CHAPTER I

INTRODUCTION AND METHODOLOGY
India is the ninth largest economy in the world in terms of nominal GDP ($1632 billion in 2010)[1] and the fourth largest in terms of Purchasing Power Parity ($4057.79 billion in 2010).[2] Following the strong economic reforms and adoption of free market principles since 1991, the country’s economy has been growing at a rapid rate and recorded 7.7 percent in the second quarter of 2011.[3] Despite fast economic growth India continues to face massive income inequalities, high unemployment and poverty. According to a World Bank estimate about 300 million people in India live on less than $1.25 per day. This implies that one third of global poor reside in India.

Poverty is a situation when people are unable to get satisfactorily the basic needs of life. It comes in many forms and causes multiple harms. The poor may suffer from lack of food, water, unemployment, disease, abuse, homelessness, degradation and suffer from physical, mental and emotional disability, limited skills and education, low self-esteem and lack of self-confidence, fear, resentment, aggression and truanted vision. In the words of Amartya Sen, “Poverty must be seen as the deprivation of basic capabilities rather than merely as low incomes.”[4] In spite of many steps and programmes undertaken by the Central and State Governments like Integrated Rural Development Programme (IRDP), Jawahar Rozgar Yojana, Sampoorna Gramin Rozgar Yojana etc poverty remains widespread and constitutes a great burden for the economy as a whole, and its removal has become great challenge for the policymakers. Mohammed Yunus while receiving the Nobel Peace prize said that “lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty.”[5]
Alleviating poverty requires many tools, including food, shelter, employment, health and family planning services, education, infrastructure, finance, markets and communication. The key to reducing poverty is knowing how to use the tools. Finance helps the poor catch up with the rest of the economy as it grows. Finance also extends the range of individuals, households and firms that can get a foothold in the modern economy and it reduces damaging concentration of economic power. A schematic diagram of a poverty alleviation toolbox with an emphasis on its financial component is shown in figure 1.1.

**Fig 1.1: Financial Services in the Poverty Alleviation Toolbar**

<table>
<thead>
<tr>
<th>INCOME LEVEL</th>
<th>COMMERCIAL FINANCIAL SERVICES</th>
<th>SUBSIDIZED POVERTY ALLEVIATION PROGRAMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOWER MIDDLE INCOME</td>
<td>Standard commercial bank loans and full range of financial savings services</td>
<td>Interest-bearing savings accounts for small savers</td>
</tr>
<tr>
<td>ECONOMICALLY ACTIVE POOR</td>
<td>Commercial microloans</td>
<td></td>
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<tr>
<td>EXTREMELY POOR</td>
<td>Official poverty line for such purposes as food and water, medicine and nutrition, employment generation, skills training and relocation</td>
<td></td>
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The first column in the figure shows three income levels: lower-middle income, the economically active poor, and extremely poor. The extremely poor are those living on less than $1.25 per day, while economically active poor have just enough income to meet basic nutrition, housing and health needs and lower-middle income group have relatively reliable income, higher standards of health, nutrition, housing and education. Second column shows financial services that are typically suitable for different income levels. Commercial microcredit is appropriate for lower middle income groups and even most of the economically active poor. Third column shows non financial poverty alleviation tools that are appropriate for those below the poverty line and are essential for extremely poor. The tools shown in the third column are funded by direct subsidies and grants.

Some households start extremely poor and gain employment. Then they may open small savings accounts. Some households with savings accounts then add small loans. Some clients are able to expand and diversify their enterprises. Thus financial services slowly would help the poor to rise above poverty. When permitted by the institutions, many micro banking clients save continuously and borrow occasionally. Over time, some qualify to become clients of standard commercial banks.

1.1 Government of India’s initiatives for Poverty Alleviation

Finance is the most crucial input for economic activity, growth and development. Provision of such finance to the poor and underprivileged sections of the society has always been the focus of various programmes initiated by the Government of India since its independence. Government of India has experimented with a large number of grant and subsidy based poverty alleviation programmes like

- Top-down rather than bottom-up approach in planning and implementation has led to formulation of schemes without proper assessment of the needs of the people which often led to the wastage of resources without meeting the actual needs of the beneficiaries.

- Creation of a number of independent implementing agencies with similar functions for a single programme. These agencies often lack coordination between themselves leading to digression from the primary objectives and wastage of resources.

- Lack of accountability of the lower tier to the upper tier of the Government and lack of accountability to the people have largely been responsible for diversion of funds in poverty alleviation programmes. This is primarily attributable to lack of people’s participation in the implementation of
programmes, lack of transparency in the operation of schemes and inadequacy of monitoring mechanism.

- The operational expenses of some of the programmes become abnormally high which makes the programmes unviable. Such high cost comprises avoidable delivery-related cost or unproductive expenses on account of inadequate planning, tardy implementation and corrupt administration.

- These poverty alleviation programmes are formulated without addressing the question of sustainability of their benefits. These programmes are primarily intended to build the capability of the vulnerable groups to become self-reliant. However, most programmes run with ever-expanding Government budgets and instead of making the beneficiaries self-reliant mostly end up increasing the dependence of the beneficiaries on the Government funding and eventually become unsustainable.

In spite of a majority of the population living in rural areas (80 percent) and largest contribution of agriculture to GDP (40 percent), the share of credit to agriculture was just 2.2 percent of the total credit which most exclusively was going to middle and large farmers. Thus the rural poor continue to depend on informal sector for their credit requirements. To overcome this problem the Government of India took three measures in 1969: 1) Nationalization of 14 private banks 2) Opening up of two rural bank branches for every one urban bank branch and 3) Mandatory system of priority sector lending. These measures led to establishment of 10882 rural and semi-urban branches by 1975. Even these measures could not mitigate the problems of rural poor and they still lacked access to formal credit. The Government of India in 1976 set up RRBs with a view to meet the credit
requirements of the weaker sections of the society living in the rural areas, such as small and marginal farmers, agricultural laborers, rural artisans etc.

Despite encouraging programmes undertaken and policies initiated by Government of India and wide network of rural bank branches for poverty alleviation, a very large number of poorest of the poor continued to remain outside the formal banking system. The NCAER Survey on rural access to finance indicates that 70 percent of the rural poor do not have a bank account and 87 percent have no access to credit from a formal source. According to a World Bank estimate in 1995, in most developing countries the formal financial system reaches only the top 25 percent of the economically active population- the bottom 75 percent have no access to formal financial system. Therefore, a need was felt for alternative policies, systems and procedures, savings and loan products, and new delivery mechanisms which would fulfill the requirements of the poorest in rural India. In this context Microfinance has emerged as an important tool.

1.2 Microfinance

Microfinance is the provision of thrift and other financial services and products of very small amount to the poor in rural and semi urban areas for enabling them to raise their income levels and improve their living standards. It is a term for the practice of providing financial services, such as micro credit, micro savings, micro insurance and micro pension to the poor people. It helps the poor to accumulate usably large sums of money, expands their choices and reduces their risk.
Microfinance is defined by the Asian Development Bank as “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”[9]. Providers of microfinance include formal sector institutions like commercial banks, cooperative banks, RRBs, NABARD, SIDBI etc and money lenders, chits, friends and relatives in the informal sector. In between these two forms, the semi-formal institutions, NGOs and MFIs are included. Generally, formal and semi-formal institutions provide services either on an individual basis or on group basis. Institutional Microfinance includes micro finance services provided by both formal and semi-formal institutions.

Microfinance is basically an institutional/group finance and is different from priority and rural sector lending where finance is extended to only individual beneficiaries. Moreover under microfinance there is no subsidy or interest concession and the main focus is on timely finance to the needy people and to encourage thrift among them. Since it deals with group of individuals, transaction costs are low when compared to the conventional rural lending. Under microfinance poor are made ‘Bank-friendly’ and institutions are made ‘Poor-friendly’. The financial services under microfinance extend beyond credit and savings and include enterprise development, training in marketing strategies and community development etc.

1.3 Origin & Evolution of Microfinance

The concept of microfinance is not new. It has been in existence for centuries under the informal sector and called under different names in different countries like
“susus” of Ghana, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia. In India also it has been in existence under informal sector with the name “chit funds”. Formal credit and financial services through Cooperatives and Development financial institutions intended to serve poor who were traditionally neglected by commercial banks have also been around for decades. One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by Jonathan Swift. Swift's idea began slowly but by 1840s it had become a widespread institution of about 300 funds all over Ireland\(^{[10]}\). Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20 per cent of all Irish households annually. In 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives.

In 1900s, Microfinance companies came into being with the specific motto of increasing the commercialization of rural sector by mobilizing ‘idle’ savings and increasing investment through credit, and thereon zeroing indebtedness. Many countries like Indonesia (1895), Pakistan (1957), Bangladesh (1976) and Bolivia (1980) started microcredit facilities by establishing various institutions\(^{[11]}\).

1.4 Development of microfinance system in India

The beginning of Microfinance in India could be traced to Self Employed Women’s Association (SEWA) which was registered as a trade union in Gujarat in
1972. Its main objective was to “strengthening its members bargaining power to improve income, employment and access to social security.” In 1973, to address their lack of access to financial services, the members of SEWA decided to form “a bank of their own”. Four thousand women have contributed share capital to establish the Mahila SEWA Cooperative Bank. Since then it has been providing banking services to the poor, illiterate, self-employed women and has become a viable financial venture with around 30000 active clients today. The transformation of Agricultural Credit Department into National Bank for Agriculture and Rural Development (NABARD) by RBI in 1982 is the most significant step in the development of microfinance in India. With the establishment of NABARD, 160,000 rural financial outlets which include 100,000 Primary Credit Cooperatives (PACS) came under its purview.

The second half of 1980s NABARD took a different direction in attending to the problems of rural poor by adopting savings led approach rather than the conventional credit driven approach, designing new delivery systems and new financial products. In this direction NABARD along with CIDA funded an action research carried on by MYRADA which was a successful NGO in Karnataka in extending credit to large groups (Credit Management Groups). The study came out with three options 1) savings with matching grant, 2) savings with matching interest free loans and 3) savings with matching loans with interest. NABARD opted for the third option for the sustainable solution to alleviate poverty in India. To implement this NABARD embarked on an innovative model ie Self-help group Bank Linkage Programme (SBLP) in 1992-93. For effective implementation of this model NABARD opted for linking self-help groups with existing network of banks.
Commercial banks, RRBs, Cooperative banks) rather than 'Grameen Bank model' of Bangladesh under which all the SHGs are linked to a single bank. NABARD provides resources to NGOs for forming SHGs, to banks for refinancing the loans given to SHGs, and to all agencies involved for capacity building. As stated earlier SHG bank linkage model leads to low transaction costs, facilitate growth of resources of the groups and banks and 100 percent repayment of loans. In India microfinance programmes are run primarily by NABARD in the field of agriculture and SIDBI in the field of industry, service and business.

1.5 Swarnjayanti Gram Swarozgar Yojana (SGSY)

Another important model of microfinance is "Swarnjayanti Gram Swarozgar Yojana" (SGSY). Government of India and The Ministry of Rural Development together have launched this programme by restructuring the existing schemes like Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self Employment (TRYSEM), Development of Women & Children in Rural Areas (DWCRA), Supply of Improved Toolkits to Rural Artisans (SITRA) and Ganga Kalyan Yojana (GKY). This scheme covers rural poor such as those with land, landless labour, educated unemployed, rural artisans and disabled.

The SGSY Scheme is operative from 1st April 1999 in rural areas of the country. NGO’s help is sought in the formation and in nurturing of the Self Help Groups (SHGs) as well as in the monitoring of the progress of the Swarozgaris (women members of SHGs). This programme is different from SBLP regarding the subsidy provided. Under SGSY programme the subsidy is provided to the beneficiary while it is not provide in SBLP. The extent of subsidy provided under
the scheme is 30 percent of the project cost subject to a maximum of Rs 7500. In respect of SC/STs, disabled and Swarozgaris the subsidy is up to 50 percent of the project cost subject to a maximum of Rs. 10,000. The objective of SGSY is to bring assisted family above the poverty line within three years by providing them income generating assets through a mix of bank credit and Government subsidy. The beneficiaries under the scheme can be either individuals or groups selected from BPL families by a three member team consisting of Block Development Officer, Banker and Sarpanch. As on 31st March 2010, Rs 6251.08 crore was loan outstanding under SGSY programme.

1.6 Objectives of Microfinance

Microfinance is a miniscule but potentially significant and effective credit delivery system which seeks to achieve the following broad range and multifaceted objectives to meet the credit needs of rural poor, including the non-bankable and the landless.

- Support financial services to the rural poor, particularly enterprises who have not been able to secure the needed services from the formal financial system.
- Provide loans and capacity building funds in respect of enterprises and various types of other grass root level micro-finance institutions.
- Support all initiatives for up scaling of the SHG-Bank Linkage Programmes through thrift related banking activities.
- Help build up mutual trust and confidence between the bankers and the rural poor.
• Evolve supplementary strategy for meeting the credit needs of the poor by combining flexibility, sensitivity and responsiveness of informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institution.

The microfinance initiatives taken by the Government/financial institutions/banks/NGOs etc., since 1992 have provided the following important lessons:

• The SHG model is a flexible one and variation of sizes and compositions are permitted as also charging flexible interest rates, purposes and repayment terms. This flexibility has enabled various types of SHGs to flourish which meet the varying requirements of their clientele.

• The poor are bankable, with transaction costs reduced to both borrowers and banks. This helps in meeting the microcredit needs of poor people, with greater efficiency.

• Over 90 percent of the SHGs financed by banks have been set up by women who are not only saving for their families, but are being subtly empowered in the process.

• The savings aspect is emphasized and frequent small savings of the members are allowed to accumulate and add to the group funds.

• Once the members are able to operate bank accounts responsibly, loan screening process time as also costs for the banks are reduced and some individual SHG members may graduate to lasting relationships as valued customers of banks on an individual basis.
• The poverty alleviation process is hastened as leakages are virtually nil. The members use their own funds judiciously and after estimating individual loan risks, price their loans accordingly.

• The loan recovery rates of SHGs are excellent in comparison with any other loans extended by Government for poverty alleviation.

• The SHGs are sustainable even though the NGOs have to spend money, time and efforts in group formation, intermediation costs are often not fully recovered.

The growth rate of the SHGs is phenomenal, which shows that the rural people are keenly involved in their growth and are able to sharpen their micro entrepreneurial skills with the help of their micro savings and additional bank credit as needed.

1.7 Products of Microfinance

Microfinance refers to a movement that envisions "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers"[13]. It encompasses any financial service used by the poor people, including those who have access in the informal sources, such as loans from a village moneylender. In practice however, the term is usually used to refer to institutions and enterprises goals of which include both profitability and reducing the poverty of their clients. With a view to promote and develop micro financial services market for providing financial services to the poor, that would satisfy their various needs (lifecycle needs, personal emergencies, disasters and investment
needs) the MFIs, NGOs and the banks have been working for the development of appropriate products and delivery mechanisms. The products of microfinance that are now in vogue are:

- Micro credit
- Micro savings
- Micro insurance
- Micro pension

1.7.1 Micro credit

Micro credit is one of the newest and most popular forms of poverty alleviation. Indeed, the United Nations designated 2005 as 'the Year of Micro credit'. Micro credit is the extension of very small loans (microloans) to the unemployed, to poor entrepreneurs and to others living in poverty those who are not considered bankable. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. It is a part of microfinance, which is the provision of a wider range of financial services to the poor and enables extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and exit poverty. While micro credit might seem very similar to standard loans made by commercial banks, there are many differences between them.

Commercial banks rarely lend money to the poor, because of high risk of collection, high cost of conducting transactions and low profit margin on small amounts of loans. Due to these reasons poor usually depend on loans from moneylenders and other informal sources who charge exorbitant interest rates,
sometimes as much as 36 percent per year. On the other hand micro credit organizations charge relatively lower interest rates and offer convenient repayments in installments. Micro credit through MFIs is offered at interest rates relatively higher than the interest rates of commercial banks. Micro credit through SBLP which is the focus of the present study provides loans at relatively lower rates of interest than MFIs and also at convenient installments and without insisting on collateral. Under SBLP credit is extended to ‘solidarity groups’ — small social groups. Each group takes out a loan. If any member of the group defaults on repayment obligations (for example, he or she misses weekly payments), the whole group is penalized. Because of this, group members often exert peer pressure on non-paying members, contributing to the high repayment rate. In Grameen Bank model, the most popular model of microfinance in Bangladesh, recorded 99.01 percent recovery rate for its micro credit program. Professor Yunus, the founder of Grameen Bank introduced the revolutionary idea of extending microcredit solely to women as he observed that, 1) more women lived in poverty, 2) women, especially in Asian countries such as Bangladesh, were marginalized in society and unable to get good education and 3) women had a better repayment rate on their loans than men[14].

Types of Microcredit

While most micro credit operations today involve monetary loans, a growing number of operations loan other items, such as livestock or supplies, which are then paid back monetarily. For instance, Gonoshasthaya Kendra in Bangladesh loans livestock—cows, chicken, and goats—to poor women living in villages. Lending
livestock can be very effective because the animals reproduce, help with labor (oxen, for example, can transport goods), and produce such consumable products as milk and eggs, all of which can improve the financial situation of a borrower. Monetary loans, on the other hand, can be used only once. But there are drawbacks to livestock loans. For instance, livestock can get sick or die, creating problems for borrowers and MFIs. And in contrast to livestock loans, monetary loans can be used as start-up capital for small businesses and there is a scope for diversification.

Due to the expansion of micro credit into poverty relief efforts, microcredit has gained international popularity and the year 2005 was designated the 'International Year of Micro credit' by the Economic and Social Council of the United Nations. Much like the Millennium Development Goals, this act serves to heighten public awareness of micro credit, providing information on micro credit activities around the world. Micro credit also is strongly endorsed by a special United Nations organization: the United Nations Capital Development Fund Microfinance, or UNCDF Microfinance. Though it does not actually engage in micro credit activities, UNDF Microfinance helps MFIs expand through technical assistance and grants, called MicroStart grants. This approach has proved very effective. In Guatemala, for example, a $500,000 grant to a commercial bank allowed the bank, Bancafe, to create a micro credit service that allowed 11,000 new borrowers to join.\(^{[15]}\)

1.7.2 Micro Savings

Throughout time, all around the world, households have saved: as insurance against emergencies, for religious and social obligations, for investment and for
future consumption. The importance the poor attach to savings is also demonstrated by the many ingenious (but often costly) ways they find to save. But for a variety of reasons, most informal mechanisms fail to meet the needs of the poor in a convenient, cost-effective and secured manner. As a consequence, when poor households’ are provided a safe, easily accessible opportunity to save, their commitment to saving, and the amounts they manage to save are remarkable. Designing savings services to respond to this potential market requires the careful balancing of the needs of the saver and those of the institution.

A branch of microfinance, consisting of a small deposit account offered to lower income families or individuals as an incentive to store funds for future use. Micro savings accounts work similar to a normal savings account, however, are designed around smaller amounts of money. The minimum balance requirements are often waived or very low, allowing users to save small amounts of money and not be charged for the service. Micro savings plans are usually offered in developing countries as a way to encourage saving for education or other future investment. People who invest in these plans are better prepared to cope with any unforeseen expenses, which would usually harm lower income individuals.

One of the chief fears voiced by MFIs regarding micro savings revolves around the potential difficulties involved in dealing with the many small transactions often associated with the providing savings services to the poor. While this is indeed likely to be the case, micro savings have many positive aspects as follows:

1. Generally, the majority of the transactions will be deposits. Indeed the poor are often remarkably unwilling to make withdrawals. However they do want to know that they could withdraw if a pressing need arose;
2. Poor people have a multiplicity of needs and are not always looking for a highly liquid account to use on a regular basis; and
3. Savings accounts targeted for medium and long-term needs are particularly attractive to MFIs in search of capital for on-lending, and appropriately designed products can encourage these.

There are also important and often overlooked additional benefits of offering savings services to the poor. In addition to providing capital for on-lending, savings services of MFIs also can:

1. Develop the client base (of borrowers) for the future;
2. Obtain information on the clients’ abilities to save and (by implication) repay loans;
3. Facilitate repayments when clients are unable to meet repayments out of current income;
4. Encourage repayments, as clients want to maintain a good reputation and their access to future services; and
5. Serves as more stable source of funding.

1.7.3 Micro Insurance

Micro insurance is the financial service that enables the lower income population to mitigate risks through the insurance market, reducing their vulnerability and hence increasing their welfare. Micro insurance is a term increasingly used to refer to insurance characterized by low premium and low caps or low coverage limits, sold as part of a typical risk-pooling and marketing
arrangements, and designed to service low-income people and businesses not covered by typical social or commercial insurance schemes.

Micro insurance is not a new invention. The introduction of “industrial insurance” in 1900 by the Metropolitan Life Insurance Company became the forerunner for today’s commercial micro insurance. The delivery channels adopted by the company (agents at the factory gates), the premiums and coverage (specific risks and needs of workers) and the time of premium collection (on pay day) were very efficient and contributed to the success of the company. In short, industrial insurance was a response to a market niche that provided access to quality insurance products for low-income workers, and access to a huge market for the insurers.

Micro insurance, like regular insurance, may be offered for a wide variety of risks. These include both health risks (illness, injury, or death) and property risks (damage or loss). A wide variety of micro insurance products exist to address these risks, including crop insurance, livestock/cattle insurance, insurance for theft or fire, health insurance, term life insurance, death insurance, disability insurance, insurance for natural disasters, etc. But most of the MFIs have not gone beyond offering compulsory credit-life insurance to their clients, where the amount taken as a loan is insured in the event of the borrower’s death. Unlike credit, that has a ready demand, insurance is driven by the customers adversity to risk, combined with an awareness of business risks and is thus linked to customer education. One of the greatest challenges for micro insurance is the actual delivery to clients. Methods and models for doing so vary depending on the organization, institution, and provider involved.
1.7.4 Micro Pensions

Micro pensions is a concept whereby the poor people are sensitized towards the need to accumulate a corpus which will help them to take care of themselves in old age, by saving small amounts during their working lives. The process of creating awareness for the poor towards this aspect can be effectively taken over by the NGOs, SHGs, MFIs and Development Banks. Some of these institutions have already taken initiatives in this regard. For instance Activists for Social Alternatives [ASA] an MFI based in Trichirapalli, Tamilnadu has initiated a micro pension plan for the poor people who are its members. Another institution, which has taken a step forward in this direction, is SHEPERD, a NGO again based in the same place. Both these institutions have found that their venture has found the favor of many of its members. We also have SEWA Bank offering a micro pension plan to its members. Grameen Bank of Bangladesh has started the Grameen Pension Savings [GPS] in 2000 and has found that the total number of members and the total contribution to the GPS have almost trebled over the six years. Such is the might of this concept. If SHGs, NGOs, MFIs and Banks can partner themselves with the right service providers, the concept of micro pensions is sure to pave the way for a fairly comfortable old age for the poor people in the informal sector.
1.8 Approaches of Microfinance

Indian microfinance is dominated by two operational approaches i.e. Self Help Groups (SHGs) and Micro Finance Institutions (MFIs). The first approach is popularly known as SHG- Bank Linkage model. This model is the dominant model, initiated by the NABARD. It has largest outreach, to microfinance clients in the world. It started off with a modest number of 225 SHGs with a loan disbursement of 29 lakh in 1992-93. This has increased to 68.22 lakh SHGs with a loan disbursement of Rs 53523.5 crore by 2009-10. The second approach is financing through MFIs. This model emerged in the late 1990s to harness social and commercial funds available for open lending to clients. As per CRISIL estimates, the total number of MFIs and loan disbursed by them stood at 1109 and Rs 1850 crore by the end of March 2009.

SHG Bank Linkage Model:
1.9 Present Study

The present study focuses on evaluation of the performance of SHGs, evaluation of the impact of SBLP on the socio economic status of members and to study the perceptions and problems of bank officers regarding SBLP in Bangalore Rural district of Karnataka. Before stating the specific objectives of the study a review of earlier reasearch studies in this area are presented hear.

1.10 Review of Literature

B Malleshwari\textsuperscript{[16]} in her thesis entitled “Microfinance programmes and women empowerment” assesses the impact of microfinance on respondants, evaluated the repayment behaviour and participation of women beneficiaries in decision-making. For the purpose of study 36 SHGs and 360 SHG members and a control group consisting of 90 members were taken as sample. Major observations
of the thesis being, improvement in savings, employment and participation in decision making among SHG members. From the study B Malleshwari has suggested to improve on training facilities to the SHG members, reduce the communication gap between the banker and the beneficiary, computerisation of all rural branches.

Anushree Sinha\(^{17}\) for the study, "Impact and Sustainability of SHG Bank Linkage Programme" assesses the impact and sustainability of SHG bank linkage on the socio-economic conditions of the individual members and their households in the pre-SHG and post-SHG scenarios. The study was conducted for India as a whole covering six states (Andhra Pradesh, Karnataka, Maharashtra, Orissa, Uttar Pradesh and Assam) from five different regions, namely the south, west, east, central and north-east. The overall findings of the study suggest that SBLP has significantly improved the access to financial services of the rural poor and had considerable positive impact on the socio-economic conditions and the reduction of poverty of SHG members and their households. It has also reportedly empowered women members substantially and contributed to increased self-confidence and positive behavioral changes in the post-SHG period as compared to the pre-SHG period. The results of the analysis show that SHGs have been performing better not only as providers of financial services in terms of augmenting savings, lending and ensuring loan recovery, but also in terms of awareness creation and empowerment.

Wolfgang Hannover and Dr. Klemens van de Sand\(^{18}\) for their report on "Microfinance and MDGs – Impact and Assessment" observes that the linkage banking concept with its financial discipline, group solidarity and embodied peer pressure is mainly attracting women who have a very high share in SHG
membership. The active membership in bank linked SHGs strongly contributed to social empowerment and capacity development of female members, improvements in self-confidence and the status in the families as well as better communication and competence enhanced the capacities of women and their abilities to face/ solve problems, handle money and influence decision-making in their households. The high outreach together with successes on the side of sustainable institutional development providing access to financial services and the contributions towards the generation of substantial socio-economic benefits for a large number of low income SHG members and their households can be regarded as outstanding achievements of the SBLP. The programme is reaching the poor and is making important contributions to financial inclusion of low income households in accordance with national development policies.

YojanaBhawan and Sansad Marg\textsuperscript{[19]} for their study on “A report on the success and failure of SHGs in India-impediments and paradigm of success” took a sample of 2064 SHGs from five states on random basis. Based on the observations made in the study, they recommended that a lot more publicity to be given among the potential beneficiaries about the scheme and its contents as well as the authorities in charge and their responsibilities so that the targeted population can seek help and question authorities if they fail to deliver and economic activities have to undertaken after feasibility report based on market studies and local resources.

Debabrata Lahiriand and Susmita Mukhopadhyay\textsuperscript{[20]} for their study “Key observations: SHG-bank linkage operation in West Bengal” collected data from eight groups with a sample of six members from each group through a structured schedule. The study obtained the perception of the trainees and found that the
number of trainees were too many and time span was too short. As a result training has become a ritual and did not make any value addition to the individuals.

Malcolm Harper[21] in his study “Promotion of Self Help Groups under the SHG Bank Linkage Programme in India” examined and compared the different ways in which Self Help Promotion Institutions (SHPIs) promote Self Help Groups (SHGs), in order to enhance the efficiency and quality of the SHG promotion process. The study recommends for rediging and testing of incentive schemes for NGOs and individuals in order to cover the full costs of the SHPI. Non-management bank staff has to be encouraged to promote SHGs. A regular national SHG sample survey should be put in place, to enable NABARD to monitor SHG quality and to delegate the management of SHG promotion to banks.

BinduAnanth, BastaveeBarooah, RupaleeRuchismita and AparnaBhatnagar[22] in their study on “A Blueprint for the Delivery of Comprehensive Financial Services to the Poor in India” concluded that access to financial services for the poor is a critical part of the growth and development process of any country. In the study ICICI Bank’s own approach attempts to build natural partnerships in the pursuit of universal access to financial services has been acknowledged.

Navin Bhatia[23] for the study on “Revisiting bank-linked Self Help Groups (SHGs)- A study of Rajasthan state” collected primary data from 44 SHGs, 12 bank branches, 65 SHG members and five NGOs through pre-designed schedules. The study stated that the mechanism of lending through Self Help Groups (SHGs) has gained wide popularity during the last few years and has been adopted as an important strategy by banks for lending to the poor. The study showed that the amount and frequency of loans availed by SHG members was low in relation to their
savings. It pointed out that if the members were availing loan for first time then it would be considered adequate. However, the study suggested that the loan amount should increase considerably as the time period increases. The study also finds out that SHGs performance is very good under the supervision of the banker. And leadership issues were among the major causes for disintegration of SHGs.

Erica Field and Rohini Pande\(^{[24]}\) in their working paper on “Repayment Frequency and Default in Microfinance: Evidence from India” find that there is no significant effect of type of repayment schedule i.e. weekly or monthly on client delinquency or default. The findings suggest that, among microfinance clients who are willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transaction costs without increasing client default.

Dr G G Banerjee\(^{[25]}\), in his study on ‘Evaluation study on Self-help groups: the participation women in SHGs’ observed that the SHGs made a significant impact on their empowerment both in social and economic aspects. As observed in the study most of the women were able to increase their income level manifold and contributed to the development of their family.

Kim Craig\(^{[26]}\), in his study on, “Why donors need to understand product development” describes how Poor people need access to a wide range of financial services for various reasons, such as: business opportunities, home and family wellbeing, seasonal expenses, life-cycle events, emergencies and disasters. The study also expresses how most Micro Finance Institutions (MFIs) today offer the poor a limited range of financial services based on microcredit. This study recommends for the development of financial service products for the poor.
R. Srinivasan\textsuperscript{[27]} in his study on “Self-Help Groups as Financial Institutions: Policy Implications Using a Financial Model” uses a spreadsheet financial model to identify key financial policy parameters that influence the performance of self-help groups (SHGs) whose primary activity is microfinance. The focus is on long-run (ten-year) performance. This study concludes that SHGs are somewhat fragile, and a small reduction in the loan portfolio quality can seriously damage it. In the first few years of an SHG, institutionalizing group processes is much more important than accelerating lending.

Amal Mandal\textsuperscript{[28]} in his study on ‘Swarnajayanthi Gram Swarozgariyojana and Self-Help Group an Assessment’ brought out the importance of SHGs in poverty alleviation, as the groups are organized on the basis of self help and mutual help. The author was of the view that the group approach is the only way to meet the financial needs through thrift and inter-loaning on rotation basis. If SHGs are guided by external agencies the results will be more encouraging.

N Ramakrishna, P Raghu Sastry, S Subbareddy,\textsuperscript{[29]} in their study on “Impact of Micro Finance through SHGs on Rural Economy” studied the impact of microfinance through self-help groups (SHGs) on rural economy in Chittoor District of Andhra Pradesh. The total sample for the study consisted of 20 SHGs and 40 members involved in activities like milk business, petty business, fruit business and vegetable business. The study compared the socio-economic conditions of members in the pre- and post-SHG situations (spanning an average of three years). In the selected business activities, the beneficiaries have improved the business turnover in the post-SHG situation and in turn the net income increased.
Malcolm Harper and Marie Kirsten in their study on “ICICI bank and microfinance linkage” stated that ICICI Bank is demonstrating that an urban based private bank can effectively and profitably reach the rural poor. ICICI Bank lends directly to SHGs and microcredit clients. This business is now a component of the banks mainstream operations. Indian and foreign banks are appreciating that rural poor can be a valuable customers.

Ana Marr in her study on “The limitations of group based microfinance and ways to overcome them” presents that in group-based microfinance, success in attaining the goals of financial sustainability and poverty reduction is crucially dependent on the sustainability of groups as organizations. From the study the author observed that the impact can be enhanced by tackling the issue of organizational sustainability seriously. This will not only help strengthen microfinance groups but also work towards attaining financial sustainability.

Frank Tesoriero, in ‘Strengthening communities through women’s self help groups in South India’ reports on an evaluation of women's Self Help Groups (SHGs) in an area in South India. Groups were evaluated, not in terms of their success as microcredit schemes, from a financial perspective, but in relation to their contribution to gender development. The study generated enough evidence that women perceived changes in their identity towards working collectively to influence for change at the village and panchayat levels and they engaged in community and social action programmes, both at the local level and by joining with issues beyond the local. The study observed that when considered within constructs of empowerment, capability poverty, citizenship, and participation in democratic processes, such SHG outcomes, and the community development processes that
accompany their work, can be seen to make a modest but significant contribution to broader transformations of oppressive structures.

Rewa Misra and Nanci Lee\(^{33}\) in their study on "Primary Agricultural Society Linkage- the best remote self-help groups in India can do?" observed that Credit cooperatives have existed in India for more than a century. The number of SHGs linked to cooperatives as a percentage to overall linkages has been steadily increasing. In 2001 it was 4.84 percent and now it is increased to (2007) 13 percent. For the first time in 30 years the Primary Agriculture Credit Societies (PACS) are in profit. The study observed that the overall performance of the PACS, the SHG portfolio is particularly well performing.

Ranjulabali Swain\(^{34}\), in his study on "Can Microfinance empower women? Self help groups in India" carries out an investigation through interviews and focus group discussions on the activities of Self help group members and probes into whether these activities truly empower women or not. The study reveals that only fraction of these activities are truly empowered the participating women. For the purpose of this study 1000 households based on the quasi-experimental sampling design were surveyed. In addition a control group was also selected. The idea behind choosing the control group was to compare it with the group of SHG beneficiaries and get the real impact of the SHG programme on empowering the beneficiary women.

S Sundararajan & S Dharmarajan\(^{35}\) in their study on "Micro financing in India: Programme vs Strategy" have discussed that the Self Help Groups (SHGs) in India are the largest micro financing movement in the world. It is imperative in the context of socio-economic development in India, the venture be strengthened and
streamlined. The success of microfinance programme lies not only in the achievement of numbers within a stipulated time frame; but also in fostering certain qualities such as empowerment, viability, sustainability and income generation or poverty eradication. However, there is a vital need for a paradigm shift in the approach of Self-Help Promotional Institutions (SHPIs) from programme orientation to strategy orientation. From the findings of the study the authors felt that need of the hour is, transformation in the approaches of the microfinance programme in India – a user oriented approach that seeks to correct the orientation and insists participation, social responsibility and commitment into the role of grass root level organizations, NGOs, Donors, Local bodies, Banks and Government.

Dwight Haase[36] in his study on “closing the gender gap” finds that work for women will not alleviate their undue share in household responsibilities. Many women express their frustration with this situation; men are generally less inclined to see women’s roles outside of the home as proper they are not willing to contribute more at home to support female entrepreneurship. Micro credit alone will not necessarily improve women’s lives; it might make matters worse by adding to women’s responsibilities and workloads. But sincere efforts to change unfair gender norms throughout society will maximize the impact of micro credit. Realizing this goal will be tantamount to millions of women worldwide realizing their full potential as entrepreneurs.

Jasmine Mohanty and Debadutta K.Panda[37] in their study on “Innovation Spurs growth” state that the innovations in the microfinance sector have made a dramatic change in the supply of credit to the neediest neglected sector by formal financial institutions. The most important innovation that has come up is that
societal upliftment and social development are no longer grant based. People have realized that the formal credit is more flexible and yielding than grants. According to the study the achievements of microfinance programs in India, around the world, are largely due to the continued innovation and customization of financial products.

Cheryl Young[38] in her study on “Housing Microfinance: Designing a Product for the Rural Poor” points out that efforts towards better targeting through product design and the fostering of partnerships leads to an increase in penetration and a greater menu of financial services for the poor. Product innovation, starting with financing for essential goods, symbolizes the infinite potential of micro financial services and sheds light on the nuanced needs of the poor. In particular, the introduction of a housing product allows organizations involved in microfinance to promote growth strategies from a holistic view of client demand, organizational capacity and partnerships.

Francisco Prior Sanz[39] in his study on “Solving the access problem” concludes that the main cause for the low levels of access to financial services to low income segments of the population in Colombia, Ecuador, and Peru is the inadequate supply of financial services. This inadequate supply is explained by the high cost of financial services, the commercialization of services through costly and inadequately dense distribution networks, and the use of risk methodologies that are not adapted to the realities of developing countries. The problem can be addressed by the development and distribution of low cost financial products. Also, the low density of bank branches can be obviated with a strategy of commercialization that takes advantage of low cost, alternative channels. As per the study, inadequacy of the risk methodologies can be resolved through the creation of new analysis systems.
that include the information from the vast informal economies of developing countries.

M S Rama Devi and S Tabassum Sultana in ‘A study on urban poverty alleviation through SHGs Bank Linkage Programme in Hyderabad’ concludes that SHGs need more financial support to continue and expand their activities. In the study it is observed that, along with the financial support, SHGs need comprehensive and continuous support until they become self-sustainable entrepreneurs. Only then, activities will continue without termination. The SHGs require more proactive and involved encouragement and advocacy to make them more successful.

Dr U Jerinabi and T Lalitha Devi in ‘Social empowerment of rural women through SHG Bank Linkage’ found that SHG Bank linkage programme helped the rural women to achieve social rights. The study finds that majority of the respondents reported significant improvement in their ability to face problems on health and financial aspects. The study concludes that the participation of women members in household decision-making process, their level of housing position and household assets has considerably improved.

K P Kumaran in his study “Role of Self-help Groups in promoting inclusion and rights of persons with disabilities” examined the role of self help groups in addressing some of the problems faced by persons with disabilities such as social exclusion, discrimination, lack of awareness about their rights and privileges and absence of livelihood. For the purpose of study one hundred persons with disabilities were randomly drawn from SHGs in two districts in Andhra Pradesh. An interview schedule was used to collect information. The findings of the study being,
before joining the group, most of the persons with disabilities confined to their houses and were less productive and incapable of leading a normal life. After joining the groups, they came out of their seclusion and started to work together for their collective welfare and development. Self-help groups were very effective in helping persons with disabilities to come out of their isolation and in promoting their participation and inclusion in societal mainstream.

Joanna Ledgerwood[^1] in his book “Microfinance handbook: an institutional and financial perspective” brings together in a single source guiding principles and tools that will promote sustainable microfinance and create viable institutions. The Handbook takes a global perspective, drawing on lessons learned from the experiences of microfinance practitioners, donors, and others throughout the world. This volume covers extensively matters pertaining to the regulatory and policy framework and the essential components of institutional capacity building, such as product design, performance measuring and monitoring, and management of microfinance institutions. The handbook has three parts. 'Issues in Microfinance Provision' - Part I, takes a macroeconomic perspective toward general microfinance issues and is primarily nontechnical. 'Designing and Monitoring Financial Products and Services' - Part II, narrows its focus to the provision of financial intermediation, taking a more technical approach and moving progressively toward more specific (or micro) issues. 'Measuring Performance and Managing Viability' - Part III, is the most technical part of the handbook, focusing primarily on assessing the viability of microfinance institutions.

Sam Daley-Harris[^44] in his book “Pathways out of poverty- Innovations in Microfinance for the poorest families” writes about how the poor women with the

[^1]: Joanna Ledgerwood
[^44]: Sam Daley-Harris
help of microfinance break the clutches of poverty. The book is divided into 6 chapters. In the 1st chapter, author Anton Simanawitz with Alice Walter writes about how to reach the poor while building financially self-sufficient institutions. 2nd Chapter authored by Christopher Dunford describes about sustainable integration of microfinance with education in child survival, reproductive health and HIV/AIDS prevention for the poorest entrepreneurs. 3rd chapter authored by John K Hatch with Sara R Levine and Amanda Penn is completely dedicated to innovations in the field of microfinance. 4th chapter authored by Susycheston and Lisa Kuhn is all about empowering women through microfinance. This chapter comes out with various women illustrations where they have made a markable change to their lives through microfinance. 5th chapter authored by David S Gibbons and Jennifer W Meehan describes financing microfinance for poverty reduction. Last Chapter describes about policies, regulations and system that promote sustainable financial services to the poor and the poorest.

Priya Basu in her book “Improving access to finance for India’s rural poor” examines the current level and pattern of access to finance for India’s rural households, evaluates various approaches for delivering financial services to the rural poor, analyses what lies behind the lack of adequate financial access for the rural poor, and identifies what it would take to improve access to finance for India’s rural poor. Based on the analysis of a large-scale rural household survey, in combination with an evaluation of the role of financial markets and institutions, also examines different forms of financial service provision, including formal, informal and microfinance, raises questions about approaches used so far to address financial exclusion, and makes recommendations for policy advisors and financial service
providers on how to scale-up access to finance for India's rural poor, to meet their diverse financial needs (savings, credit, insurance against unexpected events, etc.), in a commercially sustainable manner. Its conclusions will be of interest to anyone involved in economic policy, finance or microfinance, poverty analysis, and poverty reduction.

Yunus Muhammad in his book “Creating a world without poverty: social business and the future of capitalism” advocates new type of enterprises which will be self-sustainable. The book describes two types of social business. In one of the social business, investors will get their capital back, but, profits will be injected back to the company to continue to achieve its objective. The second type of social business enterprise is a for-profit model but owned by the poor such as Grameen Bank. This book goes in depth explaining authors “Next Big Idea” social businesses and also presents some ideas on how corporations and individuals can take part in achieving a "world without poverty".

Brigit Helms in his book “Access for all: building inclusive financial systems” says microfinance has proven to be an effective tool for reducing poverty and helping poor people to improve their lives. And yet a diverse range of potential clients still lack access to an array of financial services - not just credit for enterprise but also a safe place to save, the ability to transfer funds to family members, insurance against sickness or other household disasters, and other ways to mitigate risk in vulnerability. The challenge today is to engage more types of distribution systems, more technologies and more talent to create financial systems that work for the poor and boost their contribution to economic growth. This title explains what this new vision of microfinance means in practical, non-technical terms.
Frances Sinha[48], in his book “Microfinance Self-Help Groups in India living up to their promise?” writes SHG as a means of reaching rural women with savings and credit services, and it has taken off dramatically in India, where an estimated 25 million women are members. Their benefits are social as well as economic: SHGs encourage women to become active in village affairs, or take action against domestic violence, the dowry system, or the lack of schools. It explores both social and financial performance in the SHG movement. This text reveals that whilst there are important achievements, especially on the social side, without more strategic attention and more resources these are unlikely to be sustainable.

The reviews of various studies revealed that though many studies have been undertaken in the past on microfinance, comprehensive studies covering its various dimensions like the performance of SHGs, impact of microfinance in transforming the socio economic profile of the SHG members and perceptions and problems of bank officers regarding SBLP are very few. In particular there is no research study on microfinance in Bangalore Rural district of Karnataka state covering all these dimensions. Hence the present study assumes significance.

1.11 Objectives of the study

The following are the specific objectives of the study:

- To analyse the growth of microfinance in India and in Karnataka
- To analyse the growth and working of SHGs in the study area.
- To evaluate the performance of SHGs under Bank linkage Programme in the study area.
To evaluate the impact of microfinance on the socio economic conditions of SHG members.

To study the perceptions and problems faced by the bank officers in SHG Linkage Programme.

1.12 Methodology

The study is based on the data and information collected from a primary sample survey conducted at three different levels: - the SHGs, the individual members of the SHGs and the Bank officers in Bangalore Rural district of Karnataka. A multi-stage sample design is adopted for selecting the SHGs, SHG members and the Bank officers.

In the first stage 152 SHGs (38 SHGs each from four taluks of Bangalore Rural district) have been selected on random basis. This covers a sample of six percent of total number of SHGs (2533) in Bangalore Rural district. In the second stage 300 SHG members (75 members each from four taluks of Bangalore Rural district) have been selected. In the third stage 46 bank officers (39 commercial bank officers, six RRB officers and one cooperative bank officer) have been selected out of 44 commercial bank branches, six RRB branches and four cooperative bank branches respectively. Three separate schedules have been administered for the collection of primary data from SHGs, SHG members and Bank officers.

1.12.1 SHGs Group Survey format

The survey format designed for the performance evaluation study covering all the parameters like group constitution, linkage details, meetings of SHG members, SHG governance aspects, book keeping and documentation details,
savings and loan details, dropouts and activities undertaken by the SHG. All these parameters have been taken into account while designing the schedule and on the basis of a pilot study conducted with SHGs of Bangalore Rural district.

1.12.2 SHG members study format:

This survey format designed to study the impact of microfinance on the socio economic conditions of SHG members. This format covered the parameters like member identification details, savings, credit details, income before and after SHG membership, employment details before and after membership, decision making authority on few important household aspects before and after SHG membership etc. All these parameters have been taken into account while designing the schedule, after a pilot study with the SHG members in Bangalore Rural district.

1.12.3 Bank officers study format:

The schedule addressing the perceptions and problems of Bank officers on SHG- bank linkage, consists of structured questions on a five point Likert's scale was administered among bank officers. Before administering the final schedule a pilot survey was made and various aspects were discussed with the bank officers handling SHG linkage operations.

Secondary data have been collected and compiled from the reports of RBI, NABARD, SIDBI and Lead bank (Canara Bank), MIX Market reports etc. Thus the study is a blend of data collected from primary and secondary sources.

1.12.4 Data Analysis and statistical tools:

Primary and secondary data collected for the study have been analysed and presented in tables and graphs. Statistical tools such as percentages, averages,
Standard deviation, linear growth rates and t-test have been used in analysing the data to draw meaningful interpretations.

1.12.5 Organization of the thesis

The thesis is organized in six chapters.

Chapter I: This chapter deals with the concept of microfinance, origin and evolution of microfinance, objective of micro finance, products of microfinance, approaches to microfinance, review of literature, objectives of the present study and methodology.

Chapter II: This chapter focuses on features of SHG, SHG-Banking, NABARD as a implementing agency of SBLP, Role of NABARD in promoting SBLP, Objectives and principles of SBLP, Models of SBLP, Growth of SBLP in India and in Karnataka

Chapter III: This chapter evaluates the performance of SHG linkage programme in Bangalore rural. This analysis is based on primary data. It studies the performance of SHGs taking into account various aspects like conduct of meetings, governance of the group, book keeping and documentation, audit, savings and group fund, loans, dropouts and services undertaken by the groups.

Chapter IV: This chapter evaluates the impact of micro finance on the socio economic conditions of the SHG members by taking into account member’s individual savings, loan utilization, repayment behaviour, income, employment opportunities, decision-making ability pertaining to the family issues, impact on nutrition, healthcare and awareness of various transactions of banking
Chapter V: This chapter focuses on banker’s perceptions on SHG activities and the related problems.

Chapter VI: This chapter presents a summary of findings, suggestions and conclusions.