CHAPTER - 1

MICROFINANCE AND WOMEN EMPOWERMENT:
A CONCEPTUAL FRAMEWORK
BRIEF CONTENTS

1.1 INTRODUCTION

1.2 KEY CONCEPTS IN WOMEN EMPOWERMENT AND MICRO-FINANCE

1.3 WOMEN IN POVERTY AND FOCUS ON WOMEN IN DEVELOPMENT STRATEGY

1.4 MILLENNIUM DEVELOPMENT GOALS OF UN AND WOMEN EMPOWERMENT

1.5 FOCUS ON WOMEN EMPOWERMENT IN INDIA AT THE NATIONAL LEVEL

1.6 EVOLUTION OF MICRO CREDIT: WORLD SCENARIO

1.7 EVOLUTION OF MICRO CREDIT IN INDIA

1.7.1 RBI’s Initiatives

1.7.2 NABARD’s Initiatives

1.8 SUPPLY SIDE OF MF MARKETS IN INDIA: MF PROVIDERS

1.9 DEMAND SIDE MICROFINANCE MARKETS IN INDIA

1.10 CURRENT MF MARKET BEHAVIOUR IN INDIA AND A.P

1.11 SELF-HELP-GROUP APPROACH IN A.P

1.12 SUPPORTIVE MECHANISM OF THE A.P GOVERNMENT

1.13 SUM UP
1.1 INTRODUCTION

Any sustainable development has equity as its base. To ensure this women-focused development is a pre-requisite. Though women constitute predominant segment of the population, they have been socially and economically marginalized since long time. Any strategy of development should be inclusive by bringing this segment of population into central stage of growth and development. Empowering these disadvantaged groups has received the attention of development policy makers and strategists all over the world. This chapter is an attempt to present key concepts related to women empowerment and micro-finance, initiatives at various levels to translate these policies into action program, key players in the program, stakeholders, pros and cons of empowering women by provision of microfinance through SHG.

1.2 KEY CONCEPTS IN WOMEN EMPOWERMENT AND MICRO-FINANCE

In this section most-often used Terminology in this area is presented.
1.2.1 Empowerment

A change in the existing power configuration relating to the extent of control one exercises on his or her environment to achieve efficiency is called empowerment. In an unequal society, empowerment brings rebalance in power. It is a concept of equal importance meted to both men and women whether they belong to rural or urban habitations. Inbuilt capabilities are realized and individuals exercise their choices. Empowerment is multi-dimensional concept as it relates to sharing power and includes social empowerment, economic empowerment, political empowerment and gender justice along with demographic justice. The pre-requisites of empowerment are: the ability to set individual goals, the confidence to act upon them and the development of self-respect. Empowerment occurs in the hierarchical social order of Individual, household, community and larger society. Lack of resources and skills are considered to be the main hindrance in attaining empowerment goal. Social mobilization and exposure to new activities can help in overcoming these shortcomings.

1.2.2 Women Empowerment

Women empowerment is a process of enhancing women's confidence levels and internal and external components of self-esteem. A change in their existing role in the household and community arena is aimed at. Women are allowed to take control of their lives, make decisions, and exercise their choices relating to daily issues and raise against all forms of oppressions and biases.

Empowerment of women is multi-layered concept, which includes political, social and economical empowerment. Political empowerment relates to representation in governing bodies at local, national and international levels. Social empowerment is creating awareness on laws protecting women against practices that confine their freedom and laws enabling their development, and economic empowerment is about the capacity and willingness to control utilization of economic resources and also to use them at will.
Women are, thus, said to be empowered when they feel free enough to question any person or institution or authority that directly or indirectly affects their lives. Empowerment of women is the only strategy to eradicate poverty and its allied problems. Empowerment can be made effective through imparting education, ownership to assets, and development of positive attitude, bringing about a revolution in the way of pursuing issues, capacity building, and providing equal opportunity for individual development without any bias. The confidence a woman exhibits in making decision both at household and society, and the active participation of the women in social and political fields help in determining the empowerment status of women.

1.2.3 Micro-Finance

Micro-finance is the provision of credit without insisting on collateral security to non-bankable poor along with a wide range of financial services such as savings and deposit mobilization, insurance, etc. Micro-finance is an umbrella term that includes micro-credit, micro-savings, insurance, remittance of money and other financial services. Micro-finance aims at inculcating the habit of thrift among the poor people with meager incomes. The philosophy behind micro-finance is to organize the poor into groups and initiate income generating activities among them to raise their incomes and help them way out of poverty, and to encourage thrift among them.

1.2.4 Self Help Groups

These groups are promoted by both government and non-government organizations, and are popularly known as SHGs. These are small, homogenous and voluntary groups of rural poor not exceeding 20 members. Members of these groups voluntarily contribute to a common fund through regular savings. They mutually agree upon to lend this fund among its members based on group decision: All decisions are consensual decisions. The emphasis is on both thrift and credit activities. Group meetings are convened at a pre-determined place and time, which facilitate group processes and
transparency in operations. The strength of SHG concept lies in its democratic character, decentralized decision making, financial discipline coupled with sound systems, procedures lending transparency to all its transactions.

1.2.5 Microfinance and Women Empowerment

Symbiotic relation exists between micro-finance and women empowerment. It is viewed as a cost-effective strategy in eliminating poverty. There are three contrasting approaches to this concept

(1) The financial sustainability approach

(2) The integrated community development approach and

(3) The feminist empowerment approach.

In the ensuing paragraphs, each of these approaches is discussed.

Micro-finance provides a wide range of financial services to the poor on a sustainable basis that is of immense value. Access to financial services has allowed many families throughout the developing world and indeed in poorest parts of the developed world to make significant progress in their own efforts to come out of poverty. Microfinance provides access to money to poor, which led to the development of micro-finance institutions all over the world to deliver a range of financial products.

However, this is not free from criticism. According to Mayoux [2006, page 1] micro-finance programmes, through their contribution to women’s ability to earn an income, may initiate ‘virtuous spirals’ of economic empowerment, increased well-being for women and their families and wider social and political empowerment. In her analysis of evidence of gender impact, she states that there is a conflict between three paradigms. She found that of the three approaches the latter paradigms have been dominant over the first paradigm of financial sustainability. The financial sustainability approach often led to an evaporation of explicit strategies for women empowerment.
Most programs failed to benefit women, as they did not control the end-use of the loan. It is also observed that most women were engaged in low-paid, low-end value, traditional activities where the increase in income was very meager. Moreover the responsibility of women for household and unpaid domestic work limited their participation in economic activity. It is supposed to create domestic tensions between spouses and loss of spousal incomes and support. The other important factors against microfinance are the group repayment pressures and that most women often focused on personal objectives rather than social objectives.

In spite of the above shortcomings it is evident that microfinance contributes to improved nutrition, housing and health, especially among women. Also access to a wide range of financial services can have significant positive effect on a wide variety of manifestations of poverty.

The new vision driving the microfinance industry is for a world in which all poor have permanent access to a wide range of financial services, delivered through a variety of convenient mechanism by different types of institutions.

1.3 WOMEN IN POVERTY AND FOCUS ON WOMEN DEVELOPMENT STRATEGY

The UN Commission on the Status of women observed, “Women who contribute half of the world’s population, by virtue of an accident of birth, perform two-thirds of the world’s work, receive one-tenth of its income and owns less than one-hundredths of its property”. “Poverty is the lack of resources, capabilities or freedom that is commonly called dimensions of poverty. Feminization of poverty is a change in poverty levels that is biased against women or female-headed households” (Medeiros and Joana 2008).

The 1995 Human Development Report points out that of the 1.3 billion poor people in developing countries, 70% are women. Over the past 20 years,
the number of women in absolute poverty rose by 50% as against 30% for rural men.

World Bank (2001) reports that societies in which gender discrimination prevails, poverty is greater, economic growth slower, governance weaker, and standard of living lower. UN Millennium Project Task Force on ‘Education and Gender Equality’ argues that, “Because gender inequality is deep-rooted in entrenched attitudes, societal institutions and market forces, political commitment at the highest international and national levels is essential to institute the policies that can trigger social change and to allocate resources necessary to achieve gender equality and women’s empowerment”. International Conference on Population and Development (ICPD) held in Cairo stressed on the women empowerment and opined that country’s overall development and quality of people’s life is more dependent on women empowerment. Beijing platform for action, Fourth United Nations World Conference on Women (Beijing, 1995) paragraph 41 stated, “Empowerment of women and gender equality are pre-requisites for achieving political, social, cultural and environment security among all people”.

In a study by Sylvia (1997) and Susy Cheston and Lisa (2002) it is found that women contribute all their earnings for the well-being of their family unlike men who contribute only 50 to 60% of their earnings to family income hotch potch.

1.4 MILLENNIUM DEVELOPMENT GOALS OF UN AND WOMEN EMPOWERMENT

Achievement of gender equality and women empowerment is set as the third millennium development goal at the ‘Millennium Summit’ in 2000. For this three dimensions have been identified by task force on gender equality viz., capability domain, access to resources and opportunities domain, and security domain. Capability domain is to develop fundamental capabilities of individuals measured by education, health and nutrition. Access to resources
and opportunities domain refers to access to economic assets like land and building, income and employment including political representation. Security domain focuses on the reduced vulnerability to violence and conflict.

The millennium development goals are presented in Box-1.1, which beacon light on international initiatives for women empowerment

**Box 1.1: MILLENNIUM DEVELOPMENT GOAL (MDG)**

The MDG summit of United Nations 2010, with 191 States drafted global action plan to achieve the following eight goals by 2015.

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

-UN Millennium declaration 8th September, 2000, Resolution A/RES/55/2
(Also available www.mdgs-financeconu.htm.)

The concept of women’s empowerment introduced at the international women’s conference in 1985 at Nairobi aims at enhancing their social functioning both quantitatively and qualitatively, specifically focusing on education, health and employment. Government and voluntary organizations are coming up with number of innovative schemes to promote women empowerment.
1.5 FOCUS ON WOMEN: EMPOWERMENT IN INDIA AT NATIONAL LEVEL

Following are milestones in the course of women empowerment in India. India has 37% of the World's population earning less than $1 a day of which 60% are women (HRD, 2003). Government of India launched the Indira Mahila Yojana (IMY) programme in August 1995, for the empowerment of women.

The national policy of empowerment of women adopted in 2001 with the objective of ensuring women their right, addresses issues relating to the advancement of women, the Department of Women and Child Development (DWCD) under the ministry of Human Resource Development (HRD) has been implementing various schemes in India.

The year 2001-02 was observed as the women's year of empowerment.

24th April of every year is observed as women's empowerment day as conceived by George Mathew, after the 73rd Amendment to constitution, reserving one-third of the membership in Panchayati Raj Institutions came into force.

The commitment of women towards betterment of their family, keeping up their responsibilities, and also maintaining prestige of the family, motivated many development agencies willing to work with women.

1.6 EVOLUTION OF MICRO-CREDIT: WORLD SCENARIO

During the 19th century Lysander spooner, an American political philosopher, and supporter of the labor movement, propounded the benefits of self-employment in turning back the evil effects of poverty, and the need for non-interference of the government in any strategy to regulate the provision of credit.
Friedrich Wilhelm Raiffeisen founded the first cooperative banks to support farmers in rural Germany.

Even though the idea of small savings and credits have been in vogue in one form or other to help poor all around the world including India, the modern concept of micro-finance picked up momentum during 1970s with the success of the Grameen Bank pioneered by the Nobel laureate Dr. Mohammad Yunus in Bangladesh. With the practical demonstration of Grameen Bank with 100% recovery rate, micro-finance emerged to limelight on the global scenario as an effective strategic tool to mitigate poverty. Grouping of the poor is the philosophy of microfinance. It is proved that individuals of small means previously not covered by formal financial sector turn into bankable with requisite credit discipline when in groups. This is because the group is jointly held liable for the repayment of loan. The qualifying amount for micro-credit is not fixed rigidly. According to the November 2010 exchange rates it is determined at Rs. 45,000. Micro-credit summit, 1997 was organized following the successful implementation of micro-credit in Bangladesh to assist nations in implementing microfinance programs. 187 nations including India participated in the summit. The year 2005 was celebrated as the year of micro-credit. The target set is to extend outreach to 175 million poor in the world by 2015.

1.6.1 Pioneers in Micro-Credit: World Scenario

They are as follows

(1) Grameen Bank of Bangladesh founded by Prof. Mohammad Yunus.

(2) Americans for community co-operation in other nations (ACCION), in Latin America, US and Africa.

(3) Self-Employed Women’s Association (SEWA) Bank in India started by Ela Batt.
1.6.2 Beneficial Impacts of Micro-finance

The common areas of positive impact of the operations of micro-finance organizations are:

- Increase of personal income,
- Empowerment of women,
- Improvement in nutrition,
- Increased education of borrowers' children,
- Access to clean water, and
- Increased access to health facilities.

1.6.3 Land marks in International Microfinance Movement

(1) Fifth General Assembly of the Asia Pacific Regional Agricultural Credit Association (APRACA) held at Bangkok in December 1984 directed the agricultural and rural finance institutions in the regions to mobilize savings from rural areas to provide loan able funds for agriculture and rural development. Consequently the experience in some countries where informal Self-help-groups (SHGs) of rural people which promoted savings among members and used these resources for meeting their credit needs were began to be viewed as useful innovations.

(2) The third Consultation on the Scheme for Agricultural Credit Development (SACRED) held in Rome 1985, called for active promotion of linkages between banking institutions and SHGs to improve access of banking services to low income groups.

(3) Executive Committee Session of Asia Pacific Regional Agricultural Credit Association (APRACA), held in October 1985 at Seoul approved the holding of South East Asian sub regional workshop to devise ways and means of improving SHG-Bank linkages.
(4) APRACA workshop at Nanjing, in China held May, 1986 recommended national level Consultation, and Organisation of national survey of SHGs in Collaboration with APRACA and other agencies.

(5) Sixth General Assembly of APRACA held in Nepal in December, 1986, considered a project proposal on promotion of linkages between banking institutions and SHGs in rural areas by mobilising rural savings and credit delivery to rural poor. It was decided that each member country would form a task force to conduct a survey of SHGs and thereafter formulate suitable national level programme.

1.6.4 Micro-finance Backdrop of India

The main concern of independent India has been the non-availability of credit and banking facilities to the poor and underprivileged segments of its population. Several initiatives have been taken by the Government along with the Reserve Bank of India, beginning with nationalization of banks, these include issue of directives for priority sector lending, and loans through integrated rural development program (IRDP). Box1.2 presents time line of landmarks in progress of micro-finance.

Box – 1.2 Time-Lines of Landmarks in Progress of Microfinance in India

1. 1969 Nationalization of banks witnessed wide expansion of bank branches, leading to a shift from ‘class banking’ to ‘mass banking’. Even then meeting credit needs by financial sector is a far cry. Search for alternative policy reforms began to reach out to the poor.

2. 1990 Partial deregulation of interest rates, increased competition in the banking sector and new microfinance approaches pioneered by non-government organizations (NGOs) began to be supported by state to link commercial banks, NGOs and informal local groups.
1.7 EVOLUTION OF MICRO-CREDIT IN INDIA

(1) **Origin: Setting up of Task Force by Ministry of Agriculture**

It was set up to identify existing SHGs, undertake survey of groups and to draw action plan for channelizing the flow of savings and credit between rural poor and banks through SHGs.

(2) **Setting up of Study Team by NABARD in 1987**

It was set up in February 1987 under leadership of NABARD with representatives from various financial institutions to undertake survey.

The survey began in September, 1987. The report of the survey discussed at the 18th executive committee session and 10th foundation anniversary of APRACA at New Delhi. Based on the above report SBLP in India was launched as a pilot project in 1992. SHG-Bank Linkage Programme (SBLP) started as a pilot project by National Bank for Agriculture and Rural Development (NABARD) marked the beginning of micro-finance in India. The success of pilot project led to the emergence of SBLP as a popular model of micro-finance in India. At the same time Micro Finance Institutions (MFIs) also emerged in the country. The Reserve Bank of India, NABARD and Small Industries Development Bank of India (SIDBI) has taken several initiatives over the years to fillip the micro finance movement in India.

1.7.1 **RBI's Policy Initiatives**

(1) **JANUARY 1993:** RBI permitted SHGs registered as well as unregistered to open savings bank accounts with banks.

(2) **1994:** RBI constituted a working group on Non Government Organizations (NGOs) and SHGs to study the potential of Microfinance movement under the chairmanship of Shri S.K. Kalia. Based on the recommendations of the above committee banks were advised to include financing of SHGs as a part of their lending to weaker sections and the same
should be reviewed at State Level Bankers' Committee (SLBC) and by banks at regular intervals.

(3) 1998: Bank were advised by RBI to allow SHGs that were engaged in promoting savings habit to open savings bank account and also there is no need for these SHGs to have availed of loan before opening savings bank account.

(4) 1999-2000: RBI's monetary and credit policy announcement for the year, advised banks that interest rates applicable to loans given by banks to micro-credit organizations or loan by latter to SHGs or member beneficiaries, would be left to their discretion.

(5) 1999: RBI is a member of NABARD's task force on supportive policy and regulatory frame work for microfinance. The task force looked into the entire gamut of issues related to microfinance particularly regulatory issues. A special micro-credit cell is constituted by RBI, to suggest measures for mainstreaming microcredit and accelerating flow of credit to MFIs. The special cell has since then been converted into micro finance and financial inclusion division in RBI.

(6) 2000: Based on the reports of special cell, and task force on supportive policy and regulatory issues RBI issued comprehensive guidelines for mainstreaming micro credit and enhancing outreach of micro credit providers (MCPs). The guidelines stated Microcredit extended by banks to individual borrowers directly or through intermediaries would be treated as priority sector lending. Banks were given freedom to formulate their own model for extending microcredit and norms for lending.

Thus credit may cover not only consumption and productive loans for farm and Non-farm activities to poor and include other credit needs of poor. Bank were asked to delegate adequate sanctioning powers to branch managers and to keep the loan procedures and documents simple for providing prompt and hassle-free micro credit. Several non-banking finance companies (NBFCs)
and residuary non-banking companies (RNBCs) also entered micro finance sector during 2000. All NBFCs and RNBCs were advised by RBI that those NBFCs which were engaged in micro financing activities licensed under section 25 of the Companies Act 1956 and which were not accepting public deposits were exempted from the purview of section 45-IA as to registration, 45-IB as to maintenance of liquid assets, and, 45-IC as to transfer of a portion of profits to reserve fund.

(7) **2002:** In October 2002, RBI set up four informal groups to look into issues of structure and sustainability, funding, regulations, and capacity building of microfinance institutions. Based on the recommendations of the groups banks were advised to provide adequate incentives to their branches for financing SHGs and that the group dynamics of working of the SHGs should be left to them.

(8) **2004:** Based on the recommendations of the Advisory committee on Flow of Credit to Agriculture and Related Activities from Banking System under the chairmanship of Prof. V.S. Vyas, which submitted its report in June 2004, it was announced in the annual policy statement 2004-05, that in view of protecting the interest of depositors MFIs would not be permitted to accept public deposits unless they complied with the extant regulatory framework of RBI.

(9) **April 2005:** RBI enabled NGOs engaged in microfinance activities to access the external commercial borrowings ECBs up to US$ 5 million during a financial year for permitted end use under the automatic route. Enabling the latter to mop up additional resources.

(10) **2005:** To examine the issues relating to rural credit and microfinance, RBI set up an internal group under the chairmanship of Shri. H.R.Khan in 2005.
January 2006: Based on the recommendation of the group and with the objective of ensuring greater financial inclusion and increasing outreach of the banking sector, banks were permitted to use the services of NGOs/SHGs, MFIs other than NBFCs and other civil society organizations as intermediaries in providing financial and banking services through business facilitator and business correspondent models.

April 2006: All regional directors of the RBI were advised in April 2006 that if they noticed any issue relating to micro finance in the areas under their jurisdiction they may offer to constitute a coordination forum comprising representatives of SLBC convener banks, NABARD, SIDBI, state government officials and representatives of MFIs including NBFCs and NGOs/SHGs to facilitate discussion on the issue affecting the operations in the sector and the finding of local solutions to local problems.

May 2006: A joint fact-finding study was conducted by Reserve Bank and a few major banks. It was observed that some of the MFIs that were financed by banks or acting as their intermediaries/ partners were focusing on relatively better banked areas and trying to reach out to the same set of poor, resulting in multiple lending and overburdening of rural households. Also many MFIs supported by banks were not engaged in capacity building and empowerment of the groups to the desired extent and banks did not appear to be engaging themselves with regard to lending policies, their systems, and practices to ensure best practices. Hence banks were issued guidelines to take appropriate corrective action.

April 2008: The union budget (2008-09) encouraged banks embrace the concept of total financial inclusion. The Government will have to request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members namely, income generation activities, social needs like housing, education, marriage and debt swapping.
1.7.2 NABARD’s Policy Initiatives

NABARD organises training programmes and exposure visits for the benefit of bank officials, NGOs, SHGs and government agencies to enhance their effectiveness in the field of micro finance. The best practices and innovations are widely circulated among government agencies, banks and NGOs. NABARD also provides support for capacity-building, exposure and awareness building of the SHGs and NGOs.

(1) March 2006: NABARD launched the Micro-Enterprise Development Programme (MEDP) for skill development, envisaging developing enterprise management skills in existing or new livelihood activities both in farm-and nonfarm sectors. The duration of training programme is 3 to 13 days.

A pilot project for promotion of micro-enterprises was launched among members of matured SHGs in 2005-06. Fourteen NGOs implemented this programme by acting as micro-enterprise promotion agency (MEPA) in nine districts. The project is implemented in two blocks in each of the selected district. NABARD also provides marketing support to the SHGs for exhibiting their products. In addition promotional grant support to NGOs, RRBs, DCCBs, farmer’s clubs and individual volunteers and assistance in developing capacity building of various partner agencies is also provided by NABARD.

(2) POSTOFFICE-SHG LINKAGE DECEMBER 2003

NABARD launched a pilot project in December 2003 to link post-offices with SHGs with the objective of examining the feasibility of utilising the vast network of post offices in rural areas for disbursement of credit to rural poor on an agency basis.

(3) NABARD AND SHG FEDERATIONS

SHG Federations are emerging as important players in nurturing SHGs, increasing their bargaining power and promoting livelihood. The federation
model varies across the country depending on the promoting agencies. NABARD supports the Federation model on neutral basis by granting assistance for training, capacity building, and exposure visits of SHG members. Broad norms are also formulated for deciding the grant of financial assistance to SHG Federations.

(4) NABARD AND MFIs

MFIs are providing micro-finance services in the unbanked areas. NABARD extends these institutions grant- and- loan based assistance. Selective support to MFIs is extended by NABARD to experiment various microfinance models such as Grameen Model, NGO networking where big NGOs support small NGOs. credit unions and SHGs federations to meet the credit requirements of the unreached poor. NABARD provides Revolving Fund Assistance (RFA) on a selective base to MFIs to be used by them for on-lending to SHGs or individuals. This loan has to be repaid along with service charge within a period of 5 to 6 years.

(5) NABARD introduced scheme for commercial banks and RRBs to avail services of accredited rating agencies for rating MFIs. CRISIL, M-CRIL, ICRA, CARE and Planet finance are the agencies involved in rating its financial assistance is by way of grant to the extent of 100 percent of the total professional fees of the credit rating agency, subject to a maximum loan outstanding of Rs. 500 lakh.

The Union Finance Minister in the budget 2000-01 announced the creation of Micro-finance Development Fund (MFDF) to facilitate and support the orderly growth of micro-finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly women and vulnerable sections of society. Consequently NABARD established Rs.100 crore corpus for MFDF; itself and RBI contributed Rs. 40 crore each to the fund, and eleven select public sector banks the rest.
2005-06 union budget re-designated MFDF as 'Micro Finance Development and Equity Fund' (MFDEF) with Rs. 200 crore corpus. This fund is managed by a board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. RBI is a member of the advisory committee of the MFDEF. The MFDEF maintained by NABARD is used for promotion of micro finance through scaling-up of the SHG-bank linkage programme, extending RFA and capital support to MFIs, and undertaking various promotional initiatives.

1.8 SUPPLY SIDE OF MICRO-FINANCE MARKETS IN INDIA: MF PROVIDERS

1.8.1 MF Providers are Either Informal or Formal Providers

Informal Financial Service Providers Money lenders, pawn brokers, collectors of savings, money guards, Rotating Savings and Credit Association (ROSCAs), Accumulating Savings and Credit association (ASCAs) provide micro-credit for short period to the poor people in their locality, but charge high rates of interest with limited choice for a very short period.

1.8.2 Member-owned Organizations

They include self-help groups; credit unions and variety of hybrid organizations, are usually small, and belong to the same locality having good knowledge about each others' financial position. They are self-managed with low-cost of operations. They suffer from certain limitations relating to finance, members' skills in self-managing during economic ups and downs and under complex operations, and leadership. If effectively supervised and regulated these organizations can be effective.

1.8.3 NGOs

NGOs have pioneered in banking techniques with the poor and spread their innovative techniques like solidarity lending, village banking and mobile
banking throughout the world for past three decades. They have successfully implemented new methods to serve the poor population and help them their way out of poverty. However these boards don’t necessarily represent either the investors or the customers and their governance structures are fragile depending excessively on external donors.

1.8.4 Formal Financial Institutions

These include commercial banks, public or private, agricultural development bank, savings banks, rural banks, and non-bank financial institutions, which are highly regulated and supervised. They offer a wide range of financial services across the country through branch networks. For ages these institutions were reluctant in serving the poor on the ground of high operating costs. The latest theories plea profitability of business banking with poor. Hence the formal financial sector is now acting in this direction paying more interest in microfinance.

In India, micro-finance is delivered through two models, namely the SHG-Bank Linkage model pioneered by NABARD in 1992 which is largest in the world today, and the micro-finance Institution (MFI) model resembling the Bangladesh Grameen Bank Model.

1.9 DEMAND SIDE OF MICROFINANCE MARKETS IN INDIA

Landless agricultural laborers, laborers working in forestry, mining, construction work, small and marginal farmers, artisan, weavers and informal self-employed like vendors, hawkers, domestic workers, people engaged in small, petty business and women are all the various segments of the population who are in need of micro-financial services.

1.10 CURRENT MICROFINANCE MARKET BEHAVIOUR IN INDIA

In India 65% of the population still living in rural areas and 48% of its households not having access to banking services and majority being rural
habitated. Here 26% of the population lives below poverty line (BPL), and the banking system is able to meet only 20% of the credit needs of the rural poor. To obviate this situation, the Government of India directed the RBI to issue suitable instructions to banks to bring about inclusive growth. Accordingly, the Reserve Bank of India advised all banks to provide facilities, such as insurance, money transfers, social security, etc. under the umbrella of 'financial inclusion'. Under these directives the banks open at least one bank account for every family or household, deliver banking services at affordable cost to the vast sections of disadvantaged and marginalized low-income groups, which are hitherto excluded groups. The 'excluded group' consists of women, small and marginal farmers, artisans and small entrepreneurs, people in the unorganized sector, self-employed and pensioners of various schemes of the state and central governments. Under the directives of RBI, the banks liberalized the norms to open no-frills. Accounts under which minimum balance amount was to be maintained has been reduced / not insisted upon for savings account. KYC norms were also relaxed allowing accounts to be opened with self-declaration of address and introduction by an account holder of the bank. Hassle-free credit up to Rs. 25,000/- is granted to individual beneficiaries of rural households, depending upon the economic activity they undertake, under the newly introduced General Purpose Credit Card (GCC) scheme. The banks have been instructed to achieve 100% inclusion in the selected districts. For this purpose the financial needs of rural families is identified as follows:

1. Working capital for the existing activity,
2. Investment for additional income generation, and
3. Meeting consumption needs such as, expenses towards marriage, health, house repair, children's education, etc.

For the purpose of financial inclusion the rural households are categorized into poor, middle-class and rich. It is found that exclusion is higher
in poorer sections when compared to the middle class and the rich both in physical and financial terms.

1.10.1 Dynamics of Micro-finance in Andhra Pradesh

Andhra Pradesh stands in the forefront in implementation of welfare schemes for the poor. In Andhra Pradesh the formation and promotion of thrift and credit groups can be broadly categorized under four categories viz., self-managed thrift and credit groups, self-managed networks, externally-managed thrift and credit groups and activity management groups.

1. Self-Managed Thrift And Credit Groups

There are three sub-categories as follows

(a) Development of Women and Children in Rural Areas (DWACRA) Groups DWACRA is a sub-scheme of IRDP formed by the Department of Rural Development in 1982. Under this scheme 15-20 women were encouraged to form into thrift groups. Savings was the eligibility criterion for the women groups to qualify for the women groups to qualify for assistance from the Government. Through the District Rural Development Agencies the Government released revolving fund assistance (RFA)/matching grant of Rs.15,000 per group for enabling women to take up income generating activities. The banks also lent to these groups after they fulfilled their fund requirements. In 1999 the IRDP and DWACRA programs had been merged into ‘Swarnajayanti Gram Swarajghar Yojana’. The SHGs promoted by DRDAs in the state are known better as ‘DWACRA groups’ rather than SHGs. At present, DWACRA groups and SHGs are used synonymously in the state.

(b) Podupulakshmi Groups

DWACRA groups functioning on SHGs lines are called podupulakshmi groups. Entry point for these groups is thrift which is lent as micro-loan on
rotation among the group members according to group priorities. The DRDAs have been extending matching grants to such groups based on their thrift, credit and repayment records. This matching grant is added to the groups' corpus. Banks have also been extending loans to the groups, thus enhancing the fund base to enable internal lending of higher scale for meeting both consumption and production credit requirements of the members.

(c) AVVAL Committees

These are the women thrift and credit groups formed in tribal areas of Adilabad District under the Integrated Tribal Development Agency. Sri Saraswathi Grameena Bank took the initiative of restructuring and strengthening these groups on lines of SHGs by extending need-based financial assistance to the groups while introducing self-management concepts in the field of thrift and credit activities.

2. Self-managed Networks

There are two sub-categories:

(a) Mutually Aided Cooperative Societies (MACS)

In 1995 the Government of Andhra Pradesh enacted the Mutually Aided Cooperative Societies Act, under which the voluntary cooperatives are formed and made accountable, competitive, self-reliant business enterprises based on thrift, self-help and mutual aid. This act institutionalizes several coalitions of women SHGs. Under this act the members continue to be with the groups they belong to, to ensure collective responsibility, endorsing loan transactions, providing moral security for loan repayment and participating in social activities. At times groups are federated at village level in the form of Mahila Mandalas/Village Organizations which act as intermediaries between Mandal Level MACS and the members by collecting / recommending loan and facilitating default management. However, in some village organizations are
also registered as MAC, providing financial services to the members through SHGS.

(b) **Women Groups of Working Women's Forum**

The Chennai-based voluntary agency has formed ten women groups in few parts of Andhra Pradesh. These women in the group are given intensive training to advocate and manage social, political and economic issues pertaining to rural women. They are given small loans to start household industrial activities on the personal surety of the concerned group leader, while the leader's loan is guaranteed by the forum's organizer sponsoring the group. Under this system the leader can graduate to the organizer level for promoting several such groups basing on her potentiality. The groups formed by the Working Women's Forum are federated as Indian Cooperative Network of Women, which is a cooperative owned and managed by member women.

(3) **Externally Managed Thrift and Credit Groups**

There are two sub-groups

(a) **Grameena Groups**

These groups are formed on Grameena Bank model of Bangladesh. The maximum membership is five and thrift is the criterion for forming into group. The groups are given training in credit and group management. They are screened by a group recognition test before they gain eligibility to access credit. Factors like loan quantum, interest rate, repayment period etc, are determined by the credit agencies. Each loan is guaranteed by personal surety of two other members of the group.

(b) **Rashtriya Mahila Kosh (RMK) Groups**

These groups are promoted by NGOs having access to assistance from Rashtriya Mahila Kosh, an organization set up by Government of India for assisting women in taking up income generating activities. The RMK
formulated a set of schemes for NGOs for on-lending to SHGs. Credit is directly extended to individual women in group mode on the recommendation of group leaders. The scheme deliniates the type of activities eligible for finance, quantum of finance, interest rates and repayment terms.

(4) Women Activity Management Groups

There are four sub-groups.

(a) Anganwadi Groups

Women groups formed by Department of Women and Child Welfare at habitation level for implementing health, nutrition and literacy programmes for women. These women are encouraged to take up income generating activities for which loans are extended for setting up individual or joint enterprises.

(b) Joint Forest Management (JFM) Groups

Vana Samrakshana Samithis (VSS) otherwise called Joint Forest Management groups are formed in notified forest areas. The motive behind their formation is to conserve and protect forest wealth. Group action concept is the core to these groups. Government of Andhra Pradesh has chosen SHG route for social mobilization under the programme. For this the village community is expected to forsake a part of their income from forest based activities and instead take up alternative income generating activities.

(c) Watershed Groups

The farmers in micro watershed areas are formed into groups for implementation technology package for watershed development with the intervention of facilitating agency, normally NGO. On-farm development activities are funded through grant support. These groups have been availing loans from formal credit agencies under the various Government-sponsored programmes for raising crops, animal husbandry, non-farm activities, etc. Some of such groups are formed with thrift as the entry point.
(d) Cooperative Joint Farming Societies (CJFS)

In Andhra Pradesh alone there are more than 2400 cooperative joint farming societies. Here members pool their agricultural land allotted to them by the government, resources and their manual labour to cultivate jointly so as to reap the economies of large scale production and share income therefrom. With a view to revive these societies, SHGs are formed among the members for inculcating the virtues of savings and internal lending among them, and facilitating their linkage with banks to access institutional credit. So far, a few hundred SHGs have been formed under these societies.

1.10.2 Micro-financial Institutions (MFIs) in A.P: A Critical Appraisal

Andhra Pradesh has grown into a potential market for the Micro-Finance Institutions. More and more of them began showing interest in investing in microfinance hand in hand with the Government machinery. The four largest MFI’s (SKS Microfinance Ltd, Asmitha Microfin Ltd., Share Microfin Ltd., and Spandana Sphoorthy Finance Ltd.) operate along with the state supported program to promote and link SHGs to formal financial institutions. By November 2010, SHGs were reaching over 17 million clients in the state, and MFIs more than 6 million. Many clients had loans from several sources, putting the average microfinance debt per household in Andhra Pradesh over $1,700, compared to less than $150 per household in other states in India. About 83% of microfinance clients in the state had loans from more than one source. A report from the Consultative Group to Assist the Poor (CGAP) sums up, “The picture that emerges from the data that household in Andhra Pradesh had too many loans and levels of debt than supportable, considering their income levels and ability to pay”.

The successful initial public offering of SKS Microfinance Ltd made investors to believe that microfinance as profitable investment in future years to come. The abusive collection practices of the MFIs came to light with the reporting of suicides by microfinance clients in Andhra Pradesh.
1.10.3 Preventive Steps against Unhealthy Practices of MFIs

In October 2010, the state government issued an ordinance to protect the women SHGs from exploitation by the MFIs in the State of A.P. The Ordinance imposed a limit on the amount to be lent to the clients and also the loan recovery be made from the client at the government office on monthly basis rather than weekly basis. This led to almost a sudden halt in the MFIs operations in the state. The Sa-Dhan surveyed its members, clients and other stakeholders in summer 2011, and found that most of the MFI's lacked guidelines on lending to clients of other MFIs and did not have any system to measure a client's indebtedness. The government of India along with MFIs is working hard to develop a bill that puts MFIs under the regulatory authority of the Central government.

1.11 SELF-HELP GROUP (SHG) APPROACH IN A.P

Andhra Pradesh is a pioneer in SHG formation. A large number of groups with concentration of the poor (BPL) and poorest of the poor (POP), representing the downtrodden. Only women are drawn into membership of SHGs in rural areas. The concept of thrift and savings, around which self-help movement grows, is stabilized with the intervention of 'Indira Kranti Padham'. As the requisite capacities have been built in SHGs over a period of time and the rotation of savings among the members themselves demonstrated a sound financial discipline, the bankers have come forward in a big way to provide credit-linkage to the SHGs. The SHG Model has proved successful.

1.12 GOVERNMENT OF A.P SUPPORT MECHANISM FOR SHGs

Andhra Pradesh is the fourth largest, fifth most populous state in India, and one among the poorest states of India. The SAARC member nations discussed the issue of poverty at the Colombo meeting in 1991 and established South Asian Commission to make suggestions and determine the action plan to alleviate poverty. The recommendations of this committee led to the 1993
Dhaka declaration of eradication of poverty by 2002. Empowerment approach was suggested where in the poor are to be supported to develop and fully utilize their productive capacities. In 1996 the United Nations Development Program (UNDP) assisted the South Asian Poverty Alleviation Programme (SAPAP) pilot project implemented in three districts of AP viz., Mahbubnagar, Kurnool and Ananthapur. The project was commissioned with three strategies to alleviate poverty viz., social mobilization of poor, skill development and capital formation.

The Government of Andhra Pradesh has been playing an active role along with national, international and NGOs in alleviating poverty in the state. The success of SAPAP encouraged the Government to adopt social mobilization approach to poverty alleviation projects. Under this approach the poor are organized into groups at four levels. Initially poor at the hamlet or sub-hamlet level are organized in small homogeneous self-help-groups. One or two representatives from each SHG at the hamlet level are elected to the village organization at the village level. Again two representatives from each village organization are elected to the mahila mandal samakhya at the mandal level. Finally members from the mandal samakhya are elected to the zilla samakhya. Thus, the small self-help-groups have federated into large organizations registered under the Mutually Aided Co-operative Society (MACS) Act 1995.

SHGs are promoted by NGOs, and by the government development machinery. The women’s savings and credit movement gathered momentum in 1993, in Nellore district when women were organized into Mahila Mandalis during the total literacy campaign. Subsequently these groups led the anti-liquor movement and succeeded in imposing prohibition in the state. Later these women formed into savings and credit groups called podupulakshmi groups. The Government involved these groups in the centrally sponsored DWACRA. Support of government, particularly from the Rural Development department with its network of District Rural Development Agencies (DRDAs)
and involving the District Collectors fillip the formation of large number of SHGs in Andhra Pradesh.

1.12.1 Society for Elimination of Rural Poverty (SERP)

In the year 2000 the government of Andhra Pradesh established an independent support organization by the name of “Society for Elimination of Rural Poverty” (SERP) to nurture the social mobilization process demonstrated in SAPAP and to oversee the implementation of the two broad schemes under the poverty alleviation program named ‘Velugu projects’ throughout the State.

(1) Velugu project later integrated and renamed as IKP. These two schemes are AP District Poverty Initiatives project and AP Rural Poverty Reduction Project (APRPRP). Both these projects are integrated and renamed as Indira Kranti Patham (IKP) from January 2005 onwards. Development of Women and Children in Rural Areas (DWCRA) is also merged into IKP in 2005. The SERP’s objective is to strengthen the capacity of rural women to improve their income generation and livelihoods creation skills through their own self-help-organizations known as community-based organizations (CBOs).

All households irrespective of caste, creed and religion are covered under this project. Institution building through the establishment of CBOs and strengthening them at various levels providing Micro Finance to members of the SHGs to start income generating activities, providing ‘Community Investment Fund’ for the CBOs to invest in employment generation, assets creation and other economic improvement activities. Paying special attention to the rights, inclusion and livelihood opportunities for rural disabled persons for which distinct functional groups at grass root level SHGs and mandal forums of rural disabled persons (Vikalangula Sangams) are promoted.
(2) SERP's implementation of Centrally Sponsored Financial Assistance Schemes. SERP also shoulders the implementation of centrally-sponsored financial assistance schemes like Swarnajayanti Gram Swarazgar Yojana (SGSY) under which a financial assistance to individuals/SHG groups are given ranging from Rs. 10,000 to Rs. 1,25,000 in the form of bank loan with a subsidy component for building income generating assets. SGSY Special Projects are meant to encourage the SHGs to take up economic activities based on the local skills, crafts and to give fillip to the old and dying crafts, which have market potential as well as capacity to provide employment to a large number of people.

(3) SERP's Implementation of A.P State-Sponsored financial Assistance Schemes. SERP's implements State-Sponsored financial assistance schemes involves State Revolving Fund scheme a subsidy of Rs. 10,000 is provided on a loan of Rs. 25,000 as a onetime assistance to the SHG for as a revolving fund for helping members of the SHG. Only SHGs which promptly repays the loan taken under the Bank-Linkage Scheme, are qualified for this subsidy. Under 'SHG-Bank Linkage Scheme' Loans to SHGs through bank-linkage are given for taking up income generating activities by its members. For each group a minimum amount of Rs. 10,000/ is given as direct credit support.

Under 'Pavala Vaddi Scheme' there is an interest subsidy on SHG Bank loan. This is applicable to all loans extended by banks on or after 1st July 2004. The incentive will be in the form of state governments' reimbursement of interest over and above 3% interest charged on SHG bank loans. The subsidy shall not include penal interest, paid to bank.

(4) Management of SERP. SERP is managed through the general body consisting of 25 members of whom 9 are ex-officio members and other 16 are non-official nominated members. Of the nominated members six are non-official experts having experience and expertise in poverty reduction and community development. The other ten members represent SHGs, Mandal and
Zilla Samakhyas. The Chief Minister is the chairman of the general body, and the chief executive officer functions as the Secretary of the society.

Executive council of SERP consists of seven members of whom 5 are ex-officio members and the other 2 are non official experts nominated by the general body whose tenure lasts for two years. The executive council takes decisions relating to annual works and financial plans, financial management and human resource management.

The CEO of SERP and the State project directors implement the programmes and the schemes of the organization as per the decisions of the executive council. The day-to-day management of the organization is carried out by the CEO and his team of officers. The top decision making is carried out in the 'State Project Management Unit' headed by the CEO and the State project Director and other functional specialists. At the district level there is a District Project Management Unit, headed by a Project Director, District Rural Development Agency assisted by functional specialists. PD, DRDA, implements all the programmes of IKP at the district level under the overall guidance and support of the district collector.

Thus, the involvement of the state machinery in the implementation of the poverty alleviation programmes leads the state to the forefront both in the national and international context. The role of NGOs in promoting and nurturing SHGs in the state also cannot be over looked.

1.13 SUMMARY

Women are socially, economically marginalized segment of the society for any sustainable development, inclusive growth strategy with equality as base is a pre-requisite. This necessitates the women to be brought into central stage in any policy and program of development. Empowerment, more so women empowerment, micro-finance and SHGs are most-often heard concepts. There are three broad approaches to women empowerment. Such as financial
sustainability approach, the feminist empowerment approach, and the integrated community development approach. Women-focus in rural poverty alleviation is resonated in World Bank reports and UNO's action platforms. Promoting gender equality and empowering women is one of the MGD, 2010, of UN. Taking this from initiatives of international organizations, India formulated a national policy of empowerment of women.

Grameena bank of Bangladesh founded by Prof. Mohammad Yunus, ACCION, and SEWA bank started by Ela Batt are harbingers of micro-credit in the international arena. In India nationalization of banks in 1969 transformed 'class banking' into 'mass banking'. Microfinance approaches pioneered by NGOs in 1990s are supported by state through NGO-bank-informal group linkage. SBLP started as a pilot project by NABARD marked the beginning of micro-finance in India. RBI's policy initiatives started in early 1990s. To mention a few, RBI permitted SHGs to open savings bank accounts with banks, set up a working group on NGOs and SHG to study potential of microfinance movement in India, issued guidelines which stated that micro-credit extended by banks to individual borrowers directly through intermediaries would be treated as 'priority sector' lending. NABARD's policy initiatives include: post-office-SHG linkage, NABARD and SHG federation model, NABARD and MFIs, and NABARD and credit rating agency services.

There is a huge unmet demand for microfinance's from those engaged in informal sector of India. Micro-finance market is characterized by public sector banks, private sector MFIs and NGOs.

In A.P formation and promotion of thrift and credit groups can be categorized under four categories namely self-managed thrift and credit groups, self-managed networks, externally managed thrift and credit groups, and activity management groups.

A.P is a pioneer in the SHG formation; mostly covering BPL and POP households. The state has a robust support mechanism for SHGs. SERP was
established in 2000 to nurture SHGs and oversee the implementation of IKP. SERP shoulders the implementation of centrally-and state-sponsored financial assistance schemes. To mention a few, under ‘pavala vaddi’ scheme there is an interest subsidy on SHG-bank loan.

MFIs operate along with state-supported programmes to promote and link SHGs to formal financial institutions. The dark side of MFIs’ function is that the assisted households have too many loans from multiple sources and are reeled under heavy debt. To remedy the situation, the A.P. government promulgated an ordinance to protect women SHGs from exploitation by MFIs. The MFIs are expected to be under regulatory authority of the central government. Thus, SHGs with their members’ mobilized savings leverage credit from formal financial institutions for social, political and economic empowerment of women, particularly poor women.
References

1. Dr. Thalmakoy, Chief, Gender And Development Section, “Empowering women through Self Help, Micro credit Programme,” Emerging Social Issues division, ESCAP, 2002, UN Publications

2. V.P. Sriman, “Microfinance, SHGs and Women Empowerment-Current Issues and Concerns”. Bharathidasan Institute of Management, Tiruchurapalli.

3. Encyclopedia.wikipedia.org/wiki/empowerment


19. SERP – www.serap.ap.gov.in


