Chapter - I

Introduction and Research Design
Introduction

This chapter presents the introductory aspects of micro credit, concepts and definitions of micro credit and self-help groups, historical perspectives of micro credit in India and abroad, review of literature on micro credit and on allied studies and research design.

India is one of the most densely populated countries in the world. The population of the country has crossed 1000 millions by the year 2000. Out of these, 700 million people (70 percent) live in rural India. The Gross Domestic Product (G.D.P) of India ranks among the top 15 economies in the world. Yet about 300 million people in India are living below poverty line. The problems of poverty in rural and urban areas, more particularly amongst the backward classes, are due to the poor not having access to the basic services like education, health, sanitation and the like. The main reasons for the same are economic dependence, rapid increase in population after independence, disempowerment and lack of access to credit. Generally, credit facilities were not available to poorer sections of the society until the country attained Independence except through the village money lenders1.

This shows that India has many poor people who do not have adequate resources-physical, financial and human, necessary for proper living. Keeping these aspects in view, the need for rural finance (credit) in India had already been recognized by the erstwhile British Government as early as 1793 when it issued regulations for the Taccavi Loans to the farmers and subordinate tenants for various purposes. After Independence, the co-operatives were expected to help these classes and the government also launched several subsidized wage and self-employment programmes for the benefit of the poor2.
Be it a developmental fad promoted aggressively by neoliberal advocates, or an intervention made necessary by the conditions of material deprivation of millions of people in the not so developed parts of the world, Microfinance seems to have worked. It has worked in the sense of creating an euphoria that is unparalleled in the recent history of development practice. It has worked because right from international donors and national policy-makers to financial system agents, NGO practitioners and local bureaucrats, everyone is passionately pushing it as the answer to the worries of the ‘bottom of the development pyramid’. Even the most conservative development practitioners cannot but take note of the rapid pace of expansion in the outreach of microfinance institutions, mostly functioning outside the formal channels of credit delivery.  

Government of India has taken various initiatives to support the rural poor with financial services through formal financial sector. Initially, credit was extended to the farmers through co-operatives. However, the limited success of the co-operatives in the mid-fifties to the sixties forced the need for nationalizing commercial banks in 1969. Regional Rural Banks (RRBs) were also established to better the outreach of the banking sector in reaching the rural poor. Even after more than five decades of Independence, the formal financial institutions have not been able to ensure better and even distribution of rural credit. Perpetual poverty and lack of adequate credit have remained the major constraints in the economic upliftment of rural households. Credit promotes capital investment and adoption of new technology. Ultimately it leads to better standards of life due to increased production and incomes. Usually, the rural areas are dominated by the marginal and small farmers. If they are neglected, rural and urban disparities may deepen or widen, inter-regional disparities and income inequalities may intensify. This is mainly attributed to the failure of financial intermediaries in fulfilling the basic functions, like providing credit to finance income-generating activities and consumption-credit to maintain and expand human productive capacity of the rural
households. Moreover, these institutions have failed to promote any of their social objectives. Despite such a large presence, an overwhelming majority of the rural poor belonging to the lower income group find the Rural Financial Institutions (RFIs) out of their reach and resort to borrowing from informal sources. Also, despite their access to enormous funds in the shape of deposits, refinance and equity support from central and State Governments, these RFIs fell too short of their expectations.⁴

Provision of cheap credit to the poor was emphasized to enable them to undertake income-generating activities. It has been considered as an important means of poverty alleviation by the Central Government and the Reserve Bank of India (RBI). Major policy initiatives relate to implementation of direct credit programmes at subsidized rates, setting up a regulatory framework which specifies the terms of lending to small borrowers (especially the rate of interest, the unit size, unit cost, repayment period and the like) and refinance support to banks. Under a regulated credit regime, interest rates stipulated for small borrowers were low and often they did not cover the costs of the banks in lending to this sector. Small loans involve high transaction costs and difficulty in monitoring the accounts. These problems have led to formal financial institutions to limit their exposure to micro credit.⁵

The need for Microfinance in India has arisen due to failure of formal banking system in meeting the credit needs of millions of the rural and the urban people who belong to the poorer sections of the society. Microfinance through Self Help Groups has been propagated as an alternative system of credit delivery for the poorest of the poor. In other words, microfinance is a programme for the poor and by the poor to mobilize the savings and use them to meet their financing needs.
Micro financing is a new method to meet the credit requirement in the rural areas. Since bank borrowing requires collateral and the deprived class does not have any type of such collaterals, the success of Bangladesh Grameen Bank attracted the attention of Indian policy makers towards microfinance and micro credit, which are the new entrants in the realm of present rural financing. In order to address the twin problems of the cost of loan delivery and high risk, new and innovative methods of financing the poor are constantly being explored. The National Bank for Agricultural and Rural Development (NABARD), with the policy support of R.B.I., launched a pilot scheme for linking Self Help Groups (SHGs) with the formal banking system in 1991-92 on the basis of the success of SHGs in Thailand, Indonesia, Bangladesh and the like.

**Concepts and definitions of Micro finance**

The Task Force has suggested a working definition of Micro finance as “provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards.

Robinson (2001) defines Micro finance as “small-scale financial services primarily credit and savings provided to people who farm, fish or herd” and adds that it “refers to all types of financial services provided to low income households and enterprises”.

“Micro finance can be defined as “any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below the poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for
micro enterprise, and insurance and savings for risk mitigation and consumption smoothing”.

"Micro finance is the provision of thrift, credit and other financial products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It has been recognized that Micro finance helps the poor people meet their needs for small credit and other financial services. The informal and flexible services offered to low-income borrowers for meeting their modest consumption and livelihood needs have not only made Micro finance movement grow at a rapid pace across the world, but in turn has also impacted the lives of millions of poor positively”.

Thus Micro finance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to the poor and low-income households and their micro enterprises. In the development paradigm, Micro-finance has evolved as a need-based policy and programme to cater to the needs of neglected groups of society, especially women, poor, rural, deprived, and the like. The basic idea of Micro-finance is that; if poor people are provided access to financial assistance, including credit, they may be able to start or expand a micro-enterprise that will allow them to break out of poverty. Micro-finance has become one of the most effective interventions for economic empowerment of the poor. Micro finance is expected to play a significant role in poverty alleviation and development.

Micro credit refers to small-scale financial services (including savings, credit, insurance, business services and technical assistance) provided to the rural people who operate small or micro enterprises, provide services, work for wages or commissions and other individuals and groups working at local levels.
Micro-credit programmes extend small credit to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families. It is an important tool for the eradication of poverty and has been employed world over with spectacular results.

Micro credit activity has been evolved as an effective tool of economic development and its approach is intended to benefit the B.P.L. families, especially women. The provision of financial services attempts to save both the rural and the urban poor through social intermediation services such as SHGs formation, development of self-confidence and training in financial, literary and management capability among the members of the SHGs. The success of this programme entirely depends on systematic planning and procedures.8

The Genesis of Micro finance:

Micro finance has its roots in Bangladesh around 1976 through a Pioneering experiment by Dr. Muhammad Yunus, a Professor in Economics from Chittagong University in Bangladesh. He started issuing small loan amounts of $27 to each of the poor individuals from his own pocket to 42 individual basket weavers. He found out that it not only helped the poor to survive with such help but this also ignited the spark of personal initiative enterprise, and he hoped that it would enable them to lift themselves out of poverty. Yunus thus began providing "micro loans" to the very poor in neighbouring villages.

In 1983, Yunus found the "Grameena Banks". Grameen means "rural" or "village" in Bangla Language. Loans are given on the basis of mutual trust, accountability, participation, and creativity. These Grameen banks provide loans to the poor who do not have anything to put up for collateral. Grameen banks are the largest rural financial institutions in Bangladesh. Their lending guidelines and procedures are prepared to suit mainly women.10
Historical perspectives of Micro Credit

In India, institutional credit agencies (banks) made an entry in rural areas initially to provide an alternative to the rural money lenders who provide credit support, but not without exploiting the rural poor. There are three main factors that account for adopting Microfinance as a Policy in India.

The first of these pivotal events was Indira Gandhi's bank nationalization drive launched in 1969 which required commercial banks to open rural branches resulting in a 15.2 percent increase in rural bank branches in India between 1973 and 1985.

The second national policy that has had a significant impact on the evolution of India's banking and financial system is the Integrated Rural Development Programme (IRDP) introduced in 1978 and designed to be 'a direct instrument for attacking India's rural poverty.' This is an interesting programme because it was a large programme whose main thrust was to alleviate poverty through the provision of loans and it was considered a failure.

The last major event which impacted the financial and banking system in India was the linearization of India's financial system in the 1990s characterized by a series of structural adjustments and financial policy reforms initiated by the Reserve Bank of India (RBI).

The systems and procedures of banking institutions were emphasizing the complicated qualifying requirements, tangible, collateral, margin and the like, that resulted in a large section of the rural poor shying away from the formal banking sector. The banks too realised that the rapid expansion of branch network was not contributing to an increasing volume of business to meet transaction costs and risk
provisioning, which even threatened the viability of banking institutions and sustainability of their operations.\textsuperscript{11}

Over the Past 10 years or so, micro finance has rapidly evolved and expanded from the relatively narrow field of micro enterprise credit to the more comprehensive concept of micro finance (which includes a range of financial services for poor people, including savings, money transfers and insurance) and then to the enormous challenges of building inclusive financial systems.

The ideas and aspirations behind micro finance are not new. Small, informal savings and credit groups have operated for centuries across the world, from Ghana to Mexico to India and beyond. In Europe, as early as the 15\textsuperscript{th} century, the Catholic Church founded pawn shops as an alternative to usurious money lenders. Formal credit and savings institutions for the poor have also been around for generations, offering financial services for customers who were traditionally neglected by commercial banks. The Irish Loan Fund system was started in the early 1700s. By the 1840s, this system had about 300 funds throughout Ireland.

In the 1800s, Europe saw the emergence of larger and more formal savings and credit institutions that focused primarily on the rural and urban poor. The financial co-operative was developed in Germany. It was aimed at helping the rural population break out of dependence on money lenders and to improve their lives. The movement of micro credit was emerged in France in 1865 and in Quebec in 1900. Many of today’s financial cooperatives in Africa, Latin America, and Asia find their roots in this European movement. Another early example is the Indonesian People’s Credit Banks (BPRs), which was opened in 1895 and became the largest micro finance system in Indonesia, with close to 9,000 branches.
In the early 1900s, variations on the savings and credit theme began to appear in rural Latin America and elsewhere. These rural finance interventions were aimed at, modernizing the agricultural sector, mobilizing “idle” savings, increasing investment through credit, and reducing oppressive feudal relations that were enforced through indebtedness.  

**Early 1970s**

In the early 1970s an experimental programme was launched and this extended tiny loans to groups of poor women to invest in micro-business. Thus the concept of microcredit was born. Early pioneers include Grameen Bank in Bangladesh, ACCION International in Latin America; and the Self-Employed Women’s Association Bank in India.

Between the 1950s and 1970s, governments and donors focused on providing agricultural credit to small and marginalized farmers with a hope of raising productivity and incomes. These efforts were made to expand access to agricultural credit by state-owned development finance institutions, or farmers’ co-operatives in some cases, to make loans available to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks were unable to cover their costs with subsidized interest rates. Customers had poor repayment discipline, because they saw their loans as gifts from the government. Consequently, the capital base of these institutions has been eroded and, in some cases, disappeared. First of all, these funds did not always reach the poor. Instead, they often ended up in the hands of more influential and better-off farmers.

Meanwhile, the 1970s saw the birth of micro-credit Programmes in Bangladesh, Brazil, and in a few other countries which began lending to poor women entrepreneurs. Early micro enterprise credit was based on solidarity group
lending, in which every member of a group guaranteed the repayment of all members.13

In the 1980s, micro-credit programmes throughout the world improved on the original methodologies and defied conventional wisdom about financing for the poor. First, well-managed programmes showed that poor people, especially women, paid their loans more reliably than better-off people with loans from commercial banks. Second, they demonstrated that poor people are willing and able to pay interest rates that allow microfinance institutions (MFIs) to cover their costs. MFIs that cover their costs can become a viable business that attracts deposits, commercial loans, and investment capital. They can reach a huge number of poor clients without being limited by scarce and uncertain supply of subsidized funds from governments and donor agencies. Bank Rakayat Indonesia (BRI) is a dramatic example of what can happen when MFIs focus on collecting loans and covering costs. BRI's village-level branch system now serves more than 30 million low-income savers and borrowers.

The 1990s saw growing enthusiasm among international development agencies and networks for promoting microfinance as a strategy to alleviate poverty. Microfinance blossomed in many countries where multiple MFIs serve the needs of micro entrepreneurs and poor households. These gains, however, tended to concentrate in urban and densely populated rural areas. In the early 1990s, the term "microfinance", rather than "micro-credit", began to be used to refer to a range of financial services for the poor, including credit, savings, insurance, and money transfers.

To reach ever larger numbers of poor clients, MFIs and their networks increasingly began to pursue a strategy of commercialization, thus transforming themselves into profit corporations that could attract more capital and become
more permanent features of the financial system. An emphasis on creating and growing strong institutions (as opposed to channeling credit to specific groups) is a core element of this recent history.  

MICRO FINANCE IN ABROAD

The experiences of selected countries in south east Asia and Latin America in implementing the Micro finance programmes are documented hereunder.

In Bangladesh commercial banks have largely ignored the rural poor. Therefore, the specialized Micro-Finance Institutions (MFIs) have emerged over time to bridge the gap and provide financial services to the unreached segment of the rural population. Three types of micro-finance institutions viz. (a) NGOs turning into specialized formal banks or formal banking system for micro-finance, e.g., Grameen Bank and Janata Bank, (b) NGOs purveying micro-finance in a big way along with providing other services, e.g., BRAC, ASA, and the like., and (c) Small NGOs, numbering about 2000, facilitating micro-finance in their area of operations have emerged in the country. Grameen Bank is the largest provider of micro-credit in Bangladesh.

After liberation of the country in 1971, Prof. Mohd. Yunus, the man behind the Grameen Bank, realized that getting credit from the banking system without collateral was an impossible task for the poor, who were in dire need of it, and the money lenders were exploiting the poor beyond imagination. Therefore, he obtained certain amount from the bank for lending without any security/collateral to the poor who were organized into small groups. The idea worked well and demand for such credit increased manifold. Prof. Yunus started the experiment in Chittagong district in 1976 by giving small amounts to the borrowers to buy raw materials like bamboo and the like. After selling goods, they repaid the money. The process was repeated again and again and the institution promoted by Prof.
Yunus in 1976 expanded its operations to other districts of Bangladesh. The bank was constituted under Grameen Bank Ordinance of the Government of Bangladesh in 1983. Ultimately, what was once an action research project, got transformed into a specialised bank for the poor.\textsuperscript{15}

**Nepal**

Nepal is one of the poorest countries in the world. According to 1993-94 statistical information available in the country, 42 per cent of population was under the below poverty line of Rs.4,500 (US$82). The rate of poor in the country varies from urban to rural areas. In the urban areas it is 23 per cent whereas in rural areas, it is 44 per cent.

In Nepal several micro-finance programmes are in operation. Among these Small Farmers Development Programme (SFDP) is the largest. The programme was launched in 1970 and targets farmers with a per capita income of upto US$46 per annum covering 190,000 small farmers. The Agricultural Development Bank of Nepal (ADBN) is the implementing agency. The programme was observed to be unsustainable because of defaults in loan repayments (recovery during 1995-96 was only 58 per cent) and low or negative margins (the cost of funds and transaction costs together averaged 21 per cent while the bank was expected to lend at 16-18 per cent). Since 1990s, the German Association for Technical Co-operation has been assisting ADBN to restructure the programme to make it self sustaining. Towards this end, in selected districts, groups of farmers are being linked with Small Farmers' Cooperatives, which are owned and managed by the farmers themselves. The ownership and autonomy bestowed in decision making, have encouraged the active participation of members, improved recovery rates and helped some of these co-operatives have become operationally self-sustainable.
Production Credit for Rural Women was started in 1982 to improve the socio-economic status of rural women. Under this programme, the Women Development Section (WDS) of the Ministry of Local Development acts as a social intermediary while the banks provide loans directly to groups of women members, which are developed and promoted by the WDS staff.

Micro-Credit Project for Women (MCPW), which was initiated by the government, is designed to provide (a) group formation and training of women, (b) institutional support to NGOs and (c) credit to women. MCPW serves mostly the poorest, as women with annual income of less than US$ 45 alone are eligible to join a group as members. The project is committed to involving NGOs in service delivery aspects in the first phase and as financial intermediaries in the second phase. The recovery rate under the project is 100 per cent. The Intensive Banking Programme (IBP), initiated in 1981, is one of the programmes focusing on poverty alleviation under which commercial banks were obliged to lend 12 per cent of their loan portfolio to this programme.16

Philippines

In Philippines, a family of five having an income below 7400 pesos per month is considered to be poor while a family with an income up to 1000 pesos is categorized as the poorest of the poor. Among the South East Asian countries, the incidence of poverty, particularly in the rural areas, is substantially higher.

Micro-finance in the country is generally referred to as providing “small loans to small people”, who work in agricultural and allied activities. In Philippines, the terms micro-finance and micro-enterprise are synonymously used. In financial terms, micro-finance involves providing credit support in the range of 1,000 to 14,000 pesos for various activities, including agricultural production. Thus, many
credit programmes run by the government agencies and financial institutions are referred to as micro-finance but are not necessarily directed at the poorest of the poor. In recent years, however, the concept of micro-finance is undergoing a change in the country. With the involvement of foreign donors and NGOs, microfinance has come to provide access to savings, credit and other services to the poor. Linking of micro-finance with savings and sustainability of the linkage mechanism are essential components of the programmes.

Thailand

Thailand had the largest proportional reduction in poverty between 1975 and 1995. The number of the poor was 3.4 million in 1975, and has been brought down to less than half a million by 1995 through implementation of various poverty reduction programmes. Households having an annual income of up to US $ 324 are considered to be living below the poverty line. The concept of micro-finance as perceived by the banking sector in Thailand distinctly differs from other Asian countries, especially India. There is no specific definition of Micro-finance or Micro-credit in the country. There are, rather, a large number of tiny enterprises with the entire household participating in running them. Most of the micro-enterprises have a typical pattern where the front of the house is used as the shop be it a sweet meat shop, food and beverages, tailoring, and the like. Majority of the household enterprises, both in the urban and the rural areas, are generally considered as micro-enterprises requiring micro-finance.

In the area of micro-finance, the Government is the leading player providing support for community development and improving the employment opportunities in the country through various programmes. However, these programmes cover not only poor but also those who are not so poor but need credit. In other words, there is no micro-finance programme in Thailand with an exclusive focus on the
poor. The community organizations financed under the Government Savings Bank (GSB) and Urban Community Development Office (UCDO) programmes are implementing micro-finance programmes in the country.

Bank of Agriculture and Agricultural Co-operatives (BAAC) has introduced a Joint Liability Group (JLG) approach for dispensing credit to the farmer households. A 'group of 5 to 30, (aggregate to 1415) farmers is encouraged to become-members of informal groups mainly to avail the loan from BAAC without any mortgage of fixed assets. BAAC could act as effective micro-finance credit delivery system in rural areas through JLG approach. The average loan 'size under this approach was Bt.27,500 (US$ 850). However such loans’ are restricted to those members who need funds ‘not exceeding Bt 60,000.

Micro-finance, appears to be a relatively new field for NGOs, and is expected to be a stabilizing and strengthening factor for community level organizations. The major thrust of micro-finance is to supplement the resource base and income of the villagers from the farm or through wages. It seeks to stem the migration of rural poor to Bangkok and other urban centers and even to reverse the process by way of creating the same jobs in the rural areas. The strategy mainly consists of skill-development among the rural people and providing access to credit at a later stage to help them to set up small enterprises on their own. Savings mobilization through micro-finance programmes often help the villagers to considerably enhance their financial strength and impart them level of self-confidence required.

**Indonesia**

The country’s record in poverty alleviation has been remarkable since 1975 and it witnessed a decline of about 82 per cent in the proportion of people living below the poverty line. Micro-finance services to the poor are provided by small
financial institutions as part of their more general outreach. These institutions are the Unit Desas of Bank Rakyat Indonesia (BRI), Bank Perkreditan Rakyat (BPR-rural banks) and the Bank BUKOPIN (Co-operative banks).

A lesser known but one of the oldest programmes of micro-credit catering to the rural poor, with emphasis on petty traders, is the Bank Kredit Desa (BKD), a sister institution of BRI. Under the BKD system, loans are made available to the poorest households and the size of the loan is small, averaging around US$ 71. The term of the loan is generally 10-12 weeks with weekly repayments and interest rate of 10 per cent on the principal, which translated to 55 per cent nominal annual rate and a 46 per cent real rate in 1993. Loan losses in 1994 were just 4 per cent of loans outstanding. The funds are allocated to village level management commissions and loans are without any collateral. This system has worked successfully as there was clearly defined authority at various levels, from the Government level to the village head level.  

Latin American countries:

For two of the major economic crises in the last 15 years Mexico was the origin and its impact on the poverty levels in many of the Latin American countries was very severe. As a result of Mexico’s debt crisis in the 1980s, poverty levels increased by more than 30 per cent in Argentina and Mexico while the crisis of 1995-96 had resulted in an increase in poverty by more than 50 per cent. The governments in these countries have responded by initiating a variety of programmes to tackle the issue of rising poverty. These included macro-economic stabilization measures and selling up of special funds designed to cushion the social cost of economic adjustments. The NGOs have also initiated steps to set up micro-finance institutions.
Argentina

In this country, nearly 85 per cent live in the urban areas while 11 million people live in the Metropolitan Buenos Aires (MBA) region. The country has reduced the poverty significantly in the early 1990s compared to the immediately preceding years as a result of a successful launching of macro-economic stabilization programmes. Increasing income generating opportunities through sustained economic growth and boosting investment in human capital facilitated reduction in the poverty levels in the country.

Emprender, an NGO founded in 1992 by a group of Argentinian business leaders, provides the basic tools, viz., access to credit and business training, which facilitate the small and marginal business enterprises to upgrade from subsistence level to self-sufficiently. Most of its clients are either involved in commerce or in small scale manufacturing and it has concentrated its operation within Buenos Aires' "second belt", the ring of poor neighbourhoods on the outskirts of the city.18

Bolivia

The poor are generally peasants or wage earners, who have limited land holding and lack access to credit and basic infrastructure. Two important organizations, which are providing micro-finance to the poor, are the Bancosol, a bank promoted by farmers and a group of Bolivian business leaders. It founded in 1986, with the assistance of ACCION International for introducing financial services in the rural and urban areas of the country and for increasing access to credit for the poor. Of the 47,130 active clients of PROD EM in 1998, 65 per cent were women clients. Clients included merchants, producers and service providers.
Chile

According to Poverty Assessment Summary for Chile, there has been a significant decline in poverty. PROPESA, an organization founded in 1988 by a group of Chilean business leaders with support from ACCION International, is dedicated to creating jobs and bettering the lives of micro-entrepreneurs in the informal sector through credit programmes and training. Start-up and operational funding – for the organization came primarily from USAID while the portfolio was capitalized with loans from the domestic banks, which were backed by ACCION’s Latin American Bridge Fund. The clients of PROPESA are involved in a variety of commercial activities such as cloth manufacturing, carpentry and appliance repairs. About 80 per cent of its clients are engaged in manufacturing while 10 per cent are involved in commerce and a small percentage are service providers.

Colombia

The four important micro-finance institutions operating in Colombia are the Actuar Tolima, Co-operativa Emprender, Fundacion Mario Santa Domingo (FMSD) and Finamerica. Actuar Tolima was established in 1986 to help victims of a devastating mudslide to rebuild their lives and communities. It is affiliated to ACCION’s Latin American network since 1996. Majority of its clients work as artisans, seamstresses or as labourers in the agricultural sector. By 1998, the organization had loaned over US$ 37 million to 21,000 micro entrepreneurs, of whom more than 50 per cent were women.

Co-operative Emprender, a co-operative funded by member microfinance institutions, started its operations in August 1990 by linking 13 NGOs specialized in micro-finance. Presently, there are 44 affiliated NGOs. It functions as a development institution helping its affiliates develop the social and economic
activities it facilitates credit and management of resources, promotes savings and channels economic resources to finance the micro enterprise sector.

FMSD, a non-profit organization dedicated to development programmes for the poorest sections of population, was established in 1960. Initially, it focused its attention on supporting educational institutions and other philanthropic work but since 1989 its focus includes rehabilitating/retraining workers and supporting micro-enterprise development with loans and business training. Most of its clients are single mothers, who serve as heads of households, fishermen, food suppliers, small distributors and merchants.19

Approaches to Micro finance

Two different approaches have been identified in the evolution of the Micro finance industry. The Latin American model that may be called the 'commercial model' has recognized from the outset, the significance of allying with the formal financial system rather than donors or targeted government programmes. Focus on social and community development, on the poor and marginalized women is conspicuous by its absence in the system. There is an accent, instead, on enterprise, creation and growth. The south Asian model, largely drawing on the strategic and operational features of the Grameen model, has its spot light clearly on women and poverty.9

Review of literature

The researcher has reviewed the literature in the following areas.

(a) Review of literature on studies relating to poverty and rural development

Chatterjee and others (1963)20, in their paper "A preliminary study on the Dietary Levels of Households in Rural India", found that about 53 per cent of the rural population fall below the norm of 2400 calories per capita per day. He uses
NSS consumption data which does not take into account the non-food expenditure. Thus they have under-estimated the extent of rural poverty in India.

Mukherjee (1969)\textsuperscript{21}, in his study “Size and Areal Distribution of Level of Living in India”, has observed with a different methodology and, considering the country’s population as a whole (without any bifurcation of rural and urban), has arrived at the conclusion that in terms of the density of the poor, Orissa, Kerala, Bihar, Mysore and Andhra Pradesh were the poorest States in 1963-64. But he did not consider the price- variation, type, nature and intensity of activities, cropping pattern and climate factors in different regions of the country. He has used uniform measure for all regions to measure poverty.

Minhas, B.S., (1970)\textsuperscript{22}, in his study on “Rural poverty, Land Redistribution and Development”, has slightly modified the study groups’ figure as Rs. 200 per capita per annum relating to rural areas on the ground that urban cost of living tends to be some what higher at 1960-61 prices. Using the norm, he found that between 1956-57 and 1967-68, the rural poor declined by 19 million though the number of poor tends to rise in bad harvest years. Minhas was also subjected to criticism by the study groups as he failed to take into consideration the expenditure on clothing, fuel, light, health, education, and the like.

Ojha, P.B., (1970)\textsuperscript{23}, in his article “A configuration of Indian poverty”, has adopted a different methodology and estimated the poor both in the rural and urban areas for two different years. Using caloric - norm of 2250 per capita per day, for an average Indian, he worked out the minimum required food consumption as 518 grams for rural areas and 432 grams for urban areas. According to his estimates, 51.8 per cent of the rural population and 7.6 per cent of urban people fell below poverty line. For the year 1967-68, he concluded that 70 per cent of the rural population were below the minimum level of food grains
consumption. Ojha too has excluded the expenditure on health, education and housing.

Dandekar and Rath (1971)\(^24\), in their article "Poverty in India", have emphasized that poverty is a problem of low national income and its unequal distribution, of the slow pace of development and inequitable distribution of the small gains of development. They used estimates of consumption expenditure and adopted a nutritional norm to define the poverty line.

Panikar, P.G.K.,(1972)\(^25\), in his study on "Economics of Nutrition" in Kerala, without mentioning the figures, examined the reliability of minimum consumer expenditure norm. At this basic conclusions are that by ignoring regional factors, they reached wrong conclusions about the cost of nutritionally adequate diet in Kerala. By using the national-minimum norm Dandekar and Rath have overestimated the number of the poor in Kerala. They had found that the diet for Kerala to attain minimum norm at 1970-71 prices would cost Rs. 28.30 per head per month and the total per capita consumption expenditure corresponding to his diet would be Rs. 37.80.

"The state of food and agriculture" (1981)\(^26\) has reviewed poverty in rural areas in developing countries and the means of poverty alleviation. The study, based on absolute poverty norms, has come to the conclusion that one of the origins of this poverty must lie in inadequate access to land and other factors leading to insufficient production. By projecting World Agricultural Perspective and policy issue upto the year 2000 A.D. with particular attention to developing countries, the study found that over the next two decades, the developing countries could double their food and agricultural production but it is observed that the improved food production must go hand in hand with a more equitable distribution of this larger output. The study concludes that sustained effort is needed on many fronts. Limited access to land due to unequal distribution of land or population
pressure is undoubtedly a major contributory cause of insufficient production but the inherent quality of the land, quantity of labour and capital are also the determinants of the level of farm output. Case studies prepared for A.T. 2000 (FAO 1981-Agricultural towards 2000) show that the incidence of poverty in rural areas is the highest among the landless labour and small households.

Lakshmi Narsaiah (2001)\(^{27}\) in his study on “Towards a New Policy on Poverty Reduction”, has opined that the attempt to formulate an objective and generally valid definition of poverty must be abandoned. It is a complex and multi-faceted problem. Since it can be caused by deprivation in different areas, there are really different poverty profiles. There is a multitude of different poverty groups with different interests and needs, such as women and children, the rural and the urban poor, members of various ethnic groups and religious communities. This can lead not only to conflict between different poverty groups but also to discord with the respective groups, thus hampering the formulation of strategies for reducing poverty.

(b) Review of literature on Micro credit / Micro finance and Self-Help Groups

Yaron, and Jacob, (1994)\(^{28}\), in their article “what next rural financial institutions successful” have underlined that the micro finance institutions remain most successful ones in terms of outreach and performance in delivering credit services to the poorest of the poor women, and small artisans in the rural and urban areas, reduction in adverse selection of borrowers, development of collateral substitutions and offering cost effective approaches to formal institutions.

Kotaiah (1995)\(^{29}\), in his foreword to “Linking SHGs with Banks an Indian Experience”, has emphasized that the Self-Help Groups (SHGs) have been the social innovations of the poor particularly in the under developed regions. “The savings and credit functions of SHGs have a great appeal to the rural financial
institutions. They offer an outstanding market opportunity as the poor are concerned with the opportunities for earnings than the cost of capital. He assured that the SHGs, with their unique strengths of autonomy, discipline, flexibility and an inherent bias for the poor women, will attract greater attention of financial institutions and commercial banks.

K.Kaladhar, (1997)\textsuperscript{30}, in his article on ‘Microfinance in India’ has focused on Indian microfinance as vast and basically rural (and semi-urban) in character. The ongoing financial sector reforms have focused so far on strengthening bottom lines without taking into account the rural microfinance dimensions. Financial market liberalization has, thus, not yielded results that are effective in improving microfinance transactions. Developing microfinance markets involve removing imperfections that have wrongly been assumed to be policy-induced. Hence the ineffectiveness of the present frame of financial market liberalisation paradigm. In the next leg of reforms it is imperative that the measures are initiated to address these concerns by properly internalizing the nature and content of micro finance and focusing on policy stance, restricting, design features and governance in the light of perspectives from institutional economics.

Shadidur R.Khandker (1998)\textsuperscript{31}, in his study “Fighting Poverty with Micro Credit Expenditure in Bangladesh”, has expressed the view that the micro-credit programmes are effective policy instruments for reducing poverty among poor people because they become self-employed with the skills, they possess. It is also observed that such programmes are more cost-effective than some other types of antipoverty programmes. Micro-credit programmes were found to be particularly important for Bangladeshi women, many of whom are restricted by social custom from seeking wage employment. Their only source of income is self-employment, and they face difficulty in accessing individual lending programme. Defying traditional wisdom, women have proved to be excellent credit risk takers with a
rate of default that is less than one-third that of men for all three of the micro-credit programmes studied.

Abdul Hays, Ruhul Amin and Stan Beeker [1998][32], in their article “Micro credit and Women Empowerment”, analyzed the relationship between poor women’s participation in micro credit programmes and their empowerment by taking both SHG and non-SHG members in rural Bangladesh. They have split the concept of Women’s Empowerment into three components and measured separately in order to arrive at a better understanding of their underlying factors and their relationship to women’s empowerment. These separate indices are interspersed with consolation index, individual autonomy index and authority index. The three options were given different weights—“generally”, were assigned a value of 1, “never” a value of 0 and “occasionally”, a value of 0.5. The results have shown that the SHG members are ahead of non-members with regard to all the three indices of empowerment. Moreover, the non-members within NGO programme area show a higher level of empowerment on the autonomy and authority indices than do the non-members within the comparison areas. Over all, it was found that part of the higher autonomy and authority indices in the NGO programme areas in contrast to the comparison areas is accounted for by the contribution of both NGO credit members and non-members in the NGO programme areas. Being empowered by their new sources of financial income and related credit group supports, female recipients of NGO credits may have asserted their autonomy and authority vis-a-vis their husbands’ restrictions and dominance in related household affairs.

S.Mohanan (2000)[33], in his study on “Micro credit and Empowerment of Women: Role of NGOs”, has observed that the micro-credit system has particular relevance to women and their empowerment, considering the historical perspective of the involvement of women in the thrift and credit activity. The role of NGOs is
more significant and pronounced in the sphere of micro-credit. The rich experience of NGOs in the sphere of credit union and their grass-root level involvement with the poor and their problems are a potential factor that affirms their elevated role in the sphere of micro-credit.'

Satya Sai, K and Puhazhendi, V., (2000)\textsuperscript{34} in their article, "Micro finance for people and impact of evaluation", have primarily examined the Socio-economic background of SHG members and its impact on income and assets. The study results show that after becoming the members of SHG three-fifths of the sample SHG members could acquire assets on one-hand and consumer durables on the other.

T.R. Gurumurthy (2000)\textsuperscript{35}, in his article "Self-help Groups Empower Rural Women", states that SHGs disburse micro credit to rural women. This makes them enterprising and encourages them to enter into entrepreneurial activities. Credit needs of rural women are fulfilled totally through SHGs. The author says that SHGs enhance equality of status of women as participants, decision makers, and beneficiaries in the demographic, economic, social and cultural spheres of life. SHGs encourage women to take active part in the socio economic progress of our country.

Putnam and R.Bowling (2000)\textsuperscript{36} in their paper "The collapse and revival of American community" observed that the self-help groups have been instrumental in empowerment by enabling women to work together in collective agency. Women's networks do not usually obtain business or political favours as they command a few economic resources and frequently rely on time and non-monetized labour exchange. However, self -help groups, when combined with savings and credit, have enabled women to benefit economically by monetizing
their contribution and in the process have empowered them to become agents of change.

Manimekalai (2000)\textsuperscript{37} in her article “Economic Empowerment of Women through SHGs” has made a thorough study of micro finance provided by NGOs through Self-help groups. It was found that the women in rural areas are really longing for supplementary income and the intervention through micro-credit by both governmental and non-governmental organizations would be a boost to them as it is found in this study. It is also proved in this study that after the micro-credit and intervention of SEVAI, the education of the children has been better taken care of, landless labour households could acquire some land and cultivate land on their own, the expenditure on both food and non-food items has increased and now the women beneficiary households are able to manage the budget without deficit. It was suggested in the instructions working for the upliftment of women and proves them that Micro-credit would be very instrumental in bringing the proposed objectives realized.

Karmakar K.G (2000)\textsuperscript{38}, in his view “Rural Credit and Self Help Group Programmes”, has analyzed that the micro enterprises can play an important role in improving the quality of life through poverty alleviation. Ensuring their success is cost-effective and enables the vulnerable sections, such as women and weaker sections of society, to tide over seasonal fluctuations in household income. The provision of credit and generation of savings have long been recognized as an essential element in any rural development strategy. Credit plays a crucial role in the modernization of agriculture but its role in fighting rural poverty has seldom been recognized. Financial institutions in developing countries, whether public or private, have shunned rural areas for various reasons such as opportunity costs and low financial creditability. Rich farmers, who are able to sue their large endowment base and influence the local power structure to secure loans at very
advantageous terms, have mostly controlled credit. Further, rural financial services, credit policies are also generally concentrated on land-based agriculture production programmes, neglecting off-farm activities in which the poor are mainly engaged.

Samar, K. Datta and Ramana, M (2001) have conducted an empirical study covering 355 SHG members and 30 randomly selected women SHGs from 8 clusters in the Tirupathi area of A.P and published an article titled “Can Heterogeneity and Social Cohesion co exist in SHGs” The study results show that, in all, three-fifths of the members belong to backward classes, 6 per cent belong to schedule caste (S.C) category and the remaining represent the other castes. As nearly one-third of the SHG members have no formal education, the authors felt that absence of education doesn’t come in the way of working for SHGs. Further, it was found that there was no homogeneity as far as occupation is concerned. The empirical data has also shown that SHGs members knew each other even before they could become the members of SHGs, which resulted in timely repayment by each member. Moreover, they help each other even in the case of repayment. Owing to close proximity, members could convene SHGs meetings at any time of their convenience. Through the empirical study, it was found that credit is being extended to SHG members for various purposes viz., Consumption, repayment of old debts other loans and business. As a result, the dependence of SHGs on external finances has been considerably reduced. All this clearly shows that SHGs have made a positive impact, which led to realizing the primary objectives for which SHGs have been formed. Similar exercises need to be carried out periodically to examine the functioning of SHGs.

Namboodiri N.V and Shiyani R.L (2001) in their study “Potential Role of SHGs in Rural Financial Deepening”, have examined the impact of SHGs’ linkage with banks in the promotion of thrift and purveying credit to the weaker
sections belonging to the rural areas. The study revealed that majority of the SHGs are women-based and exhibited homogeneity in their economic and social status. The study results have revealed the fact that SHGs promoted by NGOs have shown better results in terms of savings, credit and the like. The analysis has shown that due to predominance of consumption loans, scope for undertaking income generation (IG) activities has been reduced. The formation of SHGs has led to women's participation in developmental activities.

Patnaik (2001) conducted a study on "Gender Economic Empowerment and Rural Poverty Alleviation". This study shows that women have a decisive role to play in the alleviation of household poverty. Empowering women with property rights and with savings and investment facilities would contribute much more to the household's income. Moreover, women's participation in income generating activities would raise the gender per capita income. It can be recommended that income in the hands of women would contribute much more to the household food security than the income controlled by men. The economic empowerment of women is a sine-qua-non for eradication of poverty in general and rural poverty in particular.

K.K.Kundu, K.S.Suhag U.K.Pandey and Kusum Jain [2001] in their study "Sustainable Micro Financing through SHGs", found that the SHGs both in formal and informal SHG-bank linkage programme wise performance. However, the SHGs were able to provide the access to credit and financial services to the rural poor services in a cost effective and sustainable manner, through the commercial bank's moderate efforts. The SHGs were formed with homogeneity of interests. They hold discussions with the members for determining their credit worthiness, need and exact requirements of income and repayments possibilities and the like so as to arrive at practical and humane decisions. SHGs have improved the confidence and also cultivated the habit of thrift and utilization of
collective wisdom to tackle their own problems. It was suggested to organize the rural poor and get better access to credit.

V.Puhazhendhi and K.I.S. Satyasi [2001]\(^43\), in their empirical study “Micro Finance for Rural People An Impact Evaluation”, have attempted to evaluate the performance of SHGs with special reference to social and economic empowerment by taking 560 sample households, in 223 SHGs in 11 states. They compared the pre and post SHG situations and constructed a social and economic index. They have found that there was a change in the average value of assets comprising livestock and consumer durables by 72 percent and the net income per household by 33 percent during the pre and post SHG periods. The social and economic empowerment index revealed that the impact was relatively more pronounced in social than economic aspects. It was underlined that the involvement of the rural poor in SHG significantly made a positive impact. Region-wise southern region and model wise, NGOs acting as non-financial intermediaries, performed better than others. It was suggested to have an effective ratings system of NGOs which would help in elimination of the ineffective NGOs in the system.

N.Manimekalai and G.Rajeswari [2001]\(^44\), in their article “Nature and Performance of Informal SHGs”, have studied the impact of SHG in creating women entrepreneurs in rural areas of Tamil Nadu by taking 150 SHG members. They found that the SHGs have helped to initiate micro enterprises including farm and non-farm activities, trading and services units. It was reported that there was significant difference in the mean performance of the entrepreneurs based on their age, education and previous experience. Micro finance has facilitated the women to have economic and social empowerment, It has helped them acquire a sense of leadership, organizational skill and management of various activities of a business, right from acquiring fiancé and identifying raw materials to marketing and the like, by themselves.
Laksmanan, S [2001]⁴⁵, in his study "Working of SHGs with particular reference to Malliepalayam in rural Tamil Nadu", has observed that the savings of SHGs increased from Rs.20 in the beginning to Rs.50 in the latest period. The groups obtained revolving fund; there is a transparency in administration. Members are engaged in production of mats with sufficient encouragement and support of the husbands. The problem faced by them includes high cost of raw materials. It was concluded that the SHG is really a boon, which gives financial autonomy and makes the participants economically independent.

M. Anjugam and T. Alagumani [2001]⁴⁶, in their empirical study, "Impact of Micro Finance through Self – Help Groups", in Madurai district of Tamil Nadu have assessed the economic, social and institutional impact of SHGs. It was underlined that the major purpose of loan extended was to pay off loan from money lenders. Other than this, loan was given to medical, house repair, educational and social obligations. The women could accumulate assets in terms of channels, T.V., Steel Bureau and were able to enjoy facilities like electricity purchase livestock, land for construction, leasing in cultivable land and the like. The repayment was 100 per cent and the member’s awareness on girl’s education, outside contacts and decision-making skill and the like were improved.

K.C. Sharma [2001]⁴⁷, in his study on "Micro Financing through SHGs", has underlined that the outreach of formal sector is 30 per cent to 40 per cent for general population and it is 10 per cent to 20 per cent for the poor households. The SHGs have contributed to increase the outreach with gender orientation as 85 per cent of the SHGs linked with banks are formed by women. These groups enabled the women to engage in economic activities and decision-making at the household and societal levels. It makes the process of development participatory, democratic, independent of subsidy and sustainable. Significant changes realized in terms of increase in income, assets, savings, borrowings capacity and income
generating activities must be sustained by safeguarding the healthy growth of
SHG movement in India. It should not end like programmes with subsidy
orientation.

Saundarijya Borbora and Ratul Mahanta [2001]48, analysed "The impact of
micro financing through SHGs", taking the case of Rashtriya Gramin Vikas Nidhi
in Assam and found that 80 per cent of the SHG members were from poor
families, in the age group of 8 to 50 years. They were involved both in saving and
taking loan. The repayment performance was about 91 per cent and the
programme has been successful in expanding outreach covering larger number of
groups. Most of them did not have savings account in bank prior to SHG.

Ramana Rao D.V.V. [2001]49, in his study "Impact of institutional credit
on the socio – economic conditions of rural women in SHGs", has analyzed the
experience of micro credit movement through self-help groups and found that the
groups mobilized by the co-operative banks have mobilized more savings than
groups sponsored by the NGO organizations. The amount of membership and
savings in SHGs were positively linked with their period of operations. The
average amount of loan disbursed had a four-fold increase. Purpose-wise the
credit demanded by SHG members indicated that a good proportion of SHG
members 25 percent have demanded credit for business purposes. It was
further underlined that there seems to be a tendency among SHG members to borrow
from various agencies, which may lead to repayment problems due to multiple
financing. In this connection, it was suggested that the policy to integrate SHGs
within the mainstream banking should receive greater attention. It was added that
this could alone strengthen the process of integrated credit flow for production
cum investment purpose on a sustainable basis.

Girija Srinivasan and P. Satish,(2001)50, in their study, “Net Working for
Micro Credit Delivery”, expressed the view that high transaction costs are a major
problem in the functioning of the rural credit delivery system. According to the authors, and the viability of the rural credit delivery system is critically affected by it. The search for viable alternatives to reduce the cost transactions in rural lending has led bankers and development finance experts to the model of Self Help Groups where the work relating to borrower identification, loan processing, loan disbursement, monitoring, and recovery is externalized to groups of clients. In these groups peer pressure acts as a resource for internalizing the information needs and for exerting a positive influence on loan repayments.

V.K. Singh, R.K. Khatkar and S.K. Shanna [2001], in their study on "The Impact of SHGs in Hissar district of Haryana", have underlined that the micro financing through SHGs is a better system for inculcating the habit of self-help among the rural poor. Loan is given for all purposes simply by producing a three rupee stamped affidavit with the surety of other members. The recovery was 100 per cent. The loan is used for purchase of animals, to start small business, to solemnize the marriage of their dependents, to meet out the emergency needs, educational expenses, social obligations and the like. These groups have also freed the members from the clutches of money lenders and saved them from exploitation. The members did not mind paying higher interest as it goes to the group fund.

Rekha and R. Gaonkar [2001], in their study "The Impact of SHGs on Women in Goa", have observed that the individual loans were mostly for productive purposes with cent percent recovery. Monthly interest rate charged is high with 24 per cent to 36 per cent but it goes to group fund, SHGs made a lasting impact on the lives of the poor and the quality of life has improved in the family, in terms of increase in income, savings, consumption expenditure, gaining self-confidence, productive use of free time and getting opportunity to improve hidden talents. It has contributed to addressing poverty and unemployment and in
bringing social transformation through economic development and social change.

M. Anjungam and T. Algunmani (2001), have worked on "the impact of micro finance through self-help groups linked with Indian Bank in Madurai district of Tamil Nadu", besides their own savings, the groups received an average first loan of Rs.13,400 and a second loan of Rs.25,000 from the bank. Loan was properly used and repayment was 100 per cent.

Pallavichavan and Ramakumar (2002), in their study on a Micro-credit and Rural Poverty, reviewed empirical evidence on NGO-led micro-credit programmers in several developing countries, and compared them with state led poverty alleviation schemes in India. The study shows that micro-credit programmes have been able to bring about a marginal improvement in the beneficiaries income. However, they have not gained much by way of technological improvements as emphasis was on 'survival skill'.

R.K. Mishra (2002), in his study on "Self-Help Groups and Micro Credit Movement in Orissa", found that the repayment by the members to SHGs was around 98 per cent and that of SHGs to banks was over 95 per cent. SHGs in several categories including women, joint farmers' groups, social forestry groups and the like were formed. Underlining the strengths and weaknesses, the challenges to be faced have been brought out by the author as follows. The attitude of other banks needs to be changed, government should encourage and support NGOs to attempt group approach and create a favourable policy environment. There is a need to adopt flexibility by banks in providing money to groups through self-help promotional institutions (SHPIs). These ought to be done as it is observed that the micro finance does not address issues like reorganization of ownership of land and long-term sustainability of any activity. Further, it is observed that micro finance activities are oriented towards lending to individuals, using groups as a risk reduction mechanism. In the long run it may lead to
establishment of another set of informal banking institutions which are in competition with money lenders, traders, commission agents and the like. There is a possibility of loss of resources of the poor if not protected adequately against any possible crisis.

Thomas Fisher and M.S.Sriram (2002) in their book “Beyond Micro Credit Putting Development Back into Micro finance”, state that low micro finance can be designed, in practice, to contribute to a wide range of development objectives, including providing social and economic security, promoting livelihood, building democratic people’s organizations, empowering women, and changing wider system within society.

The analysis covers the great diversity of micro finance practice in India, and its many innovative products and organizational features. It looks into the details of the fast expanding movement of saving and credit or ‘self-help’ groups in India, and compares and contrasts these with the groups promoted by the Grameena Bank in Bangladesh.

The book challenges much conventional wisdom in microfinance, especially the dominant framework of financial sustainability and outreach to the poor. It demonstrates that the current analysis of efficiency in micro-finance is simplistic, ignoring a range of real economic costs. It breaks new ground by drawing on the disciplines of organization development and entrepreneurship, to focus on the many organizational challenges and dilemmas that confront micro finance practitioners and how these can be managed in practice.

K.P.Kumaran (2002) has conducted empirical study on “Role of Self-Help Groups in Promoting Micro Enterprises through Micro credit” in the Pune District of Maharashtra state. 15 sample cases of SHGs were selected on a random basis. Among them, 10 groups were promoted jointly by NGO and Bank, while
the remaining five were formed by District Rural Development Agency. The study has been undertaken with the following objectives: To study the structure and function of SHGs in terms of mobilization of saving, delivery of credit and recovery of loan; and to examine the role played by SHG as promotion agency and SHGs in the promotion and effective management of micro-enterprises.

Lalitha and Nagarajan (2002), in their study, "SHGs in Rural Development", have shown that impact assessment studies, point to asset creation as one of the main indicators, measurable by empirical data. Field visits and various documented sources, especially micro credit, provided to self-help groups have brought about an increase in household income.

Rao (2002) study traced "68 SHG members’ involvement and their perception about SHGs". For this purpose 120 SHG members belonging to 23 SHGs spread over 6 districts of 2 states have been selected. The study results show that majority of the women have joined SHGs from low income groups but have a strong will power to improve their economic status. Against this background, the sample self-help group members in A.P. have obtained credit mostly for meeting consumption purposes, while the finance available for the sample SHG members of Karnataka was for meeting the expenditure of social functions and purchase of agriculture inputs. It only means that the SHG members have borrowed mostly for unproductive purposes. Further, the study indicated that certain SHGs have already involved in creating social awareness among the SHG members.

Shetty, S.Z (2002), in his article on "Working and Impact of Rural SHGs and other Forms of Micro Financing", has stated that micro finance institutions have improved the asset base and also brought a sea change on the levels of the livings of the beneficiaries. Further, the women participation has also improved in thrift and credit options. Moreover, the author stressed the need for micro level field studies to examine the working of SHGs.
NABARD [2002] has conducted a survey covering 560 households from 23 SHGs in 11 States of India. It concluded that there has been a positive result in enhancing the standard of living of SHG members in the case of asset ownership. Savings and borrowing capacity, income generating activity and income levels, the average value of asset including livestock and consumer durables has increased considerably. The housing condition of the people is improved, from the mud walls to thatched roofs to brick walls and tiled roofs. Almost all members developed savings habit in the post SHG. The trend of consumption loans came down. In contrast, obtaining the loan for income generating purpose has increased considerably during the pre-SHG period. Similarly the overall repayment of loans improved and the average net income per household has increased about 33 per cent. The employment increased by 18 per cent between the pre and the post SHG conditions. It should be noted that after association with the SHGs, they have improved their self-confidence, self-worth and communication. In addition to this, they were involved in addressing various social evils and problems of the society.

Dwarakanath H.D [2002], in his article on “Rural credit and women self-help groups, has “analysed the characteristics and growth of self-help groups in Andhra Pradesh and found that the SHGs using the loan facilities from the co-operative credit banks, commercial banks, mahila bank and Maheswaran banks, have produced more than 50 varieties of products. Among them, the brass items, hosiery, candles, carpets, coir items and pickles are important products. In addition to the above, the author says that the women groups started to educate their own group members and also they realized the importance and significance of literacy. A lot of enthusiasm has been generated among the group members and the SHGs had a greater vision in empowerment of rural women and for overall human development. Moreover, the SHG members proved the way to the path of decision
making for the women in their family, and also created a mass on socio economic and political conditions in this district.

T.N. Jha, (2002)\textsuperscript{63}, in his article on “Micro Finance Models Bangladesh”, despite a few weaknesses, demonstrated a number of strong and positive attributes which restricted outreach of the formal credit agencies in India. Micro finance models of Bangladesh do offer a few lessons to us in our efforts to tackle the twin problems of mass poverty and unemployment.

Panda.S.K. (2003)\textsuperscript{64}, in his article on “Rural credit and Women Self-Help Groups”, has emphasized that those availing micro finance have shown an excellent record of loan repayment. As the amount repaid is recycled for giving fresh loan to the same or new members, the beneficiaries develop a sense of involvement. Members of the group feel that the repayment is made to their own group and not to any outside agency. Timely repayment is a prestige issue and pressure from the peer group has discouraged default individuals.

Ramakrishna and Krishnamurthy (2003)\textsuperscript{65}, in their article on “Micro credit for the rural poor through SHGs”, have examined the impact of SHGs on the social and economic empowerment of the sample households and studied the role of SHGs in obtaining formal credit and found that the SHGs have a positive impact on women beneficiaries. The study results have also shown positive impact on the economic conditions of the beneficiaries. Further, the living standards of the beneficiaries in terms of food intake, children’s education, health status, and financial independence have also been improved.

Navin Bhatia and Anju Bhatia (2004)\textsuperscript{66}, in their article “Microfinance Institutions of Bangladesh: Lessons for India”, say that the micro finance movement of India has now come to the take off stage. At the present juncture, few lessons can be drawn from the experiences of micro finance institutions of
Bangladesh. In this article, an attempt has been made to examine the micro
finance products and practices of four major Micro finance Institutions of
Bangladesh as against the prevailing position in India, with a view to drawing
lessons for strengthening the movement in India.

J.C. Mishra, R.S. Thanvi (2004), in their book “Indian Banking System
and Micro Finance”, have suggested that micro finance has emerged as one of the
most suitable and effective tools for enabling the poor and disadvantaged sections
of the society to access institutional credit. The authors feel that the Indian
banking system has shown a willingness and resilience to experiment and join the
micro finance movement in a way, that has no parallel anywhere in the world.
With 504 banks providing access to credit to 116 lakh poor families through
30,942 participating branches supporting over 7 lakh SHGs, the micro finance
movement in the country has been recognized as the largest in terms of its
outreach.

Rimijhim Mousumi Das (2004), in her article “Micro Finance Through
SHGs - A Boon for the Rural Poor”, has pointed out that the easy access of the
poor to credit is the biggest need of the hour rather than cheaper rate of interest.
Micro finance provides an opportunity to the poor for getting sufficient amount of
credit easily to start any income generating activity. According to the author,
micro finance not only deals with the credit part, but also deals with the savings
and insurance part. It ensures the right to save and is one of the most powerful
weapons, which works for bringing the poor rural people into the main stream.

Dr. Amrit Patel (2004), in his article on “Micro-credit and the Role of
Banks; Need for Initiative and Commitments”, has revealed that the number of
poor people who were benefited from micro credit programmes has grown more
than five times from 1997 till the end of 2001. While there is neither a dearth of
financial resources nor a problem of repayments under micro credit programme, there is a need for well organized and committed micro finance institution through which the credit can be channeled and made available to poor households individually or in groups in India. Successful operation of micro finance programmes in Indonesia and other countries focuses focus on adoption of flexible area-based operating procedure, designing products, loan approval and disbursement system, loan collection policy and procedure, loan portfolio management and designing saving instruments as a part of best practices of sustainable institutional microfinance.

Muhammad Yunus, (2004)⁷⁰ in his article “Grameen Bank, Micro credit and Millennium Goals” traces the evolution of the ideas and practices of micro credit as pioneered by the Grameen Bank of Bangladesh. The author says that over the years, the micro credit programmes have grown providing a wide range of services to meet the economic and social needs of citizens mostly poor women. It comes up with suggestions regarding emerging issues of financial self-reliance and institutional sustainability of micro credit programmes.

Self Help Groups and Micro Finance (2005)⁷¹, the article in “The Hindu”, talks about the RBI giving priority sector status to the loans provided by banks to MFIs, thus mainstreaming the activity. The Government also hopes to enhance the beneficial role of the MFIs as intermediaries between banks and rural borrowers, in order to make micro credit not just a dispenser of credit but also a variety of social goods and services to the poor.

Business Line (2005)⁷², in the article on commercial banks, urged stepping up lending to SHGs and said that the commercial banks in Andhra Pradesh have lent only Rs. 225 crores by mid – July as against the State Government specified target of Rs. 2200 crores. The bankers were urged to meet their targets. The
discussion was a part of a workshop on Micro Finance and SHGs by the Hyderabad Chapter of the Indian Bank’s Association.

Tara S Nair (2005) has reviewed “Institutionalising Micro Finance in India”, an overview of strategic issues related to Micro Finance. There has been an increasing tendency to use the term micro finance as an effective intervention towards poverty alleviation to refer solely to formalized institutions leaving aside a large informal section that could include individuals and informal associations as well. Current efforts are to mainstream micro finance operations in the non-financial sector of country while acknowledging the failure of the state-owned. Credit institutions, should also take into account, among others, the programmatic success of several intermediary developmental institutions like the small savings and credit groups that have proved not only profitable but also an effective poverty alleviation measure.

Micro finance bill on the anvil (2007) in the article it is said that the Indian government was working on special bill to create a friendly policy environment for micro finance services enabling greater availability of credit to the poor. According to the present prime minister, more micro credit must reach the poor in order to build their capacity to absorb more credit.

Statement of the problem

Micro credit is a small-scale credit provided to people who undertake farm and non-farm activities in the rural areas. It is considered as an effective tool all over the world for the eradication of poverty. Financial institutions have also come forward to lend the micro credit to the poor through SHGs since the SHG-Bank linkage programme has become most successful one in India. Regional Rural Banks (RRBs) have also shown interest in lending the micro credit to the
HYPOTHESES

➢ Functional performance of the micro credit institutions is not much impressive.
➢ The assistance under micro credit programme is reaching the poor of all the caste categories equally.
➢ Impact of the micro credit on socio-economic status of the sample respondents is insignificant.

METHODOLOGY:

Data Sources

Both primary and secondary data are used for the present study. Secondary data are extensively collected and compiled from wide sources such as reports of RBI, NABARD, SIDBI and Rashtriya Mahila Kosh (RMK). Primary data are collected from the members of SHGs through a pre-tested schedule.

Period of the Study

The present study is confined to an unorganized sector. Hence, recorded information may not be available with the respondents who have enjoyed the credit facilities extended by the Sapthagiri Grameena Bank. Therefore, the period of study chosen for the present study is only one year 2007-08. However secondary data were collected and presented for a period nine years.

Sample Design

The socio economic conditions of the poor in the Chittooor district, living in the rural areas nearer to Revenue divisions or living in the interior locations of the district, are one and the same. There are three revenue divisions in Chittoor
district. Therefore, two branches of Sapthagiri Grameena Bank in each of the Revenue divisions are chosen. The Self Help Groups (SHGs) that are assisted by these branches are enlisted.

Ten percent of the SHGs are selected at random and 20 percent of sample respondents from each of the groups are selected as sample.

**Table 1.1 The Sample Design for the Present Study is as Follows**

<table>
<thead>
<tr>
<th>S.NO.</th>
<th>Name of the Revenue Division</th>
<th>Name of the Branch of Sapthagiri Grameena Bank</th>
<th>No. of SHGs assisted by each of the branches</th>
<th>No.of SHGs selected for sample</th>
<th>No.of beneficiaries selected as respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Chittoor</td>
<td>Kanipakam</td>
<td>280</td>
<td>28</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ramapuram</td>
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<td>1134</td>
<td>114</td>
<td>342</td>
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**Tools of Analysis:**

The researcher has employed appropriate statistical tools like percentages, averages, standard deviation, mean chi-square and the like at the appropriate contexts in the study.

**Scope and Limitations**

Basically the study deals with the beneficiaries of micro credit and the institutions which delivered micro credit.
The present study may anticipate the following limitations:

➢ Keeping in view the familiarity and accessibility of the researcher, the present study would be confined only to Chittoor District.

➢ The study is mainly based on sample survey due to the major constraints of the researcher viz. time and money.

Chapter Scheme

The theme of the entire thesis has been divided into five chapters.

I. The first chapter deals with the introductory aspects of micro credit, review of literature and research design.

II. The second chapter provides a gamut of information on micro credit in India and Micro credit institutions in Andhra Pradesh.

III. Socio-economic profiles of the district, the select sample respondents of SHGs and the profile of Sapthagiri Grammena Bank are described in the third chapter.

IV. In the fourth chapter, the researcher has evaluated the impact of micro credit on the poor under the study area.

V. A summary of findings and suggestions of the study are presented in the fifth chapter.
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