INTRODUCTION

1.1. Background

Poverty is man-made due to the wrong design of economic and social systems and policies thereof. The powerlessness, insecurity, frustrations, hostility and anger created by poverty will not result in peace in any nation. For building stable peace, ways should be found to provide opportunities for poor people to live decent lives. "We can put poverty in the museum, if we collectively believe in creating a poverty-free world. Poor people and especially poor women, have both the potential and the right to live a decent life and microcredit helps to unleash that potential" said Professor Dr. Muhammad Yunus, Founder chairman of Grameen Bank, while delivering his Nobel lecture in Oslo on 10th December 2006.

In this era of globalization and liberalization, even though many changes and developments take place in people and society, the extreme inequalities existing across the world act as a barrier on the progress towards the achievement of human development goals. It is reported (Muhammad Yunus 2006) that ninety four percent of the world income is shared by forty percent of the population, while sixty percent of people live on 6 percent of the world income. According to United Nations Development Program's (UNDP) Human Development Report 2006, India is ranked as 126th out of 177 countries in Human Development Index. The poverty is multi dimensional. It blocks the access of the poor to the mainstream and makes them isolated. Poor suffer from the deprivation of opportunities and choices. They have little
access to education, health care, nutrition, skill development, training, employment opportunities, credit, market, technology and information. During the nature’s fury like floods, droughts, earthquake or the most ravaging tsunami, poor are the worst hit and the impact is felt more on the women and children. Small farmers, marginal farmers, landless agricultural labourers, non farm casual workers and socially disadvantaged like scheduled caste and scheduled tribes mainly constitute the poor.

1.2. Poverty level in India.

In India, it has been estimated that the poverty level has come down from 35.9 percent of population in 1993-94 to 26.1 percent of population in 1999-2000 and to 22 percent in 2004-05 (The Hindu-Business line 2006). Out of the 260.3 million poor in India, 193.2 million (74.2 percent) are in rural areas. The Government of India’s target is to reduce the poverty to 19.3 percent by 2007 (Planning Commission 2001). Geographical distribution of poverty is highly concentrated in certain states like Uttar Pradesh, Bihar, Orissa and Jharkhand. Special programs are being implemented there to open up the employment opportunities. Poverty problem also leads to migration of poor from rural to urban areas, which results in crowding of towns and metros. Most of the migrated poor live in encroached lands or risk prone sites like river banks and places close to coast line. In 2000, the world leaders assembled at the United Nations and declared the Millennium Development Goals (MDG) initiative. The first and foremost of which is to halve the proportion of people below the poverty line by 2015 from the level in 1990. India is also a signatory to the MDGs declaration. Hence, poverty reduction is the main agenda for the government, donor agencies, banks, NGOs, techno-educational institutions and other stakeholders. The government is adopting pro poor policies, allocating
the resources to sectors where the poor are employed namely Agriculture, Allied activities, Rural non farm sector and micro enterprises and allocating resources to areas where the poor is concentrated or development is slow namely North eastern states, Bihar and Orissa.

1.3. Poverty and Gender
The vicious cycle of poverty deprives women of the opportunities to have equal access to participation in development programs, mobility and decision making. Their time spent for collecting fuel, fodder and water has increased under conditions of unsustainable developments, with fast depleting ground water and conversion of agricultural lands to other uses. Deforestation deprives the poor of their livelihood opportunities and thereby causing migration to urban areas. Thus, poor women face gender discrimination in all spheres of their life. Poverty further pushes them down to the lowest strata. Hence, to address this complex issue, multi pronged integrated (Social Empowerment and Economic Empowerment) approach covering the social sectors like education, health, nutrition and sanitation has to be followed.

Social empowerment creates an enabling environment to women to participate in the development programs and articulate their needs and pave way for obtaining them. The mobility increases their confidence and decision making opportunities, as they become aware of the opportunities available to them resulting in a fair access to minimum basic services to unfold their full potential. Micro credit is an important catalyst to induce growth of enterprises of the poor, which results in increase of their income and assets and thereby leading to economic empowerment. Micro credit also enables the poor to smoothen their cash flow during lean season.
1.4. Directed Rural credit programs

In India, the rural banking infrastructure has grown well over the years. Rural credit is delivered by formal financial institutions like Commercial Banks, Regional Rural Banks and Co-operative Banks and altogether these account for nearly 1,50,000 retail outlets, serving a rural population of 5000 or 1000 households per retail outlet and its proximity to the target clients is only 5 kms on an average (Y.S.P. Thorat and Graham wright, 2005). Government had given specific targets to banks for lending to specific sectors.

1.5. Post-Financial sector reforms era

After India’s opening up of its economy in 1991, the financial sector reforms were taken up. The bank management was focusing on reducing NPAs and neglected agricultural and social lending immediately after the implementation of financial sector reforms. The rural branches, which were opened earlier in remote corners and continuing with losses, were merged or closed.

**Table 1.1.**

Network of rural branches of commercial banks.

<table>
<thead>
<tr>
<th>Month and Year</th>
<th>Number of total branches</th>
<th>Number of rural branches</th>
<th>Share of percentage of rural branches to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1993</td>
<td>61169</td>
<td>35389</td>
<td>57.85</td>
</tr>
<tr>
<td>March 1995</td>
<td>62367</td>
<td>33004</td>
<td>52.92</td>
</tr>
<tr>
<td>March 1998</td>
<td>64218</td>
<td>32878</td>
<td>51.20</td>
</tr>
<tr>
<td>March 2000</td>
<td>65412</td>
<td>32734</td>
<td>50.04</td>
</tr>
<tr>
<td>June 2002</td>
<td>66355</td>
<td>32394</td>
<td>48.82</td>
</tr>
<tr>
<td>Mar 2004</td>
<td>69170</td>
<td>32099</td>
<td>46.41</td>
</tr>
</tbody>
</table>

Source: Report on RBI’s Statistical tables relating to Banks in India, 2005.
A weak commercial bank during the year 2000-01, merged 73 of its branches as a turnaround strategy, of which rural branches constituted the lion’s share. The table – 1.1 shows that even though the total number of branches has increased from 61169 in May 1993 to 69170 in March 2004, the number of rural branches were reduced from 35389 in May 1993 to 32099 in March 2004. This had a definite impact over the credit delivery to the poor.

1.6. Bank’s Problems in lending to the rural poor
The banks faced a lot of problems in lending to the rural poor. The major problems faced are as hereunder.

- Bankers, who had negative attitude, viewed the rural lending as a not profitable and risky venture.
- Bank’s systems and procedures were rigid and without any flexibility to cater to the needs of the poor. e.g. unit costs for various investments
- Banks, practically were not able to lend to the poor, who require very small amount of money frequently.
- Banks needed collaterals and guarantees as security, whereas poor are assetless.
- Bank’s lending formalities are time consuming, which results in expenses to the poor viz. repeated visits, for obtaining quotations for purchases, for getting certificates from the authorities and so on.
- Timing of credit delivery is not assured and often delayed and defeating the very purpose of the loan.
- Interference by middlemen in siphoning off the portion of loan amount from the rural poor, as they are not aware of the procedures.
- Unrealistic target orientation.
Credit Programs were just launched with the announcements from the top, without really studying the felt needs of the poor.

Political announcements were made just to attract the vote bank e.g. loan waivers

High operational cost for the bank and poor volume of business as lending was not given thrust.

Manpower shortage in the rural and remote branches (more acute after the implementation of voluntary retirement scheme package) resulted in poor monitoring of the loan portfolio and deterioration of asset quality.

Poor repayment of loans, requiring higher provisions and thereby affecting the profitability of the branches, leading to closure or merger of branches.

Staff posted to rural centres are not willing to come due to the poor infrastructural facilities like road, transport, power, housing, education, medical and recreational facilities.

Due to the manual operation of the rural branches and because of low value and high volume nature of business, the per employee productivity low.

Double financing by co-operative banks and other Regional Rural Banks or Nationalized banks, leading to overdues in both institutions.

Erosion of moral values and repayment ethics as the government announces special offers for defaulters waiving the penal interests instead of giving incentives to the clients, who have repaid promptly.

Loopholes in enforcing the legal contract on the willful defaulters.

Poor follow up by the branch, as number of accounts are more.
❖ Lack of incentives to staff, who excel in implementing poverty reduction / rural development programs.
❖ Politicization of co-operative structures and its dual control.
❖ Lack of provision for backward and forward linkages in rural areas.
❖ Collusion among the vested interests operating in the villages and the officials responsible for implementing development programs.
❖ Lack of strategic planning by the bank’s top management.

Even amidst the above problems, banks have made some contributions in reaching the poor.

1.7. **Rural outreach of formal financial institutions**

Rural Finance Access Survey 2003 (RFAS) was conducted in Andhra pradesh and Uttar pradesh by the World Bank and National Council for Applied Economic Research (NCAER), which brought out interesting facts about the outreach of the Indian formal finance system.

<table>
<thead>
<tr>
<th>Category of households</th>
<th>Percentage of households having No loan account</th>
<th>No savings account.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal – those having below 1 acre</td>
<td>87</td>
<td>70.4</td>
</tr>
<tr>
<td>Small – those having 1 – 4 acres</td>
<td>69.2</td>
<td>44.7</td>
</tr>
<tr>
<td>Large – those having above 4 acres</td>
<td>55.6</td>
<td>34.0</td>
</tr>
<tr>
<td>Commercial- those with or without land, but with income from non-farm sources exceeding half of total household income.</td>
<td>83.2</td>
<td>58.0</td>
</tr>
<tr>
<td>Others – those with land and non farm income but later being less than half of their total household income.</td>
<td>70.5</td>
<td>39.1</td>
</tr>
<tr>
<td>Total for all households</td>
<td>79.0</td>
<td>58.8</td>
</tr>
</tbody>
</table>

Source: Rural Finance Access Survey 2003, World Bank and NCAER.
Table 1.2 shows that the marginal category of households are the most deprived as 87 percent of them have no loan account and 70.4 percent of them have no savings bank account with the formal finance institutions. Next to marginal category, commercial category of households are also left out of the formal financial system, as 83.2 percent of them have no loan account and 58 percent of them have no savings bank account with formal financial institutions.

The table 1.3 presents the percent of rural poor households borrowing from informal sources. It was found that around 44.06 percent of the households borrowed informally at least once in the preceding 12 months from the informal sources paying an average interest rate of 48 percent per annum and the average size of debt per member is Rs.11136. Informal borrowing is higher in marginal households category, as 48.24 percent of the marginal households borrowed from the informal sources in the past 12 months (RFAS 2003).

Table 1.3.

Incidence and size of informal borrowing of rural poor.

<table>
<thead>
<tr>
<th>Category of households</th>
<th>Percentage of households having Borrowed in past 12 months</th>
<th>Average debt per member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal – those having below 1 acre</td>
<td>48.24</td>
<td>9152</td>
</tr>
<tr>
<td>Small – those having 1 – 4 acres</td>
<td>39.84</td>
<td>12523</td>
</tr>
<tr>
<td>Large – those having above 4 acres</td>
<td>35.90</td>
<td>18572</td>
</tr>
<tr>
<td>Commercial - those with or without land, but with income from non-farm sources exceeding half of total household income.</td>
<td>39.07</td>
<td>13075</td>
</tr>
<tr>
<td>Others – those with land and non farm income but later being less than half of their total household income.</td>
<td>42.82</td>
<td>17885</td>
</tr>
<tr>
<td>Total for all households</td>
<td>44.06</td>
<td>11136</td>
</tr>
</tbody>
</table>
Table 1.4 presents the various sources of informal loans, from which rural households avail the loans for meeting their urgent needs.

**Table 1.4.**

<table>
<thead>
<tr>
<th>Sources</th>
<th>Percentage of households.</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHG / NGO</td>
<td>2.89</td>
</tr>
<tr>
<td>Landlords</td>
<td>7.76</td>
</tr>
<tr>
<td>Money lenders</td>
<td>55.87</td>
</tr>
<tr>
<td>Friends and relatives</td>
<td>31.36</td>
</tr>
<tr>
<td>Others</td>
<td>2.12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Rural Finance Access Survey 2003, World bank and NCAER.

It is observed that 2.89 percent of the households depend upon the SHG/NGO while the larger share (55.87 percent) of the poor households still depend on the money lenders for their urgent credit needs. It is also found that 82 percent of the rural households have no access to any insurance cover (RFAS 2003).

The banks have to achieve a target of 10 percent of their total lending to weaker sections. While the public sector banks have lent substantially, the private sector banks' performance is dismally low as shown in table 1.5.

**Table 1.5.**

<table>
<thead>
<tr>
<th>Banks</th>
<th>Lending to weaker sections (Rs. in millions)</th>
<th>Percent of weaker section lending to total lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector banks</td>
<td>19138.60</td>
<td>1.20</td>
</tr>
<tr>
<td>Public sector banks</td>
<td>634921.10</td>
<td>8.85</td>
</tr>
</tbody>
</table>

Source: RBI's report on Trend and progress of banking in India 2004-05.
As of March 2005, among the public sector banks, out of total 27 banks, 16 banks did not reach the target of 10 percent under lending to weaker sections, whereas among the private sector banks, out of total 30 banks, 29 banks not reached the target.

The rural poor primarily depend on agriculture for their livelihood. Hence, the government has directed the banks to lend to agriculture and given targets to banks. As per the government’s directive, the banks have to achieve a target of 18 percent of their total lending to agriculture. The performance of the public sector banks is slightly better than the performance of the private sector banks, which is highlighted here in table 1.6.

<table>
<thead>
<tr>
<th>Banks</th>
<th>Lending to agriculture (Rs. in millions)</th>
<th>Percent of agri lending to total lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector banks</td>
<td>214726.30</td>
<td>12.09</td>
</tr>
<tr>
<td>Public sector banks</td>
<td>1124749.50</td>
<td>15.68</td>
</tr>
</tbody>
</table>

Source: RBI’s report on Trend and progress of banking in India 2004-05.

As of March 2005, among the public sector banks, out of total 27 banks, 14 banks not reached the target of 18 percent under lending to agriculture, whereas among the private sector banks, out of total 30 banks, 29 banks not reached the target.

Even though, the achievements were made in quantitative terms, the rural lending operations were not sustainable, as a commercial orientation was not thought of and the Institution’s viability was not focused. Under this context, it was considered as a felt need to evolve some alternate credit delivery models,
which will take care of the above problems and enable the poor to access the credit hassle-free and at the same time the lending organization also will continue to sustain.

1.8. Need for alternate credit delivery system

As both banks and Non Government Organizations have certain specific strengths of its own, the bank- NGO collaboration under the alternate credit delivery system aims for forging a synergy, which will complement the role of each other. Hence, it was thought that a win-win collaborative agreement between a bank and a NGO would definitely bring out changes effectively. In India, MYRADA an NGO in Karnataka initiated an action research project with NABARD funding for forming credit management groups, which paved the way for evolution of SHGs later.

1.9. Micro finance - International Scenario

Most of the poor are left out of the formal financial institutions as their formalities were cumbersome and required collateral. To a larger extent, moneylenders and local input dealers catered to the needs of the poor, charging exorbitant rates of interest. Then, Rotating Savings and Credit Associations (ROSCA) emerged to lend to the members in rotation. Group based lending methodology launched in Bangladesh by Dr. Mohammed Yunus as an action research program in 1976 in Jobra village and later scaled up as Grameen Bank since 2nd October 1983, was found to be having a greater potential for outreach to hard to reach clients in a sustainable way. On seeing the success of the group based lending methodologies, many donor agencies launched the microfinance programs in various countries, targeting the poor women.
The international standard measure for the poorest is those who earn less than one US Dollar a day. There are 1.3 billion poor in the world, of which 900 million are poor women and most of them are in Asia (Micro credit summit 2005). The micro credit sector development gained momentum after the 'Micro credit summit', held in Washington between 2nd February and 4th February 1997, which targeted to reach 100 million of the world’s poorest families especially the women of those families, with credit for self employment by the year 2005. According to the micro credit summit secretariat upto 31.12.04, 3164 Micro Finance Institutions (MFIs) have reached 92.27 million clients and out of which 66.61 million are poorest and out of this 55.62 million are women. Out of the 66.61 million poorest reached, 55.70 million (83.6 percent of total) poorest were reached by 52 larger MFIs and networks.

Table 1.7
Coverage of the poorest with micro finance
As of December 2004.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Region</th>
<th>Total poorest households in million</th>
<th>Poorest reached in million</th>
<th>Coverage percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Asia</td>
<td>157.8</td>
<td>59.93</td>
<td>38</td>
</tr>
<tr>
<td>2</td>
<td>Africa and Middle east</td>
<td>61.5</td>
<td>5.2</td>
<td>8.5</td>
</tr>
<tr>
<td>3</td>
<td>Latin America and Caribbean</td>
<td>12.1</td>
<td>1.42</td>
<td>11.7</td>
</tr>
<tr>
<td>4</td>
<td>Europe and NIS</td>
<td>3.5</td>
<td>0.06</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>234.9</td>
<td>66.61</td>
<td>28.4</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>75</td>
<td>19.4</td>
<td>25.9</td>
</tr>
</tbody>
</table>

Source: State of Microcredit summit campaign report 2005,
Out of the 66.61 millions poorest reached with micro finance in the world, India accounts for the lion’s share of 29.1 percent (19.4 million poorest) of the total poorest reached. Asia is the biggest home for housing 157.8 million poorest households. The reach of microfinance to the poorest clients as of December 2004 is better in Asia compared to the other regions in the world as shown in table.1.7.

The micro credit summit campaign has been re-launched with 2 new goals namely

- working to ensure 175 million of world’s poorest families especially women of those families receive credit for self employment and other financial and business services by end of 2015 (covering 875 million family members).
- Working to ensure that 100 million of the world’s poorest families move from below US 1 $ a day adjusted for purchasing power parity to above US 1 $ a day by 2015 (covering 500 million people – nearly completing MDG on halving the absolute poverty).

United Nations has declared the year 2005 as ‘International year of micro credit’ and commenced various programs to increase the outreach to the poorest.

Consultative group to assist the Poor (CGAP) started in 1995 by various donors led by the world bank acts as a resource center for microfinance. They evolve the standards for MFIs, disseminate the best practices in micro finance and provide technical assistance. They also fund the pro-poor and innovative micro finance programs. CGAP organizes capacity building programs on strategic issues in micro finance.
1.10. Emerging challenges.

Growth in any sector brings out the opportunities and challenges to the stakeholders. In India, the Self Help Group (SHG) based micro finance program has emerged as one of the world’s largest micro finance program and has been facing many challenges. Of course, the SHG-Bank linkage program has enabled the poor households to smoothen their consumption needs, increase their income stream and build some assets, still there is a long way to go for achieving a sustained increase in promoting large number of growth oriented micro enterprises. Promotion of micro enterprises brings in vibrancy to the local economy as it unfolds business opportunities to the poor and marginalized women and enable them to come out of poverty and also leads to their empowerment. Many older SHGs have enough money (a couple of lakhs) of their own but do not know what enterprise to start and how to launch it. Most of them do not have the necessary management inputs for starting and managing a new enterprise. As per NABARD’s quote, there are seven lakh matured SHGs in India as of March 2006, (which are more than 3 years old and repaid the bank loans twice) which need to be graduated to take up growth oriented micro enterprises.

1.11. Significance of the study:

Micro finance alone can not alleviate poverty. Taking up micro enterprises with the intent of enhancing income level to alleviate poverty is a complex issue which needs a more holistic approach of appreciating the skill levels, entrepreneurial spirit, dynamism, understanding market and technology etc. The task has to be handled with care in order to ensure that genuine concerns do not lead to failure of micro enterprises and increase the debt burden.
A few questions posed often in this context are

♦ How far the SHGs have been successful in graduating themselves to Micro enterprise stage.
♦ Having been come into existence with lots of hope, where do they go from here?
♦ What is the role of SHPIs (Self Help promoting institutions ) like NGOs in equipping them with necessary skills and providing other facilities.
♦ What are the challenges faced by the SHG entrepreneurs.

The present study has the following specific objectives.

Objectives

♦ To review the progress of SHG bank linkage program at the national, state (Tamilnadu) and district (Madurai and Ramanathapuram districts) levels.
♦ To identify the different types of micro enterprises promoted by the SHG women out of the SHG-Bank loans in the study area.
♦ To compare the performance of two blocks of study area in terms of the changes in the entrepreneurial behavioural competencies of SHG women.
♦ To examine the impact of the continued access to SHG bank linkage program on the growth and management of the micro enterprises of SHG women in the study area.
♦ To investigate the factors that promote or limit the growth of micro enterprises in the study area.
♦ To evaluate the changes in terms of employment level, income and assets of the SHG women in the study area between pre-SHG and post-SHG period.
To suggest measures for policy changes for better implementation of SHG bank linkage and micro enterprise development programs.

1.12. Summary

Poor have little access to education, health care, nutrition, skill development, training, employment opportunities, credit, market, technology and information. Poverty deprives women of the opportunities to have equal access to participation in development programs, mobility and decision making, which leads to gender inequalities. Even though the formal rural financial institutions have a wider network in India, their outreach to the rural poor is not high. As banks faced a set of problems in increasing their rural credit operations, the need for alternate credit delivery systems was felt keenly and some bank-NGO collaborations have begun to take shape. Upto 31.3.04, out of 66.61 million poorest reached with micro finance in the world, 55.62 million are women. SHG-Bank linkage program emerged as one of the world’s largest micro finance program. The greatest challenge to the stakeholders is in enabling the matured SHGs to graduate to the level of taking up growth oriented micro enterprises.
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