CHAPTER-I
CHAPTER I
INTRODUCTION

1.1 Statement of the problem

Micro credit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. 35% of the people living below the poverty line in India are untouched by the various credit schemes and Government programmes. Unless the genuine credit requirements of the rural economy are met, India will never attain its rightful place in the world’s economy (Karmakar, 1999). The failure of formal financial institutions to promote access to loans for rural poor led to the formation of micro credit groups. Micro finance institutions (MFIs) are now ubiquitous in developing countries. Two approaches have been advocated on the role of credit in poverty reduction. According to the Income Generation Approach, credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income generating activities to increase their revenues. On the contrary, the Minimalist Approach maintain that by giving credit to any poor person who is able to repay a loan, credit programmes would be helping the poor in fighting poverty even without dictating to that person how and on what the loan should be used.

The term micro finance is of recent origin. Issues related to poverty alleviation, financial support to micro entrepreneurs, gender development etc. falls under its purview. However, there is no statutory definition of micro finance. The taskforce on Supportive Policy and Regulatory Framework for micro finance (1998) set up by National Bank for
Agriculture and Rural Development (NABARD) has defined it as the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve their living standards. Literally the term ‘micro’ means ‘small’. Although the task force has not defined any amount, the micro credit Special Cell of the Reserve Bank of India (2000) says that the borrowed amounts up to the limit of Rs.25000/- could be considered as micro credit products which could be gradually increased up to Rs.40000/- over a period of time, which roughly equals to $500 – a standard for South Asia as per international perceptions.

It is a common practice to use the term micro finance interchangeably with the term micro credit. But micro credit refers to the provision of loans in small quantities whereas the term micro finance has a broader and wider meaning covering in its ambit other financial services like saving, insurance etc. as well.

The term ‘micro finance’ refers to banking through groups. The provision of financial services through the groups of individuals, formed either in joint liability or co-obligation mode, is the main feature of the approach. The micro finance approach has other dimensions too in its ambit like:

- Savings/thrift preceding credit
- Credit linked with savings/thrift
- Absence of subsidies
- Group playing an important role in credit appraisal, monitoring and recovery.
Usually the groups are of two types:

**Self Help Groups (SHGs):** This model is predominantly followed in India. Here the group does the financial intermediation on behalf of the formal institution.

**Grameen Groups:** In this model, on the basis of the group's assurance, the formal institution provides financial assistance to the individuals in the group. In other words, on the strength of joint liability/co-obligation individual loans are provided. Bangladesh Grameen Bank was the first to initiate this micro finance model. Today, in our country too, it is being used by some of the MFIs.

Micro credit programmes are credited with an amazing array of beneficial impacts, and at the same time are accused of promoting themselves as 'panaceas'. It has thus become very essential to think, reflect and examine these claims and concerns, and to try to set apart the reality from the publicity currently surrounding micro credit.

There are about 3 billion people, around half of the world's population, living on the income of less than 2 dollars a day. Among these poor communities, one child in five does not survive to see his or her fifth birthday. (Barr, Michael S. 2005).

The United Nations Organization (UNO) in order to enhance international development has announced the Millennium Development Goals (MDGs) with the aim to eradicate poverty by 2015. In this regard, micro finance is the form of financial development that aims at alleviating poverty (Barr, ibid.). Governments, donors and Non Government
Organizations (NGOs) around the world have not only responded enthusiastically to the plans but have also promised to work and move together towards the realization of these goals. The UNO, in recognition of micro finance, has celebrated the year 2005 as the year of micro credit. Today micro credit is perceived worldwide as a very effective mean against poverty and unemployment, especially in the developing countries.

The idea that micro credit is an effective intervention for the 'empowerment of women' and 'poverty reduction' has come to occupy the status of a hegemonic discourse. Micro credit is believed to stimulate a transformation of the 'vicious circle' of poverty into a 'vicious cycle' of economic advancement. The World Bank, Regional Development Banks, Bilateral and Multilateral Development Agencies and the United Nations (UN) Agencies have adopted and endorsed micro credit. It was given a global coverage in February 1997 through the Micro Credit Summit in Washington DC. In the Summit, there was an inauguration of an action plan to reach 100 million of the world's poorest families and particularly the women of these families, with micro credit by the year 2005. The Summit goals have been endorsed and are supported by actors including the Councils of International Financial Institutions and Donor Agencies. (The Micro Credit Summit Report, 2005).

For a business enterprise, capital is the most essential tool. No business can run or prosper without capital. In a country like India, the problem of capital is very intense. One of the main sources of capital in rural India, is the village moneylender, who charge exorbitant rate of interest. Thus for income generation for the rural population, micro credit becomes
very essential Again, rural women have little access to the institutional credit facilities, since it involves cumbersome procedures and formalities. The majority of the NGOs and MFIs such as Mysore Resettlement and Development Agency (MYRADA), Professional Assistance for Development Action (PRADAN), Rashtriya Gramin Vikas Nidhi (RGVN), Self-Employed Women's Association (SEWA), Society for Helping, Awakening Rural Poor through Education (SHARE) etc. are advancing micro credit for income generation activities in rural India with the aim of alleviating poverty and generating employment. Micro credit can play a vital role in generating income among the rural people, because the poor can easily obtain it and apply in business and other economic sectors and micro enterprises.

The poor people, in general, have limited access to credit and those living in the rural areas have even less. Collateral is required by the traditional method of credit distribution by the financial institutions. Since the poor people without land or other assets have nothing to put up as collateral, they are ineligible for many types of loans and the banks' too regard them as poor credit risk.

In recent years, in order to help the rural poor, efforts have been concentrated on the development of innovative methods of credit schemes and programmes. With the intention to raise the living standard of the common man by alleviating poverty from all stratum of the society different micro credit programmes have been launched by the different NGOs. But the perplexing question is to what extent the so-called micro credit programmes have been able to reduce poverty, create entrepreneurial ability
among the rural masses and generate employment. Some eminent economists are of the opinion that micro credit has not created entrepreneurship development in most of the rural areas of India. Thus a doubt arises regarding the impact of micro credit in the alleviation of poverty and generation of employment, and hence socio-economic planners are suffering from a dilemma which needs to be resolved by the discovery of the actual truth i.e. whether or not to support and sustain micro credit. The present study aims at discovering this truth. The study focuses on the impact of micro credit in poverty alleviation, employment generation and empowerment of women.

Rogaly (1996) noted the 'hard selling of a new anti-poverty formula' by the 'micro finance evangelists'. Many claims are made about the impact of micro credit programmes and an outside observer cannot but wonder at the range and diversity of the benefits claimed. It is believed that the poor have access to micro credit which increases their income, encourages them into collective action to resist oppression, empowers repressed women so that they are enabled to take control of their lives not only in developing countries but also among poorer communities in the developed world.

Other commentators are more skeptical. They believe that micro credit programmes have not been able to reach the poorest and have a limited effect on income. Rather than addressing the social cause of poverty, it addresses the symptom, makes women more dependent on their husbands and fails to provide the services desperately needed by the poor viz. health, education etc. This school of thought believes that micro credit is not only inadequate to meet the needs of the poorest, but is also monopolizing
resources that could, and perhaps should be used for more pressing or important interventions—health, education etc. (Wood, 1997).

‘Mansell-Carstens’ had argued that direct investigation of impact is suspect because of the following reasons:

- respondents may be interested in giving false information if the loans have been used for a purpose other than the stipulated one.

- establishing a causal relationship to the actual loan in question involves knowledge of all the beneficiary’s sources and uses of funds; and

- it is difficult to establish what could have happened if the loan had not been made.” (Mansell-Carstens, 1995, cited in Wright, 2000, pp.7-8).

The problems, both practical and theoretical, which may arise when one tries to measure the impact through changes in income has been examined by Kobb (1997). He notes that incomes are heavily skewed—several high-income earners distorted averages, that respondents are highly influenced by the way and by whom questions are asked (rather than providing truthful answers the interviewees mostly provide strategic ones) and that it is very difficult to disentangle project impact from ‘exogenous factors’.

Mahabub Hossain’s work on Grameen Bank in 1983/84 was the first detailed research into the economic impact of a micro credit programme. Hossain (1988) noted that the most direct effect of the Grameen Bank has been on the accumulation of capital by the poor. Within a period of 27
months, the amount of working capital employed by member’s enterprises increased by an average of three times. The investment in fixed assets is about 2.5 times higher for borrowers with more than three years’ membership than for those who joined during the year of the survey.

A study conducted by the World Bank in collaboration with the Bangladesh Institute of Development Studies and cited by Hashemi and Morshed (1997) showed that besides reducing poverty and improving welfare of the participating households the Grameen Bank has also been able to enhance the household’s capacity to sustain their gains over time.

According to Hulme and Mosley (1997) there is no evidence that credit induced activity can remove the structurally based constraints on demand for the products and services of the poor, rather, they are dependent on changes in the wider economy. However, the ‘Multiplier Effect’ (however slight and slow), and the simple fact that it is the access to financial services that helps the poor to manage their way through ‘shocks’ and crises so that they are ready and able (with loans if necessary) to take advantage of whatever opportunities arise has been overlooked by this view. In Stuart Rutherford’s terms, “Rural financial services for the poor thus act as platforms rather than sky-hooks. Access to financial services enables poor rural households to secure and improve their existing situation (their current set of income sources and their capacity to exploit them), giving them a foundation on which to build. Financial services do not ‘reach down’ with packages of pre-digested assistance that somehow grab poor households and ‘lift’ them out of poverty”. (Rutherford, 1997, pp.8).
Taking into consideration the pros and cons of understanding the impact of micro credit, the study deals in depth on the impact of micro credit in the alleviation of poverty and generation of employment with the help of schedules designed for the purpose. To deal with the shortcomings of quantitative techniques, case studies, which have the advantage of verifiable, observable indicators, have also been incorporated into the study.

For the success of any credit programme, it should be of high reach and the institutional design should be participatory in nature. In this context the grassroots organization plays a crucial role. By the reach and proximity to people, SHGs could be termed as the most prominent among them. The SHG movement is linked with micro credit, which is an effective intervention strategy for poverty alleviation and employment generation because it is easily accessible to the poor, reduces transaction cost and repayments are designed to fit cash flows for the borrowers. The field of micro finance is both old and new- people have always been borrowing, lending and saving for as long as there has been money (and in kind before). They have done this within their own communities, using their own systems and methods, without any external ‘assistance’ or resources. The sector is new in that it has primarily developed as a response to the inability or apathy of commercial banks and the formal financial system to serve the needs of low-income households and micro enterprises.

The study focuses on the new paradigm of micro finance and micro credit involving financial institutions, NGOs and SHGs. Micro credit in its most recent incarnation can be linked to several organizations starting in the 1970s and onward. In recent years, the development community has come to
view micro credit as an increasingly important tool for poverty alleviation and economic empowerment. Micro credit is the extension of very small loans (micro loans) to the unemployed, to poor entrepreneurs and to others living in poverty and is not bankable. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimum qualifications to gain access to traditional credit. Micro credit is a part of micro finance, which is the provision of financial services to the very poor, apart from loans; it includes savings, micro insurance and other financial innovations.

1.2 Review of Literature

Over the last few decades, especially in view of the inability of formal financial institutions to meet the needs of the rural mass, the study of micro credit has arose keen interest among the social scientists. The asymmetric information framework, in the theoretical literature, provides the standard explanation of exclusion of poor from credit market. As the poor lacks collateral and other visible assets, they are difficult to be monitored which results in them being more credit rationed or credit denied.

Karmakar (op.cit.) observed that rural India requires the fulfillment of her credit requirements. To break the grinding cycle of rural poverty, micro entrepreneurs are to be given a chance. SHGs enable the rural poor to aim for economic empowerment and provide a right to live with dignity.

Recent theoretical works have provided explanation of how information asymmetries could be avoided in credit markets. One such
explanation is the micro lending based on ‘group lending’. Some of the theoretical explanation of group lending is reviewed below.

Explanations based on ‘peer monitoring’ have been provided by Stiglitz (1990), Varian (1990) and Becker (1991). They argue that instead of an ‘individual’ (as practiced in the traditional lending arrangement), as loans are given to a ‘group’, group members have an incentive to monitor their peers. Compared to lenders the group members usually have better information, hence compared to bank monitoring, peer monitoring would be relatively cheaper and this would lead to better monitoring and rates of repayment. Banerjee, Besley and Guinnane (1994), Besley and Coate (1995), Conning (1996), Madazewicz (1998), Stiglitz (op.cit.), Armendariz de Aghain (1999) and Ghatak and Guinnane (1999) also argue that arguments based on peer monitoring are more successful in explaining the success of group lending schemes when compared to other explanations. According to them various problems can be eliminated because of joint liability on borrowers. Ghatak (2000) and Tassel (1999) argue that group lending could lead to homogenous group formation. They are of the view that joint liability and self-selection in credit could lead to positive assertive matching so that borrowers of the same type are clubbed together. Safe borrowers will form credit cooperatives and risky borrowers will be left aside.

Besley and Coate (op.cit.) analyze a strategic repayment game with joint liability and demonstrate that successful group members may have an incentive to repay the loans of the less successful one. The effect of social collateral in enforcing prompt repayment have also been highlighted by
them. Another explanation for the success of group lending is the contingent renewal explanation. It is one kind of positive incentive to repay. It refers to the feature that in case of default by a group, no member of the group will receive future loans but in case of prompt repayment, there is the provision of repeat lending. Thus there is a reduction of the probability of moral hazard. This is achieved by introducing joint-liability contracts, which transfers the risk from the lender to the borrower. Studies by Besley and Coate (ibid.), Khandker, Khalily and Khan (1995), Ray (1999) and Rai and Sjöström (2004) emphasize the ‘domino effect’ of the group being excluded from future loans (in the case of a member defaulting on loan) as a potential incentive mechanism to enforce repayment of the group. The contingent renewal implies that the selection of borrowers is credit history dependent.

Whether group lending is a complete financial tool or whether there are possible alternatives or improvements to develop has been a common question in recent times. Some of the new innovative ideas include smaller but more frequent repayment installments and replacing the joint-liability clause with requirement of public repayment.

There is a wide body of literature dealing with micro credit and its impact on poverty alleviation, employment generation and empowerment of women.

Fisher and Sriram (2002) opine that micro credit is fast growing as a major development strategy and international industry. Micro credit appears to deliver the holy trinity of outreach, impact and sustainability. Studies have shown that micro credit is necessary but not a sufficient condition for micro enterprise promotion. Thus besides business development, support...
services, services like identification of livelihood opportunities, establishment of market linkages for inputs and outputs, adaptation of technologies, organization of producers, sub sector analysis and policy reform are required to upscale the micro enterprises and create a strong impact in the rural areas.

To Kamenyi et. al. (1998), of the growing number of group based financial services, outreach to the poor with sound financial management appear to be the perfect embodiment of participation in finance. Harper (2003) opines that improved micro finance training programmes can contribute to the greater availability of affordable, accessible and mutually profitable financial services to the poor. Micro finance is a powerful tool in the battle against poverty, the author also presents new findings, which show that women are often better customers than men, even the very poor can save, invest wisely and repay and that the provision of financial services to the poor need not be dependent on heavy subsidies. Wright (2000) observed that though micro finance programmes have many beneficial impacts, still they are accused of promoting ‘panaceas’. Many development practitioners contend that micro credit addresses the symptoms but not the causes of poverty and recommends that a ‘community development’ approach is required that seeks to ‘empower’ the poor to change the structural basis of their poverty.

The new micro finance literature highlights the gender by emphasizing the role of women in the micro finance revolution. Traditionally women have less access to credit. However, they are more likely to repay their debts than men. Women are more concerned with
household improvements, children’s education and their health than are the male family members. Some of the new lending schemes like higher loan amounts over time and easy installments are important tools to attract female borrowers.

Few studies are available on SHG and micro finance and women empowerment. The researcher has tried to review the following:

Osman (2000) in his article was of the opinion that micro finance schemes cannot alone alleviate poverty. There should be a collaboration of micro finance schemes with programmes dealing with social and cultural dimensions of want and impoverishment. Kapur (2001) in her study discusses and analyzes the challenging question as to why there still exists gender discrimination inspite of all the efforts and progress made. The different strategies, actions and measures which are to be undertaken in order to achieve the expected goal of empowerment has also been highlighted by her. According to her, only when women have total control over their organizations that women empowerment will be achieved. Pattanaik (2003) in her study reveals that SHGs are continuously striving for a better future for tribal women as participants, decision makers and beneficiaries in the domestic, economic, social and cultural spheres of life. Constraints like gender inequality, exploitation have stood in the way of proper and effective organization of various SHGs. Malhotra (2004) in her book, ‘Empowerment of Women’, has examined how women entrepreneurs affect the global economy, why women start business, how women’s business associations promote entrepreneurs, and to what extent women contribute to international trade. The potential of micro finance programmes
for empowering and employing women have been thoroughly explored and the opportunities and challenges of using micro finance to tackle the feminization of poverty has been minutely discussed. According to her, the micro finance programmes are aimed to increase women’s income levels and control over income leading to greater levels of economic independence. They enable women’s access to networks and markets, access to information and possibilities for development of other social and political role. They also enhance perceptions of women’s contribution to household income and family welfare, increasing women’s participation in household decisions about expenditure and other issues leading to greater expenditure on women’s welfare. According to Narasaiah (2004) change in women’s contribution to the society is one of the striking phenomena of the late twentieth century. To him, micro credit plays an important role in empowering women. Women should be given the opportunity to realize their potential in all spheres of the society. In the study of Cheston and Kuhn (2004) it has been concluded that micro finance programmes have been successful in reaching women. This provides micro finance institutions an opportunity to empower poor women and minimize the potentially negative impacts some women experience.

Manimekalai (2004) in his article commented that the SHGs must get the help of the NGOs in order to run the income generating activities successfully. For selecting and implementing profitable income generating activities it is necessary that the bank officials counsel and guide the women. He remarked that the formation of SHGs have indeed boosted the confidence and self-image of rural women. Sahu and Tripathy (2005) in
their edited book views that 70% of the world’s poor are women. Access to banking services is important for the poor not only for poverty alleviation but also for optimizing their contribution towards the regional and national growth of the economy. SHGs have emerged as the most vital instrument in the participatory development and women empowerment. The rural women are the marginalized group in the society because of a number of socio-economic constraints. They remain backward and in the social hierarchical ladder are at the lower position. With the aid of micro credit and the formation of SHGs they can lift themselves from the morass of poverty and stagnation. Das Gupta (2005) in his article suggested that a paradigm shift is required from ‘financial social reform’ to ‘micro-finance reform’. While the priority sector needs to be made lean, mandatory micro credit must be monitored rigorously. Simultaneously space and scope have to be properly designed for providing a competitive environment to micro finance services. For a proper understanding of micro finance, extensive database needs to be created. Singh (2005) in his study has observed that micro finance is making a significant contribution to both the savings and borrowings of the poor in the country. According to him the main use of micro credit is for direct investment.

Some studies reveal that micro finance programmes have had positive as well as negative impact on women (Goetz and Sen Gupta, 1996). Some argue that micro finance programmes divert the attention of women from other more effective strategies for empowerment (Ebdon, 1995), and the attention and the resources of donors from alternative and possibly more effective means of alleviating poverty (Rogaly, op.cit.). In some cases
women’s increased autonomy has been temporary. It only benefits women already better off. But in most cases the poorest women are least able to benefit because of their low initial resource base, lack of skill and market contact.

Naila Kabeer’s (2001) paper is based on the ‘testimonies by the women loanees themselves as to the impact of credit on their lives’. She suggests that lending to women have benefited them personally and socially in terms of increasing their feeling of self worth and choices in accessing economic opportunities. These in turn are challenging the internal equalities. S. Rozario (2002) sums up earlier studies on the impact of micro credit and agrees with Kabeer on the increased mobility and the visibility of women’s role in rural economy. Goetz and Sen Gupta (op.cit.) opines that although women are the nominal borrowers, the actual use of loans and the resulting income may be controlled by men. If women do earn income themselves, this can be a threat to men and established power structures. The group lending system can create social divisions between women, as pressure is put on group members to pay or women who could have difficulty in repaying are excluded from the group.

Kabeer (op.cit.) in her paper and Hashemi et. al. (1996) in their articles uses the ethnographic method in their studies on the importance of women testimonies. In evaluating the impact of any intervention, including a credit programme, it is important to pay utmost attention to how the participants view the impact on their lives. Of course the participants’ views are only the beginning of the analysis, not the end. But they form a necessary base for analysis of impact. A large number of loans are still
disbursed in women’s names to be used by the men of the households. This has been noticed in studies by Goetz and Sen Gupta (op.cit.) and Hashemi et. al. (op.cit.). Goetz and Sen Gupta in particular emphasize a very negative view of proxy loans as not in any way contributing to an improvement in women’s position in the household. On the contrary, Hashemi et. al. report of a change in relationships even when the women hands over the loan money to the husband.

Women’s increased involvement in income earning activities, even if it is within the homestead, must increase the pressure on their time. Goetz and Sen Gupta negatively characterize the increase in women’s involvement in rural development programme; unless substitutes are found for women’s reproductive work at home, women’s experience of participation can be negative, exacting a high cost in terms of intensified demands on women’s labour. There is certainly an important case for public intervention to enable women to adopt labour-saving methods in domestic work through electrification, provision of cooking gas and so on. Further as Kabeer emphasizes, even though the women are now working longer hours, they feel that they gain from their extra labour. It is hard work, but there is the enhanced sense of self-esteem that comes with being a recognized contributor to the household income and an increased participation in household decision-making.

According to Neera Burra et. al. (2005) the two persistent problems affecting a significant portion of Indian women viz. poverty and violation of their human rights, can be ameliorated by micro credit. Daniel Crowell (2003) pinpoints SEWA’s rural development programmes and its
remarkable success in fostering the economic and social well being of rural women in the formal sector in Gujarat despite having odds like hostile weather conditions, marginal land, acute scarcity of water, an unforgiving environment and limited access to capital. Manoranjan (1995) in his article observed that with the process of liberalization and privatization i.e. integration with the global economy, the term empowerment becomes essential. Empowerment means giving power to a certain unprivileged section of the society for giving strength to their potential capacities towards development. This section includes unorganized workers and poor peasants, tribal people and women. Loes (1991) observed that women empowerment could only occur through mass women organization, which has the capacity to mobilize them at the grassroots level. Without women organization the power of empowerment could not come and it cannot improve the living conditions of the poorest women. Das (1991) observed that empowerment can be much more effective by a group rather than by an individual.

Mark Pitt et. al. (2003) in their research paper observed that women participation in micro credit programmes help in increasing women empowerment. Credit programme participation leads to women taking a greater role in household decision-making, having greater access to financial and economic resources, having greater social network and greater freedom of physical mobility. Credit to female also tends to increase spousal communication in general about family planning and parenting concerns. However, credit to male has a negative effect on several areas of women’s empowerment, including physical mobility, access to savings and economic resources and power to manage household transactions.
In Brooke Ackerly's (1997) research work three Micro credit organizations in Bangladesh viz. Grameen Bank, Bangladesh Rural Action Committee (BRAC) and Save the Children were studied. These organizations could not assess the wealth/income effect of credit versus other sources of capital on empowerment. The study revealed that most women contributed labour to the project, meaning as a result of credit they had more work to do.

Rajasekhar (1994) and Kabeer (1998) reflected in their research on a small number of micro credit programmes in India (Kerela and Andhra Pradesh) and Bangladesh respectively. One of the common points in the two researches is that micro credit may not be the most appropriate strategy for assisting the poorest social strata. To use micro credit effectively, the borrower needs to have complementary resources, such as some land, capital, education or knowledge and experience of how to run an enterprise. To Rajasekhar, if micro credit is to be used as a poverty alleviation strategy for the very poor, it needs to be more flexible in loan regulations, allowing loans for consumption. To him, one model of micro credit delivery that appeared to benefit the poorest is the SHGs. This model used micro credit as an entry point to promote empowerment. Members of SHGs are allowed to define their own rules and regulations and are obliged to rotate various roles and responsibilities amongst themselves. This fostered higher saving/borrowing ratios than other micro credit models for the member's sustained control and ownership over group funds.

Pallavi Chavan et. al. (2002) in their paper reviews empirical evidence on NGO-led micro credit programmes in several developing
countries and compares them with state led poverty alleviation schemes in India. The study finds that micro credit programmes have been able to bring about a marginal improvement in the beneficiaries income. However the beneficiaries have not gained much by way of technological improvements given the emphasis on ‘survival skills’. Also in Bangladesh the practice of repayment of Grameen Bank loans by making fresh loans from moneylenders has resulted in the creation of ‘debt cycles’.

Kamta Prasad (2000) is of the opinion that there has been a growing realization of the important role that NGOs play in socio-economic development particularly in bringing about decentralized development with a focus on upliftment of the weaker sections of the society.

The Strengths Weaknesses Opportunities Threats (SWOT) analysis of the study by Manimekalai (2004) reveals that the SHGs have sufficient strengths and opportunities such as regular and compulsory saving, very high or cent percent recovery performance, excellent financial discipline with transparency and above all ability to bring about a sea change in their attitude and behavior which led them to become better decision makers and participants in social and community affairs. These could outweigh the weaknesses such as the lack of accountability, non-registration and so on in future.

According to its proponents micro finance has a very important role to play in development, United Nations Capital Development Fund (UNCDF) (2004) states that studies have shown that micro finance plays three key roles in development. It:
• helps very poor households meet basic needs and protect against risks.
• is associated with improvements in household economic welfare.
• helps to empower women by supporting women's economic participation and so promotes gender equity.

The various ways in which micro finance combats poverty has been illustrated by Otero (1999). According to her access to productive capital for the poor can be created by micro finance, which together with human capital, addressed through education and training and social capital, achieved through local organization building, enables people to move out of poverty. When material capital is provided to a poor person, his sense of dignity is strengthened which helps to empower him for participation in the economy and society. Micro finance does not only aim to provide capital to the poor to combat poverty on an individual level but also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.

Littlefield and Rosenberg (2004) states that the poor are generally excluded from the financial services sector of the economy and MFIs have emerged to address this market failure. In a financially sustainable manner by addressing this gap in the market, an MFI can become part of the formal financial system of a country. It can thus access capital markets to fund their lending portfolios, and thereby allow them to dramatically increase the number of poor people they can reach. (Otero, op.cit.).
More recently, commentators such as Littlefield, Murduch and Hashemi (2003) have commented on the critical role of micro finance in achieving the Millennium Development Goals\(^1\). According to them, micro finance is a critical contextual factor with strong impact on the achievements of the MDGs. Micro finance can deliver social benefits on an ongoing, permanent basis and on a large scale. Referring to various studies, they show how micro finance has played a role in eradicating poverty, generating self-employment and empowering women. It may be mentioned here that all commentators do not show the same enthusiasm about the role of micro finance in development. Hulme and Mosely (1996) states that micro finance is not a panacea for poverty alleviation and that in many cases it has made the poorest people worse off.

Five major faults with MFIs have been mentioned by Rogaly (op.cit.). He argues that:

- they encourage a single sector approach to the allocation of resources to fight poverty
- micro credit is irrelevant to the poorest people
- an over simplistic notion of poverty is used
- there is an over-emphasis on scale
- there is inadequate learning and change taking place

Wright (op.cit.) states that much of the skepticism of MFIs stems from the argument that micro finance projects fail to reach the poorest, and

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\(^1\) The MDGs are (i) eradicate extreme poverty and hunger (ii) achieve universal primary education (iii) promote gender equality and empower women (iv) reduce child mortality (v) improve maternal health (vi) combat HIV/AIDS, malaria and other diseases (vii) ensure environmental sustainability and (viii) develop a global partnership for development (Littlefield, Murduch and Hashemi, 2003).
generally have a limited effect on income. They drive women into greater
dependence on their husbands and also fail to provide additional services
desperately needed by the poor.

It is difficult to define poverty which is a complex issue. There are
various dimensions to poverty. For some, such as World Bank, poverty
relates to income, and poverty measures are based on the percentage of
people living below a fixed amount of money, such as US $1 a day (World
Bank, 2003). Poverty is more than just a lack of income. The shortcomings
of focusing only on increased income as a measure of the impact of micro
finance on poverty has been highlighted by Wright (1999). According to him
there is a significant difference between increasing income and decreasing
poverty. He argues that by increasing the income of the poor, MFIs are not
necessarily reducing poverty. It depends on what the poor do with this
income; it is observed that very often it is gambled away or spent on alcohol,
thus it is not enough to focus only on increased income. It is more important
to help the poor to maintain a desired level of well-being by providing for
them different financial services suiting their needs so that their income is
secured and net wealth is improved. It is commonly asserted that MFIs are
not reaching the poorest in society. However, studies have shown that micro
finance has been successful in many situations inspite of some
commentators’ skepticism of the impact of micro finance on poverty.
According to Littlefield, et. al. (op.cit.) various studies have shown that there
has been increase in income and assets and decrease in vulnerability of
micro finance clients. They refer to projects in India, Indonesia, Zimbabwe,
Bangladesh and Uganda which all show very positive impacts of microfinance in reducing poverty.

In a comprehensive study on the use of microfinance to combat poverty, Hulme and Mosley (1996) argues that the incomes of the poor can be improved and they can move out of poverty by well-designed programmes. They stated about clear evidence which showed that the impact of a loan on a borrower’s income is related to the level of income, as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the ‘middle and upper poor’. It has also been shown by them that when MFIs such as Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets.

Mayoux (2001) states that while Microfinance has much potential, the main effects on poverty are as follows -

- credit making a significant contribution to increasing incomes of the better-off poor, including women,
- microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

Hulme and Mosley (1996) show that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low risk

\(^2\) (i) to smooth out peaks and troughs in income and expenditure (ii) to invest in business/assets including new technology, capital and assets such as land or housing (iii) to cope with unpredictable shocks and emergencies such as death and natural disasters (iv) to make socially required contributions to life cycle or community events like marriages, funerals and religious festivals (Mayoux, 2001).
income generating activities and thereby generate self-employment and when the very poor are encouraged to save; the vulnerability of the very poor is reduced and then poverty situation improves.

Johnson and Rogaly (1997) also refer to examples where the needs of the very poor are being met by savings and credit schemes. They state that microfinance specialists are beginning to view improvements in economic security, rather than income promotion, as the first step in poverty reduction as this reduces beneficiaries overall vulnerability. Therefore, while the impact of Microfinance projects is so much debatable, it has been seen that the needs of the poor are understood by the MFIs and they try to meet these needs. Projects can have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society. Thus it is important to know and realize that poverty alleviation is a multifaceted problem which cannot be realized through the introduction of finance alone; it requires several solutions (Robinson, 2001). If Microfinance is implemented correctly it improves economic prospects, paving the way for better equality of income opportunities.

1.3 Need for the study

Unlike many traditional poverty reduction mechanism such as through the provision of water and sanitation, credit disbursement and its use is a more singularly focused activity where the actor is the business and/or household. Credit use is a more individualistic activity with apparently few visible externalities. Hence, the household/business have been the focus in order to determine the impact of microcredit on their livelihoods.
A number of NGOs are providing micro credit to the SHGs. Their performances are judged by the loan portfolio, rate of recovery and self-sufficiency. The objective of creating access to credit for the micro enterprises is to develop prosperity among the poor in terms of increase in income, employment, better living conditions, improvement in basic facilities, household assets, business assets and social status. Micro enterprises are initiatives of the people for survival and to improve their living conditions with available resources. Accessibility to micro credit has been a key factor for these enterprises. The study seeks to analyse the impact of micro credit for the micro enterprises on livelihood of low-income people.

This study seeks to throw light on impacts of micro credit on poverty reduction and employment generation. The findings of the study are expected to help the planners, policy makers, Government and NGOs in devising and implementing poverty reduction strategies. It is hoped that the study will be beneficial for the MFIs in their future action plan.

The rationale for the study is to have a greater understanding of the extent to which women actually control and use the money obtained from loans from micro credit programmes. Many evaluations of micro credit programmes have not investigated in depth the extent to which repayment of loans is an indication of programme success. Evaluation of micro credit programmes typically focus on economic indicators ignoring ‘important concepts such as intra household decision making, resource allocation and control over loan and subsequent income.’
1.4 Rationale for selection of Kamrup District

Though the growth of SHGs and micro credit has been phenomenal in recent years in many states of India, Assam is still at a very nascent stage of micro finance development and its study. The present study is an attempt to analyze the impact of micro credit in the solution of the problems of poverty alleviation and employment generation with special reference to the Kamrup district of Assam.

Kamrup district has been chosen as the area for field study because of the following reasons:

- The demographic pattern of Kamrup district is a heterogeneous one.

- The district has the third highest number of SHGs formed by District Rural Development Agency (DRDA) in the state in 2003-04. (Source: Statistical Handbook Assam, 2005).

- The largest voluntary sector of the region, Rashtriya Gramin Vikas Nidhi’s (RGVN) operation concentrates in this region.

- The group savings of the SHGs under NABARD’s SHG-Bank Linkage programme of this district ranks 9th (5%) but the credit disbursement under the same programme is the highest (18%) (Source: NABARD’s progress report for the month of January 2005). This interesting fact has prompted the study to know the cause of low savings by the SHG members and also to understand the reason for growth of SHG and satisfactory credit disbursement.
• Kamrup district has a number of NGOs and micro credit/micro finance programmes. This is partly because Guwahati, the gateway of Northeast India, is in this district, which makes it a favored place for donor representatives (and thus a favored site for demonstration of projects and groups) and gives farmers and producers easy access to the major market of Assam.

• The area of operation of Assam Center for Rural Development (ACRD), which mainly comprises of tribal dominated areas of Assam, is presently largely confined to two districts of Assam, one of which happens to be the Kamrup district. Dimoria, Goreswar, Chayani Borduar, Boko, Bongaon, Rani, Hajo, Bezera blocks in Kamrup district covering more than 100 villages is presently benefited by ACRD’s programmes which concentrate in SHG formation, stabilization and management. SHGs in some of the blocks are being provided loan assistance for various income-generating activities from RGVN and North Eastern Development Finance Corporation Ltd. (NEDFI).

• In the year 2000, the incidence of crime under Indian Penal Court (IPC) was the highest in Kamrup district among the districts of Assam (Source: Statistical Handbook Assam, 2002). The root cause for this may be poverty and unemployment. Again in the same year in terms of flood affected area, it ranks 5th and in density of population it ranks 3rd. DRDAs achievement under Swarnajayanti Gram Swarojgar Yojana (SGSY) in 2000-2001 is the 3rd lowest in the district. All these reflect the dire need for credit and welfare programmes for this region and a study of the region.
In the Kamrup district, the study is confined to 3 blocks viz. Bezera block, Chayani Borduar block and Dimoria block. These blocks have been chosen for they are located in different parts of the district, which has enabled a diverse study of the region. Bezera in the northern part, Chayani Borduar in southwestern part and Dimoria in the eastern part. The demographic pattern and economic conditions of these blocks are also different. The Bezera block is inhabited mostly by general caste people, one-third of the population of the Chayani Borduar block are tribals. Rabha, Garo and Bodo being the main tribes. Different communities and ethnic groups viz. the Bodos, Lalung, Mikir, Kosh, Garos and non-tribal like Assamese, Bengalis etc. inhabit the Dimoria block. Tea tribes like Munda, Chautal, Kauri, Kurung and Haria also live here. In this block about 30% of the population comprises of Scheduled Caste and Scheduled Tribe. As compared to the other two blocks, the economic condition of the people in the Chayani Borduar block is the worst. (Source: Block at a glance, Directorate of Economics and Statistics. Government of Assam, 2009).

From these three blocks, a few NGOs’ micro credit programmes and DRDA’s development programme of SGSY have been studied.

1.5 Objectives

The study attempts to analyze the impact of micro credit in the alleviation of poverty and generation of employment.

Its specific objectives are as stated below:

- To examine and analyze the linkages between Banks, NGOs and SHGs and the utilization of credit and its recovery.
• To assess the role of SHGs in the promotion of income-employment generation.

• To examine the impact of SHGs and micro credit on the status of women.

• To analyze the role of NGOs as a facilitator for adoption of poverty alleviation and employment generation schemes.

• To analyze the organizational structure, functioning and performance of the NGOs and SHGs, look into their accountability aspects, identify constraints and suggest remedial measures.

• To examine whether NGOs have promoted the individual ethic of savings and repayment of loans.

1.6 Hypothesis

It is tentatively hypothesized that

• NGOs are not the best type of agencies to carry out micro finance on a sustainable basis.

• Women’s role as micro credit clients ensures repayment and group discipline.

• Participation of women in micro credit programmes have positively affected their decision-making role, marital stability, control over resources and physical mobility.
1.7 Theoretical Framework

Throughout the world micro credit is gradually gaining more popularity because of its ability to bring a revolution in poverty eradication. Perhaps the most admirable character of micro credit is considering the poor, who have no material asset against which they could take loan from the formal banks, as credit worthy. The trust is being put in them that they are honest and hardworking enough to use it to improve their condition and return the money. It is a tool which connects the poor with the mainstream economy and it has the benefit by breaking the ‘low income-low capital-low production’ cycle. Another distinguishing feature of micro credit is its emphasis on women as clients. This has helped to improve their neglected condition and to create empowerment. Undoubtedly in the field of development this is a very powerful tool. However, it also has weaknesses in its practice like other such tools. Apart from the criticisms like the interest rate or installment collection method, the very notion of targeting the ‘poor’ has been put into question. The official focus group of micro credit is the ‘functionally landless’ and it bars to give credit to people owning more than 0.5 acre of cultivable land. According to Murdoch (1998) 30% of the Grameen Bank’s borrowers own land more than this minimum limit and in his survey it was found that the percentage of clients holding land more than half acre are double than those below.

A world Bank study by Khandker (2005) shows that micro credit exert greater impact on extreme poverty than on moderate poverty where he has defined the extreme poor as households with 20 decimals of land or less.
Dr Yunus, among other proponents of micro credit, has strongly supported this and is very much hopeful about eradicating extreme poverty through micro credit. But according to Wright et. al. (2001) micro credit has failed to reach the extreme poor world wide, even in Bangladesh. Perhaps, micro credit, in its current practice is not the answer for the extreme poor. In later studies, ‘extreme poverty’ has been defined by 1 dollar a day criterion.

The argument and debate does not rest only on identifying the different characteristics of extreme poverty when the issue of eradicating extreme poverty through micro credit is dealt with. From the development process of ‘top-down process’ to ‘bottom-up process’, participatory approach and such other in the development discourse has shown the weakness of the ‘development’ drive and it is the poor people who had to suffer the consequences.

Chen and Dunn’s (1996) study takes into account the micro finance impact hypothesis based on the conceptualized Household Economic Portfolio (HHEP) model. According to this model, like any other household resources, the loan funds can be allocated to any activity in the household economic portfolio.

To measure the impact that micro enterprise services like micro credit can generate at the enterprise, household and individual level various hypotheses have been put forward.

It has been hypothesized that micro enterprise services particularly credit, have positive impacts on enterprise revenue, fixed assets and employment and thus are able to provide great opportunities for escaping poverty. The causal paths of these impacts include: an increase in micro
enterprise revenue, an increase in enterprise fixed assets, and an increase in the paid and unpaid employment generated by the enterprise. It is also hypothesized that there is positive impacts of micro credit and savings on household variables: household income, income diversification, household assets and coping strategies. Thus opportunities for escaping poverty, help guard against vulnerability are being expanded by micro credit. Participation in micro credit programmes may result in specific impacts at the individual level: control over resources and income, savings, self-esteem and respect from others, thus ensuring empowerment.

Since the 1990s an influential framework for women’s empowerment that has dominated the rationale for development programmes, especially micro finance, views the process of women’s empowerment as a set of mutually reinforcing ‘virtuous spirals’ of increasing economic empowerment, improved well being and social and political empowerment for women (Mayoux 1999a). According to Mayoux this prevailing view among practitioners has come into being as the ‘confluence of three rather distinct paradigms’ of micro credit programmes for targeting women that come from different theoretical underpinning but are believed to lead to similar ‘virtuous spirals’ of empowerment. These paradigms are the financial self-sustainability paradigm, the poverty alleviation paradigm and the feminist empowerment paradigm.

The financial self sustainability paradigm advocates large scale, minimalist financial services for the poor and it assumes that financial services that stimulates women’s micro enterprise development will alone lead to increased income under women’s control which will then lead to
poverty reduction and increased well being for women and their children (Pitt and Khandker, 1995). In the poverty alleviation paradigm, women's practical needs for income and employment are being fulfilled by financial and other services targeted to women, and are believed to be the best way of enabling women to address gender inequality and lead to women's empowerment. It is assumed that poverty alleviation benefits women particularly because of higher levels of poverty of women and women's greater responsibility for family welfare. The feminist paradigm regards women's empowerment as an end in itself, requiring both a process of internal change at the individual level and organization at the macro level. Under all three paradigms women's individual economic empowerment is believed to lead to wider social and political empowerment and contribute to building 'social capital' through developing and strengthening women's networks.

This framework has been criticized by Mayoux (op.cit.) on the grounds that financial services alone cannot lead to women's empowerment because the assumption that access to micro finance automatically contributes to increase in incomes by stimulating women's own economic activity is often untenable. The reason behind this being the fact that there are barriers and constraints to access to participation, control over income is not always evident, norms regarding intra-household responsibilities and rights vary, the impact on women's income is small, and the increase in women's access to other more formal networks and services is not well established. Besides, even though the transformation of social and economic structures of women's subordination or wider social empowerment is seen as
an eventual outcome, the causal mechanism is assumed rather than explained and the role of women’s agency in contributing to the ‘virtuous spirals' of empowerment is not explicated.

The feminist framework at the other extreme of the impact of micro credit argues that women’s access to micro credit reinforces patriarchal norms of women’s subordination by imposing a burden upon women as debt collectors for micro finance organizations and also increases tensions within the family (Goetz and Sengupta, op.cit., Rahman, 1996).

Again there is the thesis that micro credit diverts attention and resources from other more effective strategies of empowerment. New forms of social and institutional dominance over women by families and organizations are being produced by the intense pressure of timely loan repayment.

Kabeer’s (1999) observation that empowerment occurs at a number of different levels to cover a range of different dimensions and materializes through a variety of different processes is being captured by the enormous challenge in assessing the process of empowerment. Her concept of empowerment rests upon the notion of power as determining choice and ability to choose, and how the lack of power and choice is ‘disempowering’. To her empowerment is the process by which those who have been denied the ability to make choices acquire such ability.

Chen and Mahmud (1995) present a framework of women’s empowerment as a process of positive change in women’s lives that improves women’s fallback position and bargaining power within a
patriarchal structure. Participation in micro credit and other development programmes may lead to empowerment.

The conceptual framework of the study deals with the concept of SHG and their innovative experiment of poverty eradication programme. It has looked into the income-generating activities taken up with micro credit, savings and repayment and the social skills and capacity building process of the concerned NGOs and DRDA.

In the present study, for examining the impact of SHGs and micro credit on alleviation of poverty, generation of employment and empowerment of women, the framework developed by various MFIs, Donors and International Agencies have been adopted and modified to suit the context, the area of study and the culture of the people. The following indicators have been used to assess the extent of poverty reduction, employment generation and empowerment of women.

- Economic and financial empowerment.
- Income Generating Activities (IGA) and increase in income.
- Contribution of IGA to the family income.
- Relationship between income and micro credit.
- Political and social empowerment.

This study has also been conceptualized considering important dimensions of women’s empowerment that identifies five principles on which empowerment is based.
The principles are

- **Welfare:** This addresses only the basic needs of women, without recognizing or attempting to solve the underlying structural causes of provision of welfare services. Women are merely passive beneficiaries of welfare benefits.

- **Access:** In order that women make meaningful progress equality of access to resources such as educational opportunities, land and credit is essential. When women recognize lack of access to resources as a barrier to their growth and overall well-being and take action to redress this, the path of empowerment is initiated.

- **Awareness Raising:** For women to take appropriate action to close gender gaps or gender inequalities, there must be recognition that their problems stem from inherent structural and institutional discrimination. They must also recognize the role that women themselves often play in reinforcing the system that restricts their growth.

- **Participation:** This is the point where women take decisions equally alongside men. To reach this level, mobilization is necessary. Women will be empowered to gain increased representation, by organizing themselves and working collectively, which will lead to increased empowerment and ultimately greater control.

- **Control:** The ultimate level of equality and empowerment is achieved when there is a balance of power between women and
men and neither has dominance. Women are able to make decisions regarding their lives and the lives of their children and play an active role in the development process. The contributions of women are fully recognized and rewarded.

It is clear from the above framework that through participation in institution (micro credit, NGOs and others) women can join in the income earning activities which make them self reliant and ultimately make them empowered which is really very important for sustainable rural development and main streaming of women in Assam.

1.8 Organization of the thesis

The systematic organization of a thesis is of paramount importance as it allows the prospective users of the thesis an easy and sequential comprehension. The thesis is presented in six chapters.

Chapter I contains contents like the statement of the problem, review of literature, need for the study, objectives, hypothesis and theoretical framework.

Chapter II includes discussion about the methods and materials used in the study with the sub-topics like profile of the study area, sample design, tools and techniques for the data collection, data processing and analysis. The last section of this chapter provides the socio-economic characteristics of the samples and details of the SHGs.
The impact of micro credit in the alleviation of poverty and generation of employment has been analyzed in Chapter III. It also focuses on various opportunities to improve capabilities of the beneficiaries.

Chapter IV focuses on the impact of micro credit on the empowerment of women. It presents the means to reduce vulnerability and empower individuals.

A comparative analysis between the participants and non-participants of micro credit programmes has been attempted in Chapter V.

Chapter VI gives an overview and summary of the thesis along with future research perspectives and limitations of the study.