CHAPTER II

REVIEW OF LITERATURE

The objective of this chapter is to review the related literature in respect of microfinance performance of Self-Help Groups with regard to savings, credit and other provisions. The result of this review will be formulating a conceptual framework regarding the selected topic of research. It is possible to formulate certain hypothesis based on the review. Many scholars have made an attempt to analyse the impact of the microfinance on the socio-economic status of the rural and urban masses in India. Various yardsticks have been taken to examine the impact of microfinance by different scholars at micro as well as macro levels. These studies have attempted to identify the factors responsible for improper utilization of credit and also analysed the reasons for default in repayment of loans. These have been highlighted in the following paragraphs.

2.1 MICRO-FINANCE AND POVERTY ALLEVIATION:

One way of expanding the successful operation of micro finance institutions in the informal sector is through strengthened linkages with their formal sector counterparts. A mutually beneficial partnership should be based on comparative strengths of each sector. Informal sector microfinance institutions have comparative advantage in terms of small transaction costs achieved through adaptability and flexibility of operations (Ghate 1992).

Therefore, formal sector finance institutions could form a joint venture with informal sector institutions in which the former provides funds in the form of equity and the later extends savings and loan facilities to the urban poor. Another form of partnership can involve the formal sector institutions refinancing loans made by the informal sector lenders. Under these settings, the informal sector institutions are able
to tap additional resources as well as having an incentive to exercise greater financial
discipline in their management.

The convenience of location, positive real rate of return, liquidity and security
of savings are essential ingredients of successful savings mobilization to be
successful, financial intermediaries that provide services and generate domestic
resources should have the capacity to meet high performance standards. They should
achieve excellent repayments and provide access to clients. And they should build
toward operating and financial self-sufficiency and expanding client reach. In order
to do so, microfinance institutions need to find ways to cut down on their
administrative costs and also to broaden their resource base. Cost reductions can be
achieved through simplified and decentralized loan application, approval and
collection processes, for instance, through group loans which give borrowers
responsibilities for much of the loan application process, allow the loan officers to
handle many more clients and hence reduce costs (Otero M.1994). ²

Most poor people manage to mobilize resources to develop their enterprises
and their dwellings slowly over a period. Financial services could enable the poor to
leverage their initiative, accelerating the process of building incomes, assets and
economic security. However, conventional financial institutions seldom lend down-
market to serve the needs of low-income families and women-headed households.
They are very often denied access to credit for any purpose, making the discussion of
the level of interest rate and other terms of finance irrelevant. Therefore we
fundamental problem is not so much of unaffordable terms of loan as the lack of
access to credit itself.

Microfinance institutions could also serve also serves as intermediaries
between borrowers and the formal financial sector and on-lend funds backed by a
public sector guarantee (Phelps 1995).³ Business-like NGOs can offer commercial
banks ways of funding micro entrepreneurs at low cost and risk, for example, through
leveraged bank-NGO-client lines. Under this arrangement, banks make one bulk loan
to NGOs and the NGOs packages it into large number of small loans at market rates
and recover them. Savings facilities make large scale lending operations possible. On the other hand, studies also show that the poor operating in the informal sector do save, although not in financial assets, and hence value access to client-friendly saving service at least as much access to credit. Savings mobilization also makes financial institutions accountable to local shareholders. Therefore, adequate saving facilities both serve the demand for financial services by the customers and fulfill an important requirement of financial sustainability to the lenders. Microfinance institutions can either provide savings services directly through deposit taking or make arrangements with other financial institutions to provide saving facilities to tap small savings in a flexible manner.

Microfinance institutions can broaden their resource base by mobilizing savings, accessing capital markets, loan funds and effective institutional development support. A logical way to tap capital market is securitization through a corporation that purchases loans made by micro enterprises institutions with the funds raised through we bonds issuance on the capital market. There is at least one pilot attempt to securities micro finance portfolio along these lines in Ecuador. As an alternative; Bancosol of Bolivia issued a certificate of deposit, which are traded in Bolivian Stock Exchange. The foundation for cooperation and development of Paraguay issued bonds to raise capital for micro enterprise lending. The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self-employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. In addition bankers also tend to consider the low-income households a bad risk imposing exceedingly high information monitoring costs on operation.
Over the last ten years, micro lending has successful experience in providing finance to small entrepreneur and producers demonstrate that poor people. Banks, NGOs and grass root savings and credit groups around the world have shown that these micro enterprises loans can be profitable for borrowers and for the lenders, making micro finance one of the most effective poverty reducing strategies. To the extent that micro finance institutions become financially viable, self-sustaining, and integral to the communities in which they operate, they have we potential to attract more resources and expand services to clients. Despite the success of micro finance institutions, only about 2 percent of worlds roughly 500 million small entrepreneur are estimated to have access to financial services (Barry1995). 4

Although there is demand for credit by poor and women at market interest rates, the volume of financial transaction of micro finance institution must reach a certain level before their financial operation becomes self-sustaining. In other words, although micro finance offers a promising institutional structure to provide access to credit to the poor, the scale problem needs to be resolved so that it can reach the vast majority of potential customers who demand access to credit at market rates. Once micro finance institutions are engaged in deposit taking in order to mobilize household savings, they become financial intermediaries. Consequently, prudential financial regulations become necessary to ensure the solvency and financial soundness of the institution and to protect the depositors. However, excessive regulations that do not consider the nature of micro finance institution and their operation can hamper their viability. In view of small loan size, micro finance institutions should be subjected to a minimum capital requirement, which is lower than that applicable to commercial banks. On the other hand, a more stringent capital adequacy rate (the ratio between capital and risk assets) should be maintained because micro finance institutions provide uncollateralized loans.

Governments should provide an enabling legal and regulatory framework, which encourages the development of a range of institutions and allows them to operate as recognized financial intermediaries subject to simple supervisory and
reporting requirements. Usury laws should be repelled of relaxed and micro finance institutions should be given freedom of setting interest rates and fees in order to cover operating and finance costs from interest revenues within a reasonable amount of time. Government could also facilitate the process of transition to a sustainable level of operation by providing support to the lending institutions in their early stage of development through credit enhancement mechanisms of subsidies.

2.2 STUDIES ON MICRO FINANCE:

Singh (1983)\(^5\) emphasized that major portion of the total credit of farmers went to ceremonies and domestic consumption and that only a small portion was used in ways, which increase agricultural production. Singh concluded that resources of moneylenders might be used to increase agricultural production rather than encourage consumption and ceremonial expenses.

The study conducted by NABARD (1984)\(^6\) conducted that the level of overdues was higher for investment credit (term-loans) than for crop loans (short-term credit). A considerable proportion (30-05 per cent) of the default in respect of investment credit extended by primary land development banks (PLDs) was over five years old, whereas, the case of short-term crop loans borrowed from primary agricultural credit societies it was typically less than two years.

Kropp E. (1989)\(^7\) indicated that Self-Help Promotional Institution (SHPI) as a financial inter-mediation between the rural poor and the micro enterprises in the informal sector on the one hand and formal financial institution, on the other.

Huppi M. (1990)\(^8\) says that the failure of formal institutions to serve the rural poor effectively led to a review and a look at the informal financial systems and

Sharma S.P. (1992)\(^9\) explained that the recovery of loan is very important from the point of view of recycling of funds, safeguarding the trust and confidence of
depositor and also drawing refinancing from NABARD. The poor recovery of loans in the agricultural sector, for obvious reasons, is an area of anxiety and serious concern for the banks, Reserve bank of India and Government. The recovery of Public sector banks in agricultural segment was never above 58 percent in the past one decade.

Satyasai. (2000), in his dissertation on micro finance for Rural people has stated that, Microfinance, refers to the entire range of financial services rendered to the poor and includes skill up gradation, entrepreneurial development that would enable them to overcome poverty. The concept of Microfinance essentially rests on the promises that (a) Self employment is the viable alternative means of alleviating poverty, (b) lack of access to capital assets/ credit acts as constraint to existing and potential micro enterprises, and (c) the poor are able to save despite their low level of income. Microfinance could be referred to as providing credit support usually in very small amount, along with training and other related services to people with poor resources and skills but who are in a position to undertake economic activities.

Tara S. Nair (2001) says that in micro finance sector in India the formal funds get into the non-formal channels before they reach the desired segment of the clientele. The entry of a new set of players in the financial system has definitely eased a lot of delivery obstacles, by externalizing a part of banks responsibilities in the spheres of identification of clients, assessment of their risk profile, loan monitoring and recovery, which in turn, may result in a reduction in transaction cost.

Naithani (2001) considered that the failure of the formal credit institutions in effectively meeting the requirements of rural poor has been the major reason for innovations in the Micro finance. Micro finance means making provisions for smaller working capital loans to the self-employed or self-employment-seeking poor.

Sarkar (2001), opined that micro finance, by definition, refers to the entire range of financial and non financial services, including skill upgradation and entrepreneurship development, rendered to the poor for enabling them to overcome poverty. In the context of designing programmes for the poor, Micro finance is
recognised and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor, with special emphasis on empowering women. Therefore Microfinance could be referred to as institutional mechanism of providing credit support in small amount and usually linked with small groups along with other complementary support such as training and other related services to the people with poor resource and skills for enabling them to take up economic activities.

Menon (2003) emphasized that various schemes started by the RBI equate micro credit with agricultural credit. A rural community may acquire an additional wealth only so far as its produce is sold outside itself and conditions are, therefore conducive to economic stagnation in the rural area. He suggested that a sound rural credit scheme might provide finance not only for agriculture as in the bank scheme but also for animal husbandry, fishery, rural industry, rural trade, rural transport and all other economic activities of the countryside.

2.3 NATIONAL BANKS WITH REGARD TO RURAL CREDIT:

Varshneya (1984) explained that strengths of banks in finance priority sectors are; a) increase in coverage, b) widespread branch network, c) well equipped and trained manpower, d) vast resources and capacity to absorb losses, e) emphasis on commercial aspect and weaknesses of banks in financing priority sectors are; a) difficulty in servicing large number of small borrowers b) weak extension support and inadequate supervision and monitoring c) lack of entrepreneurship among borrowers d) trade recovery performance e) deterioration in quality of service house keeping f) adverse effect on profitability.

Manmohan Singh (1984) opined that our banking system deserves credit for the manner in which it has responded to its new responsibilities in we field of rural credit. However, there is still a vast credit gap to be filled in rural areas, particularly in those areas where co-operative credit institutions are rather weak. To meet this
gap, lead banks will need to draw up early enough in the five-year credit plans for each district.

Siddaiah (1986) \(^7\) opined that the commercial banks have been called upon to orient and direct their activities towards the enlistment of the poor and downtrodden in the society in order to achieve the socialistic pattern of society thus the commercial banks are recognized as important agents in these process of socio-economic transformation. The rate of recovery of loans as against their demand almost stands at about 52 percent. The proportion of over dues of bank credit is increasing considerably every year. It is this piquant situation, which promoted us to investigate into the various factors that are mainly responsible for over dues of bank loans.

Bhatia (1986) \(^8\) opined that most of the banks had been allocating large parts of their loans and advances to giant industrial and trading institutions. The policy of social control marginally tilted the position, but a major shift in commercial banks lending policy took place with the nationalization of the major commercial banks. The task of nationalized banks was stated, is to restore vitality to the rural economy, build up the future prosperity of the common man and reinforce both agricultural and rural industry. Nationalization of banks was, therefore, necessary to reshape the credit policies of the banks and direct the flow credit to hitherto neglected sectors.

Sharma (1992) \(^9\) says that the bank recovery depends on two major factors with the borrowers i.e., the surplus from the activity and the other being the willingness to repay. The reasons for poor recoveries depend broadly on two major factors, viz internal factors; i) appraisal of loans ii) supervision and follow-up iii) timely action iv) attitudinal orientation. External factors; i) lack of infrastructure facilities, ii) lack of co-ordination, iii) Government polices.

2.4 REASONS FOR APATHY TOWARDS RURAL CREDIT:

Bhaduri, A. (1973) \(^{10}\) pointed out capital formation, and, hence, development process takes a back seat in the rural areas. Besides, if land, labour and money market
are interlocked, there arises a vested interest among the powerful class to thwart we
development process and perpetuate indebtedness and poverty.

Srivastava (1986) mention the reasons why priority sectors did not get bank
credit are; prevalence of urban banking, bankers apathy towards priority and
neglected sectors, those sector of the economy which were not in a position to
provide a tangible security were deprived of bank credit, priority and neglected
sectors are unorganized.

Desai (1986) pointed out some specific difficulties in matters of providing
credit to the weaker sections of people in rural areas in big way. Important
difficulties coming in the way in this matter are; unsatisfactory state of land records,
inability of borrowers to provide margin money and surities, competition from
money-lenders to whom these people from weaker sections of the community are
indebted to and are closely dependent on for such things as consumption credit,
marketing of agricultural produce and employment, very small and fragmented
holdings and small size of marketable states, poor progress in the implementation of
land reforms in most of the states.

Hulme (1996), in his study on finance against poverty explained that the aim
of saving the poor with reference to the commercial banks and particular reference to
the regional rural banks has ended up in giving poor service. Many might like to use
that as an epitaph for the traditional approach to credit for the poor, in which
subsidized credit it supplied to a defined target group on terms largely defined by the
state and certainly the financial record of the commercial banks is not impressive.

Gilberto (1997) opined that financial institutions play an important role in
this regard by canalizing funds from surplus sector to deficit sectors. However, these
institutions do not show much enthusiasm to put their resources in rural and
backward areas for the benefit of poorer people as these are commercial
organizations and are basically interested in profitability and sustainability for two
reasons; i) incentive for functioning and ii) for safeguarding the interest of
Besides, the transaction in credit market is different from the transaction in goods market.

2.5 STUDIES ON GROUP-LENDING:

Formal sector lending to the poor, especially the rural poor plagued by severe problems of inadequate overage, very low rates of repayment and imprecise targeting. Most of these problems can be traced to two underlying factors, lack of information and inadequate collateral. Given the linkage between finance and growth, (Gurley and Shaw 1955,) such poor performance of formal sector lending is cause for serious concern. In the last few decades, however, there have been all empts at introducing some innovative forms of formal credit, in particular group-lending schemes. In fact the recent success of the Grameen Bank in Bangladesh has raised hopes that group-lending schemes might be used as a conduit for channeling formal sector credit to the rural poor. Grameen Bank has a high rate of repayment compared to other schemes that lend to the poor.

There have been several important contributions that seek to explain the success of such schemes. Varian (1990) provide explanations based on peer monitoring. They argue that since group members have better information compared to bank monitoring, lenders, peer monitoring would be relatively cheaper compared to bank monitoring, leading to greater monitoring and greater rates of repayment.

Banerjee (1994), in fact, argue that compared to other explanations, arguments based on peer monitoring are relatively more successful in explaining the success of group lending schemes.

Basley and Coate (1995) analyze a strategic repayment game with joint liability and demonstrate that successful group members may have an incentive to repay the loan of attracted as much attention as they, perhaps, deserve. First, there is possibly too much emphasis on the positive aspects of such schemes, and too little on the possible negative ones. This is somewhat surprising in view of the fact that
several of these schemes performed poorly. Second, group-lending schemes sometimes involve sequential lending. In the grameen Bank, for example, the groups have five members each. Loans are initially given to only for two members (to be repaid over a period of one year). If they manage to pay the initial installments then, after about a month or so, another two borrowers receive loans and so on.

Given the argument that group-lending schemes are attractive precisely because they replace costly lender monitoring with peer monitoring, such intensive monitoring by the lenders is somewhat surprising. Finally, most of the theoretical literature has focussed on joint liability, to the relative neglect of the other features described above, namely sequential financing and bank monitoring. In a strategic repayment game with both joint liability and social penalty, demonstrate how joint liability lending may harness social collateral, thus mitigating the negative effects of group lending to some extent. Clearly the theoretical discussion has mostly centered on joint liability, to, perhaps, the relative neglect of some of the other features of group lending. In this paper we focus on one such feature, that of sequential financing.

Rao. D.K. (1999), in his a study of SHGs and Linkage Programme, observed that SHGs linkage into a regular one, to play a role supplementary to the existing formal rural banking was a step in the right direction. This is because this mode of promoting rural saving and credit has been a successful experience both from the viewpoint of SHGs and the bankers. Indeed, it was justifiable on its own merits such as reaching the unreached, deposit mobilization, high loan recovery rates, lower transaction costs for the banks, and their borrowers.

Pushazhendhi. V. (2000), in his dissertation on the Evaluation of Self Groups has stated that SHGs are characterized by small size, usually limited to less than 20 members per group. Homogeneity in terms of socio-economic conditions and levels of living from the basis of the group formation. Periodical meeting, on a weekly or fortnightly basis, including the habit of thrift, creating a common fund through contributions by way of savings from the members, on lending to its
members, availing credit support from financial institutions with collateral substitutes, are some of the major binding factors in the group functioning.

Gupta, A. (2001) 31 opined that the Self-Help Group–Bank Linkage Programme, Launched by NABARD in 1992, is a landmark in the field of micro-financing in India. This programme aims to organize SHGs of 15-20 persons from the economically homogeneous strata to regularly save the amounts from their earnings, cooperatively agreeing to contribute to a common fund, meeting their emergency needs, taking democratic decisions, resolving conflicts through discussion in open forum and providing surely free loans at market driven rates to members on the terms decided by the group. On the basis of their savings pattern, SHGs are given the bank loans to fulfill the loan requirements of its members.

Singh, G.P. (2001), 32 Considered that the Self-Help Group (SHG) is a voluntary informal group of 10-20 rural people formed with the objective to encourage the poor villagers to mobilize their savings for meeting their cash requirement, develop habit of management of income, link them with the banks to avail credit facilities for productive use. The group has to perform various activities like collection of contribution towards saving and repayment of loan, make available credit facilities to needy persons, discuss various development plans and income generating enterprises in the village, maintain records and accounts, etc. Credit facilities are provided by the SHG on the basis of fulfillment of certain conditions like regularity in group meetings and savings, utilization of saving for internal lending, etc. The groups that are awarded more than 75 marks based on an appraisal of their performance are considered for credit linkage with banks.

Singh, D.K. (2001), 33 indicated the despite the vast expansion of branches of banks in every nook and corner of the country, the majority of the small and marginal farmers, labourers, artisans, etc. are still dependent upon the traditional financing institutions for meeting their immediate requirements. They are in need of funds
frequently and mostly for small amounts. The banks avoid the formal procedures, the self-help groups have come into existence in 1992-93 in India.

Hosmani. S.B. (2001) pointed that the SHG Bank Linkage programme has made rapid strides in Karnataka as well as in the country as a whole. The number of groups in the state and the country has shown a remarkable growth of 92 and 94 percent respectively. In Karnataka, more number of SHGs was concentrated in the southern part and in recent years the trend has been reversed with more concentration towards the northern part. Among the agencies involved by Regional Rural Banks (54 percent) and commercial banks (40 percent).

2.7 SOCIO-ECONOMIC IMPACT OF SHG ON ITS MEMBERS:

Atal Bihari Vajpayee (1999) stated “the concept of Self Help groups is of immense importance in the realization of our goal to take banking services to the door steps of the poor. They are especially useful for freeing the poor people from the clutches of moneylenders. A vast network of vibrant grassroots banking organizations is the surest guarantee of socio-economic empowerment of the poor and especially of poor women”.

Sharma K.C. (2001) reported that significant changes in the living standards of SHG members have taken place in terms of increase in income levels, assets savings, borrowing capacity and income generating activities. However caution needs to be exercised to safeguard healthy growth of SHG movement in India. The challenges are real and change agents will have to struggle for keeping the SHG movement away from subsidy oriented programme like Swarna Jayanti Gram Swarazgar Yojana, differential rate of interest scheme, integrated rural development programme, scheme of urban micro enterprises, twenty point programme – 1986, Prime Minister’s Rozgar Yojana for educated unemployed youth.

Nedumaran. S. (2001), in a study on performance and impact of Self-Help indicated that more than 62 percent of the members were scheduled
castes/tribes and about 67 percent were illiterate. The main occupation of about 70 percent of the members was agricultural labour. About 47 percent of SHGs were registered as with their saving performance. The saving and the over age loan group member in the groups showed an increase based on the age of the groups. The average annual saving per member was Rs.550 in the Self – Help age group 2–3 years, which almost doubled and the loan advanced increased by 33 percent after a period of four years, the repayment of loan was to the extent of 95 to 98 percent. The annual net family income of the members in the post– SHG situation increased by 20 percent over the pre– SHG situation. The study indicated that social condition of the members considerably improved after joining the group activities. He also opined that members of SHGs could get loans in such magnitude and purposes for which banks cannot finance due to high operational cost. These groups also helped the members to free them the clutches of moneylenders and save them from exploitation even for meager amounts. Further. It was observed that the members did not mind to pay the higher interest rate of 24 percent per annum to the group which borrowed from the banks at 12 percent rate of interest and the interest earnings from the members are deposited in the bank at higher interest rate or distributed among members of the group on repayment of bank loan, sequential financing remain poorly understood. In particular the effect of sequential financing on group-formation, as well as its interaction with social capital and joint liability deserves careful scrutiny.

Ramakrishna R. (2002) \(^{38}\) opined that as compared to IRDP beneficiaries, those covered under SHGs far better in respect of socio-economic empowerment and access to institutional credit. If the SHGs are allowed to develop links with bank branches, the credit needs of the poor are met and their small savings, tapped recoveries and profitability would improve. The linkage of the SHGs with the bank will enable them to become operationally viable units.

### 2.8 INCOME IMPACT OF MICRO FINANCE PROGRAMMES:

The urgency of the need to seriously engage with the issue of socio-economic differentials among the targeted clientele of MFIs has been reinforced by income
impact findings of micro finance programmes, that point to the greater capacity of the "upper" and "middle" poor sections, when compared to the "core poor", to take advantage of the enterprise possibilities opened up through access to micro credit programmes. David Hulme and Paul Mosley's study, which critically examined the poverty alleviation impact of 13 selected micro credit programmes worldwide, found that while well designed lending programmes could move large numbers of poor people above the official poverty line, there was clear evidence to show that the impact of the loan on borrowers' incomes was related to their existing level of income. As borrowers with higher income levels and higher access to information about market conditions could access a wider range of investment opportunities and cushion themselves better against risks, initial life circumstances were found to be the most important factor in the emergence of successful micro entrepreneurs (Hulme and Mosley, 1996) 39.

Differences between the "upper" and "middle" income sections also appear as important as differences between these and "core poor" sections of the population as demonstrated by the Hulme and Mosley study which found that "upper poor" households may be able to invest in successful income-generating enterprises, whereas the "middle poor", less-educated and connected than the former, may not be able to profit from enterprise opportunities unless the formal economy experienced considerable growth. Hence, middle poor sections, which are provided with enterprise credit, may require pro-active and ongoing assistance from the sponsoring MFI with technical innovation, product development and marketing. Although Hulme and Mosley are optimistic about the receptivity of middle and upper sections of the poor to income generation strategies, they caution that a well-designed package of financial services that meets the needs of various sections of the poor can only be one component of a more comprehensive anti-poverty intervention and cannot hope to replace other social security mechanisms such as food-for-work, employment guarantee, drought relief or other welfare programmes.
The commissioned study on micro finance for the World Bank's World Development Report (2000) which reviewed the operation of 7 micro finance programmes in 4 countries (Bangladesh, Uganda, Bolivia and the Philippines) was unequivocal in its finding that micro finance programmes did not reach destitute sections who were firmly outside the reach of most programmes, that the extreme poor sections who did participate were not a majority and that the majority of clients were found to belong to moderate poor and vulnerable non-poor households. It has been observed that the response to the growing body of critical literature on the functioning of the current micro finance programmes had led to attempts by some NGOs to modify lending strategies and to take up a wider spectrum of development activities that may suit the needs of poorer sections better. The NGO Bangla Rural Advancement Committee (BRAC) initiated the Income Generation for Vulnerable Group Development (IGVGD) programme that targeted women from the poorest, landless families and provided them with a monthly wheat ration for two years, during which period they started a savings group, participated in training organized by BRAC in some income generating activity and received credit to start the activity. The combination of relief, training and credit provided to women from the poorest households was found to have been successful in reaching destitute women, who were usually excluded from NGO activities. The experience of the IGVGD indicates clearly that core poor sections may need to be pro-actively assisted over a length of time even to qualify for MFI membership.

One of the key insights that we derive from critical literature on the poverty impact of micro credit programmes is the heterogeneity of the poor and particularly those sections usually lumped together as "below poverty line" sections. So that the question of whether micro credit serves the interests of the poor and addresses poverty concerns may be reformulated into one of which sections of the poor micro credit is able to reach and effectively serve.

2.8 VULNERABILITY REDUCTION AND RISK MANAGEMENT:
The World Development Report “Poverty” published by the World Bank in 1990 along with the UNDP’s annual publication - the Human Development Report has been frequently cited as the seminal texts that signaled the re-articulation of poverty as the prime development concern of the 1990s. Micro credit finds place in chapter 4 of the WDR (1990) titled “Promoting Economic Opportunities for the Poor”, which identifies increasing access to credit as one of the strategies aiming to increase participation of the poor in growth processes along with increasing access to land, to infrastructure and technology and improving tenancy. The WDR (1990) argued that subsidized credit programmes for the poor had resulted in considerable leakage to the non-poor and non-viability of the lending institution and that very small proportions of the poor had actually enjoyed access to institutional credit in Latin America, Africa and Asia. The report concluded that recent innovations in financial intermediation pioneered by NGOs, donors and governments had led to successful coverage of extremely poor sections, as demonstrated by the case of the Grameen Bank’s clientele, and that micro enterprise lending was demonstrated to have had considerable impact on the income levels of the poor (World Bank, 1990).

As a risk management tool, the WDR reiterates that the key strength of micro finance inhere in the knowledge that loans will be available when needed by client households, who can subsequently move towards more proactive strategies by planning to mitigate risk. In stark contrast to the WDR (1990) which had commended micro finance programmes for their outreach to extremely poor sections. The publication of a large number of studies testifying to the inconsistent, contingent and overall disappointing results of micro finance in enabling large numbers of the poor to climb up and out of poverty have fed into the evolving discourse around micro finance and have effected a shift in the projection of micro finance, exemplified best by the changing references to micro finance in the World Bank’s World Development Report of 1990 and the WDR of 2001.
The potential of micro finance programmes to better address concerns of vulnerability and risk management relative to those of overcoming poverty through income enhancement, as demonstrated by the commissioned background study for the WDR (2000-01) and by a host of earlier studies emphasizing the protectional as opposed to the promotional aspects of micro finance, was likewise reflected in the World Bank’s World Development Report. As we have already seen, the commissioned study of the WDR on micro finance chose as its theme the non-income impact of micro finance and emphasized the future potential and current limitations in the use of micro finance as a protective household level risk management strategy. The World Bank’s framework for attacking poverty in the decade to come as elucidated in the WDR emphasized action on what it identified as being three closely inter-related fronts: Empowerment (addressing economic, social and institutional inequalities that prevent the poor from gaining access to influence over policies and interventions that influence their lives), Security (addressing the risk and vulnerability that poor nations are increasingly expected to face in the global economy and that the poor within nations have always experienced) and Opportunity (creating the conditions for human and physical investment and sustainable economic expansion in which the poor participate fully). It is illustrative to note that micro finance finds place in the section on “Security” as one of the policy responses for improving risk management along with Health Insurance, Old Age Pensions, Unemployment insurance and assistance, Public work programmes, Social funds, and cash transfer to vulnerable sections (World Bank, 2001).

2.9 IRDP AND LESSONS FOR THE MICROFINANCE SECTOR:

A consistent criticism of the IRDP has been directed at its lack of understanding of the differing resource endowments of the poor and the effect of the Antyodaya principle of pushing the poorest sections—those least able to bear risks and with minimal skills and entrepreneurial support services into risky self-employment ventures.
Pulley (1985) notes that one of the key recommendations of the Committee for Review and Arrangements Finance and Institutional Credit for Agriculture and Rural Development (CRAFICARD) that the IRDP ignored, was that of categorizing poor households into three groups: those who could become viable with just a loan; those who needed loan and subsidy; and the non viable poor who need special assistance through social security programmes. Skepticism about the potential of self-employment ventures to lift mass sections of the population above the poverty line and a critique of planners’ perception of the poor as a homogenous, undifferentiated mass constituted the thrust of the famous “wage versus self employment” debate that raged among Indian scholars in the mid-1980s.

Nilakantha Rath (1985) had argued that the idea of self employment for the poor was fundamentally flawed and had pointed out that wage employment, an infinitely superior strategy, placed no demands upon the entrepreneurial skills of the poor, created no worry about loan repayment and did not require the demoralizing pursuit of subsidy.

Indira Hirway (1985) countered Nilakantha Rath by pointing out that self employment already constituted the major form of employment of the poor in India and could not be ignored by planners. She argued for a distinction between two categories of the poor: those who possessed some skill, education or enterprise and could take up self-employment and those who did not and could be considered eligible for wage employment instead.

Bagchee (1987) endorsed Hirway’s contention but argued for a sub-set within the category of wage employment households comprising those families without an able bodied adult member, that could not make use of wage employment programmes and required access to state sponsored social security schemes on a priority basis.
We argue that the wage versus self employment debates in India can offer important insights for micro finance programmes in India or elsewhere and for the current micro finance paradigm that aspires to use small peer groups to reach credit effectively to the poor so as to finance income-generating enterprises, thereby alleviating poverty. If the success of employment programmes hinges critically on targeting specific interventions (wage, self employment, social security plus wage employment) towards different sections of the poor and fine tuning these programmes so that they meet the varying needs of the poor, we would need to envision systematic, integrated planning on a nation wide scale in which state planning and implementation bodies must necessarily play the lead role. Such meticulous planning and targeting of specific components of anti poverty programmes to differently-endowed sections of the poor is not inherently built into the structure of Non-Government Organizations/Micro-Finance Institutions sponsored self help groups or small borrower groups in India or elsewhere.

The point that is being argued here is that the sheer existence and effective functioning of self help groups and other variants of small borrower groups is not by itself evidence of the operation of decentralized planning or of any kind of planned approach at all to the employment needs of group members. Therefore, while the involvement of local bodies, forms of local government, community-based development and service organizations would be important when attempting such initiative, these can hardly be expected to substitute the role of the state in a task of such complex and vast proportions. It would seem therefore that, in order to succeed, the project of poverty alleviation through micro enterprises financed and supported by microfinance groups would need more of the developmental state rather than less of it - a prospect that runs counter to the dominant micro finance discourse that relegates the state to the peripheral role of creating an enabling environment in which Microfinance Institutions programmes may flourish unhindered.

On the issue of the heterogeneity of the poor, it is important to note that the
similar conclusions with regard to the differential income impact of micro finance programmes upon different sections of the poor have been pre-dated and anticipated, as it were, by the earliest critical assessments of the IRDP of India, the nation-wide, self-employment based, poverty alleviation programme. A perusal of the substantial scholarship on the critical evaluation of the IRDP would point to the startling similarities in the structural problems encountered by an older generation of individual targeted self employment programmes and the more recent group lending based micro finance programmes.

2.10 MICRO- FINANCE INITIATIVES AND RURAL CREDIT:

Analysts also note the redefinition of the “priority sector” by the RBI during 1997-98 and 1998-99 and caution that increases in priority sector lending towards the late 1990s might be reaching the newer sub sectors that were not part of the priority sector in 1991. Critical research on the impact of financial liberalization and banking reforms policies upon the rural and agricultural sector point to the emerging neglect of the needs of weaker section and priority sector lending. This is reflected in the declining share of rural branches in total commercial bank branches, the falling percentage of rural to total bank credit, an adverse movement of the credit-deposit ratio, the reduction of the formerly exclusive weaker section lending of Regional Rural Banks to no more than 10 percent of their total lending and the gross levels of under utilization of resources earmarked for the agricultural sector through the Rural Infrastructure Development Fund (RIDF) constituted at NABARD in 1995. The latter has been critiqued as having become a safe parking place for funds deposited by commercial banks so as to make good deficiencies in their priority sector lending targets (Nair, 2000). It has been further noted that the share of agriculture, within the priority sector, has not attained the mandated norm of 18 percent of total advances since 1995-96 and that furthermore, the share of direct lending to agriculture (within the category of agricultural lending) had declined sharply between 1995-96 and 1999-2000. On the other hand, indirect lending to agriculture, that includes the purchase of vehicles and land for housing purposes, had doubled over the same period.
perspective on the magnitude of institutional credit extended to the poor through SHGs, we note that disbursements under the SHG-bank linkage programme in the year 2000-2001 constituted less than half of 1 percent of the total amount that was disbursed for agriculture and allied activities by the banking system during that year, while disbursements under the SGSY scheme, targeted at officially-designated BPL families, constituted more than two and a half times the advances under the SHG-bank linkage. This divergence between micro initiatives such as micro finance and macro policies relating to the rural credit sector raises the question of how Micro Finance Institutions and Non Government Organizations can possibly hope to fill the gap created by a reversal of state commitment to financing the production and consumption needs of the rural poor and therefore whether the current policy thrust accorded to the agenda of expansion of self help groups can amount to much more than rhetorical tribute to concerns of poverty alleviation.

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