CHAPTER III
MICROFINANCE – A THEORETICAL PERSPECTIVE

3.1 MICROFINANCE - MEANING

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Most people think of microfinance, if at all, as being about micro-credit i.e. lending small amounts of money to the poor. Microfinance is not only this, but it also has a broader perspective which also includes insurance, transactional services, and importantly, savings (Barr, Michael S. 2005).

The Canadian International Development Agency (2002) defines microfinance as, “the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions”.

3.2 CHARACTERISTICS OF MICROFINANCE

Microfinance gives access to financial and non-financial services to low-income people, who wish to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be ‘bankable’, that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that together have enabled low-income people to become clients of a banking intermediary. The characteristics of microfinance products include (Murray, U and Boros, R, 2002):

§ Little amounts of loans and savings.
§ Short-terms loan (usually up to the term of one year).
§ Payment schedules attribute frequent installments (or frequent deposits).
§ Installments made up from both principal and interest, which amortised in course of time.
§ Higher interest rates on credit (higher than commercial bank rates but lower than loan-shark rates), which reflect the labor-intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable over time.
§ Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients’ financial and social status.
§ Application procedures are simple.
§ Short processing periods (between the completion of the application and the disbursement of the loan).
§ The clients who pay on time become eligible for repeat loans with higher amounts.
§ The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Large size loans are less costly to the Microfinance Institution, so some lenders provide large size loans on relatively lower rates.
§ No collateral is required contrary to formal banking practices. Instead of collateral, Microfinance intermediaries use alternative methods, like, the assessments of clients’ repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

3.3 THE GRAMEEN MODEL

In most developing countries, policies for rural financial development have been based on three erroneous beliefs concerning their target groups: (1). rural micro-entrepreneurs are unable to recognise themselves, (2). they are too poor to save; and (3). they need cheap credit for their income-generating activities or small enterprises. Three financial policies have resulted from these conjectures. Firstly, the credit-oriented development banks and special programs were set up which ignored savings mobilisation. Secondly, credit was subsidised, and lastly generous credit guarantee
schemes were set up to cover the anticipated losses. The consequences of these policies contributed neither to the self-sustained growth of rural finance, nor did they sufficiently benefit the rural poor (Harper, 2003).

For commercial reasons financial services historically have been targeted to the rich section of the society, which have a greater capability to repay loans and preserve their savings. However, the poor community generally remained either un-served or were offered improper financial services. Poor farmers and landless laborers had acute difficulty in accessing financial services from conventional financial institutions. Banks and other formal financial institutions are currently estimated to provide services to only 25 Percent of potential clients worldwide. Statistics indicate that apparently only 2 Percent of micro entrepreneurs are being provided service by banks (Women’s World Banking, 1994).

To overcome these obstacles, a prominent economist and professor from Bangladesh, Muhammad Yunus in 1976, came up with a new concept and model, which is called, “The Grameen Model”. During a field trip to a relatively poor village in Bangladesh with his students in 1974, Muhammad Yunus interviewed a woman who had a small business of making bamboo benches. Due to the shortage of the resources to purchase the raw materials, she was forced to borrow small amounts of money from a local lender. Without any collateral, she could only borrow enough money to buy the raw materials to build one piece at a time.

The woman had to repay the lender with high interest rates. Sometimes the interest rate of that loan exceeded 10 Percent of the principal amount. After repaying the lender, the woman was left with a profit margin that was not enough even to meet her basic daily needs. Had she had access to more complimentary terms for her loan, she would have been able to save enough money to protect her from future uncertainties and in the long run, would have been able to raise herself above the survival level. Discouraged by what he saw, Dr. Yunus took matters into his own hands and lent a small amount of money as a loan to some 42 rural basket-weavers. He found that these small loans went a long way, and almost everyone who had borrowed the money, were keen to repay their loans. Dr. Yunus found out that even with this tiny amount of money it is
possible not only to help the poor to survive but also to create the spark of personal initiative and enterprise in the people, necessary to pull themselves out of poverty.

Just two years after his field trip, Dr. Yunus established the Grameen Bank, and introduced “Grameen Model”, which is now being considered as one of the most successful models in the microfinance industry. The Grameen Bank finds the economically active poor, who are excluded from formal financial services, and helps them by providing financial services. The Grameen bank also emphasises on the mobilisation of savings. The Grameen Bank is a kind of institution that provides small loans to the poor, especially women in Bangladesh, using innovative ways of in and around their borrowing constraints. The Grameen Bank have been enormously successful in generating sustainable livelihoods, reducing poverty and driving development in Bangladesh. Since its start in 1976, it has grown to over 1084 national branches, in over half the villages of Bangladesh. Recognised as a huge success, the “microfinance” model pioneered by Dr. Yunus have been replicated and implemented in dozens of other underdeveloped and developing countries around the world. Presently there are approximately 7000 microfinance institutions serving over 54 million clients worldwide, who have received US$18 billion in loans and have accumulated US$13 billion in savings (Roy, Mark A, 2003).

3.4 FUNCTIONING OF THE GRAMEEN MODEL

Grameen model is one of the most modern and tailored version of microfinance. It emerged as a main business sector when it became evident that low-income people also can pay back their loans on time and can save money, provided they are able to access the customised financial services. Therefore, it would be interesting to know that how this model works.

A Grameen bank is placed with a field manager, with necessary staff members, covering an area of 15 to 22 villages. The staff task is to visit the villages to familiarise themselves to the locality and identify the targeted people who are eligible for their project, and describe their objectives, functions and mode of operations to the people. In the first stage, they form the groups of five borrowers among the selected people. Group members should come from the same economic background and social status, and must
not constitute more than 30 Percent of individual family members. They are then given training for electing their own president, secretary and how to arrange a meeting. They also maintain cooperation with other groups and all these groups choose centre chief and centre group leader. In one group, only two of the five members are eligible for taking the loan. They conduct group observation for a month to see if the other members are following the rules of the bank. If the first two borrowers repay the loan with interest within a fixed period of time, then other members of the group become eligible for the loan. The bank emphasises on saving also, which is used as a tool to prepare the borrowers to manage their credits. Every borrower in a group must save at least $0.68 in a week. Additionally 5 Percent of amount of every loan approved is set aside, which goes to a group fund, managed by that particular group to provide emergency and social loans to its members (Fotabong et al., 2005).

3.5 METHODOLOGY OF MICROFINANCE

Majority of the Microfinance Institutions (MFI) provide credit on a solidarity-group lending basis without collateral. There is also a range of other methodologies that Microfinance Institutions follow. Some Microfinance Institutions start with one methodology and later on move or diversify to another methodology so that they do not exclude certain socio-economic categories of clients. So it becomes important to have a basic understanding of methodologies and activity of Microfinance Institutions.

3.5.1 Group Lending

Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between fifteen to twenty members. The group self-selects its members before acquiring a loan. Loans are granted to selected member(s) of the group first and then to the rest of the members. Most Microfinance Institutions require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other’s loans and usually meet weekly to collect
repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. The creditworthiness of the borrower is therefore determined by the members rather than by the Microfinance Institution.

One of the best-known institutions for lending and savings money, in Bangladesh, is the Grameen Bank. Grameen Bank mainly targets women (98 Percent of their clients are women) on the basis that women repay their loans better than men and due to the oppression they need more favor. It is believed that loans expanded to women benefit all the household members with improved level of food intake, health, and education. Average loans range from US$100 to US$200 for a period of 3-12 months. The loan amount varies from country to country. Average loan amounts tend to be higher ($500 or more) in countries in transition of adapting to this system.

On one hand, the group formation guides to lower transaction costs for the Microfinance Institutions, but on the other hand there are social costs related with this process. These social costs can be a negative restraint to group borrowing and joint liability approaches, and include coercive peer pressure, loss of faith and the likelihood that the poorest and most vulnerable will remain excluded or further stigmatised. Such social costs are higher in some societies than in others, depending upon underlying social relations (which influence the ease/difficulty of group formation) and the distances that people must travel to participate in-group activities. In rural areas, these costs can be higher (Murray, Op.cit.13).

3.5.2 Individual Lending

Unlike Microfinance Institutions, there are very few conventional financial institutions which provide individual loans to low-income people because poorer clients are considered higher risk clients due to their lack of collateral, plus the labor-intensive nature of the credits and hence the lack of profitability of small-credits. Bangladesh Small Industries and Commerce Bank Limited in Bangladesh, Bank Rakyat Indonesia in Indonesia, Association for the Development of Micro Enterprises, Inc in the Dominican Republic and are some examples of successful lenders to poor clients. However, Bank
Rakyat Indonesia does request collateral and a loan co-signer, while Association for the Development of Micro Enterprises, Inc and Bangladesh Small Industries and Commerce Bank Limited will take the best collateral it can.

### 3.5.3 Credit Unions

Credit unions are the organisations that are formed on the basis of financial relation of savings and loans between its members. They accumulate savings from its members and provide short-term credit to the needed members. The demand for loans in general exceeds the supply of savings. In most rural areas credit unions are still the solitary source of deposit and credit services, besides the informal financial market. Because credit unions have social as well as commercial objectives, they may have a key role to play in offering pro-poor financial services. It have been observed that some women have not benefited much from the credit unions because the level of savings required is too high.

Credit unions have achieved financial self-sufficiency within the last few decades. According to one statistics from the World Council of Credit Unions (WOCCU), by the end of the 1980s there were about 17,000 credit unions in 67 developing countries around the world. These unions maintain nearly 9 million members and 60 Percent of these members are from Africa and the Caribbean Islands. These credit unions handled approximately US$2 billion in deposits and share capital. It is estimated that they are disbursing US$300 million in small loans to about 1.5 million small businesses.

### 3.5.4 Village Banking

Village banking is a kind of financial services model that assists poor communities to establish their own credit and saving associations, or village banks. Village bank provides non-collateralised loans to its members and a place to invest savings and promote social solidarity. The sponsoring agency provides loan for the village banks and village banks in turn provide individual loans to its members. Peer pressure and peer support among the members are considered as the bank guarantees of these loans, to ensure repayment where small working capital is repaid every four to six
months by its borrowers. Borrowers start with a very small loan and gradually they establish loan ceiling. Loan sizes depend on the amount which borrower has saved. Member’s savings are kept for the purpose of lending or investing to increase the resource base of the bank. Commercial standards are applied to determine interest rates and fees.

3.5.5 Self Help Groups/Associations

Rotating Savings and Credit Associations (ROSCAs) exist in several parts of the world but recognised under different names, like as Tontines and Susus. They are known to be female dominated organisations that save small amount of money and members can borrow from common pool on a rotating basis. These types of organisations or Self Help Groups, have sometimes been used by Microfinance Institution for group lending among the members (Murray, Op.cit.17).

3.6 SAVINGS MOBILISATION

Savings mobilisation has recently been recognised as a major force in microfinance. In the past, microfinance focused almost mainly on credit; savings were the "forgotten half" of financial intermediation (Fiebig M et al., 1999). The importances of savings mobilisation have been highlighted in several papers in the context of microfinance. Few analyses have been shaped in order to take an in-depth look at the savings mobilisation strategies, which are employed by various institutions and are then compared to the results (Elser L et al., 1999).

Deficiency of savings facilities creates problems at three levels: (i) at the individual level, (ii) at the level of the financial institution; and (iii) at the level of the national economy. At the individual level, the lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. These alternative informal savings facilities do not guarantee the combination of security of
funds, ready access or liquidity, positive real return and convenience, which are basic requirements or necessity of a depositor.

Micro enterprise programs can play a significant role for foster savings among the poor populations, with considerable benefits both for the savings and for the programs. According to Harper, “Domestic Savings provide the assets for the economy’s investment in future production. Without them, the economy cannot grow unless there are alternative sources of investment”. People’s propensity to save varies significantly. Common astuteness states that as a person’s disposable income increases, so does his or her capacity and willingness to save. Persons, who are living at subsistence or near subsistence levels, often we call them low-income groups, thought to be among those who are least able to contribute to economic savings. It is demonstrated that most of the developing countries, where the poor constitute the great majority, have a lower propensity to save. It have been concluded that ‘the poor cannot save’ (Harper M. Op.cit.15). Exploring issues related to saving mobilisation, among the poor people who are self employed in productive activities, is one of the important purpose of this study.

Experiences from the empirical findings have shown that many low-income people have the capacity to save and they usually do it through informal channels. Informal approaches for savings engross the formation of alternative structures, like group or associations, through which people undertake financial activities such as lending and savings.

There is enormous literature available, based on surveys, case studies, regional and cross country analysis, focusing on the nature of the savings capacity and ways of saving of poor. Many affirm that not only do the poor save, but their savings have substantial implications for policy and resource mobilisation for financial markets and national economies. Savings mobilisation is an interesting issue among the poor for various reasons. Mobilising savings lift up important considerations for development programs that are working to boost productive income and employment among low-income groups.

Finally, the process of saving on a regular basis can be an empowering experience for people used to living at the margin, and can contribute to an improvement in the
quality of their lives. It serves to capitalise on the productive activities, which sustain the family and thereby enhancing income of the family (Harper M, Op.cit.19).

Informal savings schemes exist throughout the developing world. Most of the pertinent in this perspective are the Rotating Savings and Credit Associations (ROSCAs). These are informal institutions in which group of individuals come together to save, share risks, and borrow. These kinds of informal organisations can be found in many countries, with different names and almost among all sections of the society. Rotating saving and credit associations are organised spontaneously among socially homogeneous groups with the strength of each group varying from six to fifty people. These groups depend on a leader, who is usually the founder and he or she is responsible for the collection and distribution of the resources. Members make a fixed amount of payment into a pot and the total assets are distributed at fixed intervals among the members in turn. The distribution of the funds is agreed upon by lottery, seniority in the group, or another established arrangement. All informal credit and savings activities, work on the principle of rotating access to a capital fund, which is continuously fed by the members’ contributions. The interest rates charged from borrowers, depends on the length of the term for which loan is taken.

Rotating savings and credit associations provide the idea, which can be a learning laboratory for understanding, what motivates poor people to save, and under what conditions they are likely to do so. The main character of most Rotating Savings and Credit Associations is a simple but resilient savings and loan system, grounded in the local culture, which is a flexible yet structured set of procedures agreed upon by all. There are few micro-enterprise lending programs that have been designed to increase the productive activities of the poor and at the same time have shaped saving components for them. The supplement of savings as a component of micro-enterprise programs has received less concentration. The experience of several organisations, like the Grameen Bank, Association for Social Advancement (ASA), Bangladesh Rural Advancement Committee (BRAC) and Proshikkhan Shikkha Karmo (Training, Education, Action) (PROSHIKA) in Bangladesh and Accion International in Latin America that have mobilised savings among the poor, has provided interesting insights into this topic. While there are other organisations with experience in savings, such as, the World Council on
Credit Unions (WOCCU), the Foundation for International Community Assistance (FINCA), and an Indonesian’s organisation, named Badan Kredit Kecamatan (BKK), have served as an illustration in which micro enterprise programs have addressed savings (Harper M, Op.cit.23).

In Grameen Bank of Bangladesh, savings are used as a tool to prepare the borrowers to manage credit. Prospective borrowers make weekly savings deposits, and their credit eligibility is based on their capability to maintain self-discipline in saving. Each borrower must save around one taka or US$0.04 every week through his or her group. In addition, 5 percent of each loan amount approved is set aside at the time of disbursement. This money goes into a group fund supervised by the respective group and is designed to provide social loans to its members in emergency. Each group sets the terms and condition for distribution of loans.

Most of the Microfinance Institutions in Bangladesh follow the same method as of Grammen Bank. The people of Bangladesh are far away from the social benefit system, provided by the government. From the fear of future insecurities, the people of Bangladesh have grown up their saving tendency. From this tendency, they have formed different kinds of informal savings organisations like as co-operative societies and credit unions. These kinds of organisations can be found almost everywhere in Bangladesh, with different names, like Jubok, Urban Co-operative Society etc. Microfinance organisations capitalised on this tendency as an opportunity and exploited it. They worked on the same pattern or methodology but provided the people not only with an option of more secure, reliable and formal savings organisation, but also with many other social benefits.

3.7 HUMAN DEVELOPMENT

Development is deeply related to rising income. However, it is true that other variables have also deep relation with development. Goals of development emphasis on the reduction of poverty rather than raising average incomes. All microfinance program targets one thing in general: human development that is geared towards both the economic and social uplift of the people they cater for. Tackling poverty has taken a new
and broader dimension. Now the escalating income and savings, and building the assets are not the only means to fight the poverty. Tackling poverty points to multidimensional concepts that emphasises on reducing unemployment, infant mortality, maintaining essential healthcare, sanitation, food, nutrition basic hygiene, establishing gender equality etc., (Ghalib, Asad K, 2007). On the other hand, how these kinds of development can be achieved? It is possible to achieve those development indexes, if disposable income is increased. Without maintaining balance between income and expenditure, it is difficult to tackle poverty.

Microfinance programs target both economic and social poverty. To assess the success of their efforts microfinance institutions need to measure the impact on the borrowers. The primary objective of all Microfinance Institution interventions is poverty reduction. Poverty reduction is perceived from the economic point of view. On the other hand, Microfinance Institutions interventions promote living condition of poor people by offering supportive service. These supportive services are important indicators of human development. The objective of this program is to create sustainable changes in the lives and livelihood of the poor, women in particular (Annual Report (BRAC), 2005). As a strategy for removing poverty, microfinance institutions emphasis on improving the health of the poor, which is a main concern worldwide and particularly in low-income countries, where the burden of disease is heaviest. The relationship between poverty and ill health have been characterised as synergistic and bidirectional. Poverty confines the capacity to produce health and ill health leads to further impoverishment that diminishing the potential of individuals and households to improve their economic status. Poverty Alleviation Strategies (PASs), like micro-credit programs, may pilot to health benefits. There is a growing recognition that poor health is a dimension of poverty; therefore, one potential result of poverty reduction is progress in the health of the poor. PASs can adopt various forms. Potentially pro-health Poverty Alleviation Strategies included community and micro-enterprise economic development, agriculture and food policies, education policies, macroeconomic policies, and environment or infrastructure investments to improve the supply of safe water and basic sanitation (Mohindra Katherine S and Haddad S, 2005).
Human development has close relation with few other development programs, some of them are described below.

### 3.7.1 Health Program

Health interventions have been an integral part of the Microfinance Institutions. Different organisations apply different or similar policy to identify the health problems, undertake rigorous experimentation and try to explore and then apply suitable, affordable and culturally acceptable technology. Throughout the work process, they measure and monitor its implementations and recommends corrective actions to modify methods of implementation of program, health message, training and management, where needed.

### 3.7.2 Education Program

Another important goal of all Microfinance Institutions is to spread the light of education throughout the society. Development through this program, along with the health program, indicates human development among the people. Their effort and mission is to build up a society free of poverty, illiteracy and disease. Their goals are to expand education opportunities for disadvantaged children and provide them with necessary technical and financial support (Annual Report (BRAC), Op.cit.30).

### 3.7.3 Food Security Program

In the developing countries, achieving household food security remains a critical objective of rural development. This can be done in principle by escalating agricultural productivity and off-farm income, thus improving the capability of households to steady their income and food purchasing power. Food security, at the household level, is defined in its most basic form as access, by all people at all times, to the food needed for a healthy life (Zeller M et al., 2002).

### 3.8 SOLIDARITY

Almost all microfinance institutions believe in motivating repayment through group solidarity or group liability. For example, village banks put emphasis on loans to
finance income-generating activities and savings. Providing loan to the individual through groups is an unconventional policy. In this policy, banks does not expect from group members to meet the collateral requirements. The basis of this methodology is the mutual trust among the group members. The groups member are usually lend money on unsecured basis, just using five–person group guarantee, whereby each individual is responsible for the repaying loans among the selected group. This principle of micro-credit is borrowed from the Grameen Bank of Bangladesh (Aryeetey, E, 2005).

Solidarity group lending schemes involve the formation of groups. In these groups some or all members are jointly liable for each individual’s loans, thereby creating an alternative to conventional loan requirements (which poor people can rarely fulfill). From the lenders’ perspective such joint liability lending enables a transfer of default risks from the institution to the borrower, and can reduce the transaction costs of providing a larger number of small loans (by concentrating clientele in groups, at regular village based meetings, rather than dealing with individual borrowers at different times). However, this methodology engages women clients in financial activities in which female solidarity is created through promoting shared visions and goals and developing collective strengths. It can serve as a powerful tool for progressive social change as long as it fosters critiques of dominant cultural ideologies. It helps to elevate awareness and empowerment in society, especially among the women clients (Mohindra Katherine S, Op.cit.363).

3.9 INTRODUCTION TO SELF HELP GROUP

Throughout the history, people have formed groups with others who have something in common with them, and oppressed people have joined together to overcome the barriers they face. Self Help group is about people coming together with others who are affected by a particular issue (experience, disadvantage, discrimination and the like) to support each other and to work together to change the disadvantage affecting them. The activities that the groups perform include community education, information, mutual support and the like.

Further, the failure of the formal financial system to provide to the rural poor, our informal segment particularly comprising small, indigenous Self Help Groups is doing some saving and lending activities on a micro scale. Self Help Groups and local financial
intermediaries have gained wide recognition in most developing countries in Asia where their presence is quite pervasive.

The women’s form a group of around twenty members. The group formation process may be facilitated by a Non-Governmental Organisation or by the Micro Finance Institution or bank itself, or it may evolve from a traditional Rotating Savings and Credit Group (ROSCA) or other locally initiated grouping. The process of formal ‘linkage’ to an Microfinance Institution or bank usually goes through the following stages, which may be spread over many years or which may take place within a few months.

§ The Self Help Groups members decide to make regular savings contributions. These may be kept by their elected head, in cash, or in kind, or they may be banked.

§ The members start to borrow individually from the Self Help Groups, for purposes, on terms and at interest rates decided by the group themselves.

§ The Self Help Groups opens a savings account, in the group’s name, with the bank or Microfinance Institution, for such funds as may not be needed by members, or in order to qualify for a loan from the bank.

§ The bank or Microfinance Institution makes a loan to the Self Help Groups, in the name of the Group, which is then used by the Group to supplement its own funds for on-lending to it members.

The Self Help Groups never go through all these stages; it may satisfy its members’ needs quite effectively if it only goes to the second or even to the first stage, saving money and possibly not even withdrawing it (Harper M, 2000).

In this context, an attempt have been made to analyse the concept of Self Help Groups, characteristics of Self Help Groups, functions of Self Help Groups, Self Help Groups on international initiative and other related areas of Microfinance.

3.10 CONCEPT OF SELF HELP GROUPS

Probably the concept of Self Help Groups had its origin in the co-operative philosophy and the co-operators by and large, including the National Federations in the credit sector, could not think of any better Self Help Groups than a primary co-operative credit society itself. (Credit Guidelines for SHGs, 2007) As Self Help Groups are small
and economically homogeneous affinity groups of rural poor, they are voluntarily coming together for achieving the following:

- To save small amount of money regularly
- To mutually agree to contribute to a common fund
- To meet their emergency needs
- To have collective decision making
- To solve conflicts through collective leadership and mutual discussion and
- To provide collateral free loans with terms decided by the group at the market driven rates.

Today the Self Help Groups movement is increasingly accepted as an innovation in the field of rural credit in many developing countries including India to help the rural poor. It is considered a vehicle to reach the disadvantaged and marginalised section, which in the normal course cannot avail of credit facility from the banks.

The Tamil Nadu Corporation for Development of Women Limited (TNCDW) in its credit guidelines for the Self Help Groups defines an Self Help Group as “a small, economically homogeneous affinity group of rural poor, voluntarily formed to save and contribute to a common fund to be lent to its members as per group decision and for working together for social and economic upliftment of their families and community.” The distinguishing features of self-help group are given below: *(Credit Guidelines for SHGs, Op.cit.5)*.

i) A Self Help Group normally consists of not less than five persons (with a maximum of twenty) of similar economic outlook and social status

ii) It promotes objectives like economic improvement and raising resources for development and freedom from exploitation.

iii) It has its own by-laws for the proper functioning of the group as well as for the observance of certain rules by the group members and regulations concerning membership.

iv) The form of such a group could be mostly on an informal basis (Unregistered).

v) Periodical meetings of members are held for solving their problems (economic and social) and they collect fixed savings of the members.
vi) The savings of Members are kept with a bank in the name of the group and the authorised representative of the group operates the bank account. The deposit kept in the bank is used for giving loans to members for purposes including consumption at the rate of interest decided by the group (Usually higher than what the banks charge).

vii) Sources of funds are the contribution of member’s savings, entrance fee, interest from loans, proceeds of joint business operation and income from investments. Funds may be used for loans, social services and common investment.

The Self Help Groups, being a group of like-minded persons, gets empowered to solve most of its problems of a non-financial nature such as raw material and input supply, marketing, better adoption of technology, education and training for realisation of its objectives for development.

### 3.11 CHARACTERISTICS OF SELF HELP GROUPS

The important characteristics of Self Help Groups are as follows:

i) They usually create a common fund by contributing their small savings on a regular basis.

ii) The groups evolve a flexible system of operations often with the help of the Non Governmental Organisations and manage their common pooled resources in a democratic manner.

iii) Groups consider loan requests in periodical meetings, with competing claims on limited resources being settled by consensus regarding greater needs.

iv) Loaning is mainly on the basis of mutual need and trust with minimum documentation and without any tangible security.

v) The amounts loaned are small, frequent and for short duration.

vi) Rates of interest vary from group to group depending upon the purpose of loans and are often higher than those of banks but lower than those of moneylenders.

vii) At periodical meetings, besides collecting money, emerging rural, social and economic issues are discussed.
viii) Defaulters are rare due to group pressure and intimate knowledge of the end use of the credit as also of the borrower's economic resources.

### 3.12 FUNCTIONS OF SELF HELP GROUPS

The important functions of Self Help Groups are the following:

i) Enabling members to become self-reliant and self-dependent

ii) Providing a forum for members for discussing their social and economic problems

iii) Enhancing the social status of members by virtue of their being members of the group

iv) Providing a platform for members for exchange of ideas

v) Developing and enhancing the decision-making capacity of members

vi) Fostering a spirit of mutual help and co-operation among members

vii) Instilling in members a sense of strength and confidence which they need for solving their problems

viii) Providing organisational strength to members

ix) Promoting literacy and increasing general awareness among members and

x) Promoting numerically and equipping the poor with basic skills required for understanding monetary transactions

Thus the Self Help Groups function on the principle of the five "P"s:

i) Propagator of Voluntarism

ii) Practitioner of Mutual Help

iii) Provider of Timely Emergency Loan

iv) Promoter of Thrift and Savings and

v) Purveyor of Credit.

### 3.13 FORMATION AND DEVELOPMENT OF SELF HELP GROUPS

The first and foremost investment is to promote and develop Self Help Groups as effective and sustainable institutions. The process of promotion and development of these groups is organic and needs to be evolved over a period. A lot of process inputs are
essential for organising the members and developing their leadership capabilities to promote the Self Help Groups. Equal efforts need to be put in for nurturing and building them as institutions for the future. Each of these institutions has various stages of development and definite milestones of growth.

The process of group formation involves a series of tasks carried out in a sequence. They are the following:

### 3.13.1 Short Listing of Potential Villages

In the process of formation, the potential villages have to be short-listed. For short-listing the potential villages, the following criteria are followed.

i) Remoteness of the village

ii) Lack of infrastructure facilities like electricity, roads, drinking water and the like

iii) Low literacy rates and high mortality rate

iv) Hamlets with less than 100 families

v) Smaller land holdings and

vi) Existence of moneylenders and intensity of exploitation

### 3.13.2 Identifying the Poorest of the Poor

The process of identifying the poorest of the poor involves three steps, viz., village mapping, wealth ranking and sharing information with the villagers.

In village mapping, the entire village structure consisting of houses, streets, trees, schools, government buildings, common buildings, street lights, temples and water facilities has to be covered. Village maps are drawn with the help of the village people mainly to understand the environment and dynamics of villages. It helps to understand the exact number of families living in the village and to initiate a dialogue for intervention.

In the wealth ranking process, the families selected in the potential villages are categorised as the poorest, the poor, the moderate and the rich families mainly to identify the poorest of the poor families for group formation.
In order to seed the concept of the Self Help Groups, the information collected through these two processes is shared with the poorest people of the village to get their approval and authenticity.

### 3.13.3 Seeding the Concept

Once the process of selecting the poor is complete, the need for collective action, promotion of savings and sanctioning of credit are emphasised among the poor. Conducting special meetings involving leaders from other Self Help Groups carries out this process.

### 3.13.4 Formation of Groups

After seeding the concept of Self Help Group, steps to form the groups are taken up. In this stage, the steps are initiated to name the groups and frame norms and operational guidelines relating to functioning, saving and lending of the groups. In addition, groups can be assisted for selection of office-bearers such as president, secretary and the treasurer and defining their roles and responsibilities.

### 3.13.5 Quality Check

Once the groups are formed, quality check should be done to see:

i) Whether the members are from the poorest category?

ii) What is the motive of the members in forming the Self Help Groups?

iii) Whether they framed by-laws and selected the office bearers? and

iv) What is the number of the members?

After considering the various aspects, if it is found that the group consists of the poorest women and is formed with the motive of initiating and managing savings and credit activities independent of external support, the group can be recognised as a Self Help Group. The group is provided with the necessary inputs for developing bye-laws and role clarity.
3.13.6 Regularising the Group Level System

A group level system is primary for the proper functioning of the groups. After three to five months of group formation, the following steps are followed to set up a system at the group level;

i) The minutes are written every month and read at the end of every meeting;

ii) Simple accounting system and necessary books are opened and maintained from the first day itself;

iii) Awareness of the norms of the groups among all members is created and

iv) Training is imparted to the office-bearers and group accountants for clarifying their role.

3.14 STAGES OF GROUP DEVELOPMENT

Each group goes through several stages in development. These stages are by and large common to all groups, though their manifestations may be different.

3.14.1 First Stage

The initial stage in the life of a small group is concerned with forming the group. This stage is characterised by members seeking safety and protection, tentativeness of response, seeking superficial contact with others, demonstrating dependency on existing authority figures (trainer or facilitator), complaining about physical and simple matters (light, sleeping and food arrangements, seating and the like) and a certain degree of smart get up to the authority to gain his approval. Members at this stage either engage in 'busy' type of activity or withdraw and show apathy.

3.14.2 Second Stage

The second stage is marked by the formation of dyads and triads. Members seek out similar others and begin a deeper sharing of self. Continued attention to the subgroup creates a differentiation in the group and tensions across dyads/triads may appear. The members feel comfort and support in their dyads/triads and feel strong enough to challenge the authority figure. Strong dyads attempt to show defiance of authority. Focus
on task performance begins to emerge, but energy is mostly spent within a sub-group. 'Pairing' is a common phenomenon.

3.14.3 Third Stage

The third stage of development is marked by a more serious concern with task performance. The dyads/triads begin to open up and seek out other members in the group. Efforts are made to establish various norms for task performance. Members begin to take greater responsibility for their own groups and relationship with the authority figure becomes relaxed. Others who are dissimilar in the group are accepted and interaction among dissimilar people takes place around the task.

3.14.4 Fourth Stage

This is the stage of a fully functioning group where members see themselves as a group and get involved in the task fully. Each person makes a contribution and the authority figure is also seen as part of the group. Group norms are followed and collective pressure is exerted to ensure the effectiveness of the group. The group redefines its goals in the light of information from the outside environment and shows an autonomous will to pursue those goals. The long-term viability of the group is established and nurtured.

3.15 WORKING MANUAL OF SELF HELP GROUPS

There are no uniform rules and regulations for the Self Help Groups and they may vary from group to group. The promoter of the group formulates the rules and regulations for the group (Pathak, 1992). The general rules and regulations, which may be suitable for all groups, are summarised below.

3.15.1 Group Formation

The group formation is preceded by a village level household survey to gather the baseline data. The promoters should conduct this, and a suitable poverty assessment method should be used for the purpose.

To facilitate sustainability, the total number of members of the group should range between 12 and 20. The age limit for membership will be from 21 to 60. The group
must be a homogeneous one though not necessarily from the same caste or religion. The target group must be the poorest.

3.15.2 Meetings

The group must meet weekly or fortnightly for collection of savings and repayment of loan amount and for discussing all other matters. The group meetings need to be conducted with a certain discipline in relation to regularity, time and items to be discussed.

3.15.3 Group Savings

The group members must be encouraged to save as much as each can without it being a uniform amount for all. Usually the Self Help Groups start off with a minimum savings of all members. As the years pass they may opt for optional savings according to the capacity of each member.

3.15.4 Groups Common Fund

The amount such as fines imposed on members, grants from the Non Governmental Organisations, bonuses for various programmes and service charges on external loans should be put into the common fund of the groups. All common expenses related to the group may be met from this common fund.

3.15.5 Rotation of Group Fund

All savings and excess of common fund would be rotated as short-term loans amongst the members at the rate of interest decided by the group.

3.15.6 Books and Registers to be maintained

The books and registers to be maintained by each Self Help Group to ensure proper accounts are, Attendance Register, Minutes Book, Savings Ledger, Loan Ledger, General Ledger, Cash Book, Individual Pass Book, Receipt Book and Payment Voucher.
3.15.7 Training

The staff of Non Governmental Organisation and Bank staff imparts training to the office-bearers of the Self Help Groups, members of the groups and representatives of the cluster level federations.

3.15.8 Annual Auditing

A qualified auditor should audit the accounts of the groups annually. The Self-Help Group should meet the audit cost.

3.16 SELF HELP GROUPS – AN INTERNATIONAL INITIATIVE

The Self Help Groups is the brain child of Grameen Bank of Bangladesh, which was founded by Prof. Mohammed Yunus of Chittagong University in 1975. The concept of Self Help Groups serves to underline the principle “for the people, by the people and of the people”.

Mohammed Yunus, popularly known as the father of micro credit system, started a research project in Bangladesh in 1979 and came out with ideas of micro credit that resulted in the establishment of Grameen Bank in 1983. In 1984, the participants of the Third International Symposium on Mobilisation of Personal Savings in Developing Countries organised by the United Nations, agreed in the final resolution that internal savings must provide the basis of credit programmes, state control over interest rate must be relaxed and there should be more decentralised financial services and strong linkage between the formal and informal credit institutions for development (Aloysius, 1998).

In 1986, the Asia and Pacific Regional Agriculturist Credit Association (APRACA) devised on a coordinated programme for the promotion of the linkage between the banks and the Self Help Groups for rural savings mobilisation and credit delivery to the rural poor.

In 1989, the Central Bank of Indonesia with the involvement of Self Help Promotional Institution (SHPI) started a pilot project entitled “Linking the Banks and the Self Help Groups”.

83
In 1993, a first step was taken in Thailand by opening a Bank for Agriculture and Agricultural Co-operative (BAAC) and allowed to provide loans for farm related activities and as a second step in early 1999, Thailand Government approved amendment to Bank for Agriculture and Agricultural Co-operative Act. German Technical Cooperation (GTZ), as part of its technical cooperation with Bank for Agriculture and Agricultural Co-operative, was helping the bank to develop a system for non-farm activities. By 2002, there were 13 Thai commercial banks, 5 credit fancier companies (type of finance company), 18 finance companies and 18 foreign commercial banks to help micro finance poverty alleviation programme. In 2003, Tanzania began pilot testing and provided access to micro credit to economically disadvantaged people using the village banking methodology.

3.17 ROLE OF NON-GOVERNMENTAL ORGANISATIONS

Non Governmental Organisations (NGOs) have a role in bringing about the collaborative linkage between banks and groups. They act as both facilitators and micro-finance institutions as facilitating institutions. Non Governmental Organisations organise the poor into groups, undertake training for them, help in arranging inputs, extension and marketing, introduce saving and internal lending help in the maintenance of accounts and link them with the banks for credit requirements. Here banks directly provide credit to the Self Help Groups with the Non Governmental Organisations recommendations. In the second case, where the Non Governmental Organisations work as Microfinance Institution, they have to undertake some additional functions besides undertaking the function as a facilitator.

Here, the loan is given to the Non Governmental Organisations for on-lending to the Self Help Groups/ individual poor. The Non Governmental Organisations will be legally responsible for repayment to the banks and will be bearing the risk in cases of non-payment. The experiences of both Non Governmental Organisations and banks show that micro-finance groups have two distinct phases, namely, pre-formation and post-formation. Pre-formation phase include, identification of the village and target group,
providing awareness to the members identified on the importance of groups and motivating them to come together.

There are chances that the interests of the individuals may go against that of the group. In the post-formation phase, conflicts between individual interests and the group interests are resolved. The set of procedures to be followed by the group, rules to be adhered to by the members and the roles to be lead by the leaders are arrived at by intense discussion among the members in these groups. Even though the basic steps in the pre-formation and post-formation stages are similar to both the Non Governmental Organisations and banks, Non Governmental Organisations seem to be belief equipped to undertake Self Help Groups formation due to their nearness to the people and flexibility of operations. Even though the Non Governmental Organisations played a prominent role in the promotion of Self Help Groups. Often the poorest were finding it difficult to gain membership in the programme. They were not comfortable to the rigid discipline insisted by the Non Governmental Organisations as they were not confident of their capacity to save regularly. The initial resistance to Self Help Groups formation could be due to those encountered from within and also from outsider.

It is observed that the Non Governmental Organisations, which obtained better understanding of the situation of the area in which they were working, did well in the formation of microfinance groups. On many occasions, they had easily converted the groups formed for some or the other purpose into micro-finance groups and channeled the resources and training opportunities through them. A comprehensive study by Sathish (2001) into the problems and complexities faced by the Non Governmental Organisations and the banks in the pre-formation and post-formation stages of Self Help Groups in three states of Karnataka, Maharastra and Utter Pradesh has revealed that almost 30 per cent of the Self Help Groups cohered under the study had evolved from pre-existing groups such as affinity groups which maintained a common economic activity. These groups enjoyed economies of scale in the procurement of raw material and marketing of the finished products by joining together as a group.

Similarly, some of the Non Governmental Organisations could succeed in utilising the collective efforts of the informal institutions of chit funds by converting them into Self Help Groups. But, the organisational skills in terms of maintaining
discipline at meetings, interactions and participation in chit funds were less as compared to Self Help Groups, which were considered essential for the success of Self Help Groups. With a little effort the spirit of cohesiveness could be inculcated among the former by the Non Governmental Organisations with the help of the animators appointed by them.

Some of the studies reveal that the Non Governmental Organisation formed Self Help Groups performed better in terms of targeting and recovery of loan as compared to Development of Women and Children in Rural Areas groups formed by the government. 

Raja kutty (1997) study conducted in Tamil Nadu and Andaman Nicobar Island critically has examined the implementation and status of the groups organised under Development of Women and Children in Rural Areas. The programme had succeeded in establishing groups and it had recorded 140 per cent growth in the number of groups by the end of the Eighth Plan. More than one third of the government groups formed under Development of Women and Children in Rural Areas had become defunct, where the revolving credit fund had not been used. Non posting of officials, inadequate supervision and follow up, utilisation of loans for consumption purposes, lack of effort to revive defunct loans, lack of recovery of the loans were the main problems faced. Cohesive groups and the collective action, which were central to micro-finance groups, had largely been missing in these programmes. A comparison of the Development of Women and Children in Rural Areas programme to that of the Non Governmental Organisation aided programme brought out that because of the Non Governmental Organisations support right from the group formation till the repayment and even after that enabled the groups to attain better results. The Non Governmental Organisations actively participated in the identification of the groups, initiation of training programmes, encouragement of training programmes and monitoring, whereby it succeeded in instilling group consciousness among the participants.

3.18 POVERTY

There is a lot of high talk about India’s economic progress in the last couple of decades, and we do not contest it either. But the bare fact is that nearly 27.5 per cent of India’s population still lives below the poverty line, and 75 per cent of this, lives in rural
areas. Unequal and unjust distribution of wealth has widened the gap between the rich and the poor. Barely 10 per cent of India’s total population holds whopping 33 per cent of India’s total income. India tops the list of ill-fed kids of the world. If we consider the kids below 3 years of age, nearly 46 per cent of them are ill-nourished. A recent report (India: Urban Poverty Report, 2009) laments that 77 per cent of Indians live on a daily income of Rs.20/- only. Unemployment is rising and the number of small-farmers is also continuously rising.

Landless people pose a fresh problem. Illicit transactions related to land are also on rise. International organisations are cautioning us about the danger of this new breed of ‘Land mafias’. The condition of children and the women-folk in the economically backward section is simply precarious. India lags much behind in human development; and the United Nations Organisation has expressed a deep concern about this.

Despite the growth and development of the Indian economy during the last couple of decades, poverty is parallel increasing in absolute terms. Poverty have been a highly sensitive subject not only for the economists, but for politicians the world over. About one crore persons around the world live in dismal poverty; their lives are simply miserable. One in every five person’s lives below the poverty line and the entire national and even international policies have failed to deliver results. It should be remembered that fight against poverty has ceased to be a mere socio-economy responsibility but has developed into a moral responsibility too. If some new, novel ideas and programmes are rightly drafted and honestly executed, poverty-eradication, which is now on the top of economic agenda of many countries, will be possible.

According to Human Rights Commission’s Report (www.humanrightsinitiative.org), the concept of poverty can be stated in three different ways. The first and most effective definition of poverty is that Poverty is a situation in which there is dearth of essential facilities, resulting from inadequate income’. There is a socially accepted minimum level of living in every society. Those who live below this minimum level are said to live in poverty.

The second definition of poverty is based on basic or fundamental needs, i.e. a failure to meet the basic human needs; or to remain deprived from such needs is a state of
poverty. The basic human needs include not only food, clothing and dwelling, but also health and education.

The third way of defining poverty is in respect of lack of opportunities. Shifting from the traditional base of fundamental needs and income, the modern definition of poverty is based on the lack of opportunities. According to the modern connotation, poverty does not merely mean lack of adequate income or inability to meet basic human needs. Some people do have a potential to cross the borders of poverty. They have good health and can live a productive life however still they are deprived of suitable opportunities. The tacit denial of opportunities pushes them into unemployment resulting in loss of income and finally inability to meet the basic human needs.

Here, the emphasis is shifted from the individual to the surroundings. The lack of opportunity forbids an individual to insulate him from insecurity and it is the absence of opportunities which is the culprit. To be deprived of opportunities and unavailability of security is to remain in poverty. Mere inadequate income does not adequately describe poverty. A lack of opportunity in economic and political life is the root cause of poverty and therefore should not be neglected while defining poverty.

Poverty is not confined to the rural regions only; it envelops the urban areas too. It is a boundless concept and is omnipresent however its gravity may differ. The pace of socioeconomic growth is comparatively high in the urban regions, leading to a wider gap between the standards of living of the elite with respect to their neighbours. The hutment dwellers in urban areas are unable to meet even the basic human needs. It would also be equally unwise to speak of poverty from either local or national level. Hence, it cannot be confined to any particular area or region of a country (Sen Amartya, 1981).

3.19 POVERTY IN INDIA

Nearly 38 Percent of India’s population (380 million) is under poor. Indian Government constituted a committee to estimate poverty in the year 2009. The committee was headed by S.D Tendulkar. The report of the committee is based on new methodology and the figure is 10 Percent higher than the present poverty estimate.

The S.D Tendulkar committee has used a different methodology to reach at the current figure. It has taken into consideration indicators for health, education, sanitation,
nutrition and income as per National Sample Survey Organisation survey of 2004-05. This new methodology is a complex scientific basis aimed at addressing the concern raised over the current poverty estimation.

Since 1972, poverty have been defined on basis of the money required to buy food worth 2100 calories in urban areas and 2400 calories in rural areas. In June 2011 the Indian Government committee headed by N.C Saxena Committee estimated 50 Percent Indians were poor as against Planning Commission’s 2006 figure of 28.5 Percent.

Poverty is one of the main problems which have attracted attention of sociologists and economists. It indicates a condition in which a person fails to maintain a living standard adequate for his physical and mental efficiency. It is a situation people want to run away. It gives rise to a feeling of a discrepancy between what one has and what one should have. The term poverty is a relative concept. It is very difficult to draw a demarcation line between affluence and poverty. According to Adam Smith, “Man is rich or poor according to the degree in which he can afford to enjoy the necessaries, the conveniences and the amusements of human life”.

Even after more than 50 years of Independence India still has the world’s largest number of poor people in a single country. Of its nearly 1 billion inhabitants, an estimated 260.3 million are below the poverty line, of which 193.2 million are in the rural areas and 67.1 million are in urban areas. More than 75 Percent of poor people reside in villages. Poverty level is not uniform across India. The poverty level is below 10 Percent in states like Delhi, Goa, and Punjab etc whereas it is below 50 Percent in Bihar (43) and Orissa (47). It is between 30-40 Percent in Northeastern States of Assam, Tripura, and Megalaya and in Southern States of India and Uttar Pradesh.

Poverty has many dimensions changing from place to place and across time. There are two inter-related aspects of poverty viz., Urban and rural poverty. The main causes of urban poverty are predominantly due to impoverishment of rural peasantry that forces them to move out of villages to seek some subsistence living in the towns and cities. In this process, they even lose the open space or habitat they had in villages albeit
without food and other basic amenities. When they come to the cities, they get access to some food though other sanitary facilities including clean water supply still elude them and they have to stay in the habitats that place them under sub-human conditions. While a select few have standards of living comparable to the richest in the world, the majority fails to get two meals a day. The causes of rural poverty are manifold including inadequate and ineffective implementation of anti-poverty programmes.

The overdependence on monsoon with non-availability of irrigational facilities often results in crop-failure and low agricultural productivity forcing farmers in the debt-traps. The rural communities tend to spend large percentage of annual earnings on social ceremonies like marriage; feast etc. Our economic development since Independence have been lopsided .There have been increase in unemployment creating poverty like situations for many. Population is growing at an alarming rate. The size of the Indian family is relatively bigger averaging at 4.2. The other causes include dominance of caste system which forces the individual to stick to the traditional and hereditary occupations.

Since the 1970s the Indian Government has made poverty reduction a priority in its development planning. Policies have focused on improving the poor standard of living by ensuring food security, promoting self-employment through greater access to assets, increasing wage employment and improving access to basic social services. Launched in 1965, India's Public Distribution System has helped meet people's basic food needs by providing rations at subsidised prices. Although it has affected less than 20 Percent of the Poor's food purchases, the system have been important in sustaining people's consumption of cereals, especially in periods of drought. It has provided women and girls with better access to food and helped overcome the widespread discrimination against female consumption within households. It has also reduced the burden of women, who are responsible for providing food for the household.

The largest credit-based government poverty reduction programme in the world, the Integrated Rural Development Programme provides rural households below the poverty line with credit to purchase income-generating assets. Launched in 1979, the programme has supplied subsidised credit to such groups as small and marginalised
farmers, agricultural laborers, rural artisans, the physically handicapped, scheduled castes and scheduled tribes. Within this target population, 40 Percent of the beneficiaries are supposed to be women. Although the programme has reached 51 million families, only 27 Percent of the borrowers have been women. The programme has significantly increased the income of 57 Percent of assisted families.

Rural poverty is largely a result of low productivity and unemployment. The Jawahar Rozgar Yojana, a national public works scheme launched in 1989 with financing from the central and state governments, provides more than 700 million person days of work a year about 1 Percent of total employment for people with few opportunities for employment. The scheme has two components: a programme to provide low-cost housing and one to supply free irrigation wells to poor and marginalised farmers. The public works scheme is self-targeting. Since it offers employment at the statutory minimum wage for unskilled manual labor, only those willing to accept very low wages the poor are likely to enroll in the scheme. By providing regular employment and thereby increasing the bargaining power of all rural workers, the public works scheme has had a significant effect in reducing poverty. It has also contributed to the construction of rural infrastructure (irrigation works, a soil conservation project, drinking water supply). Evaluations show that 82 Percent of available funds have been channeled to community development projects. Targeting was improved in 1996 when the housing and irrigation well components were delinked and focused exclusively on people below the poverty line.

Training Rural Youth for Self Employment (TRYSEM) was started in 1979 to provide technical skills to the rural youth and to help them to get employment in fields such as agriculture, industry, services and business activities. Youth of the poor families belonging to the age-group of 18-35 are entitled to avail the benefits of the scheme. Priority is given to persons belonging to Scheduled Tribe /Scheduled Caste and ex-servicemen and about 1/3 seats are reserved for women. Minimum Needs Programme was taken up as an integral part of the 5th Five Year Plan and it was intended to cater to the minimum needs of the people such as rural water supply, rural health, road building, adult education, primary education, rural electrification and improvement of the urban
slums etc. With the intention of removing urban unemployment some schemes such as Self-Employment Programme for the Urban Poor (SEPUP); Scheme for Self-Employment of the Educated Urban Youths (SEEUY). These schemes give loans and subsidies for the urban unemployed youths to create or to find for themselves some jobs. The Self-Employment Programme for the Urban Poor had provided financial help for about 1.19 urban unemployed youths in the year 1990-91.

The participation of civil society organisations in poverty reduction efforts, especially those directed to women, has increased social awareness and encouraged governments to provide better services. Cooperatives such as the Self-Employed Women's Association provide credit to women at market rates of interest but do not require collateral; they also allow flexibility in the use of loans and the timing of repayments. These civil society organisations have not only contributed to women's material well being; they have also helped empower them socially and politically. Such credit initiatives, by bringing women out of the confines of the household, are changing their status within the family and within village hierarchies. The demands of civil society organisations for better social services have spurred the government to launch campaigns to increase literacy and improve public infrastructure. And their calls for greater accountability and real devolution of power are increasing the likelihood that expenditures for poverty reduction will reach the needy, especially women.

The Indian state has undoubtedly failed in its responsibilities towards its citizens over the last 50 years. There is a need for the state to move out of many areas and the process have been started with economic liberalisation. The process of decentralisation should devaluate lot more powers, both functional and financial to panchayats. The lack of transparency and accountability has hampered our economic development at all levels. The problem of poverty persists because of a number of leakages in the system. New laws have to be evolved to ensure more accountability. Bodies like the Planning Commission should be modified into new constitutional bodies that can hold governments accountable for their failure to implement development programmes. A strong system of incentives and disincentives also needs to be introduced. The
encouragement of non-governmental organisations and private sector individuals in tackling poverty is imperative, as the state cannot do everything.

Poverty have been described as a situation of “pronounced deprivation in well being” and being poor as “to be hungry, to lack shelter and clothing, to be sick and not cared for, to be illiterate and not schooled. Poor people are particularly vulnerable to adverse events outside their control. They are often treated badly by institutions of the state and society and excluded from voice and power in those institutions” (IBRD, 2000). Using income as a measure of poverty, the World Development Report (IBRD, 2001) refers to the “deep poverty amid plenty” in the world and states that a fifth of the world’s people live on less than $1 a day, and 44 Percent of them are in South Asia.

Lack of access to resources or asset lessness is a unifying characteristic of poverty in all its manifestations. The poor lack ownership of or access to assets such as land, water, forest, dwelling units, credit, literacy, longevity, voice and capital—both physical and social.

Those who are severely below the poverty line are largely involved in subsistence type activities for which they get exploitatively poor returns despite suffering extreme physical hardship and undertaking grave risks so as to earn a meager income. Since earnings are below even the margins of existence, expenditure and survival needs exceed income. This often results in the need to borrow small amounts of money at usurious interest rates of as much as 120 Percent per annum (Mehta, 1996). When borrowing is not possible, hunger is suffered. Their inability to change the power relationships results in scarcely available common resources (such as even drinking water) or public funds meant for poverty alleviation being misappropriated and diverted through manipulation by the locally powerful or corrupt. Since there are no mechanisms for grievance redressal this could result in social tension, despair or a combination thereof.

The poor can be classified into two sub groups those who are poor over an extended duration or chronically poor and those who are transiently poor. The Chronic Poverty Research Centre tries to focus on the chronically poor segment of those who are deprived so as to draw attention to those who find it hardest to emerge from poverty. The
Chronic Poverty Research Centre defines chronic poverty in terms of severe poverty, extended duration poverty and multidimensional poverty.

Severe poverty is viewed in three ways:

1. Those who are chronically or severely below the poverty line or with incomes that are 75 Percent of the poverty line or less; and
2. Those suffering hunger or not getting even two square meals a day as an extreme form of deprivation.
3. Inability to absorb the impact of shocks can also lead to extreme poverty, starvation and suicide.

Extended duration or non transitory poverty can be estimated by looking at the same households over the span of 5, 10, 15 or more years. This can be done through use of panel data sets to identify households that have remained in poverty over time and supplemented on the basis of life histories. Published literature on chronic or long duration poverty based on panel data will be used in this paper to draw some tentative inferences about those suffering non transitory poverty.

The chronically poor are likely to suffer deprivation in many ways. Poverty is the sum total of a multiplicity of factors that include not just income and calorie intake but also access to land and credit, nutrition, health and longevity, literacy and education and safe drinking water, sanitation and other infrastructural facilities. Hence the need to look at multidimensional indicators of poverty such as indicators reflecting human and gender development and empowerment. State level estimates of Human Development Index (HDI), Gender-related Development Index (GDI), Gender Empowerment Measure (GEM) and Human Poverty Index (HPI) as also infant mortality estimates are presented and analysed to see if those located in areas that have a high incidence of severe income poverty also suffer deprivation in access to literacy, knowledge, nutrition, voice and infrastructure. Lessness is a unifying characteristic of poverty in all its manifestations. The poor lack ownership of or access to assets such as land, water, forest, dwelling units, credit, literacy, longevity, voice and capital-both physical and social.
3.20 PLANNING COMMISSION ON POVERTY LINE

Planning Commission on March 19th 2012, further reduced poverty line to Rs.28.65/- per capita daily consumption in cities and Rs.22.42/- in rural areas, scaling down India's poverty ratio to 29.8 per cent in 2009-10, the estimates which are likely to raise the hackles of civil society.

An individual above a monthly consumption of Rs.859.6/- in urban and Rs.672.8/- in rural areas is not considered poor, as per the controversial formula. Furthermore, the Plan panel has kept the poverty threshold even lower than it submitted to the Supreme Court last year, which created an outcry among the civil society. The Plan panel had said in its affidavit before the apex court that the "poverty line at June 2011 price level can be placed provisionally at Rs.965/- (Rs.32/- per day) per capita per month in urban areas and Rs.781/- (Rs.26/- per day) in rural areas".

The civil society had questioned this definition stating it was very low. As per estimates released, the number of poor in India has declined to 34.47 crore in 2009-10 from 40.72 crore in 2004-05 estimated on the basis of controversial Tendulkar Committee methodology.

The methodology recommended by the Committee includes spending on health and education, besides the calorie intake. Among religious groups, Sikhs have lowest poverty ratio in rural areas at 11.9 per cent, whereas in urban areas, Christians have the lowest proportion of poor at 12.9 per cent. Poverty ratio is the highest for Muslims, at 33.9 per cent, in urban areas. Further, poverty in rural areas declined at a faster pace than in urban cities between 2004-05 and 2009-10 (http://indiatoday.intoday.in)

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