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## Micro Finance - A Panacea for Poverty Alleviation: A Case Study of Oriental Grameen Project in India

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The importance of micro finance as an effective vehicle of alleviating poverty, especially in rural areas through the empowerment of women is now widely recognised. There are several methods of operating a micro finance project. The successful experience of a public sector bank, without the involvement of either the Government or any non-government organisation (NGO) in India is discussed here. Some suggestions for further improvement, based on the experience of certain other similar projects are also made.

I

### THE PROJECT

#### *Origin*

The Oriental Bank of Commerce (OBC), a public sector bank in India, had launched, on a pilot basis in May 1995, the Oriental Bank Grameen Project (OBGP), for providing micro finance services, in eight villages. Of these, two villages are situated in Hanumangarh district of Rajasthan State and six villages in Dehradun district of Uttar Pradesh (now Uttarakhand). The scheme was gradually extended by the end of March 2000 covering 64 villages in these two states (OBC, 1999). Dehradun district was selected for the in-depth study of the project.

The OBGP had focused on the lowest rungs of the poor such as destitute and very very poor families. The borrowers were organised in self-help groups (SHGs), each SHG consisting of five persons belonging, by and large, to the same gender, economic status, religion and social background. Presently, out of a total 450 SHGs covered by the project, as many as 447 were women SHGs and only 3 were men SHGs.

Women were encouraged to form SHGs on account of the following reasons: (a) Their repayment behaviour is excellent. (b) They are more trustworthy, sincere and committed. (c) Women members are extra conscious about the proper utilisation and do not hesitate to use peer pressures for proper utilisation and timely repayments. And (d) It is also interesting to note that male members of the family (like husband,

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father, brother) would not let down their female members (wife, daughter, sister) and often make extra efforts to arrange repayments in case of difficulties. In view of these virtues, women could easily raise funds from even moneylenders without difficulty. They are also known as the borrowers of last resort in the family. It is also well known that women are the first victims in case of any financial crisis in the family. In this context, financing of women for self-employment not only strengthens the family income but also empowers the position of women in the family, if not, in the society.

The SHGs transact with the bank branch located at Rudrapur village, Dehradun district, set up mainly for this purpose by OBC, through a facilitator. The facilitator is a person from the local area recruited by the SHGs for keeping record of the deposits of the group members, arranging loans and taking amount of deposits to the branch. A facilitator normally looks after 10 villages or 80 to 100 SHGs and travels usually by public transport.

Members of the SHGs have to mandatorily save a minimum of Rs. 10 (about £ 0.14) per week. Ad hoc deposits are also encouraged as income in the rural areas flows in indiscrete amount with discrete intervals of time. Loans are issued to the SHGs for on-lending to the members on group guarantee. On the recommendation of group members, loans are sanctioned and disbursed within a week's time. The loan application form is very simple and covers few items of information in a single page. Loans are sanctioned and disbursed at the village level. The first member of the group is financed after four weeks of the formation of the group. Thereafter, every fourth week, one member of the group is financed. The quantum of the loan is normally four times the deposits. The facilitator visits the branch of OBC every day. This arrangement leads to reduction in transaction costs, both at borrowers' and lenders' levels. Group members regularly meet every week on a pre-determined day at a public place like school building, panchayat building, temple, etc., to transact business in the presence of the facilitator and bank official.

### *Performance*

By the end March 2000, the specialised branch at Rudrapur village of the Vikasnagar block of the Dehradun district covered 41 villages with 447 women-SHGs consisting of 2,235 women and 3 male-SHGs with 15 members. The branch is manned by four persons comprising a Development Manager, an officer, a clerk-cum-cashier and one sub-ordinate staff. The total deposits at the branch level amounted to Rs. 8.9 million (about £ 0.13 million) which constitutes about 89 per cent of the total outstanding advances. Total disbursement of the branch since its inception amounted to Rs. 20.1 million (about £ 0.30 million) of which Rs. 10.0 million (about £ 0.15 million) was recovered. The loan outstanding amounted to Rs. 10.1 million (about £ 0.15 million). The per employee loan outstanding and deposit amounted to Rs. 2.1 million and Rs. 1.3 million respectively. This makes per

employee business of Rs. 3.4 million as against per employee business of Rs. 5.4 million of Regional Rural Banks (RRBs) in the country (NABARD, 1998). The average loan outstanding per borrower works out to around Rs. 5,000 (about £ 73) which is five-fold higher than the all-India average loan outstanding under SHG-Bank linkage programme. Loans are issued at prime lending rate of the bank, which ranged between 12 to 13 per cent during 1999-2000.

## II

## ASSESSMENT

*(a) Benefit of the Project*

The pilot project has brought about perceptible changes. As a result of participation in the OBGP, a large number of women have taken up subsidiary occupations like manufacturing of pickles, dairy, grocery shops and diversification of agricultural activities. Consequently, family incomes had substantially increased. Apart from the economic changes, there are tremendous social changes in the project area. Women now command more respect, get due affection and rightful place in the family. There is firm empowerment of women. Their involvement in family decisions has substantially enhanced. As a group, women have gained more confidence and power. In many villages, they have forced liquor shops to close. Strategic points are now patrolled by women who are in a position to chase away drunken men entering into the village.

*(b) Economic Viability*

The OBGP has proved that micro lending could be economically viable. An analysis of figures relating to income and expenditure of a specialised micro-credit branch reveal that the branch has become a profit centre right in the second year of its operation. The recovery of the loans was more than 100 per cent of the demand. This is because borrowers prefer to repay in two years period (104 instalments) as against the stipulated repayment period of five years prescribed by the bank. The tendency among the borrowers to make advance repayment was on account of their anxiety to avail of higher amount of loan for further diversification of activities. The recovery ethic is super among the micro-credit borrowers as they feel repayment of loan is their moral obligation and failure to do so is considered as a sin. It is interesting to note that a lady repaid the loan borrowed by her husband even after his death simply because she had to meet him in the heaven with pride. The most commendable aspect of the specialised micro-credit branch is its ability to maximise the outreach in a shortest time span. As seeing is believing, the branch has organised a 'Demonstration Plot' to popularise improved farming practices.

Besides, the transaction costs are lower. As a result of lower borrowers' transaction costs, group members prefer loans under the micro-credit project as

compared to the bank loans under subsidised programme sponsored by the Government. Consequently, even while charging at prime lending rate, the scheme has become viable. It is worth noting here that the OBGP is one of the few micro-credit projects in the world where loans have been issued at a rate of interest much lower than those prevailing elsewhere in the micro-credit sector. Even Bangladesh Grameen Bank provides most of the loans at the rate of interest of 18 per cent. The borrowers under OBGP have both the advantages of fine rate of interest as well as hassle-free credit whereas their counterparts elsewhere pay an exorbitant rate of interest.

In addition, the NABARD provides refinance for lending to the SHGs at the concessional interest rate of 6.5 per cent per annum. (since revised to 7 per cent from May 2000). As the head office of the bank gets refinance at concessional rate (normal rate of interest on refinance varies between 8.5 per cent to 10.5 per cent depending upon the amount to be borrowed by the ultimate borrower) on account of financing of micro enterprises by the branch, same concession has been passed on to the branch. Nonetheless, the branch would become a profit centre even without concessional refinance at loans outstanding of Rs. 15 million with its present proportion of deposit to outstanding credit.

The success of the project also underlines the need for human motivation. The Development Manager is a highly motivated and committed person with wide international exposure. His posting in the branch has benefited the system significantly. The experience has confirmed that a specialised branch performs better. This was possible because the staff could give undivided attention and pointed focus on micro finance and group activities. The untiring work, selfless services and seasoned leadership provided by the Development Manager of the project have also contributed a great deal to the success of the project. The social intermediation provided by his wife has been also a contributory factor.

### III

#### ROLE OF THE RESERVE BANK OF INDIA IN MAINSTREAMING MICRO-CREDIT

As the apex level facilitator, the Reserve Bank's concern has always been to create an environment that enables micro-credit providers to evolve into institutions capable of achieving wider outreach and critical mass in operations. The regulatory environment has been made it easier for micro-credit providers to pursue the process of institutional development. The Reserve Bank of India had set up a micro-credit special cell to examine the policy issues on a regular basis. Recently, the Reserve Bank has permitted banks to adopt any model or conduit or intermediary for purveying micro financial services. Similarly, the Reserve Bank has given total freedom (Capoor, 2001) in regard to designing of appropriate loan and savings products and related terms and conditions including the loan amount unit cost, unit size, maturity period, grace period, margin, etc., with an intention to provide maximum flexibility.

Banks have been permitted to provide credit for consumption purposes. The Reserve Bank is the first central bank in Asia to provide such freedom to banks (Todd, 2000).

## IV

## SUGGESTIONS FOR FURTHER IMPROVEMENT

The following suggestions will go a long way for furthering improvement in the project implementation and ultimate outcome.

(i) *Work Place for Holding Own Meeting*

As mentioned, weekly group meetings are held at temple, school or office of local bodies, etc. At times, the present stakeholders of these places are not comfortable with the SHG's use of their places. In some of the villages, such meetings have been opposed. In the absence of an own meeting place, regular meetings and deliberations therein have been adversely affected. In view of this, it is suggested that the SHGs should be united in the form of a federation to construct their own place with self-help. Besides weekly group meetings, the place can be also utilised by the members as work place. It is worth noting here that a majority of women do not have legal title to work place. They mostly use public property for the purpose, which is quite often subject to frequent harassment, if not evictions, by the staff of local bodies or police. Christopher has rightly observed when possessions are extra legal, ownership and transfer have no legal basis. He added further that without proper title over assets, economic incentives will be weak and ability to create or add to the existing capital is limited (Christopher, 2001). It is interesting to note that in a few villages, the SHGs have been united in the form of a federation and constructed their own place with five pillars to symbolise the unity of five members to support a common cause.

(ii) *Computerisation of Micro Finance Operations*

As indicated earlier, the facilitator tracks member accounts at the village level with handwritten sheets and passbooks. A good measure of time is devoted to manually updating the records and little time is spent on interface and discussions on economic and social aspects. Elsewhere in the southern part of the country a micro-credit institution known as Swayam Krishi Sangam (SKS) has introduced Smart Card into its micro-credit programme (SKS, 2000). The facilitators carry a Hand-held Computer (HHC) to the meeting. The HHC downloads information from the branch computer in the village. Each member has smart card, which electronically holds member's information and records of transactions. During the meeting each member inserted her or his smart card in the HHC and transactions are updated both in the smart card and the HHC. At the end of each day the facilitator uploads the information from HHC to branch computer and all accounts are updated. A record of

HHC is left in the village so that members can confirm their accounts. In this manner smart cards eliminate the need for manual record keeping, which greatly enhances time for interface. The smart card project of the SKS is worth replicating in this project.

### *(iii) Need for New Savings and Loan Products*

There are only two saving products, one saving deposit on a weekly basis and the same is converted into term deposits on reaching a ceiling limit of Rs. 500 to attract higher interest. Loans are issued for manufacturing pickles, raising of fruit bearing trees, purchase of milch cattle or work animals, solar lanterns, business activities, raising of crops like ginger, etc. Loans do not have any gestation period. The saving and loan products are not only age-old but at times do not serve specific requirements of the rural poor.

As we all know, the poor live on edges. They are not able to make distinction between production and consumption purposes like medical treatment, expenditure to be incurred after death of a person in the family, expenditure on marriage ceremony of children, particularly of girls and expenditure for education of children. These are senior claims and have to be incurred even at the cost of disposing of farm assets.

The expenditure for marriage and education of children are well known and can be planned. A large number of mothers in general and mothers belonging to poor strata of society in particular are planning for their daughter's marriage right from the day one, in the form of valuable clothes, utensils, silver and gold items, etc. These investments are not only unproductive but at times become useless particularly in the case of clothes which become too old to be used by the bride. In this context, designing of a saving-cum-loan product wherein a recurring deposit for 10 years (520 weeks) or 5 years (260 weeks) to fetch an equal amount on maturity for marriage or education of children on the lines of housing finance is worth trying. The expenditure for medical treatment and on bereavement is of an uncertain nature and could be handled by designing suitable insurance products. Unless suitable saving-cum-loan products for financing of expenditure on marriage and education are designed, the rhetoric of micro-credit will soon lose its lustre as most of the poor will fall back on the mercy of moneylenders for their social and consumption needs. In order to channelise unproductive investments in clothes, utensils, silver and gold items, etc., into productive savings, as also to keep micro enterprises away from the clutches of moneylenders, the designing of suitable saving-cum-loan products is most imperative to begin with on a pilot basis. The success of this pilot product will pave the way for channelising the large-scale unproductive investment of middle income group into productive saving by the commercial banks in forthcoming years.

Similarly, each and every household maintains at least a pair of bullocks and other agricultural implements to carry out agricultural operations. As land holdings are small, they are not in a position to fully utilise them. Furthermore, fodder

produced by them is invariably used for feeding bullocks rather than rearing milch animals which could be an additional source of income. Equipment leasing services particularly of tractors, power tillers, etc., should be arranged to surmount this problem. There is need to offer a range of products including insurance as well as inflation projected products (Bhatt, 2000). However, in the present dispensation, it would not be possible for the specialised branch to design and offer such innovative products.

#### *(iv) A Case for a Micro Subsidiary*

In order to facilitate designing of innovative savings-cum-loan products and leasing services as also to ensure uninterrupted flow of micro-credit and availability of staff dedicated to financing of micro enterprises, it is desirable to keep such specialised micro-credit branches outside the normal commercial business of the bank. This is possible by organising a separate subsidiary for micro-credit business of the bank by hiving of micro-credit business of the branches engaged in purveying micro-credit. This will be a fully independent micro finance retail centre having its own lending policy and procedures, staff and information system but will continue to report to the parent bank. The financing of micro entrepreneurs is an art. This needs both head and heart. This is not possible under the present set-up. Hence a separate arm to deal with micro-credit activities is more conducive. It is possible for a subsidiary to develop a team of officers to deal with this type of specialised job. The excessive dependence on the Development Manager is not desirable. Efforts should be made to create a team of persons rather than depending on one person. Nevertheless, his services may be utilised for further expansion of the project in other areas. Similarly, social intermediation should be institutionalised.

#### V

#### CONCLUSION

The OBGP has attracted worldwide attention when David Gibbons and Helen Todd published a piece titled "Oriental Bank Does Micro Lending" in a bulletin of Cashpor, Inc. (Gibbons and Todd, 1999). The project has established beyond an iota of doubt that properly designed and effectively implemented micro finance can be a means not only to alleviate poverty and empower women but also be a viable economic and financial proportion. However, there is scope for further refinement. The positive and liberal approach adopted by the central banking authority of the country will surely facilitate the further improvement and development of micro finance system in India.

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