CHAPTER 3
MICRO-FINANCE DEVELOPMENTS IN INDIA AND KERALA

3.1. Introduction
In the recent times, micro-finance programmes have been playing significant roles in poverty alleviation and women empowerment. Like other developing countries, in India, the programme was introduced as a part of the poverty alleviation measures, and micro-finance was introduced in a major way in the 1990s. It was implemented mainly through the NABARD Bank linkage programme and a number of government and NGOs. Several studies (Rajakutty 1997 and Puhazhendhi and Satyasai 2000) have pointed out that compared to direct lending programmes, micro-finance approach was more successful with respect to reaching the poor, attaining socio-economic well being of the participants etc.

Kerala is one of the first states in India that adopted micro-finance programmes as a part of the state poverty eradication mission. As the Kudumbashree programme of the government was introduced in 1999 under local self-governing institutions (LSGIs), the programme received a wider coverage in the state. Generally, micro-finance groups initiated by them acted as economic institutions of local governance. Moreover, NGO initiated micro-finance programmes have been working in the state, especially in the backward regions from mid 1990s. In this chapter, we discuss the emergence and growth of micro-finance programmes in India with special reference to Kerala, which constitutes the background for the present study.

3.2. Fulfilling the Credit Demands of Rural India Over the Years
Financial institutions in India can broadly be classified into two categories; formal and informal. For a long time, the formal banking institutions could not meet the ever-increasing credit requirements of the vast section of the rural poor
having no access to adequate physical collateral. The credit requirements of the rural poor fluctuated with respect to the seasonal agricultural demands of the rural areas. It was assumed that the agricultural output of marginal and small farmers depended on the availability of credit, which was considered to be one of the significant inputs enabling these farmers to access other inputs. They required credit for a large number of reasons such as emergency needs, life-cycle needs and production needs (Rutherford 2001). From time to time, the Government of India introduced banking sector reforms to reach out to the rural poor. The most important step taken by the government in realising this goal was the nationalisation of commercial banks in 1969 and 1980.

The effects of nationalisation of banks on poverty alleviation can be examined in two phases, before and after liberalisation. According to Radhakrishna and Ray (2005: 109-115), although the banking sector reforms increased the number of bank branches, narrowed the regional disparities in rural credit deposit ratio and improved the share of credit to agriculture, such results had not continued after 1991. They have stated that the micro analysis on credit disbursal to the poor indicating the small borrowal accounts, the advances to weaker sections, advances under differential interest rate schemes, advances by the size of landholdings and credit flows under various poverty alleviation programmes had not succeeded in reaching the poor. In short, the initial benefits under the banking sector reforms had not continued to ensure support to the poor, especially after liberalisation.

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21 The Government of India appointed various committees from time to time to review the credit demands of the rural poor. In 1954, All India Rural Credit Survey Committee was appointed and which gave more scope to cooperatives for rural banking. In 1963, Agricultural Refinance Corporation was formed in the RBI to ensure the supply of long term resources to credit institutions. In 1966, the All India Rural Credit Review Committee gave suggestions on the number of banks, significance of savings mobilisation and recovery of loans. The Government of India nationalised 20 commercial banks in 1969 and 1980. In 1975, the Regional Rural Banks were set up to target the ‘weaker’ sections of the society, the small and marginal farmers, agricultural labourers and artisans. In 1981, the Committee to review Arrangements for Institutional Credit for Agriculture and Rural Credit was set up and the National Bank for Agriculture and Rural Development was set up in 1982. In 1991, M. Narasimham was appointed as the Chairman of a committee on the banking sector and it came up with the conclusion that the banking policy should be guided by market forces than by regulations of public authority. Gupta Committee was appointed in 1998 and it gave importance to the quality of credit delivered by the banking system.
As in the case of other developing countries, the rural poor in India have been depending on informal credit sources such as moneylenders and landlords for quite some time. The access to credit for the poor from the formal sources were negligible due to the problems existing within the banking system such as complicated procedures, unimaginative lending policies and procedures, absence of provision for consumption credit, political interference, distant location, cultural gap between the officials and borrowers, and short banking hours (Rajasekhar 1996). Moreover, formal banks found the lending to the poor to be risky due to two important reasons. Firstly, it was very difficult for the banks to obtain information about the creditworthiness of a large number of small borrowers. Secondly, it was costly to reach a large number of small clients without adequate collateral. Therefore, transaction costs for both lenders and borrowers were high and often, these costs reduced the total volume of credit transacted. A deliberate intervention in the credit market by the State had produced the opposite result. Instead of improving the credit availability for the rural poor, the State intervention in the credit market with the policy of administered rates of interest increased inequality in the distribution of credit. This happened because the rich cornered the benefits of low rates of interest.

The Government of India had introduced various poverty alleviation programmes as a part of the Five-year Plans. These programmes differed widely in terms of their operations. Some of them were area specific programmes, whereas some others were targeted to certain sections of the society like unemployed, youth, mothers etc. However, these programmes too could not achieve the desired objective of reaching out to the most needy. This was quite evident in the case of poverty alleviation programmes such as Rural Public Works (RPW) and Integrated Rural Development Programme (IRDP). Wastage and diversion of funds were unavoidable in the context of corrupt bureaucracy and capture of locally elected bodies such as panchayaths by a few influential persons. The

22 This can be attributed to the effects of credit rationing (see, Adams et al 1984; Sahu and Rajasekhar 2005).
shortfalls in the programme could be attributed to their poor design and implementation (Gaisha et al. 2001).

Both social banking and specialised poverty alleviation programmes failed to achieve the objectives of sustainability of the financing institutions, besides targeting the poor\textsuperscript{23}. The banks were unable to reach a large number of poor borrowers due to mounting transaction costs. This resulted in poor access of credit by the rural poor. The difficulty of obtaining information on creditworthiness of the borrowers resulted in overdues which started to accumulate by the end of 1980s. As the supply side problems of the formal institutions were totally neglected, the sustainability of formal banking institutions was under threat. Thus, a large number of poor remained outside the formal banking system.

According to Rajasekhar (2004), the developments in the formal banking system had five major consequences. Firstly, Narasimhan Committee of 1991 was appointed to undertake financial sector reforms. As lending to the priority sector was not profitable, it recommended a gradual reduction in the priority sector lending and diversion of bank credit to more profitable areas. Secondly, Indian banks showed considerable interest in group based programmes like DWCRA as loan assistance to women in groups was found to be relatively more productive than the other social banking programmes. Further, repayment rates in these groups were better. Thirdly, from 1999 to 2000 onwards, group lending methodology was adopted in the case of poverty alleviation programmes. SGSY programme was initiated to combine the existing poverty alleviation programmes of IRDP, TRYSEM and DWCRA. The new programme channelled assistance to the poor through SHGs. Fourthly, it led to the entry of NABARD in the credit market through the provision of refinance to engage the commercial banks to provide credit to the poor under the SHG Bank linkage programme. Fifthly, it led

\textsuperscript{23} These are the often-discussed two concepts in the banking system and are considered to be the two sides of the same coin. A deliberative intervention in the credit market through low rates of interest has brought down the savings of the clients, on the one hand, and increased the inequality in the distribution of credit, on the other. Thus, it could not achieve the two objectives of sustainability and targeting.
to the increased participation of the NGOs in the expansion of micro-finance programmes. It is significant to note that the poverty alleviation programmes and the banking sector had realised the benefits of group lending such as the sustainability of the institution and in reaching out to the poor.

Even though the growth of micro-finance groups was rapid after 1990s, there were many forerunners for these institutions. Many formal and informal small groups existed in different parts of the country to meet the credit needs of the localised people. These informal groups are known by different names in different parts of the country. The basic idea of these groups has been to make credit available to the participants on easy terms from the small amounts contributed by them. They are Rotating Savings and Credit Associations (ROSCAS), which are called as chit funds. These institutions provided credit to the people and got dissolved once all the members received benefits from the group. But, the micro-finance groups address the socio-economic concerns of the members and continue to function even after the credit needs of the members are met once. The concept of micro-finance rests on the premise that (a) self employment/ enterprise formation is a viable alternative means of alleviating poverty, (b) lack of access to capital assets/ credit acts as constraint to existing and potential micro enterprises, and (c) the poor are able to save despite their low level of income.

Under micro-finance groups, the saving contributions made by the members formed the capital to be lent among the members. Earlier, the poor had been considered as unbankable, but the spread and popularity of the micro-finance programmes through the savings mobilised by them and the success in terms of their improved recovery rate changed such a view (Rutherford 2001). Satish (2004) has stated that giving due attention to the supply side of the credit market with saving mobilisation under group credit programmes in countries like Indonesia, Malaysia and Thailand and the replications of the same in India under commercial banks prospered the growth of savings and the promotion of credit. This contributed elaborately towards sustainability of the institution and outreach.
According to him, the micro-finance institutions can play a crucial role in bringing about revitalisation of the institutions without any wholesale structural and ownership change.

3.3. Self-Help Groups in India

Generally, micro-finance groups in India are called Self-Help Groups (SHGs). In addition to the usual functions of micro-finance groups such as savings, credit and insurance, SHGs engage in issues of social significance. These are small groups of 10-20 members. In India, almost 90 per cent of the groups comprise of only women. The SHG provides the poor with alternative means of obtaining economic and social entitlement to resources through their active participation. SHGs are formed on voluntary basis, perceived appropriately as people’s institution, providing the poor with the space and support necessary to take effective steps towards greater control over their lives in private and in society. Each group acts like a bank, and decides the internal operations of the group in the distribution of loans, monitors the utilisation of loan amount and enforces repayment. Generally, the group disburses the loan amount among the members according to the criteria arrived at by the members. The members borrow both for consumption and productive purposes. As the group attains maturity in due course of time and the common pool of resources of the group, i.e., savings become insufficient for meeting the varied credit demands of the members, the group applies for external assistance mostly from banks under the NABARD bank linkage programme although other avenues are also emerging of late.

There are differences between Grameen Bank model of Bangladesh and SHGs established and spread throughout India. Grameen groups are relatively smaller in size as they consist of five members whereas membership of SHGs is 10 to 20. Unlike Grameen Bank of Bangladesh, SHG has its own credit fund for relending and the initial lendings are made through internal savings contributed by the members. Moreover, SHG is considered as the ultimate lender and can be perceived as a micro-finance Institution, whereas Grameen Bank groups do not normally have resources at their disposal. Members’ thrift is deposited in the
financial institution which has a federating structure and which is lent to the members of Grameen Banks. As a result, after some time, SHG may have enough capital to meet the financial requirements of its members and may not require any borrowing from financial institutions. Therefore, SHGs can be considered as independent institutions, if they mobilise sufficient funds for disbursal among members. On the other hand, Grameen Bank group members have to depend on an outside financial institution for credit, as long as they maintain thrift in the federation.

In India, SHGs are more prominent among the south Indian states like Andhra Pradesh, Tamil Nadu, Karnataka and Kerala. Each of these states has its own government programme for the promotion of micro-finance and it is called by different names, even though the internal operations of these groups are the same. Some of these SHGs coming under each of the state programmes have linked themselves to the banks under NABARD and it is this programme which gave wide popularity to micro-finance in the country. The bank linkage programmes under NABARD enables credit to the groups under three different types of lending. NABARD, the apex bank in the promotion of agricultural and rural development, is involved in the programme through the provision of refinancing of loans to those commercial banks, which lend to the primary sector. In 1992, nationwide project linking of 500 SHGs with nationalised commercial banks was established. Later, in 1996, SHG bank linkage became the mainstreaming of corporate strategy of banks and now, it has grown into one of the largest micro-finance programmes of the world.

Bank linkage is prominent in terms of outreach, recovery and meeting the credit needs of the rural poor. There are three models of SHG bank linkage. In the first model, banks themselves take up the work of forming and nurturing the groups, opening their saving accounts and providing them with bank loans. Up to March 2005, 21 per cent of the total number of SHGs financed was from this category. In the model 2, SHGs are formed by agencies such as NGOs, government, etc., but directly financed by the banks. About 72 per cent of the total number of
SHGs financed up to March 2005 belonged to this category. These organisations facilitate organising, forming and nurturing groups and train them in thrift and credit management, whereas the banks give loans directly to these SHGs. In the third model, SHGs are financed by banks through NGOs and other agencies and they act as financial intermediaries. In areas where formal banking system faces constraints, the NGOs are encouraged to approach a suitable bank for loan assistance.

The facts and figures given in Box 3.1 indicate the importance of micro-finance programmes under SHG bank linkage programme of NABARD in India.

**Box 3.1 Coverage of SHGs under NABARD**

- Number of states and union territories covered: 31
- Number of districts covered: 572
- No. of SHGs linked: 1,618,456
- No. of participating banks: 573
- Bank branches participating: 41,082
- Bank loans: Rs. 69.98 billion
- No. of poor households assisted: 24.25 million

Source: As on Mar 31st, 2005 (NABARD 2005)

SHGs can be linked to all India Scheduled Commercial Banks (SCBs) including Regional Rural Banks, credit cooperatives comprising Primary Agricultural Credit Societies (PACS) and Primary or State Land Development Banks (P/SLDBs) at the grassroots level. Banks lend the groups through SHG-bank linkage programme and it acts as a mechanism for lending to the poor on a sustainable basis. The most outstanding impact of the linkage programme could be the socio-economic empowerment of the poor, especially the women (Nanda 1998). A study on the SHG bank linkage programme across the country by Puhazhendhi and Satyasai (2000) reached the conclusion that the economic conditions of the poor SHG members improved in terms of lifting the poor above the poverty line and improved their access to assets in the post SHG scenario. Moreover, in the social sphere, the programme improved the self-confidence of the members and their attitude towards society.
Box 3.1 brings out the coverage of micro-finance programme in India under the NABARD SHG bank linkage programme. The active role-played by the public sector formal banking institutions had led to wide popularity and spread of micro-finance programmes in India. The linkage and refinance programme was made available through the nationalised commercial banking structure and it played an important role in the establishment and expansion of the financial intermediation through SHGs (Harper 2002).

It is presumed that in groups with homogeneity in socio-economic characteristics, risks of the members will be the same. While extending external loans through linkage programme, NABARD requests the groups to follow certain criteria. These relate to the homogeneity of the group, small size, internal credit performance in terms of good repayment and lending. Even though these are necessary, they are not sufficient to indicate the performance of the group. According to Rajasekhar (1996), even groups with heterogeneous features or large size can be provided with credit under group lending principles. This is made possible through the saving mobilised by the members, provision of support to income generating programmes, insistence on collateral requirements and giving emphasis to short term credit.

Generally, SHGs are formed, nurtured and developed by outside agencies which are called Self-Help Promoting Institutions (SHPIs). These include Non Governmental Organisations (NGOs), formal financial institutions or Government institutions. Each of these promoting institutions may have different perspectives towards SHGs. An NGO may be basically interested in empowerment and development, and micro-finance groups formed by them act as a channel for achieving this. For a formal financial institution, the objective behind providing financial assistance to SHGs through linkage programme may be to create creditworthy borrowers, who can absorb higher amount of credit. Government institutions, on the other hand, may be interested in achieving government targets. There may sometimes be conflict among these different
promoting agencies in terms of their differing philosophies (Dasgupta and Rao 2003).

3.4. Role of NGOs in the Promotion of SHGs
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, NGOs 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, link them with the banks for credit requirements. Here, banks directly provide credit to the SHGs with the NGOs’ recommendations. In the second case, where the NGOs work as MFI (Micro-Finance Institution), they have to undertake some additional functions besides undertaking the function as a facilitator. Here, the loan is given to the NGOs, for on-lending to the SHGs/ individual poor. The NGOs will be legally responsible for repayment to the banks and will be bearing the risk in cases of non-payment.

The experiences of both NGOs and banks show that micro-finance groups have two distinct phases, namely, pre-formation and post-formation. Pre-formation phase includes 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 NGOs and banks, NGOs seem to be better equipped to undertake SHG formation due to their nearness to the people and flexibility of operations24.

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24 Even though the NGOs played a prominent role in the promotion of SHGs, often the poorest were finding it difficult to gain membership in the programme. They were not comfortable to the rigid discipline insisted by the NGOs as they were not confident of their capacity to save regularly. The initial resistance to SHG formation could be due to those encountered from within and also from outsider.
It is observed that the NGOs, which obtained better understanding of the situation of the area in which they were working, did well in the formation of micro-finance groups. On many occasions, they had easily converted the groups formed for some or the other purpose into micro-finance groups and channelled the resources and training opportunities through them. A comprehensive study by Satish (2001) into the problems and complexities faced by the NGOs and the banks in the pre-formation and post-formation stages of SHGs in three states of Karnataka, Maharashtra and U.P has revealed that almost 30 per cent of the SHGs covered 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 NGOs could succeed in utilising the collective efforts of the informal institutions of chit funds by converting them into SHGs. But, the organisational skills in terms of maintaining discipline at meetings, interactions and participation in chit funds were less as compared to SHGs, which were considered essential for the success of SHGs. With a little effort, the spirit of cohesiveness could be inculcated among the former by the NGOs with the help of the animators appointed by them.

Some of the studies reveal that the NGO formed SHGs performed better in terms of targeting and recovery of loan as compared to DWCRA groups formed by the government. Rajakutty’s (1997) study conducted in Tamil Nadu and Andaman Nicobar Islands, critically has examined the implementation and status of the groups organised under DWCRA. 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 DWCRA 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 DWCRA programme to that of the NGO aided programme brought out that because of the NGOs' support right from the group formation till the repayment and even after that enabled the groups to attain better results. The NGOs 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.

3.5. Major Challenges in the Growth of Micro-Finance Programmes in India

In India, more than 90 per cent of the micro-finance group members are women and their participation in those programmes improved their socio-economic standing in the society. Micro-finance programme is not fully devoid of defects. It has certain problems and challenges in the course of its development.

Often, the borrowers face problems of identifying those economic activities that yield a rate of profit necessary to cover the interest rate on loans. Even though the programme is meant for the promotion of income generating activities through the provision of loans, members are finding it difficult to find economically remunerative productive activities. A risk averse character is quite observable among the members, where they restrict themselves to non-farm activities, which are traditional and less remunerative (Rajasekhar 2005). Moreover, there are problems of getting loans on time, difficulty of getting raw materials, skilled labour and marketing opportunities. Thus, the members are finding it difficult to venture into those activities, which are diversified and remunerative (Nirmala et al 2004). Their problems continue even after producing output, especially while finding a marketing outlet for their produce (Madheswaran and Dharmadhikari 2001).

Generally, the programme is targeted to women as their contribution to the household income enable all the household members to receive the benefits of credit. This is because women contribute a larger proportion of their income to the welfare of the household as compared to men, and this throws light on the
self-consumption nature of the men (Mencher 1988). A study by Rajasekhar (2002) on the poverty alleviation programme of one south Indian NGO called SHARE has brought out the idea that participation of women in income generating activity contributed a higher proportion to household income. However, it had negative impact on the sharing of household responsibilities. It resulted in a situation where the male members withdrew from the labour market by transferring the household responsibilities entirely on to women. He suggests, therefore, that men too should be brought under the purview of development intervention, if women are to be empowered.

Various studies (Rajakutty 1997; Namboodiri and Shiyani 2001; Satish 2001; Madheswaran and Dharmadhikari 2001) on the performance of SHGs have brought out the idea that SHGs performed well in terms of recovery of loans. These studies are of the opinion that this was made possible because of the self-sustainable system of community organisations, constant and regular assistance from promoting agencies, social cohesion among group members and lower transaction costs. But, such a measurement only on the repayment capacity of the groups had not looked into the sources from where the members made repayments or the problems faced by the members at the time of repayment. According to Chavan and Ramakumar (2002), group pressure sometimes, forced the members to borrow from moneylenders at the time of repayment and hence, it created dependency.

Another problem cited by the development scholars relate to the neglect of the poorest of the poor by the programme. According to Madheswaran and Dharmadhikari (2001), the exclusion of the poorest could be attributed to the less targeting on the poorest as compared to moderately poor. This was because the financial institutions presumed that the promotion of the poorest might hinder the sustainability of the programme. Their study has brought out that lack of awareness, social exclusion to join with other group members, improper identification techniques, difficulties faced at the time of appraisal and follow up and strict discipline in repayment requirements and penalties for delays acted as
hindrances for the poorest to participate in the Maharashtra Rural Credit Programme.

3.6. Evolution of NHGs in the Kerala Scenario

The present study has been carried out in Kerala, a South Indian state where government and NGOs have been actively involved in the promotion of micro-finance groups. NGOs are concentrating in the state on the socio-economic promotion of the backward and weaker sections of the society. They had channelled their assistance to them through SHGs even before the entry of the government in the programme. As in the case of other states in India, locally based informal credit groups had received popularity before the emergence of SHGs. However, later, the micro-finance programmes received wider appreciation with the establishment of SHGs under Local Self Governing Institutions (LSGIs) and their emergence can be traced back to the Kerala model of development.

Kerala occupies a unique place among the states of India, as it is considered a paradox of development. This state has attracted the attention of various scholars for its remarkable achievements in social development indicators, in the absence of economic growth. As a state in a third world country like India, the attainments are comparable to that of the developed countries of the world. Kerala’s accomplishments reveal that the well-being of the people can be improved and social, political and cultural conditions can be transformed even at low levels of income, when there is appropriate public action (Ramachandran 1996; Parayil 2000; Kannan 2000). Some scholars argue that the achievements in social development indicators could be realised mostly through the active participation of the civil society and the responsiveness of the government to the demands of the people (Blomkvist 2003; Tornquisit 2000; Heller 1996). To them, the active participation of the masses and the consequent positive responsiveness of the state could be traced back to the land redistribution reforms, and other social measures undertaken by the state. On the other hand, economic accomplishments of the state in terms of employment generation, per capita
income and growth rate of the productive sectors of the economy are very poor. High unemployment coupled with low productivity of the state forces large segments of the people to depend on remittances from Gulf countries. There was a growing debate on this aspect of perverted growth of Kerala, as the state stood out as an alternative to the neo-liberal idea of economic growth (Tharamangalam 1988; George 1997). These scholars are of the opinion that the growing fiscal deficit, lack of additional employment opportunities and low growth rate of the economy might undermine the very existence of this model of development.

The sustainability of Kerala model of development has been debated and discussed by many scholars, as the economic achievements of the state are very marginal. Meanwhile, in 1992, the Government of India introduced the 73rd and 74th constitutional amendments. As per these amendments, the states were required to devolve twenty-nine administrative functions to local elected bodies. The Left Democratic Government had taken the initiative for the decentralisation of power to the local bodies under the People’s Planning Campaign. It received wide popular attention through the enormous participation of the masses in the local level resource mapping and the preparation of local level development projects. According to the Veteran CPM leader EMS Namboodiripad (1995), the Campaign had envisaged to accelerate economic growth without sacrificing the welfare and democratic achievements of the past. Realising the shortcomings of the state on economic grounds, the advocates of the campaign have argued that the economy could be recovered from stagnation in the productive sectors mainly through the mobilisation of the funds from voluntary services, beneficiary contributions in development projects, small savings through SHGs of women and loans from financial institutions (Mohanakumar 2002; Tharakan and Rawal 2001; Isaac et.al 2001). Thus, they have expressed their hope in the newly emerging democratic decentralisation and its potentialities of accomplishing development from the locally initiated development plans. Moreover, they argue that the devolution of powers and the financial resources to LSGIs ensure mass participation of the people and they have expressed their hope that it could overcome the drawbacks of centralised planning.
In 1996, the state under the LDF government had devolved 35 to 40 per cent of the state plan fund to the LSGIs for the formulation and the implementation of the Ninth Plan (Isaac et al 2001). It was a process of devolving functions and resources of the state from the centre to the elected representatives at lower levels so as to facilitate greater direct participation by citizens in governance. The main idea behind devolution was to ensure that what could be done at a particular level should be done at that level and not at higher levels. Under the LSGIs, comprehensive area development plans were prepared through participation of the masses in micro level planning.

There are three tiers of LSGIs in the state: Grama Panchayath at the lowest level, Block Panchayath at the block level and Zilla Panchayath at the district level. Ward level meetings, called the grama sabhas, were conducted below the grama panchayaths to identify local development problems, analyse factors responsible and put forward suggestions for solutions. Neighbourhood groups (NHGs) consisting of 40 to 50 families were constituted below each grama sabha. These groups acted as grassroots fora for direct participation of citizens in governance. Even though the prescribed membership of NHGs was 40 to 50, these were groups of 10 to 20 women generally engaged in discussions of the local plan, review of plan implementation, and general administration, and selection of beneficiaries. These institutions were also involved in the settlement of family disputes, health and educational programmes of their families, cultural activities, thrift schemes and project implementation (Tharakan and Rawat 2001; Isaac et al 2001). NHGs acted as a supplement to grama sabhas and in most of the cases they acted as executive committee to grama sabhas and hence, they should be viewed as democratic institutions of general governance. The significance of these grassroots organisations was quite observable from the role that they played in the promotion of economic development of the state through the creation of local area specific plans. Generally, they were engaged in the promotion of income generating activities suitable to the area of their operation, which was collectively suggested by them. These NHGs working at the grassroots level
formed the basis of micro-finance programmes organised and promoted by the government.

In 1999, the Government of Kerala implemented a State Poverty Eradication Mission called *Kudumbashree* under the LSGIs and brought NHGs under this organisation. The *Kudumbashree* mission launched by the state government with the active support of the Government of India and NABARD had adopted a group approach for wiping out absolute poverty through community-based organisations. It had a three-tier structure with NHGs at the grassroots level, Area Development Society (ADS) at the ward level and Community Development Society (CDS) at the panchayath level. Those women who participated in the NHGs at the grassroots level discussed their local issues in the *grama sabhas* held at the ward level. NHGs received wider popularity since the government decided to earmark 10 per cent of the Plan fund for women through these groups. By 2001, the programme was implemented in all 991 panchayaths of Kerala state. Other than considering the usual practice of taking income as the indicator of BPL families, it adopted a nine-point criteria developed by the Alapuzha model of community development organisation for the identification of beneficiary families. These are as follows:

1. Kutcha house
2. No access to safe drinking water
3. No access to sanitary latrine
4. Illiterate adult in the family
5. Family having not more than one earning member
6. Family getting barely two meals a day or less
7. Presence of children below the age of 5 in the family
8. Alcoholic or drug addict in the family
9. Scheduled caste or scheduled tribe family

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25 The genesis of *Kudumbashree* can be seen from the Alapuzha Community Development Society of 1993. It had identified risky families below poverty line on a nine-point criteria and the programme was successful in achieving poverty alleviation targets. Later, the programme was introduced in all the panchayats of Malappuram. On 26th December 1994, the state government through a special order directed all Urban Local Bodies in the state to set up Urban Poverty Alleviation Cells and to implement poverty alleviation programmes with community participation as done in Alapuzha and Malappuram.

26 The SHG programme was introduced in Alapuzha in 1993 under the collaborative efforts of Community Based Nutrition Programme and Urban Poverty Alleviation Project (CBNP and UPAP) of the Government of India and UNICEF.
If any four or more of the above risk factors are positive in a family, such a family is treated as ‘risky family’ (Isaac et al 2002), and targeted for government assistance.

Even though NHGs are engaged in issues of social significance through the participation of women in grama sabhas, they give equal importance to the promotion of thrift and credit to facilitate the poor to save and to provide them cost effective and easy credit. Thus, the thrift and credit enable the poorest without collateral to acquire loans from small savings contributed by them who had been considered for a long time as unbankable. The loans obtained from these groups provide an opportunity for them to initiate small income generating activities, and thereby improve their income and living standards.

The NHGs are similar to SHGs in terms of their day-to-day operations. The newly emerged NHGs hold meetings on a weekly basis and discuss issues of social and economic relevance. NHGs are involved in a wide range of functions like making weekly contributions to the common fund, identifying beneficiaries of various schemes under the poverty alleviation programme of the government, developing and implementing projects suitable to the local needs, etc. Since the NHG programme has a three tier structure, the representatives of the NHGs meet at the ward level meeting of the ADS where they discuss issues pertaining to their area and the CDS meetings are held once in a month at the panchayath level to discuss broader issues. Panchayath level CDS is a registered body under the Charitable Societies Act. Other than the representatives from various ADS committees, the representatives from the LSGIs too participate in these meetings at the panchayath level.

The women participating in these agencies bring forth area specific project proposals at the group level meetings. The area specific projects\(^{27}\) formulated by the NHGs form the micro plans from an area which will be scrutinized and

\(^{27}\) According to Kudumbashree programme, projects formulated by various NHGs are called micro plans; the consolidated projects of the wards are called mini plans; and the ward level plans are called the community development society (CDS) plan.
prioritised to form a mini-plan at the ward level of ADS. After mini plan are consolidated as CDS plan, it becomes the antipoverty sub-plan of the local self-government. Preparation of micro, mini and CDS plans facilitate the poor to participate in the planning process as major stakeholders. The local body monitors the implementation of the plan and thereby, the proper linkage and autonomy are ensured under the CDS system.

Even though the programme was meant for the BPL families, membership was open to APL families too. Generally, three reasons have been cited for the inclusion of APL families (Isaac et al 2002). Firstly, it was difficult to make a clear demarcation between these two categories of BPL and APL and often, there were not many differences between the two categories. Secondly, in those cases where there were pre-existing groups consisting of members of both the categories, a division based on such issues might result in the failure of the group. Finally, the members belonging to the APL families were able to manage the day-to-day affairs of the group, as mostly these women were literate enough with experiences of dealing issues of both the internal and external management of the group.

The *Kudumbashree* programme in Kerala was introduced in all the 14 districts of the state in both rural as well as urban areas and in each of these areas it was brought under the LSGIs. The data on spread of NHGs across districts of Kerala have been provided in Table 3.1.
Table 3.1: Distribution of NHGs across Districts

<table>
<thead>
<tr>
<th>District</th>
<th>No. of panchayaths</th>
<th>No. of NHGs formed</th>
<th>Average number of NHGs per panchayath</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kasargod</td>
<td>39</td>
<td>5,017</td>
<td>129</td>
</tr>
<tr>
<td>Kannur</td>
<td>81</td>
<td>8,957</td>
<td>111</td>
</tr>
<tr>
<td>Wayanad</td>
<td>25</td>
<td>6,665</td>
<td>267</td>
</tr>
<tr>
<td>Kozhikode</td>
<td>77</td>
<td>12,272</td>
<td>159</td>
</tr>
<tr>
<td>Malappuram</td>
<td>100</td>
<td>9,990</td>
<td>100</td>
</tr>
<tr>
<td>Palakkad</td>
<td>90</td>
<td>16,641</td>
<td>185</td>
</tr>
<tr>
<td>Thrissur</td>
<td>92</td>
<td>13,836</td>
<td>150</td>
</tr>
<tr>
<td>Ernakulam</td>
<td>88</td>
<td>10,428</td>
<td>119</td>
</tr>
<tr>
<td>Idukki</td>
<td>51</td>
<td>8,177</td>
<td>160</td>
</tr>
<tr>
<td>Kottayam</td>
<td>74</td>
<td>8,683</td>
<td>117</td>
</tr>
<tr>
<td>Alapuzha</td>
<td>73</td>
<td>10,567</td>
<td>145</td>
</tr>
<tr>
<td>Pathanamthitta</td>
<td>54</td>
<td>5,584</td>
<td>103</td>
</tr>
<tr>
<td>Kollam</td>
<td>69</td>
<td>11,606</td>
<td>168</td>
</tr>
<tr>
<td>Thiruvananthapuram</td>
<td>78</td>
<td>14,797</td>
<td>190</td>
</tr>
<tr>
<td>Total</td>
<td>991</td>
<td>143,220</td>
<td>145</td>
</tr>
</tbody>
</table>

Source: Complied from the status report of NHGs under Kudumbashree as on 28-02-2005

Table 3.1 shows that the number of NHGs was the highest in Palakkad, followed by Thiruvananthapuram and Thrissur, while it was the least in Kasargod district. The density of NHGs in each of the districts can be examined from the average number of NHGs per panchayath in each of these districts. The number of NHGs per panchayath was the highest in Wayanad district followed by Thiruvananthapuram and significantly, the difference in the average number was marked between these two districts.

The programme envisaged that at least one person from each household should participate in the programme, so that all the households participate in matters of socio-economic significance under the panchayath micro-finance programme. The number of NHGs formed all over the state varied from one district to another. However, the number of households in a district was a limiting factor for the coverage as membership was normally limited to one member from each household. So, the spread and the growth of NHGs in a district can be captured from the proportion of the households covered under NHGs in a district as a
proportion of the total households of that district. This has been given in Table 3.2.

Table 3.2: District-wise Distribution of Households Covered under *Kudumbashree* Programme

<table>
<thead>
<tr>
<th>District</th>
<th>No. of households in the district</th>
<th>No. of households covered under NHGs</th>
<th>Households covered under NHGs as % to total households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kasargod</td>
<td>225,252</td>
<td>108,477</td>
<td>48.16</td>
</tr>
<tr>
<td>Kannur</td>
<td>457,368</td>
<td>188,676</td>
<td>41.25</td>
</tr>
<tr>
<td><strong>Wayanad</strong></td>
<td>166,763</td>
<td>105,176</td>
<td><strong>63.07</strong></td>
</tr>
<tr>
<td>Kozhikode</td>
<td>567,658</td>
<td>260,502</td>
<td>45.89</td>
</tr>
<tr>
<td>Malappuram</td>
<td>612,413</td>
<td>238,106</td>
<td>38.88</td>
</tr>
<tr>
<td>Palakkad</td>
<td>536,216</td>
<td>288,800</td>
<td>54.47</td>
</tr>
<tr>
<td>Thrissur</td>
<td>639,871</td>
<td>251,876</td>
<td>39.36</td>
</tr>
<tr>
<td>Ernakulam</td>
<td>693,161</td>
<td>182,782</td>
<td>26.37</td>
</tr>
<tr>
<td>Idukki</td>
<td>265,344</td>
<td>147,397</td>
<td>55.55</td>
</tr>
<tr>
<td>Kottayam</td>
<td>434,520</td>
<td>185,768</td>
<td>42.75</td>
</tr>
<tr>
<td>Alapuzha</td>
<td>483,960</td>
<td>215,216</td>
<td>44.47</td>
</tr>
<tr>
<td>Pathanamthitta</td>
<td>297,134</td>
<td>116,970</td>
<td>36.37</td>
</tr>
<tr>
<td>Kollam</td>
<td>593,314</td>
<td>220,460</td>
<td>37.16</td>
</tr>
<tr>
<td>Thiruvananthapuram</td>
<td>759,382</td>
<td>310,874</td>
<td>40.94</td>
</tr>
<tr>
<td>Total</td>
<td>6,732,356</td>
<td>2,821,080</td>
<td>41.90</td>
</tr>
</tbody>
</table>

Source: Complied from the Census of India 2001 and *Kudumbashree* data 28-2-2005

Table 3.2 shows that Thiruvananthapuram had the highest number of households covered under NHGs and it was the least in Wayanad district. However, the number of households indicates that the former had the highest number of households whereas the latter had the least. The proportion of the households covered under the NHGs indicates that Wayanad had the highest proportion of households under the *Kudumbashree* programme. The wider coverage of NHGs in Wayanad district could be attributed to the presence of NGOs where many NGO initiated groups got registered in the government programme. The number and the proportion of micro-finance groups covered in Wayanad district would be even more as there exist some SHGs initiated by the NGOs having membership only in SHGs. In other words, there were some SHGs not registered under the *Kudumbashree* programme. The present study is set in Wayanad district because,
as has been explained in the following section, both the NGO organized and government promoted micro-finance programmes exist side by side in this district.

In Kerala, most of the NGOs concentrated in those regions where the socially and economically deprived sections existed. Even before the emergence of NHGs and SHGs, the state had many informal group based credit institutions. Since the formal bank finance was inadequate to meet the credit requirements of the poor, informal lending institutions, chit funds and merry-go-rounds had received wider popularity among the poor (Isaac et al 2002). The existence and the operations of these informal community based savings and credit institutions could be traced back to the traditional societies. For example, merry-go-rounds or similar systems of rotating savings and credit associations were prevalent in the traditional system. Under them, regular periodic contributions made by the members were lent to those members who were selected by the group collectively. In some parts of Kerala, coconut trees were provided as the basis of common fund. A fixed number of coconut trees of every participant was set aside for the common fund from where the members were selected on a lottery basis (Isaac et al 2002).

Even before the emergence and the popularisation of the government initiated NHGs, NGOs had adopted a group approach for women through micro-finance programmes. They were introduced and promoted by various development-oriented NGOs of the state. Some of the NGOs had groups with a large number of participants. Generally, these groups consisted of 150 to 200 members and were called credit unions (Rajasekhar 2000). These groups aimed at the economic development of the member participants through the provision of credit. These large groups, which had the problems of coordination and co-operation, received inspiration from small groups initiated by other NGOs like SEWA of Ahmedabad and MYRADA of Bangalore and hence, promoted such small sized groups.
3.7. Summary

A discussion on the credit market scenario in India reveals that the formal financial system was not adequately developed to meet the increased credit demands of large number of small clients without adequate collateral. It had inherent problems of asymmetry of information pertaining to the identification of creditworthy borrowers, ensuring the utilisation of the loans for those purposes for which they had borrowed and enforcing timely repayment. Since the transaction costs of credit market dealings of informal system was relatively cheaper, the needy relied on them, even though the interest rate was exorbitant. Although the poverty alleviation programmes and banking reforms were introduced from time to time, a large section of the poor and the poorest remained inaccessible to credit. In this context, the group approach adopted by the micro-finance programme assumed a significant place in the rural credit market of the country. The growth and the spread of micro-finance activities achieved a considerable progress after the extensive implementation of bank linkage programme of the NABARD. Moreover, the NGOs also played significant roles in popularising the micro-finance through their development-oriented schemes. The programme was prominent among the South Indian states.

In Kerala, the government introduced micro-finance as part of the decentralisation efforts. Even before the entry of the government in the programme, the NGOs played a significant role in the promotion of the economically and socially backward sections through micro-finance programmes. The government also contributed to the popularity of the programme. However, the density of the spread of the government programme varied across districts. The widespread presence of SHGs promoted by the NGOs in certain regions even before the Kudumbashree programme could be one of the reasons behind this varied growth. An analysis into the district-wise progress of the growth of micro-finance programme in Kerala brought out that Wayanad had the highest proportion of the households covered under the Kudumbashree programme. Moreover, the number of micro-finance groups per panchayath was also highest in this district.
Though the group approach is well appreciated and accepted as a poverty alleviation strategy, it is not devoid of defects. At times, micro-finance groups faced problems of sustainability due to group and member specific characteristics. The way in which the members in these groups undertake the functions of selection, monitoring and repayment directly influence the collective sharing of responsibilities and the performance of the group. Therefore, the issues pertaining these aspects in the context of the selected groups have been discussed in the ensuing chapters.