:

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4 Sriram, M.S. and R Srinivasan ‘Round Table Microfinance: An Introduction, ‘
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