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Rapporteur's Report on Working and Impact of Rural Self-Help Groups and Other Forms of Microfinancing

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I

INTRODUCTION

One of the most glaring and dominant outcomes of the development processes in developing societies has been the general bypassing of the poor in spreading the benefits of development. This has been so whether the societies have embraced left-of-centre socialist policies or right-of-centre liberal market-oriented economic policies. A root cause for this has been the economic planning strategies adopted by almost all countries without significant redistribution of land and such other physical assets (except for the centrally-planned economies or some of the south-east Asian societies). The consequence has been the bulging of the incidence of poverty and galloping of the absolute number of the poor people socially and economically deprived.

It is this failure to make a dent into the problems of poverty, unemployment and social deprivations that has been at the centre of the heated debate in the development economics literature since the beginning of the 1970s. The debate has taken varied forms, but generally emanable to a caricature description of the two extremes: neoclassical framework of economic policies dethroning Keynesianism; government failure leading to market as a sure recipe for all economic ills; and rapid economic growth and 'trickle-down' effects as substitutes for any "structuralist" design for direct attack on poverty. The economics literature has lively contributions seeking to buttress both the opposing themes of thought, but amazingly the all-pervasive influence that has been brought to bear on the economic policies of developing countries has been generally one-sided: one or the other aspect of what has come to be known as "Washington Consensus" in the form of free markets and unfettered competition, free trade, monetarism and fiscal compressions, and minimal government intervention in economic management. Even the sincere efforts of the United Nations Development Programme (UNDP) to place people as "both the means and the end of economic development" has generally attracted limited attention and resources on human development.

The initial performance of the above mainstream policy in action now for over a decade in many countries has been rather disappointing, and hence, it is contended

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that "the new theories of development imply new policy prescriptions and a need for policy makers to go beyond the 'Washington Consensus'" (The World Bank, 1997). In that perspective, it is now agreed that there are limits to markets; with imperfect information and incomplete markets, government intervention can improve overall efficiency. It is further perceived that a decentralised system of governance can be the answer to multiple issues of transparency, bureaucratic delays and indifference and widespread corruption. Above all, it is recognised that development economics must pay more attention to the promotion and nurturing of institutions. In other words, dependence on private markets remains the cornerstone of the mainstream policy framework, but the dynamics of capitalism will unleash the forces of growth only if institutions are strengthened, appropriate laws and regulations are introduced and reforms effected. This policy of liberalisation and privatisation with proper regulatory systems is nowhere more vigorously advocated than for the financial system of the developing countries so that they get integrated into the global financial system that is the prime mover of the world economic system today. As it is recognised at the same time that in this new financial architecture too, the concerns of the assetless poor are unlikely to be accommodated, the system of microfinance has been viewed as a powerful tool for uplifting the economic conditions of the assetless poor through group approach that ensures greater involvement of the beneficiaries in programme implementation.

The concept of microfinance thus executed with the instrumentality of self-help groups (SHGs) provides a paradigm shift in the strategy for resolving the socio-economic deprivations of the poor. It is an intermediate strategy that combines myriad issues of development experiences. It is emerging at once as an answer to both the market failure and the government failure. In it the sector of non-governmental organisations (NGOs) has begun to occupy a pivotal "third space" in the development process in developing societies. Bureaucracy is replaced by them as promotional agencies which serve the role of catalytic agents. Decentralisation and the bottom-up system become the system of governance. Self-help groups are participative in character; they embody co-operative principles of joint endeavour for fighting social ills as much as for thrift and mobilisation of financial assistance. Subsidies and targets, which characterised the traditional government programmes and programmes of banks for poverty alleviation, are avoided as they led to misdirection of assistance, induced instincts of avoiding loan repayments and promoted a general sense of dependence psychology amongst the beneficiaries. Women get a way out of gender discrimination and inequality as well as for exploiting their entrepreneurial talents. Activities surrounding the organisation of microfinance also enable the participants to go beyond economic pursuits; they are empowered to fight against social evils and address social backwardness. Self-help groups confer an added strength for the poor to bind them together in their common

endeavour to overcome poverty and social ostracism. It also imparts healthier behavioural and attitudinal approaches to issues of common concerns.

In the Indian context, too, the movement for microfinance is inspired by the same confluence of factors - the disenchantment with the past planning strategy, the desire for global integration, and the attempts to move away from the old paradigm of subsidised credit. The principle that microfinance can be a commercial institutional activity has been accepted. But, considering the complexity of the Indian economic structure, the authorities have no option but to adopt a more cautious approach and allow for a multiplicity of arrangements to flourish.

Rajaram Dasgupta, in his Keynote paper, has given a succinct account of the Indian initiative in linking formal and informal systems, the various schemes in operation and some of the field level observations available on them. This has considerably simplified the rapporteur's task. This report, therefore, concentrates on providing an assessment of the methodology adopted and research results advanced in the papers accepted for discussion.

The contributors to this theme and session of the Conference have, through their observations, research results and assessments and perspectives, covered a wide variety of issues relating to microfinance institutions in India, their organisation, working and impact. Their contributions - as many as 43 - are being reviewed and commented upon in the accompanying paragraphs under some broad headings. In a penultimate section, an attempt is also made to present a critical evaluation of the issues addressed, or not addressed, in these papers. This evaluation seeks to set the framework for discussion in this session and also for recommending a further research agenda in the broad area of microfinance such that it can constitute an integral component of the Indian financial system.

II

COVERAGE OF A WIDE RANGE OF MICROFINANCE ARRANGEMENTS

As is evident, the Indian system has by now, within a short span of a decade or so, accumulated a wide variety of experiences in the field of microfinancing through the means of self-help groups (SHGs) or otherwise. Interestingly, the papers under discussion have covered such experiments under different schemes and programmes. The most dominant and widely-known scheme, which is under implementation and which has received similar attention in these papers, is the umbrella arrangement for SHG-bank linkage either directly or through NGOs, initiated, popularised and funded by the National Bank for Agriculture and Rural Development (NABARD) and supported by policy directives by the Reserve Bank of India (RBI) in favour of the involvement in the programme by all segments of banking - commercial banks, regional rural banks (RRBs) and co-operative banks.

A major study in the above respect included in the present volume is that of V. Puhazhendhi and K.J.S. Satyasai, which is in turn a summary of an earlier study

undertaken by the authors on behalf of NABARD for assessing the impact of microfinance on living conditions of SHG members with the help of a survey of 560 member households from 223 SHGs located in 11 states during post-SHG compared with pre-SHG periods. This study covered cases of only those SHGs linked with bank finance, and that too, those on refinance assistance from NABARD. It does not cover microfinance facilities enjoyed by SHGs through the schemes of Rashtriya Mahila Khosh (RMK) or by members of SEWA Sahakari Bank. Likewise, the Small Industrial Development Bank of India's micro-credit scheme (SIDBI's MCS) launched in 1994 for extending financial assistance to the rural poor, particularly women, through NGOs for taking up income-generating activities at the micro-level, was not covered. There are also, as per NABARD's own revelation elsewhere (Jayaraman, 2001), five financial and technical companies under the holding company group, Bhartiya Samrudhhi Investments and Consulting Services Limited (BASICS), which extended loans either directly to the borrowers or channelled through NGOs and other intermediaries. Finally, there is the SHARE, a microfinance intermediary registered as a society in 1989 and operating in 502 villages spread over five districts of Andhra Pradesh [which is financially supported by a number of institutions including the World Bank and the NABARD (*ibid*)]. These seem to have been excluded from the study.

The above omissions are being pointed out here because undoubtedly the Puhazhendhi-Satyasai study has been by far the most comprehensive field study on the impact of microfinance in India. The omissions constitute a part of the NABARD's regular reporting arrangement wherein it focuses essentially on those SHGs linked to bank loans as well as refinance assistance from the apex institution; its monitoring arrangement does not even embrace 50,000 or odd SHGs linked to banks but not partaking the benefits of refinance from NABARD, let alone those outside its jurisdiction, referred to above.

Of the 43 papers, 41 have studied bank-linked cases, though there is no way of knowing if all of them are covered under the NABARD's refinance schemes. Of the 41, 10 papers have studied those SHGs that have been promoted by RRBs, which also reflects the growing involvement of RRBs in microfinance; it looks as though the regional banks are finally finding their moorings in financing the poor. It may provide a strong rationale for their existence. Apart from an exclusive study of the role of RRBs as self-help promoting institutions (SHPIs) in the country as a whole by P. P. Pawar *et al.* (though with the outdated data up to 1998), and that by M.S. Jairath who brought out how RRBs accounted for 62.7 per cent of the bank-SHG link programme in Rajasthan, there are a few other studies which have dealt with the role of individual RRBs in an intensive manner. The paper on Panchmahal Vadodara Grameen Bank (PVGB) in Gujarat by N.V. Namboodiri and R.L. Shiyani shows a higher number of SHGs promoted by the RRB than by NGOs in the five blocks of the district studied. Similar dominance of RRBs in promoting SHGs has been

brought out by K.K. Kundu *et al.* in a study of Gurgaon Grameen Bank (Punjab) in a district which has the maximum number of SHGs and by D.K. Singh in his paper on Beri Dayria village of Maitha block in Kanpur Dehat district. Importance of RRBs as SHPIs was also covered in the original study by Puhazhendhi and Satyasai (165 RRBs forming 84 per cent of the total RRBs in the country).

Apart from the coverage of bank-SHG link in respect of commercial banks (which are being noticed in subsequent sections), a few of the microfinance schemes outside the NABARD's direct involvement have been covered by other papers in this set. Samar K. Datta and M. Raman have studied 25 women SHGs under the Rastriya Seva Samithi (RASS) especially amongst the Integrated Child Development Scheme (ICDS) target families in the Tirupati urban areas in the beginning of the 1990s (NABARD supports the RASS but the details are not known; also this study covers generally an urban area). Saundarjya Borbora and Ratul Mahanta have studied the case of Rashtriya Gramin Vikas Nidhi's (RGVN) credit and saving programme (CSP) in Assam. RGVN is primarily an NGO operating in a number of states but primarily in the eastern region; it has been promoted by leading institutions like IFCI, IDBI and NABARD. RGVN implements the CP as a direct financial intermediary.

An entry point for the microfinance scheme through SHGs has been the special government projects such as the integrated watershed development programme (IWDP), the Development of Women and Children in Rural Areas DWCRA scheme under the Integrated Rural Development Programme (IRDP), and the Support to Training and Employment Programme (STEP) for women. Two papers, namely, the one by P.K. Awasthi *et al.* and the other by U.B. Singh *et al.* have studied IWDPs in Katni (Madhya Pradesh) and two districts of Shiwalik foothills (Haryana) respectively. While Y. Indira Kumari and B. Sambasiva Rao studied the DWCRA groups in Nuzvidu division of Krishna district in Andhra Pradesh, V.M. Rao presented a review of 48 women dairy co-operative societies spread over six districts of Andhra Pradesh and Karnataka under STEP.

The study by D.P. Malik *et al.* has dealt with a special programme titled Vikas Volunteer Vahini (VVV), under which NABARD has been encouraging informal forums of farmers called Farmers' Clubs (FCs). As per its latest Annual Report for 2000-01, NABARD has set apart a grant provision of Rs 55.14 lakh for promoting 5,150 SHGs through 515 FCs. The above study has presented some brief account of nine FCs operating in Hissar and Fatehabad districts of Punjab.

A study by G.P. Singh and P.S. Sehrawat, mainly giving only a general description of the bank-linkage programme and some broad details of SHGs operating in Hissar and Fatehabad districts, has presented the details of the system of appraisal and rating of SHGs probably prescribed by NABARD/District Rural Development Agency (DRDA).

There are two commercial banks in the country which have launched with their own initiative novel microfinance services, one of which figures in these papers, that

is, Oriental Bank of Commerce (OBC), a public sector bank. C.L. Dadhich's OBC study deals with a description of the microfinancing project promoted by the bank in general in 64 villages of two states, Rajasthan and Uttaranchal, and an in-depth study of its operations in Dehradun district.

None of the studies deal with the initiative taken by Bank of Madura, a private sector bank (since merged with the ICICI Bank). A conspicuous omission in the papers here is the pioneering work of the SEWA Bank in Gujarat started as early as in 1974; SEWA Bank's advances have been around Rs. 9 crore in recent years, whereas credit extended to SHGs by all banks taken together in that state in 1999-2000 is found to be a little less than Rs. 1 crore.

III

APPROACH, METHODOLOGY AND DATA BASE

A majority of the papers under discussion have three parts: a prelude based on international literature on the perspectives of financial sector reforms; a reference to the rationale and evolution of microfinance arrangement in India, in particular the bank linkage programme, based essentially on secondary data as provided by NABARD; and an assessment of the impact of microfinance in some chosen regions. It appears somewhat surprising that not a single paper in the present lot has made any critical observation on the mainstream perspectives on financial sector reforms with preference for a decisive role for the formal financial institutions (FFIs) even in this crusade for microfinance, though with radical reforms in their approaches, strategies and instruments (more of it later).

As stated above, almost all papers have depended on secondary data published or specially made available by NABARD, which is right as it is the primary institution in the country that has taken immense initiative in this area, but all of them have talked about microfinance programmes and SHG initiatives under the NABARD's scheme of bank linkages except for some passing references to Rastriya Mahila Kosh and such other programmes (as in K.C. Sharma; V.M. Rao).

Of the 43 papers, two papers have addressed general issues of macrofinancing without making any attempt to assess the impact of the scheme or to present case studies of their own. Sharma's is one such paper, which has provided a fairly comprehensive account of the progress made in the bank linkage programme and highlighted the complex issues of social engineering in group formation; it has also highlighted the need for understanding the nature of existing groups in society before considering the formation of new groups. The other general paper is that of D.S. Navadkar *et al.*, which does not go beyond the NABARD's official data. Incidentally, some of the regional offices of NABARD, such as those of Rajasthan, Madhya Pradesh and Punjab, have provided secondary information to the authors on the regional/state SHG programmes.

As many as 16 papers have preferred to present case studies based on secondary data, that is, with no attempt at impact assessment based on personal interviews or sample surveys with structured schedules. These case studies cover SHGs in all regions of the country. S.N. Tilekar *et al.* have presented the role of 'Chaitanya', an NGO in Pune district of Maharashtra, in promoting SHGs of women, and along with it, a case study of one such SHG (Jeevan Sarthak) in village Kadadhe of Khed tahsil. Kamal Vatta and Parminder Singh make a case study of Hoshiarpur district (Punjab) bringing out the distinction between Swarnajayanthi Gram Swarozgar Yojana (SGSY) and non-SGSY groups. Non-SGSY groups were relatively better-off members. T. Ponnarasi and M.P. Saravanan have presented the study of five SHGs in Cuddalore district, of which one was awarded the "Best Self-Help Award" in the district. There are two studies of SHGs in Madhya Pradesh - one by S.K. Gupta and A. Shrivastava and another by M.C. Athavale *et al.* - both presenting identical cases of SHGs in Dandi Junkar village of Hoshangabad district based on the same source, namely, grassroots first-hand information obtained with the support of the concerned NGO (PRADHAN). While the former presents experiences of SHGs in the Hoshangabad district as a whole, the latter explains what it calls the success story of an SHG in a tribal village (Dandi of Kesla block).

A separate case study of Mahila Bachat Ghats (saving groups) operating in a village of Ahmednagar district of Maharashtra has been presented by Y.C. Sale *et al.* In the village of 1,027 people, there were 18 groups with 180 members up to 1999; in 2000, three more groups were formed with 'below the poverty line' people as members. A case study on Kalahandi in Orissa has presented blockwise information on SHGs in the district, their male-female memberships and savings made; it is by Binodini Sethi and H.N. Atibudhi that seeks to prove that there had been an uneven growth of SHGs in different district blocks, suggesting that more grassroots level organisations are required to promote SHGs in the district. M.S. Kallur's study is a brief exercise of 10 SHGs promoted by Mysore Resettlement and Development Agency (MYRADA) in Chincholi (Gulbarga district of Karnataka); it has adopted focus group discussions with SHG members followed by interviews of 100 members - through a structured schedule. On the other hand, Kundu *et al.* have collected primary data from selected SHGs by personal interviews in Gurgaon district. In the Indira Kumari-Sambasiva Rao study of DWCRA in the Nuzvidu division (Andhra Pradesh), the authors have presented data on total corpus separately for funded and unfunded groups in the division; while the unfunded groups dominate in number, the average corpus of funded groups has been six-fold higher than that of the unfunded groups, suggesting that the government assistance has tended to increase group savings. Such a potentially useful study contained no additional information on the differences in their economic and social outcomes.

There are two studies, one of which seeks to make a comparison of primary co-operative bank beneficiaries of bank-linked SHGs, and the other a comparison of

SHG-NGO linkage and SHG-primary agricultural credit society linkage (i.e., non-NGO). Both the studies have used data obtained either secondarily as in the first study by A. Malaisamy and R. Srinivasan in respect of Madurai district, or from field studies undertaken by others as in the second study by Debanarayan Sarker on SHGs promoted by an NGO, Tajmahal Gram Bikash Kendra and those promoted under SHG-PACS linkage strategy financed by Hooghly Central Co-operative Bank (West Bengal). Coincidentally, both the studies have used relatively rigorous econometric or time-series techniques - multiple regression by the first and some form of logit model by the second - to examine the pre-determined hypotheses. In both the studies, the results conform to the widely-held views, that (a) co-operative beneficiaries had a much higher overdue position as compared with SHG beneficiaries, and (b) microfinancing of SHG-NGO model is more popular and productive on savings mobilisation and credit disbursements than SHG - non-NGO model.

Finally, there are two case studies which have depended only on secondary data; the first one by S. Lakshmanan (a study in Erode district) which does not even explain the methodology except to say that the author has visited the Mallipalayam SHG and the second by S.B. Hosamani *et al.* who do a case study of SRINIDHI women's SHG without giving any indication of the source of their data. In the list of case studies is also a detailed study on the Oriental Bank Grameen Project by Dadhich.

This brings us to the set of 28 studies which have sought to analyse the impact of micro-credit arrangements on different dimensions of the social and economic lives of the beneficiaries; they have attempted these studies based on field surveys to generate primary data on the chosen characteristics and variables. Of them, 12 studies have been based on personal interview method for eliciting qualitative as well as quantitative information from the concerned functionaries and even SHG beneficiaries on the impact of microfinancing. There are another eight studies which have sought to undertake random sample studies, but not with the intention of providing quantitative results, particularly on the impact of group membership on levels of living - income, assets and poverty standards. Finally, there are eight studies which have sought to present such quantitative results on income, assets and poverty levels.

References to the above studies appear in the next sections dealing with their results. However, a study by P. Satish stands on a special footing; it is in respect of the 'sample' states of Karnataka, Uttar Pradesh and Maharashtra and the results are based on the data and material collected by the author over the period 1997 to 2000; the data collected themselves have been in relation to questions which frequently cropped up in the author's interactions with practitioners and academicians in the field.

As said earlier, the overwhelming preference of the authors has been to undertake sample studies of beneficiaries generally with pre-tested schedules, but the

methodology employed appears hardly scientific except in a few cases. The sampling procedures appear very casual. A study explains the procedure thus: "the list of SHG has been provided by the NGO and they have been stratified according to the nature of activities and a sample of 150 women were chosen at random" (M. Manimekalai and G. Rajeswari). No doubt, sample sizes have been small and the groups chosen generally homogeneous and hence no attempt could be made to stratify the sample households. Even so, studies have not shown any awareness of the complexities of the issues involved in sampling studies on levels of living - incomes, savings and consumption. For instance, a system of covering a control group (non-participating households) so as to juxtapose the results for the participating households has not been attempted in any of the studies except in three studies which have shown the need for such a comparison. Such an example of a carefully-designed sampling procedure even within a small sample size is found in S. Madheswaran and Amita Dharmadhikary, who studied the functioning of the Maharashtra Rural Credit Project (MRCP) based on secondary literature but combined it with a survey of three MRCP villages of Pune. Different sizes of villages, random selection of households from broad specified groups so as to account for "the exclusion of the poor, inclusion of non-target groups, and the experiences of the beneficiaries", inclusion of non-participating households, SHGs not linked to the financing bank, a careful count of the sample households into the poor and relatively affluent categories - have all been as systematically attempted as a small sample of 30 households could possibly permit. (However, as explained later, no comparative results have been presented in the study.) Two other studies - the one by Rayavarapu Ramakrishna on Thumpala village of Vishakapatnam district (AP) and the other by Kamal Vatta and Parminder Singh on Hoshiarpur district (Punjab) - have come close to making comparisons with some form of control groups; the former has made a comparison with IRDP beneficiaries and the latter with non-SGSY groups.

Samar Datta and Raman have chosen a much larger sample - 355 members of 30 women SHGs -, but the information on the random selection of 30 SHGs in eight clusters of Tirupati given in the study has been limited; also no attempt has been made to involve controlling groups for juxtaposition with the SHG beneficiaries. (It is not known if the RASS-conceptualised SHGs amongst the ICDS target facilities embrace all households living in the eight clusters falling within the sample.) In this respect, even the largest of the sample studies undertaken by NABARD (Puhazhendhi and Satyasai) has not included samples from non-participating households. The multi-stage stratified random sampling procedure rightly adopted purposive methods of selection at different stages to adequately represent different categories, but the focus has only been on linkage with banks all along the line; the quality of the results would have been considerably enhanced if the measurement of the impact of microfinance were done in comparison with samples outside this frame; interestingly, the analysis of the results in the NABARD study does not

contain even data on non-borrowing members of SHGs. Some of the substantive papers in the volume, which have not covered controlling groups, are: Borbora and Mahanta on a case study of Rashtriya Gramin Vikas Nidhi's (RGVN) credit and saving programme (CSP) in Assam, which does talk of two non-borrowing members out of 45, but does not attempt to compare their levels of living with those of others; Ramen Das *et al.* who studied SHGs in Sonitpur district of Assam; V.M. Rao who studied dairy SHGs in Andhra Pradesh and Karnataka; and S. Nedumaran *et al.*'s study of Erode and Tiruchirapalli SHGs in Tamil Nadu.

IV

THE RESULTS: PROFILES AND PROCESSES

There is no doubt that SHG-bank linkage projects dominate the microfinance arena in the country, which is reflected in the studies published in this volume. As explained earlier, there are other SHG schemes associated with various government programmes, and even private programmes, which are hardly covered in the present studies. As a prelude to their studies, almost all authors have reproduced the NABARD data but rather uncritically. The rapid progress of the SHG-bank linkage programme, concentration of SHGs in the southern region of the country, the dominant role of NGOs in the growth of SHGs, and the targets set by NABARD for promoting SHGs so that the rural poor have access to formal banking service, are all valid results arising from NABARD data. Among the three models of linkage, NGOs as facilitators forms the dominant model (70 per cent of SHGs); of the other two, there are direct bank linkages (14 per cent) and NGOs as intermediaries (16 per cent). Amongst banks, RRBs have begun to expand their role as self-help promoting institutions (SHPIs). These relative positions are from the NABARD study; while the exact nature of the proportions may differ, the broad results remain valid. In the Athavale *et al.*'s study of Hoshangabad, for instance, it is revealed that 65 per cent of the SHGs are based on model II (wherein SHGs are formed at the instance of NGOs) and 33 per cent on model I (direct bank initiative); model III wherein NGOs serve as financial intermediaries are just 2 per cent.

Considering that the concept of microfinancing through SHGs have been designed to provide the poor with alternative means for obtaining economic and social entitlement to resources through their active participation, the overwhelming profile of the participants in the programme is that they are poor, that a majority of them are illiterates, that over two-thirds comprise scheduled castes/scheduled tribes (SCs/STs) and backward communities, that there is a significant proportion constituting agricultural labour households, and that, above all, the bulk of them are women members. It must be emphasised that a preponderant part of the evolution of microfinance in India so far, particularly that component supported by NGOs, has been in the form of women's SHGs. Rightly, NGOs have been overtly concerned

with the phenomenon of gender inequality and the need for women's empowerment. Though the following is an extreme statement, the broad spirit behind it pervades the SHG programme in the country: "when the programme was launched, both men and women benefited but with the passage of time it was confined to women as they were found more bankable and safe" (Borbora-Mahanta study of Assam). Such are the stereotypes that now dominate the macrofinance literature (Tara Nair, 2001 b).

Homogeneity in SHG membership is emphasised in almost all studies, but there are cases of heterogeneity at least in terms of occupations amongst members as shown in Datta-Raman study of Tirupati.

There are very few studies in the set that have generally sought to delineate the poor from the non-poor rather distinctly, with the exception of Madheswaran and Dharmadhikary study of the MRCP in Pune district; this study has shown the nature of discrimination in bank loan amounts as between the two groups, partly due to the differences in absorptive capacity, and partly "due to the influence that the affluent wield in the implementing agencies (VDCs and banks)"; the study of course emphasizes that the self-selection/promoting nature of SHGs makes them represent the poor better. Kallur's study on Gulbarga has listed the number of non-poor members in different SHGs but provided no separate results on their benefits in SHG membership.

The above MRCP study is revealing in many other respects, the most important of which concerns the widespread discrimination as between the poor, the poorest and the non-poor. The study has brought out how social exclusion has tended to serve as a barrier to participation in the MRCP by some SC and ST households. At the other end, all non-poor beneficiaries belonged to upper castes and they are either nominated by Sarpanch or Gram Sevak and duly recommended by the Village Development Council. In this respect, the MRCP is a unique project in that it focuses on the overall development of a village, especially its credit needs, articulated through a people's action plan (PAP). The credit support is for the poor households, but the list of eligible households is said to be faulty as it classifies 80 per cent to 90 per cent as poor. Satish, in his study, has also probed into the causes of the visibly poorest not being members of any SHG. Apart from the absence of awareness on their part of the NGO/banks' efforts at group formation, such extremely poor people were diffident about joining SHGs because of the rigid discipline expected of them, including regular saving.

A distinct lesson from the above MCRP study is that willy-nilly the fora of Village Development Authority/Village Development Council (VDAs/VDCs) get dominated by the influential people of the village. Many a time the below-the-poverty line (BPL) list is faulty but its reliability is never questioned. This is contrary to the claim made in NABARD's *Annual Report for 1999-2000* while presenting a case study of VDC-VVV Aligarh Grameen Bank Model (p. 123). The VDA/VDC mechanism under the MRCP has not inspired confidence, whereas in the Aligarh

model, "the VDCs serve as a link between the villagers and the bank branch and help the latter" in a variety of ways. A suggestion has been that either the bodies like the Gram Sabha/Gram Panchayat should replace them, or the tasks should be performed by NGOs. However, the contention of the study that "the highest number of SHGs were formed by NGOs and banks had a poor record in forming SHGs" has been disputed by two other case studies - Namboodiri-Shiyani study of Panchmahal RRB and Dadhich's study of Oriental Bank Grameen Project (OBGP).

While almost all studies have emphasised the importance of the role of NGOs in the SHG formation, it is Satish's study of three sample states of Maharashtra, Uttar Pradesh and Karnataka, that has brought out how most of the NGOs studied by him have adopted the strategy of engaging animators drawn from the local youth, for the formation of SHGs. Animators in turn are thoroughly trained in various facets of group formation. Satish's study has yet another contribution in the form of an assessment of the initial resistance to the formation of SHGs; apart from external resistance from husbands, village elders, and moneylenders, there were also stiff resistance, in an interior village, from the affluent people; in Karnataka (Kolar), two families of a forward community took strong objection; in Uttar Pradesh moneylenders and shopkeepers resisted the SHG activity because the threat they perceived to their business. Studies by K.C. Sharma, Kundu *et al.* and Satish have alluded to, amongst others, the opposition of the well-off people in villages against the formation of SHGs by the poor. Overall, the SHGs have been able to face the initial resistance with the help of their facilities. That the group formations are taking a great deal of persuasion and motivation by educated NGOs and block level personnel, is evident from J.P. Mishra *et al.* in a study of Faizabad (Uttar Pradesh) and from Manimekalai and Rajeswari in a study of an NGO (NEW LIFE) in Tiruchirapalli. The latter study has emphasised the importance of motivations, encouragements and compulsions involved in group formation. Emphasis on the importance of training of leaders of SHGs and SHG members by dedicated NGOs on organisational matters, and more importantly, on matters concerning skill-formations in different local occupations, has been an important feature of activities in the micro-credit arena. How checks and balances have to be ensured by NGOs for long-term sustainability of the group coherence is evident from a successful study on 'Chaitanya' in Pune district of Maharashtra by Tilekar *et al.*

Almost all studies have revealed how the conduct of regular meetings of SHG members is one of the core activities of the SHGs, which facilitated not only the collection of savings and disbursement of loans, but also sorting out of common problems and issues. It appears that such meetings have been instrumental in nursing promoting and comradeship, particularly amongst women SHGs.

At the end of it all, a nagging question that arises is as to what contributes to success in SHG formation in some areas and not in others; why relative success has been region-specific, and what has been the crucial contributory factor - systemic or

individuals effort - for success or otherwise of SHG formations. Inter-regional issues of institutional development are the result of a complex set of economic, social and cultural contests which are outside the purview of this note. Nevertheless, a few brief broad indicative hypotheses can be set out. First, the success of the southern region has to do with literacy levels. Even so, gender inequality has remained an issue of concern and hence, the scope for NGO activities even in the south. Second, while dedicated work by NGOs and wide ranging training is essential and are very crucial, the success stories show that in the scheme of things, if factors contributing to dependence psychology are obviated such as forced extension of assistance through targets (without training and other preparatory work) and excess subsidies, and if peer monitoring is adopted, the chances of long-term sustainability are greater. These behavioural and attitudinal issues seem obvious, though for the present case studies represent initial success stories. It may be that in the case of banks, an environment of professional commitment and assertions on loan recovery (i.e., without political interferences), may help to achieve targets and yet produce success stories (as in the case of Oriental Bank). The banks may also have to incorporate an adequate role for peer monitoring in their scheme of microfinance activities for ensuring healthier behaviour amongst their beneficiaries.

V

THE RESULTS: INSTRUMENTS OF SERVICE DELIVERY

There is an integral link in the varied instruments of service delivery in the microfinance system of SHGs: training from books maintenance to vocational guidance; savings and savings-linked lendings; bank loans and NABARD refinance to banks at a subsidised rate of interest of 6.5 per cent (or now 7 per cent); and differential interest rate structure with rates of interest at prime lending rates of banks (12 to 13 per cent) for direct borrowings from banks and at high rates ranging from 2 per cent to 3 per cent per month (24 per cent to 36 per cent per annum) for borrowings through SHGs; there are cases where groups have charged higher rates of interest (ranging from 24 per cent to 50 per cent as in the case of RGVN-CSP in Assam).

All studies in the present set show how the SHGs have been able to achieve mandatory savings by their members, how loans are not given up to six months when initial savings take place, and how savings rise with time and age of SHGs. Average amount of savings mobilised have shown a wide range with some of the SHGs showing immense success (like 'Chaitanya' promoted SHGs Khed-Pune and SRINIDHI women's SHG in Dharwad). The 'Chaitanya' case study brings out how when loan rates of interest are high, the total interest amount accumulated by the SHG can be distributed to the members at the end of the fifth year; some remaining amount can be kept in a bank as fixed deposit from which dividend is distributed to

members. Rates of interest may also come down over a period. In the study by M. Anjugam and T. Alagumani of Madurai district, the rates have fallen from 60 per cent to 36 per cent and finally to 24 per cent over a period of eight years or so.

Members' saving was not a component in the MRCP. That the poor have savings ability is proved by almost all studies presented here. The importance is not of the size of savings by the poor; its significance lies in the fact that if the poor are motivated and driven by innate desires to improve their economic status, they could set aside a part of even their meagre incomes so as to serve as a base for future well-being. Thus the thrift component constitutes a pivotal aspect of the micro-financing arrangement. It may also serve as a surety against dependence psychology.

However, a question does arise as to what component of household consumption that gets foregone and saved, for there is no doubt that there is significant opportunity cost involved in such a saving process. It would be useful to look at the nature of consumption foregone and the time-phasing involved in the process of its restoration. It is not economics alone that is involved in it; it is also rather the sociology of helplessness amongst the poor that dominates the drive for saving even at abysmally low income levels. Two aspects of the micro-financing arrangement bring out this sense of helplessness amongst the poor; first, the arrangement will not succeed unless consumption loans and loans for social expenditures constitute a part of the lending; and secondly, the willing acceptance of high rates of interest (in the range of 24 per cent to 36 per cent almost as a universal feature in NGO-sponsored SHGs) at which no economic project would ever be commercially viable (except for the Latin American inflation rate situations). In this context, two observations made in Madheswaran-Dharmadhikary study appear to reflect the general phenomena: first, though some members, including the poorest, were emphatic that the ease of getting loans and flexibility in their use more than compensated for the higher cost, some beneficiaries (of MRCP) would prefer membership of SHGs "provided the loan amounts were larger and interest rates lower"; and secondly, when the question of economic activities comes up, "it is seen that there are very limited such activities that can yield the rate of profit adequate enough to cover the rate of interest". (This is mentioned therein in the context of non-farm activities.)

It is significant that the proportions of loans for non-income generating purposes fell with the age of an SHG, as shown in many studies. And, if income-generating purposes require loans, high interest costs will make them unviable. Therefore, the SHGs, after they have met the initial urges of their members, have to move in favour of more productive loans and at more reasonable rates of interest. Rajaram Dasgupta's Keynote paper makes a perceptive observation in this respect (based on ongoing evaluation reports of MRCP not included in the volume): "May be the members have been moving from small, short, consumption loan to large, long, production loan - implying a larger interest burden and cost disadvantage in the competitive market."

Loans are a multiple of deposits, by and large ranging from ratios of 1:1 to 1:4. The studies have generally revealed that the size of the loan was higher in the SHGs directly formed by banks than in those SHGs in which NGOs served as facilitators or as intermediaries (Puhazhendhi and Satyasai). This was true only not of commercial banks but even of RRBs. Namboodiri-Shiyani study of Panchmahal RRB showed that the ratio of SHGs promoted by the RRB as SHPI had a credit-saving ratio ranging from 2.44:1 to 4.48:1 in areas covering different branches; in some areas, SHGs promoted by NGOs had this ratio ranging from 0.69:1 to 2.21:1. It is revealed that the members of the former SHGs were "the poorest of the poor", and the higher credit-saving ratios for them were not only because of higher amounts of credit advanced but also because of lower savings per SHG. Interestingly, despite being more acutely poor and obtaining bigger size loans, their repayment performance was superior to that of SHGs promoted by NGOs. This entire case study has disproved that the poor have no loan absorbing capacity or that they have no financial discipline. Above all, it has proved that a bank can successfully function as an SHPI, perhaps more efficiently than even NGOs, provided it insists on the culture of loan recovery. Incidentally, one possible reason for higher borrowings per SHG in the case of the RRB is because of lower interest rates.

The above also has been proved by a case study of Oriental Bank Grameen Project (OBGP). A dedicated branch of OBGP covering 41 villages has attained the breakeven point within a year, despite the loans being issued at the bank's prime lending rate, which ranged between 12 per cent to 13 per cent during 1990-2000. The average loan outstanding per borrower worked out to Rs. 5,000, "which is five-fold higher than the all-India average under the SHG-bank linkage programme". (As per Puhazhendhi-Satyasai study, average loan per household member was Rs. 8,341 in the post-SHG situation.)

A major aspect of microfinancing, as brought out by different studies, has been the provision of consumption loans. And now the RBI has permitted banks to provide credit for consumption purposes; apparently the RBI is the first central bank in Asia to provide such freedom to regular banks (see Dadhich).

In regard to healthy repayment performance of SHGs which is almost uniformly brought out in the present set of studies, an important operational instrument has been peer monitoring - which has been emphasised again and again in many papers under discussion. The repayment ranging from 90 to 100 per cent has not been uncommon; peer monitoring and self-policing have been the instruments to achieve such satisfactory performance.

The case studies of commercial banks (including Bank of Madura in the private sector) and RRBs serving as SHPIs (and with the RBI permitting banks to adopt any model or conduit or intermediary for purveying microfinancial services) has opened up significant possibilities for expanding the outreach of microfinancing facilities. But, this is conditional upon the banking system continuing to widen and deepen the

geographical spread and functional reach of commercial banks with some decisive focus on the rural credit delivery system. In reality, what is happening is quite the contrary and hence, the sporadic success stories of a few banks do not make for a systemic crusade and movement which alone can attain the goal of alleviating poverty in rural India (more of it later).

VI

THE RESULTS: IMPACT ON LEVELS OF LIVING AND ASSET FORMATION

The papers which have presented results of sample studies on income levels and/or asset formation during the pre- and post-SHG scenario, have uniformly reported significant positive impact as an aftermath of the SHG activity. The most comprehensive study in this respect again is that of Puhazhendhi and Satyasai. In their original study, the authors report that there had been a one-third rise in net income of the sample households, with the highest rise of 35 per cent in SHGs of 3 years and above (as of 1999-2000). There was a 32 per cent rise in incomes of households in SHGs with direct bank linkage, 35 per cent with NGOs as facilitators, and 32 per cent with NGOs as intermediaries. It is interesting that the differences as between the latter categories have been small and may have been due to statistical reasons. Only 7 per cent of the incremental income is attributable to more number of households taking up income-generating activities. Some reduction in inequality in the distribution of incomes, as also a distinct change in the composition of incremental income in favour of non-farm and off-farm activities, have been reported. The study also reports significant reductions in poverty levels and increases in the extent of employment and the size of assets. In all of these, the NGO interventions have shown better results than the direct SHG-bank linkages.

The study by Manimekalai and Rajeswari in respect of 150 women entrepreneurs of SHGs in five blocks in Tiruchirapalli provides varied details of the sample by different social and economic characteristics; it showed significant differences generally at 5 per cent level of significance in the mean performance of entrepreneurs based on their age, community, education, employment, capacity utilisation, turnover and past experience in terms of growth of profit. For instance, a longer age-group performs better and graduates show better performance than the secondary and higher secondary educated.

Datta and Raman's study of 355 members of 30 SHGs in eight clusters of Tirupati contains some rigorous econometric exercises, *inter alia*, on the determinants of average monthly income of members; it was found that income was positively influenced by familiarity, mutual insurance among members, and average business loan; surprisingly income was inversely related to group pressure on members and SHGs share of expenditure in the total income.

A sample study of 150 households (in SHGs with 62 per cent SCs/STs and 28 per cent backward classes) by Nedumaran *et al.* in Erode and Tiruchirapalli districts provided data on increases in income based on age-groups of SHGs with the increases declining with the age; the highest rise of 31.5 per cent took place in SHGs of 2-3 years category, followed by 22.3 per cent for 3-4 years and 15.2 per cent for more than four years. Improved consumption standards and physical quality of life have been reported. These results have significance in the context of the fact that the microfinancing scheme is as yet in a nascent stage and that the results may become more realistic as the years roll by.

D. K. Singh's study, *inter alia*, on eight marginal women farmers in Kanpur Dehat district (Uttar Pradesh) revealed a 17 per cent rise in assets and 28 per cent increase in average household income in a period of three years.

Borbora-Mahanta study on Assam has reported that before joining SHGs, about 85 per cent of the beneficiaries, being housewives, had earned no income, but after receiving loans, about 30 per cent sample members started income-generating activities of their own and earning income between Rs.15 to Rs.30 per day. About 7 per cent or 15 per cent crossed the poverty line.

The S.N. Mishra-M.M. Hossain study of Kalahandi based on primary data collected on an impressionistic survey of SHG members, has reported an increase in income from Rs. 6,455 in 1996 to Rs 15,325 per member per annum in 2001- a rise of 137 per cent in nominal terms in five years. About 27 per cent of the families are having more than one activity as compared with only 13 per cent earlier.

Similarly, as explained earlier, in all these cases of impact studies, samples chosen have been within the target categories without any comparison with any 'control' groups. The only exception is that of the MRCP study by Madheswaran and Dharmadhikary, which significantly has not presented the comparison results. They recognised the importance of having a sample set from a control group, but while making an assessment of the impact on income, no comparison has been presented between the beneficiary households and the control group. Although generally all earned surpluses over and above the loan dues, the income of the women members accrued to their families.

The Kamal Vatta-Parminster Singh study of Hoshiarpur district does make a distinction between SHGs below the poverty line (SGSY members) and those above the poverty line (NSGSY members). The study brings out the contrast between the two groups in regard to bank loans. While about 83 per cent of SGSY groups were eligible to get bank loans, only 5 per cent could get them; whereas a large proportion of NSGSY groups were unwilling to take loans as a majority of them were better-off sections. However, of the three case studies presented, there was one NSGSY group which was obtaining sizeable loan and vying for some group activity; it was producing some demonstration effect on others in the region. The study concludes, interestingly, that the DRDA and other government programmes have achieved

considerably higher success as compared to other institutions like banks; credit given by banks have been worryingly small.

VII

OUTCOMES BEYOND THRIFT, CREDIT AND ECONOMIC WELLBEING: SHGs AS INSTRUMENT OF SOCIAL CHANGE

A more unambiguous result presented in the papers under discussion has been the uniformly positive impact on social issues arising essentially out of the empowerment of women through the medium of SHGs. Interestingly, this has been so in all regions of the country: south (studies by Nedumaran *et al.*; and Manimekalai and Rajeswari), west (MRCP study in Maharashtra), north (studies in Punjab and Haryana), eastern India (Assam), and central India (Madhya Pradesh and Uttar Pradesh studies). Improvement in literary levels and children's education particularly in awareness of girl's education, housing facilities, abolition of child labour, decline in family violence, and banning of illicit distilleries in the villages - have all been reported in different studies. Women have acquired better communication skills and self-confidence; they have also acquired better status within families. The MRCP study of Madheswaran and Dharmadhikary has reported a definitive improvement in the status of women both within and outside the household; although there was continued male dominance in the selection and use of assets, there was no domestic violence. Puhazhendhi-Satyasai study even constructed economic and social empowerment indices and sought to show "that the impact of SHGs was relatively more pronounced on social aspects than on the economic aspects". Anjugam and Alagumani, in their study of 18 agricultural labour households in a Kodikulam village of Madurai district, have sought to grade different characteristics of social impact and found that SHGs have "increased awareness of girl's education, improved outside contact and decision-making skills".

A moot point is as to what extent the general socio-political environment of the 1990s have made a contribution to this increased social awareness - which could have been brought out if some "control" groups were covered in these studies for comparison purposes.

VIII

CRUCIAL OMISSIONS IN THE PAPERS: A SUMMING UP

What strikes a reader of these 43 contributions under discussion is their uncritical acceptance of the mainstream literature on the government-owned and directed formal financial institutions with their supply-led, and not demand-induced, credit programmes. The themes of asymmetric information, moral hazard and adverse selection, have all been accepted as constituting a valid critique of the formal

institutions without realising that these themes have been the product of an alienated, wholesale banking and financial system in industrialised countries which have commanded funds far beyond the absorptive capacities of their economies. The genesis of the banking failure in India vis-a-vis poverty problem is to be traced to the imposition of poverty alleviation programmes like the IRDP and others on the banking institutions without disturbing the grossly unequal land and other asset distributions in the country - a mitigation of which would have augmented, amongst others, genuine demand for bank credit.

It may appear that these are broad issues which are very remotely concerned with the specific and more down-to-earth theme of microfinancing as a way out for the problem of poverty in the country. But, the whole prelude to the theme that banks have failed and hence microfinancing, can be an intellectually questionable hypothesis. It can be argued that the failure of banks in India has just been one component of the relative failure of economic planning as a whole, which has had the avowed objective of rapid growth, better income and asset distribution and removal of poverty and unemployment as well as mitigation of social deprivations.

When the problem is so vast, an impression is being given that microfinancing is the answer to the problem of poverty. In the context of such an impression, there are a few further questions which require probing. First, in a village environment where microfinancing has taken roots, what is the extent of its contribution to reducing poverty in that village as a whole? How does it compare in relation to the totality of the trends in the village economy as a whole? Also, it is not true that some aspects of the movements for better social awareness have probably been the product of the socio-political environment of the 1990s and thereafter. Secondly, in the scheme of arrangement universally eulogised in which NGOs occupy a pivotal "third space" in the development process in developing societies, a question that can be legitimately asked is whether the institution of NGOs is a free good, liberally available and possibly serving as a substitute for public administration and the associated public programmes and policies? Are not the needs of development for poverty alleviation far too massive to be left to any third sector? NABARD has raised the question of the absence of committed NGOs in certain regions leading to inadequate formation of SHGs. NGOs have themselves been facing challenges in organising the poor in certain regions. SHGs also face serious limitations. In such a situation, is it possible for the formal financial institutions to take on the responsibilities by adopting progressive policies but without subsidies? They may decentralise their operations, apply commercial rates of interest, depend on NGOs to promote SHGs and seek peer monitoring. Are these a workable proposition for formal financial institutions?

These are general questions which the papers under discussion have not raised or raised rather inadequately. But, there are also other issues which are of direct relevance and which seem to have been neglected in those papers. First, except the study by Namboodiri and Shiyani, not a single one has raised the possible limitations

of the SHG model. Namboodiri and Shiyani argue that (a) SHGs have limited scope for future growth, (b) emphasis on consumption loans may limit the income-generating activities, (c) SHG's rapid expansion may lead to poor functioning, and (d) one of the major threats is that SHGs do not have any legal status. Secondly, a majority of the studies have sought to undertake impact surveys without showing awareness of the pitfalls of employing such surveys using the recall method and suffering from memory biases. Also, no attempt has been made to compare beneficiary incomes and assets with those of any control groups. (Even the MRCP, which has made an explicit recognition of this need, has produced no results.) Thirdly, enough awareness has not been shown in these papers of the fact that the whole microfinancing programme is in a nascent stage and that the results are an initial outcome of a small-scale and nascent programme. Even studies on Bangladesh's Grameen Bank have revealed that low default rates were confined to loans of small size, that the default rates tended to rise with the loan size and with time and repetitive borrowers (Hossain, 1988). Fourthly, the same thing can be said of the impact of high interest rates in micro-credit lendings mediated through NGOs and SHGs. Again, studies on Grameen Bank and other microfinancing schemes have emphasized how the high rates of interest, while they are accepted by the poor initially because of their state of helplessness, nevertheless become a burden on their incomes and their future stream of savings (Rahman, 1999; Mosley and Hulme, 1998). The studies express the same misgivings regarding the apparent prompt and regular loan repayments by the micro borrowers, but in reality they are known to repay not out of the income stream flowing from assets gained, but through further borrowing from even moneylenders (Rahman 1999). In a significant study in northern Bangladesh, Sinha and Martin (1998) reveal that "most of the informal loans repaid with Grameen loans were taken to repay earlier Grameen loans". Among the target group households, 45 per cent of the amount of informal sector loans was utilised for repaying loans taken from micro-credit institutions, including Grameen Bank; for the non-target groups this was 15 per cent (*ibid*). Hence, Rahman (1999) has characterised the situation as the creation of "debt cycles" for the borrowers.

Such are the implications of creating a system of microfinancing institutions, which are made commercially viable on the strength of higher interest rates charged on the poor than those charged by traditional banking for their normal customers. Papers in the present set do not show any awareness of such implications except, to repeat, the one by Madheswaran and Dharmadhikary.

Above all, there is a major omission rather without exception in all the papers under discussion. As pointed out by Tara Nair (2001 a), the efficacy of microfinancing interventions can be understood mainly at three levels, namely, (i) outreach and financial sustainability of the programme; (ii) income or poverty impact on the users; and (iii) development of totality of the financial market at the local level. The first two may have been sought to be addressed in this session papers, but the

omission of the last issue, along with the above omissions, it seems to us, has tendered to paint too rosy a picture of the microfinance scenario without perceiving its wider and long-term implications for the overall financial sector development that can contribute to a better and more dispersed pattern of growth in the economy - a surer strategy for poverty alleviation. This subject is addressed in the next section.

IX

PROMOTION OF MICROFINANCE, CONCURRENTLY WITH RETRACING OF
SOCIAL BANKING, IS SURE TO HURT THE INTEREST OF THE POOR

Conceptually and operationally, it is improper to isolate the poor from the mainstream of an economy and hope to achieve a sustained improvement in their well-being over years when their overall economic environment is constrained by restrictive public policies. Empowerment of the poor requires that the balance of economic power moves in their favour, but the whole process is better sustained on a rapidly expanding economic base with some concern for dispersed growth and egalitarianism. In this sense, there is a hierarchy of economic interests of the poor in a continuum of different group interests. More to the point, if empowerment of the poor in general and of the poor women in particular is being attempted through microfinancing at a time when all aspects of social banking are being jettisoned, it is unlikely that the goals of such an empowerment would be achieved and sustained in an enduring way. If rural branch network is not being expanded, and what is more, if the absolute number of rural branches is being reduced on considerations of immediate viability, and if the relative size of rural deposits and credit is getting constricted, the scope for promoting SHGs and instituting SHG-bank linkages gets narrowed. Likewise, contraction in organised banking activities in relatively backward regions, concurrently with drastic curtailment of bank credit facilities for agriculture, small-scale industries, and small business, and for unincorporated and household enterprises in general, is sure to hurt the goals of dispersed economic development, and in turn, the overall interest of the poor. In other words, public policies ought not to consider microfinancing as a substitute for the series of other public programmes that have a significant impact on the growth processes and reductions of poverty and unemployment.

What are the facts? Apart from the reductions in the number of rural branches of scheduled commercial banks from 35,008 in March 1995 to 32,000 in March 2001 or from 56.2 per cent to 49 per cent of the total, the proportions of rural deposits and credit in the aggregate bank deposits and credit have fallen during the same period from 15.3 per cent to 14.7 per cent and from 12.7 per cent to 10.1 per cent respectively. There has been also a sharp reduction in the credit-deposit ratios of rural bank branches from 49.1 per cent to 40.2 per cent in contrast to an official prescription of 60 per cent. Secondly, the share of agriculture in total bank credit

was 13 per cent as at the end of March 1994 and it has dwindled to 9.3 per cent by March 2000. Likewise, the share of artisans and village industries and all other small-scale industries together has fallen from 12 per cent to 10.6 per cent. Looking at it differently, the share of all institutional categories constituting the 'household sector' (i.e., other than the public sector and private corporate sector) has significantly come down from 54 per cent in March 1994 to 37 per cent in March 2000.

One is conscious of the fact that these issues are not of direct relevance to the promotion of microfinancing, but what is being sought to be hypothesised here is that there is a degree of continuum in the economic relationships, say within a village, and the objective of the socio-economic empowerment of the poor households in that village would be better served only if myriad small and marginal farmers, farm households in general, village artisans, unincorporated enterprises and other household enterprises partake the benefits of increased institutional credit.

X

ISSUES FOR DISCUSSION AND FURTHER RESEARCH

Rajaram Dasgupta has, in a letter addressed to A. Vaidyanathan, President of the Indian Society of Agricultural Economics, presented a list of 12 issues for discussion and research, in addition to a series of themes he has propounded in his Keynote paper. These are reproduced below for facilitating a discussion in the Conference and also for general dissemination as themes for research pursuits:

- (i) how to ensure presence of NGOs in SHG-lacking areas?
- (ii) whether banks should promote SHGs?
- (iii) how the banks should be influenced to give more emphasis to SHG in terms of both account and amount?
- (iv) as there are some conceptual differences between SHG and co-operatives, whether co-operatives should be asked to do business with SHGs?
- (v) what is the impact on members in terms of, income level, borrowing from moneylenders, rate of interest in the informal market, standard of living, empowerment and effect of all these in the socio-political environment of the village?
- (vi) what is the nature of impact with regard to different models of group lending or different types of promoters or different financial institutions?
- (vii) what is and how much should be the role of government?
- (viii) whether SGSY needs a change?
- (ix) whether SHGs should be only of exclusively 'Below Poverty Line' people (subject to an official cut-off line) or of poor people in general?

- (x) how the public resource should be used efficiently for poverty eradication?
- (xi) whether there should be a target approach towards SHGs or it should be allowed to have a natural growth?, and lastly
- (xii) what kind of financial and economic reforms are required for (a) enlarging the economic opportunities for the poor, (b) increasing credit flow to the poor, (c) improving the credit utilisation by the poor, (d) ensuring the better financial health of the banks and, (e) changing the attitude of commercial bankers towards micro credit?

Almost all of these issues have also figured in the review of the papers presented above. Besides, the present report has raised a few broader questions on (a) the character of financial sector development in India, (b) the nature of coverage of SHGs in official data and research studies, and (c) the need for undertaking research studies in microfinance activities with comparative analysis of (i) sustainability of such activities over time and (ii) their impact on social and economic well-being of the beneficiaries juxtaposed against the performance of the "control" groups contemporaneously.

Combining these two sets of issues, an attempt has been made to classify them for discussion and research under four broad categories:

1. *Basic Issues*

- (i) Is the nature of banking development with a degree of social orientation relevant for the simultaneous attainment of microfinance objectives of poverty alleviation as well as women empowerment? Is it necessary to integrate microfinance with the overall financial sector development?
- (ii) Is it possible to spell out key pre-conditions - do's and don'ts - for the success of microfinance schemes? Are there discernible lessons in this respect?
- (iii) Do we have a total picture of microfinance activities in the country? If not, what is the nature of the gap in knowledge?

2. *Issues Concerning Institutional Development for the Spread of Microfinance*

- (iv) Do we have knowledge about the nature of NGOs whose activities have been a success story in some regions like the south? Is it possible to enlarge the presence of NGOs in other regions? Are individual NGOs *sui generis* as it is said of the Bangladesh Grameen Bank (Mosley and Dahal, 1987)?

- (iv) Is it not necessary for us to nurture a more diversified system of SHPIs in different areas - commercial banks, RRBs, co-operatives, DDO/BDOs, and NGOs - depending upon the special characteristics and "resource endowments" of individual regions and even districts, blocks and villages?
- (v) Are the limited success stories of commercial banks, RRBs and co-operatives so far in promoting SHGs replicable elsewhere? Is it necessary for them to approach microfinance only through the instrumentality of SHGs? What is the experience of SEWA Bank in this respect?
- (vi) What are the limitations of SHGs? Is it possible to visualise such peer monitoring organisations for larger groups of borrowers comprising poor and non-poor?
- (vii) Should the SHGs have homogeneous membership, or is it possible to generally manage heterogeneous groups? Also, heterogeneity of what nature?

3. *Impact of Microfinance So Far*

- (x) Are research results on the social and economic impact sufficiently robust as to establish a strong case for the success of microfinance arrangements so far and as a replicable system for the future? Do we need to be cautious on the research results as the experience so far has been over a nascent base and without closer look at the performance of control groups?

4. *Instruments of Microfinance for the Future*

- (xi) Is it possible to evolve a system of microfinance without targets and subsidies and with satisfactory repayment performance? What are the systemic changes that are required to make a significant dent on poverty through microfinance?
- (xii) How should the government programmes like the SGSY be attuned to achieve relatively better success than the old IRDP and other experiences hitherto?

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