Chapter 1

INTRODUCTION

For a country like India where one-third of the population is poor, access of the poor to banking services is important, not only for poverty alleviation, but also for optimizing their contribution to the growth of the national economy. This realization has led to certain important banking related policy initiatives in the last three decades. These were nationalization of major commercial banks and setting up of regional rural banks, launching of large credit-supported programmes, aimed at creating self-employment opportunities for the poor, and persuading banks to participate in such programmes. Although these measures have greatly increased the outreach of the banks among the hitherto poorer sections of the society, it was increasingly felt that even these initiatives, perhaps, succeeded in reaching only the upper crust of the poor and bypassed the lowest rungs of the society. Banking institutions have been, over the years, providing microfinance under various poverty alleviation programmes. In fact, India has the largest network of bank branches in the world. It is one of the few developing nations that have strategically promoted institutions for providing financial services to the poor. Cooperative institutions since about 100 years, the regional rural banks (RRBs) since the mid-1970s, and the rural branches of commercial banks since the early 1970s have been providing credit to the poor, under a variety of schemes, under the directions of the Government of India (GoI).
Integrated Rural Development Programme (IRDP) (Appendix 1) has been the most comprehensive programme intended for improving the standard of living of the poor. The outlay of IRDP in poverty alleviation since 1980 till 2002 was approximately Rs.300 billion, covering more than 50 million of the rural population. Despite the volumes, it has been ascertained that these mandatory and dedicated subsidized financial programmes, implemented through banking institutions, have not been effective in achieving their social and economic objectives. Several defective features in the planning and implementation of these government-sponsored programmes, followed in different countries, have been responsible, in greater or lesser degrees, for the state of affairs. Banks could never treat these interventions as a profitable and commercial activity. At best, the policy makers had envisioned the programmes as poverty alleviation interventions that would, if appropriately combined with regular commercial banking activities, enable the banks to cross-subsidize the cost of such interventions from their other lines of business.

After more than three decades of implementation, the substantial efforts and large volumes of credit extended by the banks have not been able to result in the expected benefits to the poor, mainly due to some inherent contradictions in programme implementation. More than subsidies, poor need access to credit. Absence of formal employment makes them non-"bankable". This forces them to borrow from local moneylenders at exorbitant interest rates. Many innovative institutional mechanisms have been developed across the world to enhance credit to poor, even in the absence of formal collateral. Most poor people manage to mobilize resources to develop their enterprises and their dwellings
slowly over time. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional financial institutions seldom lend down-market to serve the needs of the low-income families and/or women-headed households. An efficient and viable credit-delivery system catering to a large section of the poor is still a distant dream.

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operations followed by the financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be repaid from time to time according to the agreed terms. However, the income of many self-employed households is usually erratic. A large number of small loans are needed to serve the poor, but lenders prefer dealing with a small number of large loans to cut down on costs of administering and monitoring them. They also look for collateral with a clear title, which many low-income households may not have. In addition, bankers tend to consider low-income households a bad risk imposing exceedingly high information monitoring costs on operation.

Over the last ten years, however, successful experiences in providing finance to small entrepreneurs and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from the
informal market at an interest much higher than market rates. Community Banks, Non-Government Organizations (NGOs) and grassroots savings and credit groups around the world have shown that these microenterprise loans can be profitable both for the borrowers and the lenders, making microfinance one of the most effective poverty-reducing strategies.

Some of the research studies, initiated by the National Bank for Agriculture and Rural Development (NABARD) during the early 1980s, showed that the credit needs of the poor were extremely small, frequent and often such that the dividing line between consumption and income-generation purposes was rather thin. These studies also showed that even the poor had occasional surpluses, though the amounts were small. There were, however, no appropriate savings or credit products with the banking system that could keep the transaction costs of both-the banks and the poor-for such needs, low enough to make them viable or attractive. There was no wonder, therefore, that despite very specific initiatives, the banking system was bypassing the poorest. It was apparent that new delivery mechanisms that could meet the needs of the poorest were called for. It was also necessary that such delivery mechanisms be sustainable. During this period, a study of many national and international experiments and NGO initiatives in this direction led NABARD to take up an action research project, and gradually zero-in on the strategy of promoting Self-help Groups (SHGs) of the poor and link them to the formal banking system. While the strategy of promoting SHGs was not new, linking them to the existing banking channels was certainly an innovation that made, at least in the beginning, many die-hard microfinance experts rather skeptical.
From an almost innocuous beginning of promoting and credit linking just 500 SHGs across the whole country in 1992, NABARD's SHG linkage programme has by now covered over 700,000 poorest households through almost 40,000 SHGs, with credit support approximating Rs.600 million. NABARD has set a goal of covering 100 million poor, i.e. one-third of the country's poor population through one million SHGs by 2008. This is likely to generate a credit demand of about Rs.25 billion for the banking sector. The banks, including credit cooperatives, with about 150,000 rural and semi-urban outlets could provide the necessary linkages to SHGs. Suitable interventions by the Government of India and the Reserve Bank of India, the central bank of the country would be called for creating the appropriate policy environment for a programme of the above scale. NABARD has, however, also kept other options open and is experimenting and supporting other microfinance initiatives like adaptation of the Grameen Bank model, NGO networking⁵ and federation if SHGs to act as delivery mechanisms. Microfinance is a complex phenomenon involving a variety of players and stakeholders. It also operates in different countries under varying social, economic, political and banking scenarios. We now move on to take an in-depth look at the concept of microfinance.

1.1 Concept Of Microfinance

Microfinance is commonly understood to refer to programmes meant for providing credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons⁶. Robinson (1996) defined microfinance as small scale financial services provided to the people who work in agriculture, fishing and herding; who operate small or
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microenterprises; who provide services; who work for wages or commission; and other individuals and groups at the local levels of developing countries, both rural and urban. Financial services usually include credit and savings; and could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security.

In a broad context, microfinance can be interpreted to contain both microcredit and microsavings, even though microfinance and microcredit have come to be used interchangeably. By implication, the amounts of credit and savings are small.

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\text{MICROFINANCE}
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\text{Microcredit} \quad + \quad \text{Microsavings}
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1.1.1 A Definition

Microcredit has been defined by the Microcredit Summit held in 1997 as "programmes that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons." The summit has accepted the definitions of "poor" and "poorest" determined by the Policy Advisory Group (PAG) of the World Bank's Consultative Group to Assist the Poorest (CGAP). The PAG defines the "poor" as those people living below the poverty line established by each country and the "poorest" as people in the bottom 50% of that group.
The foregoing definition has the following components:

(i) Target Group i.e., poorest of the poor people living below poverty line (BPL)

(ii) Credit Type i.e., credit for self-employment and financial and business services.

The importance of a clear definition of microfinance can hardly be overemphasized. Any effective programme for microcredit delivery depends on this. The definition should broadly cover the (i) target clientele, (ii) intermediation inputs, and (iii) approaches, which can facilitate programme designing, implementation and monitoring. There is no clear definition of microfinance in the Indian context. Although NABARD has been implementing several credit and non-credit interventions with a focus on the poor, small artisans, small farmers, microentrepreneurs, NGO sector, promotional institutions, there is no commonly accepted concept of microfinance across the country. When we attempt to define microfinance in the Indian context, the different aspects and issues, which need to be looked into, are as follows:

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<th>Aspect</th>
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<td>Target Group</td>
<td>Rural poor</td>
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<td>Urban poor</td>
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<td>Purpose</td>
<td>Income generation</td>
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<td>Consumption</td>
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<td>Approach</td>
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Therefore, microfinance can be defined as the provision of financial and support services that include savings, collateral free credit, insurance etc. to the poor in a financially sustainable way. It has now been acknowledged world over, and even by Indian microfinance institutions that microfinance holds an important key in addressing issues relating to poverty and unemployment. In the global context, microfinance refers to making available financial services, consisting mainly of credit and savings, in a manner that is profitable both for the financial institutions and customers, who do not have access to such services currently.

1.2 Government’s Initiatives in Microfinance:

The government has recognised credit as an important tool for alleviation of poverty in India. Easing the flow of credit to people of small means has been one of the main concerns of policy planners in India. The government has therefore, launched various credit schemes, targeted specifically at the poor. Launching of the Integrated Rural Development Programme (IRDP)- a massive poverty alleviation programme, in 1978-79 was a step in this direction. Today, India’s formal financial sector is vast and consists of commercial banks, regional rural banks and institutions under the cooperative structure. As many as 32,885 rural and semi-urban branches of commercial banks, 14,303 branches of RRBs and nearly 92,000 rural outlets of cooperative banks are engaged in microfinance.

Until recently, the financial sector in India was regulated and it witnessed multiplicity of interest rates and mandatory sectoral allocations for credit. Some changes in the financial sector have been initiated with the liberalization of the
Indian economy since mid-1991. The interest rates for cooperative banks and RRBs have been recently deregulated\(^9\). However, in the case of commercial banks, interest rates on small loans remain regulated till date. The sectoral stipulation for deployment of credit is still in vogue. Banks have incurred heavy losses in financing the poor, as interest rates charged by the banks on these loans are not sustainable. The financial margin is, usually, not sufficient to cover the transaction cost. Added to this, the financial performance has been affected, as the recoveries of loans under such programmes have been extremely low. Because of such a poor track record of subsidized and subsidy linked credit, neither the banks nor the customers at large, view microfinance as a bankable function. Contrary to the experience of the past in the field of subsidized credit under government sponsored programmes, the new experiments in microfinance are able to demonstrate that it is possible for financial institutions to provide financial services to the poor in a sustainable manner.

The banks in India have disbursed a massive volume of credit to the rural areas\(^10\). Notwithstanding the proactive role of banks (through their extensive network) in implementing government sponsored poverty alleviation programmes such as IRDP, the economic enablement through capital transfer and application could not gather the desired momentum. The Indian banking industry has been plagued with low returns on microcredit operations, coupled with the high cost of microfinance services and has become apprehensive in providing the much-needed impetus to this socially and financially important sector. The banks in India have shown remarkable resilience and have many innovations to their credit. Barring the last few years, they have worked in a regulated interest rate regime and mandated target lending. Thus, the banks
have traversed through the security oriented individual banking to subsidy oriented individual banking. However, the large volume of mandatory lending has piled up unmanageable non-performing assets and has affected the viability of the banks. Therefore, the search for a viable and sustainable means of purveying credit to the poor continues.

1.2.1 MicroFinance Institutions in India

The Government of India acting through its central bank, the Reserve bank of India is leading the microfinance revolution in India. National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the Rashtriya Mahila Kosh (RMK) are the three major second-tier institutions who are also working for the promotion of microfinance in the country.

NABARD has been instrumental in introducing many innovations in the field of microfinance. NABARD, besides providing refinance, is playing a catalytic role in upscaling the innovations in microfinance by providing financial assistance, exposure and training to bank staff, strengthening NGOs, and undertaking research and studies.

SIDBI is a specialized development bank and has introduced innovative schemes such as Micro Credit Schemes (MCS) and TREAD programme for the promotion of microfinance. It mainly provides assistance to NGOs, so as to build their capacity for running microfinance programmes efficiently and to enhance their credit absorption capacity.
RMK was established in 1993 and is registered as a Society. RMK provides loans to NGOs for on lending to women. It also routes funds through women’s development corporations and cooperative societies.

In India, in recent times, new types of microfinance institutions (MFIs) are being launched. They concentrate exclusively in the field of microfinance and adopt products, policies and procedures which can enable them to deliver these services in a profitable manner. The number of such MFIs is estimated to be less than a hundred. The banks have a larger canvas and microfinance is one among their many activities.

The MFIs adopt diverse methodologies in reaching the poor. Some of them like DHAN Foundation and Community Development Society (CDS), Kerala, are organizing the poor into self-help groups. SHARE of Andhra Pradesh, ASA in Tiruchirapalli, Nirdhan in West Bengal and CASHPOR Financial and Technical Services Pvt. Ltd. (CFTS) in UP are replicating the Bangladesh Grameen Bank Model. There are others, like BASIX of Hyderabad, who are adopting a combination of approaches.
1.2.2 Broad Categories of MFIs

MFIs have emerged broadly under three categories:

(i) Not-for-profit MFIs

- Societies registered under Societies Registration Act, 1860 or similar state acts
- Public Trusts registered under the Indian Trust Act, 1882
- Not-for-profit companies registered under section 25 of the Companies Act, 1956.

(ii) Mutual Benefit MFIs

- State Credit Cooperatives
- National Credit Cooperatives
- Mutually Aided Cooperative Societies (MACS)

(iii) For-profit MFIs

- Non Banking Financial Companies (NBFCs) registered under the Companies Act, 1956
- Banks which provide microfinance along with their usual banking services could also qualify under this category
1.3 Microfinance Programmes Within And Outside India

Microfinance against poverty has been recognized as one of the tools by a number of countries including India. The new generation financial institutions with innovative financial products and approaches are coming up in different parts of the country. The rationale for microcredit innovations has its roots in the failure of the formal credit institutions (having more than 150,000 rural credit outlets, including cooperative credit societies, per branch population coverage of 4,000 rural areas) in effectively meeting the credit needs of the very poor with 39% of rural indebted households still being served by informal sources. The guiding spirit behind microcredit initiatives has the following objectives:

- Offer cost effective approaches to formal institutions for wider coverage of poor, thereby supplementing their efforts;
- Pilot test other microcredit delivery innovations as alternative channel and depending upon the prospects and potential, synergise the test alternative channel with the formal system;
- Reduction in adverse selection in target groups;
- Focus on women;
- Development of collateral substitutions;
- Empowerment of poor; and
- More effective persuasion of macro economic objective of growth.
1.3.1 NABARD and Microfinance

1.3.1.1 Vision:

Economic empowerment of rural poor by improving their access to the formal financial system through various delivery innovations in a cost effective and sustainable manner is NABARD’s vision in promoting microfinance in India.

1.3.1.2 Mission:

To reach 20 million families covering 100 million unreached and underserved rural poor through 1 million groups, with focus on women, to be promoted by 2008, through SHG linkage programme and other delivery innovations.

The natural tendency of rural poor to unite for a common purpose, does not necessarily fructify into harmonious activities due to several factors such as illiteracy, lower access to resources, social conflicts etc., thereby necessitating a change agent to sow the seeds of association and provide a rallying point. In the area of microfinance, NGOs are increasingly playing an important role, both as promoters and financial intermediaries, in bridging the gap between the unreached/underserved microentrepreneurs with the formal banking system. NABARD collaborates with partner NGOs in the areas of Rural, Non Farm Sector (RNFS) promotion, microfinance innovations, watershed development and other areas of emerging interests. Partnership with NGOs covers wide areas like the SHG-Bank linkage programme, “Grameen” replication, networking with smaller NGOs etc. besides providing capacity building,
refinance, policy and technical inputs. In this context, it would be pertinent to note that the SHG-Bank linkage programme is initiated by NABARD with the active partnership of NGOs, aiming at enhancing the coverage of rural poor under institutional credit, thereby focusing on poverty alleviation and empowerment.

1.3.1.3 Target Group:

The focus under microfinance initiatives would largely be on those people who so far had no access to the formal banking system. The target group would broadly comprise:

- Small and marginal farmers
- Landless agricultural and non-agricultural labourers
- Artisans and craftsmen
- Persons engaged in small business like vending, hawking, etc.
- Persons below poverty line, i.e. with annual family income not exceeding Rs. 11,000

1.3.1.4 Achievements:

The progress under the Linkage programme (SHGs could be considered as pre-microenterprise stage) has been quite encouraging. Starting with a moderate coverage of 255 SHGs in 1992-92, over 14,000 SHGs have been linked with banks by end of March, 1998, with bank credit to the tune of Rs. 240 million and NABARD refinance of Rs. 230 million. Over 0.28 million rural families have been covered and of them, over 78% are women. The repayment
of loans both at SHG level and bank level under the programme is excellent, almost 100%. The central bank of the country, RBI, has advised the banks to treat SHG financing as corporate agenda. Banks have also realized the potential of the Linkage banking with lower transaction costs and excellent recoveries. In addition, various credit delivery innovations like Bangladesh Grameen Bank Model financing, NGO networking, and other models are being tried and supported by NABARD. It is expected to be one of the major programmes of poverty alleviation in India, with full participation from the formal banking system and without any interference from the government. However, considering the magnitude of poverty, the outreach of the programme needs to be significantly enhanced.

1.3.1.5 Other Credit Delivery Innovations:

Besides the SHG-Bank linkage programme, NABARD has been encouraging various other credit delivery innovations, such as those mentioned above. With a view to deepening the activities relating to banking with the poor, NABARD is keeping an internal mission, for which one million groups are envisaged to be promoted under the linkage programme and other credit delivery innovations. The focus would be on women's groups. These innovations are directed towards increasing the outreach of poor accessing credit under various programmes.
1.3.2 SIDBI and Microfinance

1.3.2.1 Vision:

- To serve as the principal financial institution for promotion, financing and development of industry in the small scale sector, and
- To coordinate the functions of the institutions engaged in promoting, financing or developing industry in the small-scale sector.

SIDBI has emerged as a major purveyor of a wide variety of financial services to the small-scale sector through its direct finance, refinance, equity finance and other schemes of assistance, besides extending support services.

1.3.2.2 SIDBI's Microcredit Scheme:

The SIDBI Foundation for Micro Credit (SFMC) came into operation in January 1999 with the mission "to create a national network of strong, viable and sustainable microfinance institutions (MFIs) from the informal and formal sector to provide microfinance services to the poor, especially women." The setting up of SFMC also resulted in the revision of the existing microcredit scheme (MCS) in order to address the constraints faced during the pilot phase of MCS which began in 1994.

1.3.2.3 Range of Services:

Under the new approach and dispensation, SFMC is following a multi-pronged strategy aimed at the overall growth of the microfinance sector in India. SFMC is providing need based financial assistance to select partner MFIs for meeting...
their on lending requirements as also for their institutional capacity building to enable them to transform themselves into "state-of-the-art" financial institutions for meeting the financial needs of the poor in the country. In addition, SFMC is striving to develop a market of service providers, consultants, rating agencies, microfinance training institutions, mentors etc. through a number of initiatives. SFMC is playing an active role in policy advocacy with a view to facilitating formulation of effective policy and coherent regulatory framework for the sector. SFMC is also planning to provide equity support to select eligible corporate MFIs. SFMC has entered into a collaboration with the Department for International Development (DFID), U.K. for various capacity building initiatives.

1.3.2.4 Achievements:

Since inception of the microfinance initiatives in February, 1994 till 2001, SIDBI has sanctioned aggregate assistance of Rs. 810.50 million to 169 MFIs, benefiting over 442,000 poor, mostly women.

1.3.2.5 SIDBI's TREAD Programme:

The Government of India (GOI) has identified SIDBI as a major partner for implementing the United Nations Development Programme (UNDP) supported Trade Related Entrepreneurship Assistance and Development (TREAD) programme for women. Under this programme, GOI is providing financial support for capacity building to financial intermediaries, while the loan component is provided by SIDBI.
1.3.2.6 SIDBI's Mahila Vikas Nidhi:

Mahila Vikas Nidhi (MVN) is SIDBI's specially designed fund for economic development of women, especially the rural poor, by providing them avenues for training and employment opportunities. A judicious mix of loan and grant is extended to accredited NGOs for creation of training and other infrastructural facilities. The basic activity involves setting up of Training-cum-Production Centers (TPCs) by the assisted NGOs to ensure that women are provided with training and employment opportunities. In addition, activities like vocational training, strengthening of marketing set up for the products of the beneficiary group, arrangements for supply of improved inputs, production and technology improvement are also covered under the MVN scheme. Assistance is given mainly towards capital expenditure and support of a recurring nature is discouraged.

1.3.2.7 Achievements:

Upto 1999, SIDBI had extended assistance of Rs. 64.2 million to 142 NGOs benefiting about 18,000 women.
1.3.3 RMK and Microfinance

1.3.3.1 Vision:

- To promote or undertake activities for the promotion of credit as an instrument of socio-economic change and development through a package of financial and social development services for women.

- To promote and support schemes for improvement of facilities to women for:
  a) Sustenance of their existing employment,
  b) Generation of further employment,
  c) Asset Creation,
  d) Asset Redemption, and
  e) Tiding over consumption, social and contingent needs.

- To demonstrate and replicate participatory approaches in the organization of women's groups for effective utilization of credit resources leading to self-reliance

- To promote and support experiments in the voluntary and the formal sector using innovative methodologies to deliver credit and other social services to disadvantaged women

- To sensitize existing government delivery mechanisms and increasing the visibility of poor women as a vital and viable clientele with regard to the conventional financial institutions

- To promote research, study, documentation and analysis of the role of credit and its management
To cooperate with and secure the cooperation of the Central and State Governments, and Union Territory Administrations, Credit Institutions, Industrial and Commercial Organizations, and Non-Government, Voluntary and Other Organizations and Bodies in promoting the objectives of the RMK.

To accept subscriptions, grants, contributions, donations, loans, guarantees, gifts, bequests etc. on such terms and conditions consistent with the aims and objectives of the RMK.

1.3.3.2 Achievements:

By the end of 1998, RMK had assisted 308 SHGs, and through them reaching out to 261,582 women borrowers with an assistance of Rs. 513.2 million.

1.4 Commercial Banks and Microfinance

The following points emerge in relation to microfinance and the role of commercial banks:

(i) Reduced barriers to entry and improved prudential regulation and supervision are increasing the competition in the domestic financial markets;

(ii) Development of short-term money market is allowing big corporates to bypass the domestic banking system, placing pressure on the financial margin of the banks within the traditional segments of their client base;

(iii) Entry of new, more aggressive competitors is driving down profitability within the traditional market segments for the banking system;
(iv) Development of debt markets has a limit. Commercial banks cannot function only as investment banks in the long run;

(v) There is a need for the deepening of financial markets with regard to the microfinance markets;

(vi) Despite almost 15 years of experience and several million dollars of outright donations and subsidized funding from international donor agencies and multilateral financial institutions, the potential demand for microfinance services far outstrips the available supply; and

(vii) Reliance upon public sector funding is unsustainable, highly volatile and socially/economically not desirable.

Therefore, banks have started to look at the microfinance business as an investment in good clients in the long run, and not as one which can give them immediate returns. The Indian microfinance system stands at an important stage of development in its evolution. The gap that exists between supply and demand of credit, though one of the biggest issues, is not the only one that needs to be addressed for effectively purveying credit to the poor. There are several other issues in microfinance that need to be looked into.
1.5 Issues in Microfinance:

1.5.1 Change the Mindset of Banks

With microfinance approach to banking accepted as a strategy, what is needed is a change in the mindset of the bankers in treating the poor as creditworthy. It has been proved that given proper environment, the poor could be one of the best credit risks for banks.

1.5.2 Accept Collateral Substitutes

Acceptance of collateral substitutes in place of the traditional use of securities is a much-needed change. In this respect, the group guarantee mechanism of SHGs has been able to resolve the problem of collaterals to a considerable extent.

1.6 NGOs as MFIs

The institutional framework of the NGOs is fragile, and the successful cases represent exceptions rather than the norm. How to make the NGOs functioning as MFIs self-sustaining institutions, needs further deliberations. The following issues need more thinking:
1.6.1 Venture Capital

In the Indian context, venture capital funds have not developed as they have in the western economies. However, there is a strong need for development and growth of venture capital funds in the area of microfinance.

1.6.2 Trade-off between Profitability and Outreach

Is there a real trade-off between profit motive and outreach in dealing with microfinance by the banks or are these compatible with each other? These issues need to be debated on in the light of experiences of microfinance institutions in different countries.

As societies shift from the agrarian to the industrial modes of production, addressing the problem of poverty through employment and empowerment requires new approaches. While recognizing that the poor already possess two principal assets viz. labour and creativity, it must be remembered that these may be severely constrained by the lack of access to capital. The formal financial institutions must, therefore, respond appropriately to the importance of this sector. Their existing techniques and practices need to be oriented to face the new challenges. Otherwise, their relative importance in financing the economic growth will decline. Therefore, what is needed is a collective approach by all concerned. We need creative solutions for successfully fighting the problem of poverty through employment generation. An added challenge
that needs parallel efforts is to bring about the economic empowerment of women. The microfinance sector has the potential to take up these challenges, and holds the key to the door which opens into the India that our policy planners have dreamed of, envisaged, but not achieved.

1.7 Perception of Women's Problems and The State of Microcredit Programmes for Women

UNDP's Human Development Report, 1994, says, "Despite all our technological breakthrough, we still live in a world where a fifth of the developing world's population goes hungry every night, a quarter lacks access to even basic necessities like safe drinking water, and a third lives in a state of abject despair at such a margin of human existence that words simply fail to describe it." Needless to say, the most alarming implication is that women get more and more marginalised in the struggle for survival even among those living in poverty where resources are unevenly distributed. Consequently, the development initiatives today focus primarily on women all over the world. However, the implication for women's development goes beyond simple poverty alleviation— it embraces the objective of empowerment\(^4\). The latent potentialities of women to develop themselves and their surroundings need to be found out and promoted to generate sustainable results in the line of development At the same time, the women are not fully recognised by the development mechanisms and agencies everywhere, in the male dominated societies. Being simple housewives deprived of assets, they are not recognised as potential development agents.
In the formal credit system, women have consciously and deliberately been marginalised by the institutions and agencies involved in the system. In fact, this is due to the inability of the formal banking system to address the credit requirements of the poor, and particularly the women\textsuperscript{15}. The formal banking system works on the principle of security-backed lending, and always demands a high degree of discipline in procedures and repayment. Hence, it is unable to meet the credit needs of those struggling to stay alive, particularly women burdened with financial and social insecurities. Besides, the credit needs of the poor are determined in a complex socio-economic milieu, which the project lending approach by banks has not been able to address. In this milieu, the dividing line between credit for "consumption" and "production" purposes is often blurred. The poor, on many occasions need emergency credit, which the formal credit system and the government’s poverty alleviation programmes do not cater to. Moreover, it is unrealistic to expect the formal credit system to be fully cognisant of the social objectives of providing credit to the rural poor, especially the poor women. Denied access to credit often pushes poor women to being recipient, beneficiary and consumer, despite their ability to be giver, benefactor and producer.

Non-availability of credit has been a critical constraint in the efforts of poor women of our country to achieve economic self-reliance. Many a committee and commission have commented that the formal credit institutions, despite their large network of branches, have not been able to reach credit to the poor women because of rigidity of procedures, requirement of collateral, and lack of proper appreciation of the needs of poor women by the bank staff. Great debate
tends to persist as to whether provisions of credit for the poor women could change the social equations in which this subset of the population lives, or not. The proponents of the thesis go to argue that targeted credit can be used as a mechanism for enhancing poorer women's existing socio-economic conditions and thereby altering the relations between gender and class, to the benefit of the weaker parties\textsuperscript{16}. However, on the other side of the fence, critics tend to say that while a marginal increase in income and assets can enhance well being and economic security, the little increase could be too little to affect the pervasively entrenched political and economic relations.

1.7.1 Government's Initiatives for Women's Empowerment

The government has to have a large network of credit programmes for the poor women to increase their economic solvency and to enhance their empowerment\textsuperscript{17}. Other such studies that have shown a positive correlation between women's empowerment and the availability of credit to them prompted the National Commission on Self-Employment of Women and Women in the Informal Sector to strongly recommend the need for setting up an exclusive credit body of poor and self-employed women in recognition of the socio-economic realities associated with them. The Rashtriya Mahila Kosh (RMK) was, therefore, set up by the Government in March, 1993 as an autonomous society.

A governing board that consists of officials and chief functionaries of certain important NGOs or social workers of considerable standing manages the Kosh.
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The policies of RMK thus benefit from the inputs made by NGOs working at the grassroots level, and the experience of government functionaries with a broader vision of the status of women's development and its requirements. The lendings of the Kosh are routed through experienced NGOs. Short-term and medium-term loans are provided by the Kosh to the NGOs with the stipulation that the ultimate rate of lending to the borrower should not exceed 12%. The Kosh also gives small grants for skill upgradation of women borrowers in the trade/business undertaken by them.

The Kosh started functioning in November 1993, with the objective of bringing about socio-economic upliftment in the lives of poor women, using credit as an instrument.

The Government of India, in the Department of Women and Child Development, constituted a National Commission to examine the status of women working in the unorganised sector. The report submitted by this commission in 1998 was known as Shram Shakti Report. The Chairperson of this Commission was Mrs. Ela Bhatt of SEWA, Ahmedabad. This Commission recommended that the Government of India should form a separate institution to facilitate credit to the women, and take other necessary measures related with the issue such as softening of the attitude of the banking community towards the credit needs of the poor women, strengthening the grassroots level institutions, and conducting studies and research related with the issue. The report also emphasised that such a body, when constituted, should channelise its credit support mainly through the NGOs already working in the country, who have evolved scientific methods for credit channelisation to the poor, through their own efforts. Such an
organisation should not aim at having a large, bureaucratic size and should not open its own windows everywhere, it should use the existing NGOs as its arms.

Accordingly, the RMKs Memorandum and Articles of Association have been drawn up. RMK has been registered as a society under the Societies Registration Act, 1860. It has a Governing Board to direct its policies. The Board comprises a fair mix of government and non-government personnel. After setting up of the office and the procedure resultant to consultations with NGOs and Board Members, RMK started its work in the last quarter of 1993.

In the first year itself, it was realised that the premises made by the Shram Shakti Report did not correctly assess the number of Voluntary Agencies working in this sector. Their number was highly inadequate. Since RMK was a GOI sponsored body, expectations were that it would swiftly extend its outreach to the entire country in a short period and also in a balanced manner, giving a fair share to all the states.

However, the numbers of applications arriving in RMK and being sanctioned were highly uneven in relation to different states. While their number was high in Andhra Pradesh, hardly any applications came from states such as Orissa, Madhya Pradesh, Rajasthan, Uttar Pradesh, Bihar, Himachal Pradesh and even Gujarat.

The eligibility criteria fixed for approval of the loan applications from the NGOs were kept quite strict in the beginning, with three years experience in credit and
repayments over 90% to the credit channelising agencies. Further, the Self Help Groups' development was kept as a very important yardstick for credit delivery to the financial institutions. In fact, the Self Help Groups are the "scientific platforms" for credit channelisation alluded to in the Shram Shakti Report.

Realising the importance of Self Help Groups, the RMK evolved a scheme under which NGOs are provided support for formation and stabilisation of SHGs of Rs. 1,00,000 for 25 SHGs in the shape of an interest-free loan convertible into a grant. This scheme has given a much-needed fillip to preparatory activities of group formation and channelisation of savings. RMK also introduced the Loan Promotion Scheme under which NGOs are eligible to borrow upto Rs. 2,00,000 from RMK, provided they have a minimum of one years' experience of microcredit management (through SHGs' savings or otherwise).

1.7.2 Lessons from Some Successful Cases

The successful example of SHGs evolved by the Grameen Bank\textsuperscript{18}, Bangladesh and Indonesia\textsuperscript{19}, the groups of SEWA\textsuperscript{20}, Ahmedabad, Working Women's Forum, Chennai, and MYRADA have shown that the process of SHG formation is extremely interesting and has a number of salutary side effects. As SHG members, the women evolve in the following manner:

(a) They learn together in groups of 15 to 20 each, on a regular basis.
(b) The importance of savings, when extended to them, is highly appreciated by them and thus they voluntarily start saving the amount. When the amount grows, it gives them a sense of importance and well being. When revolved among them as credit, these savings help in upliftment of the poor women. The progress of one encourages the other to follow suit and high demand results in peer pressure in recovery of the interest amount and the percentage of recovery goes up. The regularity of the meetings and the high percentage of recovery and group cohesiveness are enough to impress the bankers to link the group with credit support, under the bank linkage programmes of credit to the groups.

(c) Women learn to address themselves to other issues as well, which are of social significance and surround their own socio-economic environments. As generally an NGO helps in forming the SHG, the NGO is answerable to the question.

The supplementary system envisages two sources of credit for an SHG, the savings of its members and the seed fund at the bank (rural credit agency). For the banks, the transaction costs would be sharply reduced as NGOs would be providing intermediation services both for deposits and loan disbursements/recovery. There is, thus, (a) effective intermediation, (b) low transaction costs for loans, (c) low cost deposit mobilisation (d) effective monitoring and recovery of loans, and (e) involvement in group activities.

Thus, the supplementary rural credit delivery system as evolved by the more successful microcredit programmes needs to be given a fair trial for the poorer
sections of society. The micro-enterprise concept should be coordinated with the SHG lending system so that rural women, tribal people and the rural non-farm sector, who have been deprived of credit, could have their fair share of credit.

1.7.3 Perspectives

SHGs need to have a linkage with banks so as to be able to expand their lending for productive purposes. However, banks are hesitant to extend credit support to groups, except on a limited basis to a few individual members, and on terms required by them because of the absence of any legal status and inadequate information and knowledge about the role and functions of SHGs. There is also a related problem of differentiating good SHGs from the poor ones. Notwithstanding these problems, the case for exploring possibilities of developing a linkage between banks and SHGs appear to gain strength from the fact that in a general environment characterised by widespread repayment delinquency, the experience of SHGs is strikingly different. This advantage could perhaps be exploited through a linkage programme.

With SHGs being non-legal entities and banks having difficulties in dealing with them within the framework of the existing regulations, it would be desirable to try out a few pilot projects between banks, on the one hand, and SHGs and NGOs on the other, to try out various models of linkages and different savings and credit instruments. Subsequently, these can be evaluated to learn lessons for future replication. The pilot projects could perhaps throw light on the nature
of the risks involved, and the compensation and guarantee mechanisms necessary thereafter. There must be flexible options for SHGs/NGOs/banks and the minimum of operational guidelines.

SHGs are functioning in remote and scattered areas and banks are not able to assess whether the concerned groups are suitable for promoting any linkages with regard to credit and savings operations. It would, perhaps, be desirable to develop an information base on the activities of these groups and also evolve suitable criteria for identifying eligible SHGs for bank linkage. SHGs could be associated with other government programmes like health care, extension etc., so as to provide an informal recognition to their extension and working before the banks are involved in the linkages.

1.8 Other MicroFinance Institutions

The role of new micro-finance institutions, which do not follow the group concept of micro-lending, has gained importance with the World Micro-finance Conference held in Washington in February 1998. The strength of these institutions lie in their profitability, poverty reduction potentials, the very high loan recovery rates, the existence of insurance-linked savings facilities, mobile cash collection systems, cost-covering interest rates and incentives, both for the clients and staff. Some of the very innovative and successful micro-finance institutions are ASA in Bangladesh, BRI/BKD in Indonesia, Bancosol in Bolivia and SEWA in India. These lend directly to individuals without any collateral. Many micro-finance institutions have been set up with innovative designs and
practices, and their profitability leads to sustainability and rapid growth in lending, creation of employment opportunities by borrowers, leading to poverty reduction.

The informal organisational structures and the effective loan recovery methods, along with innovative savings instruments, have led to considerable growth of such institutions in many developing countries, including India.

However, a 1998 report of the United Nations, Department for Economic and Social Affairs, states that programmes providing small loans are not effective in reducing poverty due to limitations when tried as a substitute for development efforts due to the limited availability of micro-finance funds. The author of the report, James Kans, has also warned against siphoning of development assistance funds away from agriculture, health, education and infrastructure sections of the rural economy.

Within a limited area of operations, the micro-finance could be developed into a useful additional strategy in the fight against rural poverty and to gain empowerment of women. However, micro-finance institutions have yet to develop a strategic alliance with the banking system so as to access large funds for on lending. This alliance, if nurtured, could develop into a symbiotic relationship, useful for the rural poor, micro-finance institutions and also for the banks. But, certain teething problems have to be taken care of before micro-finance institutions in India develop into an additional strategy in the fight
against rural poverty and as a useful supplement to the rural credit delivery system.

References:


