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Empowering Rural Women through Self-Help Groups: Lessons from Maharashtra Rural Credit Project

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I

INTRODUCTION

The Integrated Rural Development Programme (IRDP)[1] launched for poverty alleviation in India was a target-oriented programme with a focus on identifying the poorest of the poor and helping them to acquire productive assets through bank loan and subsidy from government. The underlying assumption was that lack of productive assets was responsible for the poor being unable to better their lot. The IRDP, however, was not as successful as was visualised. Several drawbacks were seen in the implementation of the programme.

In 1982-83, Development of Women and Children in Rural Areas (DWCRA) was launched in 50 districts as a sub-scheme of IRDP. This was an attempt to involve women more intensively in economic activities (see NABARD, 1999, p. 12). The focus of DWCRA was on economic activities for rural women to be taken up in groups. This was to enable them to overcome their inhibitions for things they had never done before, like going to the bank, buying an asset, keeping accounts, etc. The concept of the group was also to enable women to take a larger amount of loan, so that by pooling their individual loans they could start a viable non-farm activity. The implementation of DWCRA was done as in IRDP, i.e., through the bank branches and District Rural Development Agencies (DRDA).

DWCRA too met with limited success. The scheme as a whole failed to take off. It was seen that the economic activities, although well thought out, were not really feasible for the long run. It was observed that women were not really ready to take on entrepreneurial roles; all they wanted was small loans for their specific requirements, which were mainly for consumption purposes.

DWCRA was successful to some extent in Andhra Pradesh (Dev, 1999, p. 395). The distinct feature in the case of Andhra Pradesh DWCRA was that thrift and credit societies were created. Here, the reliance for economic betterment was not only on banks; there was an emphasis on group formation, on saving and on using these

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savings judiciously. The story of Andhra Pradesh suggests that it is not enough to provide loans to rural women, they have to be taught the act of savings and fiscal management.

Despite these schemes and several others [Training of Rural Youth for Self-Employment (TRYSEM), Supply of Improved Toolkits to Rural Artisans (SITRA)], the credit and poverty problem in the rural areas continues. According to the Government of India's Ministry of Rural Development, "While the anti-poverty programmes have been strengthened in successive years and while, in percentage terms, poverty levels have reduced from 56.44% of India's population in 1973-74 to 37.27% in 1993-94, the number of rural poor has more or less remained static and is estimated to be about 244 million people. The rural poor are still dependent on informal sources of credit despite an impressive expansion of bank branch network. Although this dependence has come down from 83.7% of the rural population in 1961 to 36% in 1991, the problem still persists. The effect of such a large percentage of poor on the country's development is not difficult to appreciate. Quite obviously, we need to redress the situation quickly. It is in this context that the self-employment programmes assume significance for, they alone can provide income to the rural poor on a sustainable basis" (Government of India, 1999, p. 10).

The micro-credit schemes using self-help groups (SHGs) were designed against the background of the failure of the earlier schemes. A series of NABARD studies showed that despite a wide network of rural bank branches participating in poverty alleviation programmes, a large number of the poor continue to remain outside the purview of the formal banking system. According to a NABARD report, " Such research studies and some action research projects led to the evolution of 'self-help group (SHG) - Bank Linkage' model as a core strategy...." (NABARD, 1999).

The major problem with most schemes for poverty alleviation and channelising credit to the rural areas seems to be that they are not based on realistic assumptions and analysis of the rural credit markets. In earlier schemes, like IRDP, DWCRA, etc., the beneficiaries perceived the loan as a grant. They did not feel the responsibility of repaying it. Bankers too concentrated on disbursing the loan. They did not have the time or the mechanism for monitoring the repayment. This led to poor loan recovery and resulted in the scheme becoming non-viable (Rath, 1985, and Rao *et al.*, 1990). In contrast, the repayment of loans in micro-credit schemes using SHGs is reported to be satisfactory from almost all places. This may be due to the fact that the concept of SHGs in micro-credit schemes is based on the theory of asymmetric information and peer monitoring, which is discussed in Section II of this study.

In view of the above observations, we hypothesise that the remarkable recovery rate observed in micro-credit schemes, absent in earlier priority sector lending schemes like DWCRA and IRDP, was primarily due to three factors: (1) The SHG-Bank linkage model, (2) credit being available for consumption purposes and (3) easy and periodic availability of credit due to rotation of savings. The aim of this study is to examine the SHG mechanism of the micro-credit scheme being an effective and financially viable tool in channelising credit to the rural poor. We attempt to do this by examining available literature as well through a field survey of the Maharashtra Rural Credit Project (MRCP). The study is organised as follows: Section II discusses in brief the theoretical issues regarding asymmetric information and peer monitoring in rural credit market. Section III focuses on the features of the MRCP. Section IV deals with the results of field survey conducted in three villages of Pune district, which was essentially qualitative in nature. Section V concludes the paper with suggestions for improving the scheme.

II

THE THEORY OF ASYMMETRIC INFORMATION AND PEER MONITORING

An attempt to explain the puzzle of rural poor borrowing at very high rates of interest from the local moneylender rather than the local bank at a much lower interest rate, led to the emergence of the theory of asymmetric information (Hoff and Stiglitz, 1990). The earlier perception was that the local moneylenders charge very high rates of interest because of exploitative practices with a view to usurping the borrower's land. However, alternative theories have now been put forth to explain this paradox. It is now contended that the high rates charged by the moneylender are actually competitive rates; they are high because they are meant to cover "high rates of default, high correlation among defaults and high cost of screening loan applications and pursuing delinquent borrowers" (Stiglitz, 1990, p. 351). The theory of asymmetric information states that the formal sector has failed in its lending operations despite various schemes of moral suasion, and the informal sector lending thrives, despite its high rates of interest, because the informal sector has sources of information about its prospective clients, which the formal sector can never hope to have. Explaining the apparent paradox, Stiglitz writes: "Part of the reason for this is formal institutions have not made loans available to all farmers who would like them (or have not provided them with as much credit as they would like). But another part of the reason may be that the local moneylenders have one important advantage over the formal institutions: they have more detailed knowledge of the borrowers. They therefore can separate out high-risk and low-risk borrowers and charge them appropriate interest rates; and they can monitor the borrowers more effectively, making sure that the funds are used productively and thus lowering the default rate" (Stiglitz, 1990, p. 352).

Based on the above observations and the success of the Grameen Bank model,[2] Stiglitz puts forth a model for rural lending whereby others do the monitoring of the loan repayment for the bank. He calls this 'peer monitoring'. It means the repayment of the loan advanced by the bank is monitored not by the bank itself, but by the peers of the beneficiary. The task of monitoring which the bank is unable to do cost-effectively is assigned to a local member who has detailed knowledge about the beneficiary. He suggests that for peer monitoring to be successful, the members of the peer group must be provided with incentives to monitor the actions of their peers. Cosigning, he says, provides an incentive for the cosignee to monitor the actions of the person for whom he has cosigned the loan. He suggests that there may be a lack of incentive for government bureaucrats to monitor these loans. "However, the government may be able to use peer monitoring to offset its informational disadvantage" (Stiglitz, 1990, p. 362). He concludes by saying, "....well-designed government lending programmes, taking advantage of the opportunity provided by peer monitoring, may, in these circumstances, be an effective second-best policy" (Stiglitz, 1990, p. 362).

The theory suggests that if banks can incorporate the concept of peer monitoring in its lending schemes, it can lend successfully to its poor borrowers. Since the bank may not be rooted in the village, the monitoring of small individual loans needs to be done in a cost-effective way. If the bank were to take this task upon itself, the scheme would become economically unviable. The way out suggested by this theory is that if loans are given to groups of beneficiaries, then the group members can be assigned the task of monitoring the repayment of their co-members' loans. The SHG-Bank linkage model is based on these theoretical directions. The success of the Grameen Bank's group lending programme gives validation to the theory of peer monitoring (Hossain, 1988; Goetz and Sen Gupta, 1996; Siamwalla *et al.*, 1990). Based on the theory and the Grameen Bank story, we attempt to examine the evidence from India from three villages in Pune district to see if the use of peer monitoring in rural lending has had any positive impact on loan repayment and rural poverty.

SHG-Bank Linkage Model

The SHG-Bank linkage approach, stresses the importance of links between commercial banks, on the one hand, and non-governmental organisations (NGOs) and SHGs, on the other, as a mechanism for channelising credit to the poor on a sustainable basis. In this model, rural women are expected to form groups and borrow from the banks as a group. The default of the bank loan by any one member is the responsibility of all the members. The second change that is striking in the micro credit scheme as against earlier schemes is that the bank does not question the purpose for which the loan is given. Thus consumption loans are allowed. A related feature is that the SHGs are first required to save and only once their savings reach a certain level, can they avail of a loan. This helps to inculcate the habit of savings in the members. Another improvement in micro credit schemes over other schemes like DWCRA, is that the fund keeps revolving, whereas in the earlier schemes like DWCRA, it is a once for all loan to take up some economic activity. In a revolving fund the women can gradually take up economic activities at their own pace and hence these activities have a better chance of success.

III

A REVIEW OF THE MICRO-CREDIT SCHEMES USING SHGS IN INDIA

Micro-credit schemes are being implemented in several states in India. We looked at some evidence about the working of this scheme in Tamil Nadu (Karmakar, 1999), Gujarat (Shylendra, 1999) and Maharashtra (NABARD, 1997). The secondary evidence from three states, namely, Tamil Nadu, Gujarat and Maharashtra, shows that micro-credit schemes using SHGs have enabled the poor to have easy and continued access to an easy source of credit without the scheme becoming a burden to the banking system.

Maharashtra Rural Credit Project

The micro-credit scheme, Maharashtra Rural Credit Programme (MRCP) was launched in Maharashtra in 1992. The MRCP was designed to meet a large unmet demand for micro finance services. Specifically, the purpose was to "develop and test through field implementation an alternative approach to the IRDP that could efficiently provide improved financial services to the rural poor" (IFAD, 1997, p. 2). The main aim of the MRCP was to improve the availability of financial services to the rural poor through SHGs and to promote savings.

Features of MRCP

(a) The target group consists of households below poverty line, i.e., households with income upto Rs. 11,000 at 1991-92 prices (annual). Among this, priority is given to those whose income is upto Rs. 8,500. This would compose of small farmers, landless labourers, artisans and tribals.
(b) Coverage: Four districts were covered initially. These are Pune, Chandrapur, Yavatmal and Nanded. After a review in 1997, seven more were added, viz., Thane, Dhule, Jalgoan, Amravati, Bhandara, Gadchiroli and Beed.
(c) Implementation mechanism: At the village level, a Village Development Assembly (VDA) comprising all households in a village is formed. From this, a Village Development Council (VDC) is formed. This comprises 10 to 12 members. The selection of the VDC is by consensus. The VDA prepares a People's Action Plan (PAP), focusing on the overall development of the village - especially credit needs. The VDC assumes responsibility for implementing this.

Channels of credit

Credit is given either to individual or to a group/SHG. Individual beneficiaries are identified in a VDC meeting in the presence of the representative of the NGO. The SHGs are formed with the help of Sahayoginis (SYGs) or field workers or through an NGO contracted by Mahila Arthik Vikas Mahamandal (MAVIM).

The beneficiaries are charged an interest rate of 12 per cent per annum. Individual borrowers are given loans for specific activities. The SHGs are first required to save; once they acquire some financial discipline they can borrow from a commercial bank against their savings. Credit against savings is given either on a one to one basis or one to four basis, depending on the discipline displayed by the SHGs. The loan amount is distributed amongst its members according to the group's priority. The rate of interest charged by the SHG from its members is 2-3 per cent per month. Consumption loans are allowed.

Agencies involved in implementation

The Commercial Banks (CBs) are involved to enable the beneficiaries to save and to extend credit. The Maharashtra Industrial and Technical Consultancy (MITCON) and the Maharashtra Centre for Entrepreneurship Development (MCED) are involved to impart information, build awareness, and provide training and technical advice. The MAVIM is present to provide the organisational input, to form SHGs and to train the members of VDCs and SYGs to perform their tasks efficiently.

Performance of MRCP

Table 1 details the loan recovery under MRCP in the seven districts in Maharashtra over a period of three years (1994-97). It shows that the recovery of loans given under MRCP is satisfactory. The recovery shows improvement over the period of time. The beneficiaries too seem to have benefited from the scheme in terms of increase in their incomes (Table 2).

TABLE 1. IMPACT OF MRCP IN MAHARASHTRA: RECOVERY PERFORMANCE OF BANKS

District (1)	Bank (2)	Number of branches (3)	Percentage of recovery of MRCP loans 1994-95 (4)	1995-96 (5)	1996-97 (6)
Chandrapur	Bank of India	19	67	75	88
	State Bank of India	13	51	52	56
	Bank of Maharashtra	13	42	65	N.A.
Nanded	Bank of Maharashtra	5	70	75	N.A.
	State Bank of Hyderabad	5	N.A.	82	N.A.
	State Bank of India	11	50	54	N.A.
Yavatmal	State Bank of India	8	30	46	N.A.
	Central Bank of India	4	43	59	N.A.
	Bank of Maharahstra	9	45	46	N.A.
Pune	State Bank of India	5	61	83	N.A.
	Bank of Maharashtra	13	42	66	N.A.
	Bank of India	3	54	60	N.A.
Average		108	51	63	75*

Source: NABARD (1997).
Note: *Based on impressionistic assessment.
The table is based on data collection for 50 per cent of the branches.

TABLE 2. INCOME GENERATION OF THE BORROWERS OF MRCP

District	Number of borrowers	Average increase in income (per cent)
(1)	(2)	(3)
Yavatmal	416	46
Chandrapur	40	47
Pune	110	41
Nanded	171	23
Overall	737	40

Source: NABARD (1997).
Based on data available for 737 borrowers.

IV

RESULTS OF FIELD SURVEY

A survey of the MRCP in three villages of Pune - Kanhewadi, Mohkal and Kaman - was undertaken in May-June, 1999 by Gaiha (1999) in association with the authors of the present study. Some of the information from the survey has been used for the following discussion. Together with this an urban survey was also conducted to incorporate the views of the implementing agencies that have been associated with the project.

Sample Design

(i) *Villages:* Kaman is a large village, Kanhewadi is a medium-sized one and Mohkal is a small one, both in terms of total area and population. Kaman has approximately 50 per cent of its total land irrigated. Kanhewadi has approximately 4 per cent and Mohkal has 2.5 per cent of its total area irrigated. A total of 30 households were surveyed. Of these 15 were individual beneficiaries, 7 non-participating households (control group), 5 SHG members and 3 SHG members not linked to the bank. Although a sample of 30 households did not allow much flexibility, considerations to the objectives of this study were given while drawing the sample.

(ii) *Households:* Although the sample was chosen for the purpose of analysing the functioning of MRCP, some attention was given to understanding the exclusion of the poor, inclusion of non-target group and the experiences of the beneficiaries. This was done through a random selection of households from broadly specified groups.

(a) *Individual beneficiaries*: Fifteen individual beneficiaries were interviewed. Ten out of these were supposed to be poor. However, using some broad correlates of poverty (i.e., whether the beneficiary belonged to a scheduled caste/scheduled tribe (SC/ST), agricultural labour or small holder household), the actual count of the poor in the sample turned to be seven, and of the relatively affluent, eight.

(b) *Control group*: Seven non-participating households were interviewed, belonging to SC/ST, agricultural labour and small holder groups.

(c) *Self-help groups:* Women belonging to 5 SHGs with a satisfactory track record of savings mobilisation and bank loans were interviewed. Out of these, 4 belonged to SC/ST, agricultural labour, small holder households each, while one belonged to a relatively affluent household.

(d) *Control group:* The control group comprises SHGs that were not linked to a bank. Three women from such SHGs were interviewed. All the three belonged to SC/ST households.

(iii) *Implementing agencies*: The representatives of the official agencies, namely, NABARD, DRDA, District Project Co-ordination Committee (DPCC), MAVIM, MCED, MITCON, participating banks (SBI, BOM) were interviewed. Views of the NGO (Chaitanya), local community organisations, VDAs/VDCs and field workers/ Sahayoginis (SYGs) were recorded.

Credit Market in the Sample Area

The survey revealed that local moneylenders are a dominant/major source of credit, especially for the poor. The rates of interest charged by them are as high as 5 to 10 per cent per month. The rate of interest varies inversely with the amount and duration of loan. On an average, a poor borrower borrows Rs. 4,000 - Rs. 5,000. Collateral requirements depend upon the purpose and duration of the loan and the background of the borrower.

The local moneylenders lend mostly to poor people. Women are considered 'risks' because of lack of control over family assets. Loans are repaid in time and defaulters are few. Institutional credit is present and has expanded in recent times. The access of the rural poor is limited to the anti-poverty programmes like the IRDP, that too, through the initiative of the Gram Sevak. Awareness about bank credit was low among the respondents; in fact, only a few individuals in the sample knew the interest rates charged by them. The following were seen to be the main obstacles blocking the access of the poor to bank credit: firstly, that loans were given only for productive purpose; secondly, lot of procedures were involved in procuring a loan; and thirdly, bribery was rampant in the process of procuring a loan. As a result, the segmentation of the credit market is largely intact; specifically, the expansion of institutional credit has not had a dampening effect on the interest rates charged by the local moneylenders.

Targeting of Poor

From the sample of 15 individuals (4-Kanhewadi, 3-Mohkal and 8-Kaman), only seven were poor, i.e., less than 50 per cent were poor.[3] Among them, three were extremely poor (annual household incomes less than Rs. 2,500). Of these three, two were widows - one having 0.5 acre of land and the other landless. The sample was dominated by agricultural labour. In the case of the SHG sample of five women, four were poor women. Three of the poor owned small plots (0.5 to 1.75 acres), and two were from SC/ST households. The one affluent member owned 8 acres of land and belonged to an upper caste household (Mohkal). The representation of the poor was better under the SHG, because the loan amounts were small and the purpose was unrestricted. Involvement of NGOs helps in building awareness among the poor and aids their self-selection for SHGs.

Loan Amount

Among individual beneficiaries, there was a marked difference in the amount of loan secured by the poor and the non-poor. For the former the loans ranged from Rs. 5,000 to Rs. 11,000 while those of the latter ranged from Rs. 10,000 to Rs. 25,000. Although this was partly because of the difference in capacity to absorb loan, it was also due to the influence that the affluent wielded in the implementing agencies (VDCs and banks).

Loan Use

The loan use is more diverse in the case of the non-poor. The poor used it mainly to buy livestock, goats and fishing nets. Most women bought bullocks. The non-poor used their loans for the above and for trading, digging wells, etc. However, use of credit for non-farm activities was minimal.

Role of Women in Selection of Assets

The survey revealed that except one respondent, who was a widow, all others had a limited role in the selection of assets. But it was unclear whether this led to reinforcement of power in the hands of the male members of the household.

Income

Except for two non-poor, all others earned surpluses over and above the loan dues. The poor earned enough to repay the dues - but two of them experienced difficulties - one due to an illness and other because of low yields. In all the cases, except the widow who lived alone, the income accrued to the family. In the case of the widow who was living with her family, it was seen that the income from the asset accrued to the family but the repayment was her responsibility.

Recovery of Loans

Although members have to pay a higher interest rate to the SHG as compared to the bank, they preferred borrowing from the SHG because of the ease of borrowing.

Default was non-existent. Recovery from the SHGs for the banks was also reported to be good, it was over 90 per cent.

Functioning of SHGs

As the SHGs are an innovative feature of the MRCP, the functioning and impact of five successful cases are reviewed. As noted earlier, except for one representative, all others belonged to the poor households (including SC/ST households). Given the group homogeneity, it would follow that the share of the poor was higher among the SHGs than among the individual beneficiaries. The self-selection of the poor in the SHGs owed much to the efforts of Grameen Mahila Swayam Sangh (a women's group) and Chaitanya (an NGO). Moreover, as a result of training received their awareness of how the scheme operated was much better.

The average SHGs consists of 15 to 20 members. A group leader is elected to conduct meetings of the SHG. The meetings are held once in a month on a fixed date. The agenda are announced in advance. Normally, this includes minutes of the previous meeting, disbursement of loans, collection of savings, fines and similar other matters. A record of loans, savings and fines are maintained by a member of the SHG or by the group leader. These are verified by a representative of Chaitanya and are sometimes audited by an external agency. Members are discouraged to leave before five years. In case a member leaves, all her savings are returned with interest. Members are fully aware of the entry and exit rules.

The SHGs have performed well on the savings front, e.g., the monthly savings of the SHG in Mohkal is Rs. 2,000 and total accumulated savings is Rs. 1,10,000. Savings are deposited in a bank against which loan is obtained. Usually the ratio of the credit to saving is 2:1. The average amount borrowed by an SHG could be Rs. 20,000 to Rs. 25,000. Loans are given to members according to priorities of the SHG at an interest rate of 2 to 3 per cent per month. Loans for consumption purposes are given at a slightly higher rate. The use of the loan is decided by the member and is repaid in monthly instalments over a year.

Impact of SHG

The survey revealed that there were no defaulters among the individuals in the sample. This implies that even the poor can show financial discipline and that high rate of interest is not a deterrent for taking a loan. Members - including the poorest - said that the ease of obtaining a loan compensated for the higher cost. However, some members of the SHG would prefer larger loan amounts and lower interest rate. Although the loan amount is small, it helps in meeting the requirement of the poor. Small amounts of loans coupled with financial discipline ensure that loans are given more frequently and hence credit needs for a variety of purposes and at shorter time intervals can be met. This is a better mechanism to reduce poverty gradually as against giving one time loan for productive asset which may or may not lead to sustained increases in income.

Exclusion of the Poorest

Exclusion of the poorest from micro-credit is well known. However, the reasons for their exclusion remain uninvestigated. Indeed, there is often a presumption that moderately poor are less likely to default than the acutely poor. In that case, targeting the moderately poor is likely to be more sustainable financially. So exclusion of the poorest may well be connected with a concern for financial sustainability. The present study explored the reasons for the exclusion of the poorest in the sample villages.

(i) *Lack of awareness:*

Few among the control group for individual beneficiaries - mostly very poor households - knew anything about the MRCP. There were two (out of the seven) who seemed vaguely aware of this scheme through information dissemination by the VDC and bank officers. The lack of awareness among two tribal women (out of three) in the control group for group beneficiaries was equally glaring. Although more than a few poor beneficiaries - especially individual borrowers - were also not fully informed about some aspects of the MRCP (e.g., repayment obligations), they owed their participation to either their own initiative or to their previous experience of participation in the IRDP. Among the group beneficiaries – mostly very poor - however, much of the credit for their participation went to the initiative of Grameen Mahila Swayam Sevak Sangh, and the support and training provided by Chaitanya. It is not implausible that the neglect of SHGs in the control group is related to their extreme poverty.

(ii) *Social exclusion:*

Although extreme poverty and social exclusion tend to go together, some insights into the latter acting as a barrier to participation in the MRCP are obtained from the responses of a few SC/ST households in the two control groups (i.e., one for individual beneficiaries and another for SHGs). Despite considerable initiative, one SC/ST respondent in Kanhewadi lamented that he was not allowed to join the SHG. Another SC/ST respondent in the same village narrated a similar experience, pointing to the unco-operative attitude of the village community. A third tribal respondent in Kaman was apprehensive that his efforts to join a SHG might provoke a hostile reaction from the village/local authorities. In contrast, the two tribal women belonging to the control group for group beneficiaries in Mohkal accepted their social exclusion passively.

(iii) *Collusion:*

The inclusion of affluent households with two owning 12 and 20 acres of land in Mohkal reflects collusion among bank staff, Sarpanch/Gram Sevak and VDC. In each of the three sample villages, most of the non-poor households were nominated either by the Sarpanch or Gram Sevak and duly recommended by the VDC. The case of a Vice-Chairman of the VDC in Kaman nominating himself for a loan without any objection from the VDC members or bank staff (who normally attend VDC meetings) or Panchayat members is a glaring example of collusion among them. The fact that all the non-poor beneficiaries belonged to the upper castes may not be mere coincidence, as their domination of local bodies is well known.

In contrast, the SHGs represented the poor better in our sample, largely because their self-selection was induced by the initiative and support of Grameen Mahila Swayam Sevak Sangh and Chaitanya.

But above all the identification procedure is unsatisfactory. Even though it is well known that the list of poor households is faulty - often 80 to 90 per cent of the households in a village are classified as poor -, that is the only basis for identifying the eligible households. What is worse, the list is maintained by the Gram Sevak, giving him undue importance in the selection process. Instead of the below poverty level (BPL) list being in the public domain - it is meant to be displayed in the Village Panchayat office or some other prominent place - it is usually the Gram Sevak's declaration that counts.

(iv) *Loan appraisal and follow-up:*

The poorest - especially from SC/ST households - faced difficulties not just in the selection process but also in their bank transactions. The documentation was expensive and time consuming. These difficulties were compounded by their illiteracy, lack of familiarity with the procedures and unhelpful attitude of the bank staff. As a result, the processing of loan requests of the poor took much longer (1 to 6 months, as against 1-2 months in the case of the non-poor).

In general, the bank staff gave hardly any loan-related advice. In fact, unless the applicant took the initiative, repayment obligations were seldom fully disclosed. Nor was there any follow-up of loan use. As the poorest would have benefited more from such advice/follow-up (e.g., in terms of productive use of assets), its absence had serious implications for them.

(v) *Financial stringency:*

Too much of financial discipline/stringency - strict repayment requirements, penalties for delays, etc. - could deter the poor from joining a micro-credit scheme or could limit their duration of participation in it. Some recent evidence corroborates these effects. These effects are present in our sample but in a somewhat weak form. Among individual beneficiaries, one SC/ST respondent reported that he defaulted once and therefore had to pay two instalments together. Two other respondents drew attention to seasonal variability of income from fishing constraining their repayment ability. Apart from social exclusion, one-participant SC/ST respondent (from the control group for individual beneficiaries) was skeptical of joining a SHG because of his seasonal employment. A (tribal) widow, who belonged to the control group for group beneficiaries, was equally diffident to borrow under the MRCP because of the irregularity of her income. None of the participants, however, dropped out of the scheme.

These responses point to the need for flexibility in the repayment of individual loans from banks (with monthly or quarterly or annual instalments over a period of 2 to 5 years) as well as in loans given by the SHGs (with monthly instalments over a period of one year), with a view to enhancing the participation of the poorest – many of whom are subject to uncertain or (seasonally) fluctuating incomes.

Surprisingly, even though loans from the SHGs were costlier (2-3 per cent per month as against 12 per cent per annum from a bank), some members, including the poorest, were emphatic that the ease of obtaining loans and flexibility in their use more than compensated for the higher cost. However, some beneficiaries would prefer membership of the SHGs provided the loan amounts are larger and interest rates lower.

To sum up, while some of the poorest failed to participate in the MRCP either because of their lack of awareness or inability to overcome their social exclusion, many more were excluded because of arbitrariness in the selection of beneficiaries by the VDCs and inadequate flexibility in the design of the scheme, more specifically, in repayment requirements. To the extent that the default rate is negligible and the SHGs represent the poor better, further extension of the coverage of the MRCP mainly through the SHGs may well be sustainable provided of course the special needs of some backward sections (e.g., tribal groups) stemming from their social exclusion and irregularity are systematically addressed.

Status of Women

Status of women, both within the household and outside has improved. However, the process takes time. Two women were emphatic in reporting an improvement in their status both within and outside the household. The initial male resistance waned as loans augmented household incomes. There are several success stories which cannot be detailed here for lack of space.

Impact of Community Involvement

In the design of MRCP, the VDAs/VDCs have an important role to play in identifying beneficiaries, arranging for loans and aiding the follow-up. If they function well, the targeting is done well. As mentioned earlier, the survey shows that these are not functioning as well as they should be. Many a time there appeared to be a nexus between the bank staff and the VDC leading to higher loans being sanctioned to relatively affluent persons. The VDA/VDC mechanism of the MRCP does not inspire much confidence. These could be replaced by bodies like the Gram Sabha/Gram Panchayat since they are elected bodies. However, according to one bank branch manager, this is a task best performed by an NGO, i.e., the task of verifying whether the BPL list is reliable and selecting potential beneficiaries from therein. This means an outside agency, which has no vested interest, can render this task in a fair manner. It was seen that the highest number of SHGs were formed by NGOs and banks had a poor record in forming SHGs.

Non-Farm Activities

A separate survey was carried out to examine the progress of non-farm activities under the MRCP in two villages, namely, Kharhati (Baramati taluka) and Sitewadi (Junnar taluka), in November 1999. The following are the observations of the survey. Non-farm activities under MRCP were not increasing at the expected rate. A lead bank manager observed that borrowing for consumption was higher in the beginning but of late the trend was changing. He felt that the poor do not have sufficient motivation to start non-farm activities, as there is greater demand for farm activities in the rural areas. According to a MCED representative, 70 per cent of the beneficiaries preferred farm activities. Most agencies involved were of the opinion that non-farm activities should be confined to small-scale activities like grocery shop or service centre. Trading activities are recommended for women as they involve less capital and have a relatively assured market. Activities involving high business risk require insurance. Hence, relatively less risky activities like pan shop, basket making, bangle making, etc., are recommended for non-farm activities. The main constraint faced by rural women in taking up non-farm activities are illiteracy, lack of training, capital, quality, marketing, and lack of entrepreneurial attitude.

Interviews with the beneficiaries reveal that individual loans are preferred to group loans for non-farm economic activities. In carrying out non-farm activities successfully, keeping accounts and marketing were the major constraints. NABARD officials also stressed the limitation imposed by the market in the expansion of non-farm activity.

Problem Areas

It is seen that the SYGs are overburdened, as they have to cover a large number of SHGs. Their salary (Rs. 1,500) seems inadequate, as they are required to travel frequently. Moreover, their remuneration is not linked to performance.

Training provided by agencies like MCED, MITCON, is many times beyond the ken of these women. Also, it requires them to spend time outside their villages, which is at times difficult for rural women. The skills imparted by the SYGs during their interaction are, on the other hand, better suited to village women. Thus the SYGs component can be strengthened for better success in the scheme.

Many women did not mind paying high rates of interest (2-3 per cent per month) to the SHGs for use of funds. However, this could be because of their urgency for funds. When the question of economic activities comes up, it is seen that there are very limited such activities that can yield a rate of profit adequate enough to cover the rate of interest. Thus the individual loan (from bank with lower interest rate) may be a more feasible option for promoting non-farm activities.

The formation of a SHG takes around 6 months to a year depending upon the background of the members and the quality of leadership. It takes anything between 1 to 3 years for a SHG to start borrowing from a bank. A major concern is whether this cost can be reduced. The survey leads us to suggest that strengthening the NGO/SYGs input could help reduce this time gap.

Despite the above problems, the SHGs functioned democratically and the financial discipline demonstrated by the SHGs was impressive. There was an indication of male dominance in the selection and use of assets although there was no domestic violence. Women were emphatic that their status both within and outside the household had improved.

V

CONCLUSION

In this study an attempt has been made to analyse the impact of SHGs in providing credit to rural women to help them uplift their economic status. The analysis is based on a survey of three villages of Pune district, conducted during 1999 where the MRCP was being implemented. The MRCP was successful to some extent in its objective due to a combination of factors such as: (i) the SHG-Bank linkage, (ii) credit being made available for consumption purposes, (iii) easy and periodic availability of credit due to rotation of savings and (iv) active participation of the NGO. These were absent in the earlier schemes like DWCRA, IRDP, etc. The theory of 'peer monitoring' propounded by Stiglitz states that the concept of peer monitoring can be used by the formal credit market to overcome its informational disadvantage vis-a-vis the informal credit market to lend successfully to poor borrowers. This can be used as a channel to provide credit cheaply and frequently to reduce rural poverty. The results obtained from our study also corroborate the theory of peer monitoring. However, the success of group lending are attributable not only to peer monitoring but to other factors such as lending for consumption purposes (as is required by the rural poor), saving, rotation of saving by group members and not the least because of an active NGO.

A major challenge for micro-credit scheme is the viability of non-farm economic activities. Two major problems are, firstly, to find an economic activity that will yield a rate of profit necessary to cover the interest rate on the loan. Secondly, marketing of the produce is a problem. The main market for non-farm activities is in the urban areas, hence, when these activities are taken up by rural women the produced goods cannot meet the standards of the urban market. Moreover, the distance also imposes a cost of marketing, which these women cannot bear.

From the above it follows that micro-credit should be used to meet the current demands of the rural women, whether these are for health, education or consumption purposes. This will lead to a gradual improvement in the quality of their life and will enable them to identify activities for economic betterment. In this process they will learn fiscal discipline and be ready to take on market-oriented economic activities.

For poverty alleviation and empowerment of women, intervention should be a continuous process, with intervention at a steady pace rather than with target-oriented intensive efforts at sporadic intervals. Apart from the agencies involved in implementing the MRCP, other departments like social welfare departments, tribal research centre, and local NGO may be involved to see whether the benefits of the programme are reaching the really needy people. This will be a more effective way of targeting the poorest of the poor.

NOTES

1. For a critical and historical review of IRDP, see Rath (1985).

2. The Grameen Bank, Bangladesh makes small loans. It gives loans to self-formed groups of approximately five farmers, who are mutually responsible for repaying the loans. Other members of the group cannot obtain credit until existing loans are repaid. Its default rate is approximately 2 per cent, in contrast to some other lenders, whch have default rates between 60 and 70 per cent.

3. Considering International Fund for Agricultural Development standard, which stipulated that more than 20 per cent share of non-BPL households is considered excessive, the sample was over-represented by non-BPL members, e.g., one beneficiary owned 20 acres of land and another owned 12 acres.

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