Annotated Bibliography

microFinance studies

Centre for microFinance

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Preface

MicroFinance has emerged as powerful strategy for addressing poverty in India and elsewhere. Many organisations both in Government and Non Government sector are working with poor through microFinance based programmes through different models since early nineties. They have documented their experiences, lessons and strategies in various reports. These reports are available with them but this valuable knowledge normally is not available to practitioners and policy makers in compiled form.

Centre for microFinance (CmF) is acting as 'Knowledge Hub' on microFinance in Rajasthan. During the discussions with various mF practitioners, a need for compilation of available study reports on microFinance merged. The 'Annotated Bibliography of microFinance' is prepared primarily to provide existing knowledge to mF practitioners and to researchers. It will help the practitioners to learn from the experiences of others. It will also help researchers to identify the knowledge gap areas so that appropriate research studies can be planned to fill up the gaps.

Prof Surjit Singh has worked as consultant to produce this annotated bibliography for CmF.

Introduction

This bibliography is prepared after conducting the survey of literature of existing studies in microfinance relevant for Rajasthan. The literature survey includes all the published studies on microfinance issues (savings, credit, micro insurance, remittances etc.) relevant to Rajasthan that are carried out by individual researchers, NGOs, research organisations, universities, banks, UN organisations etc.

microFinance: A Background

During the last decade or so, microFinance has expeditiously evolved and developed from the relatively confined domain of micro-enterprise credit to the more expansive concept of micro finance[1] to the great challenge of building inclusive financial systems.

The ideas and aspirations behind microFinance are not fresh. Small, informal savings and credit groups have operated for centuries across the world, from Ghana to Mexico to India and beyond[2]. In Europe, the Catholic Church promoted pawnshops as an alternative to usurious moneylenders in the early 15th century. The 15th century saw the spread of these pawnshops across the urban areas in Europe. Formal credit and savings institutions for the poor have also been around for generations, offering financial services for customers who were traditionally neglected by commercial banks[3]. The most talked about example is of the Irish Loan Fund system that started in the early 1700s. It has spread throughout Ireland by the 1840s with 300 funds functioning.

In the 1800s, larger and more formal savings and credit institutions emerged in Europe that focused mainly on the rural and urban poor. The financial co-operative also developed in Germany during this period that aimed to reduce the dependence of the rural population on moneylenders and thereby improve their welfare. France saw the emergence of this movement in 1865 while Quebec in 1900. Many of present day financial co-operatives in Africa, Latin America, and Asia can trace their roots to this movement in Europe. British government set up co-operatives in rural India to buy

[1] Includes a range of financial services for poor people like savings, money transfers, and insurance. It also refers to small-scale financial services in the form of credit and deposits to smaller operators in various sectors of the economy.
[2] See Stuart Rutherford, The Poor and Their Money, OUP, New Delhi, 2000 [second impression).
[3] See Surjit Singh and V. Sagar (2004) Agriculture Credit in India, Academic Foundation, New Delhi.

peace with peasants[4]. The Indonesian People's Credit Banks (BPRs) that were set up in 1895 are also one of the earliest examples of the largest micro finance system in Indonesia, with nearly 9000 branches.

Different variants of the savings and credit premise appeared in rural Latin America and elsewhere in the early 1900s. These rural finance interventions focused on modernising the agricultural sector, mobilising idle savings, increasing investment through credit, and reducing oppressive feudal relations that were enforced through indebtedness. In most cases, the ownership of these new banks vested with government or private agencies rather than the poor themselves unlike in Europe. As the time passed, these institutions became inefficient and, corrupt too.

Between the 1950s and 1970s, the focus of the governments and donors was on providing agricultural credit to small and marginalised farmers so as to increase the productivity and incomes. These efforts to enhance access to agricultural credit used state-owned development finance institutions, or farmers' co-operatives, to advance loans to customers at below-market interest rates. These subsidised schemes were largely unsuccessful, India being the exception. Rural development banks faced cost recovery problem with subsidised interest rates.

Over time, customers’ repayment discipline also deteriorated due to political interference; most saw their loans as gifts from the government. As a result, the capital base of these institutions got eroded and, in few cases, disappeared altogether. Worst of all, these funds did not always reach the poor. Instead, they often ended up in the hands of more influential and better-off farmers/ sections of rural society[5]. The 1970s saw the emergence of micro credit.

Programmes in Bangladesh, Brazil, and a few other countries initiated lending to poor women entrepreneurs. Early micro enterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. *Grameen* Bank in Bangladesh was an early pioneer[6] in this direction. The other first ones were ACCION International that began in Latin America to ultimately spread to the United States and Africa and the Self-Employed Women's Association Bank in India, a women's trade union bank. These institutions continue to thrive even today and are a source of great inspiration to countless others to replicate their success.

In the 1980s, micro credit programmes the world over improved on the original

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[4] Ibid.

[5] Ibid.

[6] See Piyush Tiwari and S.M. Fahad, Concept Paper: Micro finance Institutions in India, available at http://www.gdrc.org/icm/conceptpaper-india.html.

methodologies and defied customary prudence about financing for the poor. Among others were that a well-managed programme showed that poor people, especially women, paid their loans more reliably than better-off people with loans from commercial banks. It also demonstrated that poor people are willing and able to pay interest rates that allow Micro Finance Institutions (MFIs) to recover their costs. If the costs are recovered, then MFIs can become viable businesses. They can attract deposits, advance commercial loans, and make capital investment. Their outreach can expand to a larger number of poor clients without being limited by a scarce and uncertain supply of subsidised funds from governments and donor agencies. In this regard, Bank Rakayat Indonesia (BRI) is a classic example of: What can take place when MFIs focus on collecting loans and covering costs[7]?

International development agencies and networks during the 1990s showed great enthusiasm for promoting micro finance as a strategy to alleviate poverty. As a consequence, micro finance grew significantly in many countries where multiple MFIs serve the needs of micro entrepreneurs and poor households; though the gains got concentrated in urban and densely populated rural areas.

In the early 1990s, the term micro credit[8] gave way to micro finance. And very soon, micro finance was used to refer to a range of financial services for the poor including credit, savings, insurance and money transfers. On the obverse, in order to extend the outreach to an ever-larger numbers of poor clients, MFIs and their networks increasingly began to pursue a strategy of commercialisation. This led to their transformation into profit-making corporations that could attract more capital and become more permanent features of the financial system. Thus, an emphasis on creating and growing strong institutions (as opposed to channelling credit to specific groups) comes out to be a core element of this recent history.

Micro Finance: A Boon

Several reports of the United Nations articulate strategies of development at the local level where small and medium enterprises and the informal sector are considered as employment generators and engines of growth. Such mainstreaming of the weaker links of the productive system is a major departure in economic theory and policy. How can creativity of the resource-poor be unleashed? This is an ideologically sensitive question. Supply side economics propounds that provision of inputs and services will help the poor to empower themselves only if social capital is facilitated.

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[7] BRI's village-level branch system currently serves more than 3 crore low-income savers and borrowers.
[8] The year 2005 was the International Year of Micro Credit.

The major inputs, according to this logic are credit and the so-called business development services. The discussion on micro finance (a more inclusive term than micro credit) raises fundamental questions on the political economy of credit as such. Does easy credit really empower the poorer sections of the society? If so, what are its logic and methodology? The logic of sustainable enterprise development is simple. In any economy, enterprise is atomic in character. Finance, which sufficiently addresses the needs of these enterprises at the same time, helps to unleash the productive forces as also the unlimited human capabilities. It is this unlimited capability that makes small enterprises an engine of growth even as the logic of economies of scale sometimes works against it.

The tremendous success of micro credit programmes prompted governments to consider this as a new institutional structure. This change from the 'state' to the 'market' obviously is a qualitative change. Despite this, demand-supply mismatch in the credit market still exists. There are structural rigidities in the public-funded micro enterprise programmes in India as in other developing countries. They do not have the flexibility to adjust to the logic of an informal financing system.

The inherent rigidity of most such public programmes renders them unsustainable. Two main models of micro finance viz.; SHG model and *Grameen* have observed healthy competition that has led to sheer innovations[9]. Micro finance services have diversified over time into areas such as micro savings, micro insurance and several non-financial services. These obviously have helped improving the quality of life of participants of this movement. It has also offered new linkages among the various stakeholders.

A major contribution of micro finance innovations is the social intermediation it has facilitated. The role of the government and of the private sector in this process has so far, not been significant. It is the third sector viz., NGO sector that has contributed immensely. However, financial services offered by NGOs are not enough from the point of view of sustainable enterprise development. They are required to intervene as major vehicles of vital skills for entrepreneurship development. To accomplish this, it is necessary to look at micro finance institutions from alternative rating criteria, such as professional skills, awareness and networking capabilities.

Most micro finance institutions are run by conventional NGOs having very limited external orientation. Micro finance institutions demand a high order of professionalism

[9] *Op cit* Piyush Tiwari and S.M. Fahad.

that most NGOs lack[10]. Interventions in this area, therefore, need to be at two levels: first, a distinctive policy for NGOs, which are largely service providers. Second, professional NGOs also have to widen their skills and infrastructure base. In this context it needs to be emphasised that poverty traps the future generation in a vicious circle, an escape from which is constrained by the limits imposed by globalisation. Also, majority of poor are self-employed and therefore, vulnerable to the forces of the market. These related propositions make it imperative to look at the question of poverty reduction as coterminous with the problem of sustainable enterprise development.

Since micro finance has an instrumental role in this process, it is vital to make this lubricant of the development machine more meaningful and appropriate to the needs of enterprise development. Also the thumb rule for micro finance and rural organisation should not be big numerical targets but the imperatives of enterprise development.

Micro-credit appears to reduce vulnerability of the poor to adverse circumstances, increased consumption in the same group, and empowerment of women. The major spin-off of the micro-credit movement at the grassroots level has been the mainstreaming of women in the villages. Women have gained a voice and are able to use this space to come out of their traditional roles into a more 'proactive' male domain, especially in the areas where the support of NGO/SHG is strong.

In many cases, gender and caste subordination have been questioned. Women have been able to mobilise capital, and in the process have acquired skills that have enhanced their economic, social and political power. This positive growth has usually been where SHGs are linked with NGOs that have facilitated training and capacity - building with additional inputs.

However, despite the spread of micro-credit programmes and their growing popularity with policymakers, hard data is somewhat lacking. There is little standardisation across studies

as to how to define critical processes and measures of success. The definition of poverty, and especially reduction in poverty, tends to vary across studies.

Women's empowerment is another very nebulous term. Many terms and processes are redefined on an ad-hoc basis each time a new study is conducted. Much of the literature on the subject of micro-credit appears to be at the stage of observation and anecdotal evidence. **The present study tries to review and document micro**

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[10] See Surjit Singh, Micro Credit in Rajasthan: The Role of Self-Help Groups, IDS, Jaipur (a research report), 2000.

finance experience in the context of Rajasthan and to draw some relevant conclusions[11]. As there was limited number of studies available for review, we tried to document experiences that had implications for Rajasthan too.

Status in Rajasthan

Rajasthan is relatively a new entrant into micro finance, though organisations like *Sewa Mandir*, Udaipur had set up Self-Help Groups two decades ago for community mobilisation. The popularisation of self-help groups was at the behest of NABARD when it started facilitating bank linkage of such groups. Groups have been promoted by civil society organisations, government and at the behest international organisations through various programmes.

Women and Child Development Department of Rajasthan has been promoting SHGs since 1997-98 in all the 32 districts of the State. Till January 2006, there existed 104861 women's Self-Help Groups helping 11 lakh women. The department was able to provide linkage to 43848 groups and delivered Rs.84.31 crore credit. The savings of these groups touched Rs.38 lakh. The information provided by NABARD reveals that by 2000, 1941 SHGs were provided credit linkage and 1236 were refinanced and 930 were women's groups. The total bank loan was Rs.455.70 lakh. The situation must have improved a lot since then. However, one can say that quality and number of groups does not go hand in hand in Rajasthan.

[11] The studies covered were in no way exhaustive. Availability was also a problem. NGOs and other institutions hardly do documentation of the experiences unless some external agencies require them to do so.

The Experiences

Aravali, **The Study of the SHGs in Rajsamand, Bikaner, Churu and Bharatpur Districts** (undated).

This study looks at SHGs in Rajsamand, Bikaner, Churu and Bharatpur Districts of Rajasthan. The study deals with SHGs formed by ICDS, NGOs, and other government departments, PRIs, SGSY. The study finds ICDS groups to be haphazardly formed to fulfil the targets. The SHGs formed under SGSY, DPIP etc. are mainly activity groups. The saving structure and inter-loaning structure in such groups are weak.

The study further reveals that NGOs do not approach the group with any incentive; rather they motivate them to mobilise savings and do inter-loaning to fulfil their immediate requirements. The study argues for an integrated approach by promoters in a group formation. It calls for focus on savings, credit and income generation activity of the poor. It also says that social skills should be developed among the poor like PM, leadership, solidarity, business acumen and so on. The study says that savings and credit schemes may be the entry point activity to mobilise the poor.

There is a need for close monitoring of SHGs by promoters. It calls for due attention for setting up an improved Management Information System at all levels. Record keeping of the group requires due attention. The group meetings should follow minimum procedure where the proceedings of last meeting and the transactions of current meetings are read out to members. It also calls for training of members. Database at district level should be built. It calls for support from banks, promoting agencies and need for leadership training, accounts training and group training.

Aravali, **Situational Analysis of SHG-Bank Linkage in Rajasthan**, April 2002.

This exploratory study by Aravali seeks to identify gaps, which need to be filled to make micro-finance an effective medium of addressing problems confronting poor. The SHG movement had its followers in Rajasthan also. Many organisations (Sahyoga, Pedo) that could be rightly called first generation organisation liked the idea and started promoting SHGs. Depending upon their own inclinations and ideologies they chose to draw attention to community organisation or financial aspects of group formation differently.

Delivery of micro-credit to poor has assumed different shapes, dimensions and methodologies across the world. In the midst of different approaches SHG has come to be accepted as the dominant medium of delivering financial services to the poor in Rajasthan. The study seeks to understand different issues involved in SHG-Credit linkage, especially the bank linkage.

The findings of the study are based on interactions with bankers, official of NABARD, members of NGOs and SHGs, and other stakeholders. The study reveals that commercial banks and Regional Rural Banks constitute the major source of external credit to SHGs in Rajasthan. There are certain other financing institutions like SIDBI, RMK, FWWB and NMDFC that have made credit available in Rajasthan. Their contribution is not significant in Rajasthan. In some cases, NGOs have also provided credit from its project funds. The study finds that apart from savings, credit and livelihood upswing, the most common agenda behind SHGs is creating community-based women's institutions for social and development issues. Savings and credit are not the only motives behind promoting SHGs.

There have been different objectives and motivations lurking underneath SHG programmes of different NGOs. This ranges from their focus on SHG as a community mobilisation strategy to appreciating financial aspects of the programme in its own right. In all groups, the study finds that the members needed more external credit. But at the same time, many groups were found to be lacking in credit absorption capacity, as they did not have avenue to invest in some gainfully productive activity. This is mainly because a higher off-take of credit depends upon an efficient use of earlier doses of credit being utilised. This did not seem to be happening in some cases (especially Prayas and Prayatna Samiti) due to drought. Supporting NGOs was in no case found to be promoting any income-generation activity where credit could be used.

The demand for credit at groups' level does not necessarily translate into demand for bankers, as supporting NGOs might not feel confident regarding uses to which credit will be put to and choose not to forward groups' demands to banks. Majority of the NGOs interacted, found the availability of the credit not a bottleneck. Only a couple of them reported problems in accessing. Some relatively new or small organisations reported problem in bank linkage. This however seemed more linked with their own lack of relevant capacities and knowledge regarding the process to be followed for bank linkage. One organisation, however, reported problem regarding the adequacy of credit when groups and NGOs both demanded more but did not get it.

Most of the NGOs are content with doing capacity building work for SHGs. They did not seem interested in doing financial inter-mediation for some bank or financing agency. The experience of lending being done by one NGO, PRAYAS where they did it from their own project fund, was not good. Also they are not in favour of NGOs acting as financial intermediaries. In all the groups interacted SHG members perceived to draw various benefits by being members of SHGs. Amongst economic benefits, members informed that they get easy and timely credit, bank loan and income from interest. Among social benefits, the members have got a platform to sit together, the women have got exposure and awareness among them has increased. Some SHGs are involved in development activities like soil and water conservation and other natural resource management projects.

Ashutosh Kumar and Arun Shrimali, **Feasibility Study for Initiating Income Generating Activities with Existing Women Self Help Groups**, IRMA, Anand, 1999.

This report is a feasibility study for initiating income-generating activities with women SHGs of Sewa Mandir, Udaipur. It has studied the projects at five sites. It identifies possible sources of finance and type of activities SHGs can undertake. It also suggests the financial gains from undertaking the activities. It uses alternative cost-benefit scenarios to arrive at type of activities a SHG can venture into. The most important activity identified is dairying. The other activities are bamboo- based items.

Basix, Equity for Equity
http://www.basixindia.com/micro_finance_in_india.asp

Basix undertook a study funded by IFAD to look into evolution of the MFI and its mission statement, legal status, ownership, governance and organisation structure, areas of operations, size and growth over a period, social technology, products for savings, credit and other financial services, analysis of operating cost structure, overall budget, sources of funding, human resources (managers and staff), accounting policies including provisioning norms etc., system and procedures. The study looked at MFIs in Rajasthan, UP, Bihar, Orissa, AP and Tamil Nadu.

The study observes that most of the MFIs are under capitalised that is mainly due to their legal form- most are Societies/ Trusts, which do not have any concept of equity. This restricts these MFIs' ability to seek adequate debt in the long run. Moreover, there is no cushion to absorb loan losses, though some have built reserve funds at various levels. Though the apex financial institutions are aware of this problem, till recently they have not done much about it. In fact most lending schemes to MFIs, such as by the RMK and FWWB, are structured to suit only NGOs registered as Societies/Trusts. The SFMC may address this problem by insisting that larger MFIs must move to an appropriate legal structures, such as cooperative societies or companies, which must be well capitalised.

The overall asset quality of the MFIs in the study seemed well given the country's background on credit indiscipline and poor loan repayment rates. However, the asset quality can be further improved by tightening the loan appraisal process and regular monitoring. The lack of data to monitor asset quality is glaring. The SFMC can substantially improve asset quality by focussing on the financial management skills of the MFIs in their capacity building programme. The MFIs have dedicated top quality individuals as their CEOs, who in most cases are the founders of the respective organisations. Many of them have a background in development and social work and thus have felt the need for financially qualified staff to work in their organisations at senior levels.

Many of the institutions are involved in a multiplicity of programmes and cannot strictly be called MFIs, but rather development agencies with a micro finance programme. The institutions, which had only micro finance as their focus, have managed programmes better than the ones, which had micro finance as a small part of their development activities. Moreover, most of them do not have governance structures for decision making and monitoring at the top level. The SFMC's proposal to have mentors and Project Advisory Committees should supplement the governance structures of MFIs.

All the MFIs except two (SEWA, BASIX) - were making losses from their micro finance operations. This is mainly due to the fact that the lending rates, cost of funds, operating costs and loan losses were not following a financially consistent model in the MFIs operating structure. An MFI with a loan loss of up to 30 percent was charging 14 percent per annum simple interest without any provisioning. Another was charging a 15 percent flat interest rate (equivalent to up to 30 percent depending on the loan structure) with a 98 percent repayment rate, but had a high operating cost of 40 percent.

The asset profile of the MFIs is usually a short term, mostly less than eighteen months. Given the low debt in most of them, liquidity does not seem a constraint. However, for better liquidity management SFMC should consider giving lines of credit rather than term loans. This would result in better funds management and savings in interest costs.

Gaurav Ranjan Sinha, **Different Aspects Related to Self Help Groups and Need Assessment of the Members: A Study of Jhadol Block, Udaipur during Audit of Self- Help Groups**, 2003.

This study after reviewing the SHGs of *Sewa Mandir* in *Jhadol* block argues that the various aspects involved in the SHGs reflects that problems and development are sailing in the same boat. But if the problems are analysed deeply, the result is different. The development through the teamwork has brought significant changes in the living standards of the people. Increase in self-confidence can be seen when the women speak out to the authorities. But the other side could also be observed during the interviews and discussions with the group members when they do *purdah/ghoonghat* in front of the outsiders.

The need for immediate loan is crucial and priority of its utilisation depends upon the time, place and conditions/ situations and other constraints within which a person works. It is not easy to differentiate between real needs, perceived needs and felt needs. It also depends upon and varies with individuals. SHGs are able to cater a variety of credit needs of the poor.

The study finds that with the introduction of McFinancier, a diligent step in monitoring the work and side-by-side, reduces the workload overall. Even if the users take time to get an insight into the software, but once they are through, it helps them cut down their hectic task. It is the case with the cashbooks and meetings registers also. Once the accountants learn to make correct entries, it will be easy to match and make transparency in the accounts.

The study also argues there is a need to make an important distinction between real, felt and perceived needs. But the reasons for fulfilling the real needs should also be traced first. Consistency in the group meetings and the timely deposition of the monthly contribution are the aspects, which need to be looked into deeply. In this the family members should also be approached regarding their cold behaviour. Any type of and in any form (physical or emotional) support from family members will encourage the SHG members in this. There is a need for Systematic Training with an individualistic approach to the account keepers. Members should also be motivated by the group leaders to take care of their accounts and should be taught to verify it by their children who go to school and are able to do so. Interest on savings and penalty should be given due importance as they are the regular source of income and are helpful in raising their group fund.

HDRC and Aravali, **Aajeevika- Livelihoods in Rajasthan: Status, Constriants and Strategies for Sustainable Change**, discussion paper series- 6 (undated).

The *Aajeevika* study is a follow up work to the Human Development Report of Rajasthan. It analyses the current situation regarding rural livelihoods in the State and in the light of analysis, recommends a set of strategies for livelihood promotion, especially targeting the rural poor. The study argues that the issue of livelihood generation for the rural poor must be viewed with a proper perspective.

The poorest sections in rural areas lack access to the most basic livelihood resources in terms of physical, human and social capitals. As such the most appropriate strategy targeting these sections should involve wage labour generation via government employment generation schemes and general land and water regeneration programmes that would serve the dual task of creating demand for wage labour contributing to the agricultural development in the region.

Another important strategy targeting the rural poor involves helping them gain access to productive livelihood strategies beyond the boundaries of the local village economy. In fact this should be seen as part of a broader strategy that envisages greater integration of the hitherto isolated village economy, with more varied dynamic growth opportunities evolving elsewhere in the metropolis. In this context, the report recommends establishment of resource centres whose main aim would be to facilitate migration by helping workers find viable opportunities outside the village economy.

The report recommends that targeting the rural poor takes into account region-specific endowments that are likely to impinge on the choice and sustainability of livelihoods. For instance, animal husbandry is seen as a promising option in all areas, especially because this can serve a crucial drought proofing function in context of the specific agro-climatic conditions prevalent in the State. However, while livestock rearing based on large animals like cows and buffaloes is feasible in areas with adequate irrigation and easy access to fodder (e.g. Canal Irrigated areas); rearing small animals like sheep and goats are more suitable in areas that are relatively water scarce (e.g., Tribal South and Desert West). Further, targeted rural land and water generation schemes are more suited for enhancing agricultural productivity and thus improving incomes and livelihoods in areas with fairly even distribution of land (e.g. Tribal areas).

In the areas where resource distribution is more skewed (e.g. Canal Irrigated areas), there is a need for land redistribution policies for providing the poor with access to more viable means of livelihoods based on agriculture. Obviously garnering political will is the most important challenge for making redistribution policies a reality. On the other hand, in areas with relatively low prospects for agricultural development in the immediate future (e.g. Desert areas), as well as in areas in close proximity to urban centres (e.g. Semi-Arid areas), there is a need for stressing diversification of rural livelihoods, especially based on opportunities in the non-farm sector. Finally, the need for pursuing policies for sustainable agricultural development in the State is underscored. In this context an important area of concern is the adoption of sustainable groundwater management, given that water is a critical resource in Rajasthan.

The broad contours and implementable steps regarding such a policy are outlined, where the need to spread awareness among farmers regarding the seriousness of this issue is particularly emphasised. The report argues that ultimately farmers are extremely important stakeholders with their entire livelihood dependence on this critical resource.

In the context of overall agricultural development in the State, the need for viable rural energy projects, with special focus on demand side management, is also emphasised. In the ultimate analysis these measures would mainly benefit large farmers and those with access to land, but they also have tremendous potential for contributing to the livelihoods of the rural poor, by fostering agricultural development and leading to sustainable employment creation within the rural economy.

L.B. Prakash et al.,**Financial Analysis of SHGs in India: Value for Money?** (*Sakhi Samiti*: A Federation of Women SHGs promoted by *Pradan*) (undated).

Pradan promoted *Sakhi Samiti* in 1993 in *Kishangarh* Bas block of *Alwar* district. This study does financial analysis of 30 SHGs. *Sakhi Samiti* is a classic case where the promoter has withdrawn. Many others are still struggling with or debating or articulating the withdrawal strategy. The study details the structure and operational approach of *Sakhi Samiti*.

The study finds the performance of SHGs using various criteria of analysis of financial performance quite exceptional. It finds that SHGs can make claim for convincing low cost options for financial services delivery. Financial sustainability is not an issue. However, it finds that focus should be on quality of the portfolio as in many of the SHGs the repayment term is often used as a deadline. The members are not concerned with loan instalment repayment as long as interest payment is being paid with or without a minimum loan installment.

It is also argued that SHGs need to be helped in deciding loan repayment terms, which are in the interest of both the SHG and its members. It also points out that there is a poor maintenance of books and records and there is absence of a sound MIS. The study cautions that in absence of a strong book keeping system and its practice could lead to loss of confidence among the members in the security of their savings. This could result in a major default making it a real possibility.

On SHG management and quality, the study reports that all groups impose penalties on late payment of loans; default management and conflict resolution are generally carried at the SHG level itself and also with the help of the *Sakhi Samiti,* the percentage of meetings held ranged from 50 to 100 percent of the scheduled total; attendance of members at meetings ranged from 41 to 96 percent; all SHGs claim to practise decision-making by participation of either all members or majority members; project staff never visited SHGs and; majority of SHGs identified that the most important role for project staff was that of providing a link with other programmes. The study also finds that all SHGs favour membership of the clusters as it helps in bank linkage besides assisting in loan recovery, bookkeeping and conflict resolution. The study was able to document the process by which the SHG movement was nurtured and sustained. It also argues that the need for either greater equity participation from the members or an initial subsidy from the promoters seems to be clear, for the institution to survive.

The study does raise an important question: Whether is it possible to replicate and sustain the financial systems and structures of *Sakhi Samiti* in the absence of its leader? The major concern of members is that money flow should continue to meet the credit needs of members and the costs of the SHG. The study brings out that though the focus is on financial intermediation, SHGs would also start getting involved in the issues related to social and economic empowerment, once they start to function beyond five years.

Malika Singh, Rajiv Khandelwal and Snigdha Chakraborty, **Collaboration for Improving Institutional Credit for Self- Help Groups of Rural Poor: A Review of NABARD, NGOs, Banks and SHGs linkages in Rajasthan State,** August 1997**.**

This paper describes the early success of National Bank for Agriculture and Rural development (NABARD), a national level public sector organisation, is building close linkages with NGOs and banks in Rajasthan for increasing the flow of bank credit to groups of rural poor.

The paper examines the strategies used by NABARD in playing this multi- faceted role for increasing the participation of NGOs and Self- Help Groups (SHGs) in the realm of rural banking and credit. The SHG linkage initiative in Rajasthan was launched in Udaipur in 1992. Within four years banks had disbursed Rs 2.8 million to the 79 SHGs linked to them. Eight banks, including four RRBs, were associated with the programme. The SHG linkage continues to be overwhelmingly concentrated in Udaipur district where nearly 70 SHGs received loans from banks under the provisions of the guidelines. Seven NGOs were involved as SHPIs in almost all the transactions. NABARD has not received any NGO proposal for bulk lending in Rajasthan.

The study concludes that commitment, professionalism, alertness to possibilities of partnership, and a strategy for inducing institutional change, set up collaborative innovation. NABARD has managed significant NGO participation in SHG promotion. This has been possible by a realistic assessment of NGO strengths and careful attention to NGO concerns in collaboration relationships. These are ensuring NGO involvement in planning process, giving legitimacy to NGO role, and ensuring parity with GO and NGO in a collaborative relationship. NABARD strategy has ensured that NGOs participate in the programme even without any financial incentive. Collaborators invariably have their own agenda: the challenge intensifies when the activity represents or demands a major departure in the way one or more partners have worked in the past. The mutual alliance with NABARD, NGOs, banks and SHGs developed, illustrate the dynamics of collaboration for innovations.

NABARD has also been able to bring about significant changes in bankers' attitude. Banks so far have remained avers to give loans to rural poor. NABARD has used its formal authority in banking sector to bring about this change, but that is not the only element in its strategy. It has exposed the bankers to successful NGO interventions, in the process building up a mutuality of interest between the two. NABARD officials have established direct link with local bankers, the operational end of Government hierarchy, which is often paid scant attention in such innovative ventures.

M.S. Sriram and Smita Parhi, **Financial Status of Rural Poor: A Study in Udaipur District**, IIM, Ahmedabad (undated).

This paper discusses the findings of a primary survey carried out in one village in Udaipur district of Rajasthan with the objective to understand the financial flows of the rural poor and to have an insight into their financial status. The paper argues that mapping the financial flow of the poor requires careful investigation of the income and expenditure patterns and the most important is the involvement of the people themselves.

The village studied was under the influence of drought for three consecutive years and experienced little rainfall only after three years. It is also located near the city that solved some of the important problems- particularly pertaining to wage employment. It also helped people to diversify their livelihood sources. Even health related expenses are relatively lower due to greater access in Udaipur.

Although there are various studies conducted to identify the factors that drag people into the poverty trap, the major finding of this study is that the overall asset-savings-income profile of the poor in the village gives a comfort while compared to the indebtedness. However, most of the assets and savings are, illiquid, forcing the poor to borrow at high cost and service such loans. The data on income might be a bit distorted, as the year of study was a non-drought year after three years of continuous drought.

The study indicates the failure of institutions to penetrate the savings and loan market. Even if it is assumed that the emergency needs would be met by the local sources, the institutions (including micro finance mechanisms like SHGs) were unable to make inroads into financing non-emergency planned needs such as asset purchase and house construction. There is a need for an appropriately designed savings product: a major attribute of the product must be safety. Liquidity and return does not seem to be a concern as most savings is in a 'pot' stashed away.

The study notes that significant borrowings also come from relatives thereby reinforcing the social bonding in the community. This is also evidenced in the way marriages and other social events are financed. The poor seem to be smoothening their interest costs by resorting to informal zero cost borrowings for certain purposes.

This has an important indication. There has been a very strong fungible argument for pricing loans uniformly by MFIs. This is seen both in the *Grameen* style and SHG type of organisations.

One of the arguments is that this takes care of adverse usage of credit (the oft-cited example is subsidy based production credit being used for social consumption). However, the pattern of borrowing and the use to which the poor have put the funds, the study indicates that if end use can be ensured, then there is a case for differential pricing of loans. It also proves that informal structures ensure that even in consumption, this could be limited by social systems, the example being the non-availability of finance from the social system for second and subsequent marriages. The study reconfirms the findings of earlier studies- the most killing expense is health related. This leads the poor into further indebtedness. The borrowings for health expenses form one of the most significant chunks of borrowing.

The study notices that there is no significant difference between the upper end of the poor and the lower end in having access to formal institutions both for savings and loans and in either case the dealings with these institutions are limited. A combination of factors like information about income opportunities, accessible and cheap health care facilities, credit on affordable terms and awareness about the unnecessary expenses on social functions would help them in managing their money judiciously, the study argues. Although valuable information is gathered by the study, still there are certain things missing. The study does not capture the relation between the cost of borrowing with and without collateral particularly with moneylenders. It also does not capture long-term flows and also whether these households have been better off as compared to a decade ago. The effects of diversification of income streams in dealing with difficult situations particularly considering that the sample area affected with severe droughts in the past three years are not looked into. A significant gap is also found in the lack of data collected on current expenditure.

Sahjog **Self-Help Groups: Practical Credit Policy for Rural Poor (Hindi), 2002.**

This note reported that by March 2002, *Sahjog* had 179 SHGs and 109 were women groups. The total membership of all the groups was 3318 and savings of Rs.27.30 lakh. With bank linkage, the bank credit made available was Rs.77.00 lakh to 71 groups. There are 119 groups with bank accounts and the recovery rate is 100 percent. These groups are spread over 85 villages. To build capacity of group members, workshops are organised and training programmes are conducted.

Sahjog also tries to build linkages with various developmental schemes. It outlines various processes in-group formation like people's groups, homogeneity, live functioning, self-reliance, democratic process, account and management, mutual support etc. It also lists some difficulties like record and accounts, leadership, support for credit etc. Finally *Sahjog* finds that SHGs are useful tool for poor people and can help them in fighting poverty.

Rashtriya Mahila Kosh, http://www.rmk.nic.in

Rashtriya Mahila Kosh also has groups in Rajasthan that are supported through various NGOs. During 2004-05, it provided loan to Lupin Human Welfare and Research Foundation *Samiti*, *Matra Shakti Sansthan* and Arnold Educational & Rural Development Society.

RMK has introduced schemes like food credit scheme, assistance for land acquisition, land redemption and land leasing, assistance for health and other consumption needs, skill up-gradation, support for education and training, support for crop credit and support for off-farm activities. By the end of March 2004, it had provided support to 752 SHGs including 15045 women in Rajasthan.

M.S. Sriram and Radha Kumar, **Conditions in Which Micro finance has Emerged in Certain Regions and Consequent Policy Implications**, IIM, Ahmedabad, May 2005.

The paper looks at some macro data on the availability of infrastructure, economic growth, density of population and the availability of formal financial services to examine if any of these factors explain the growth of micro finance in certain regions, while the other regions lag behind.

The study examines the data from the four southern states and three states from the western part of the country. It finds that most of the indicators are not significant enough to explain the regional disparity in the growth of micro finance. However, anecdotal evidence and a perusal of the state policy pronouncements explain that the role of the state could be significant in promoting some of these initiatives. In case of Karnataka, it finds that the banking system seems to have played an additional role in rolling out micro financial services.

The paper concludes by indicating that perhaps the sector is still insignificant in the rural economy to establish causality with macro variables. However, there could be a possibility of growth in states like Rajasthan where most of the parameters seem to exist to foster micro finance with policy intervention in the routing of developmental projects. It also indicates that the existing network has the potential of unleashing more finance and financial products, and that initiative should be seized forthwith.

The study indicates that there are no macro economic or demographic reasons as to why micro finance emerges in certain places. The paper argues that if it is assumed that micro finance naturally emerges in places with slow economic growth, low connectivity, high incidence of poverty, high population density and a failure of formal financial institutions, then Rajasthan is the ideal state where micro finance should have emerged naturally. Kerala and Tamil Nadu should follow it. It is also pointed out that if it is considered the singular factor of failure of formal sector outlets, then the results seem to fall in place in case of Andhra Pradesh and Karnataka. But this does not explain the growth in Tamil Nadu and also why Rajasthan is an outlier.

In the absence of any statistical significant information to show any one or a group of factors that could explain the presence of mutuals in any one state and absence in another, the authors looks at the information on parentage and promoting institutions in these states. The paper states that the role of banks in promotion of SHGs seems to be limited, while their role in directly financing them seems to be the preferred route. Except in case of Karnataka, where the SHG movement is strong and the banks have also taken a keen interest in promoting SHGs, in other significant states of Andhra Pradesh and Tamil Nadu, there is evidence that NGOs and other agencies have largely assumed the role of promotion of SHGs. The outlier here is Maharashtra, where the role of Banks seems to be significant, but the number of SHGs and the amount disbursed through SHGs are really small.

Therefore, it appears that the bank-promotion has largely happened with central targets rather than a natural tendency for the formation of mutuals. It also shows that in states where micro finance has taken off, the number of agencies involved is not only high, but the number of groups are higher where the NGOs have a larger role to play. The exception to this is Karnataka, where the study finds that the bank branches have had a significant role in promotion of micro finance. It finds that it is difficult to find external explanations for the regional development of micro finance in certain regions.

One reason why a pattern does not emerge, the study argues is that despite the focus on micro finance, the quantum of credit and savings managed by this system is not significant vis-à-vis the size of the rural financial markets. However, there is a series of anecdotal evidence to suggest that the government and external agencies like NGOs and international development agencies have taken a great deal of interest in the SHG movement in states like Andhra Pradesh. For instance, the Andhra Pradesh has routed several of its poverty reduction schemes via the SHG route. The Velugu programme is one of the largest of these.

The state government in all the districts of the state took up this two-phase Rural Poverty Alleviation Programme. The first phase between 2000 and 2005 and the second phase commencing two years after the first. The project had the support of the government at the highest level, the Chief Minister being the Chairperson of the programme. World Bank supported the project with a cost Rs.2079.12 crore. It targeted 29 lakhs people in 22 districts. The Tamil Nadu government has also extended a lot of support to the SHG movement through the support of International Fund for Agriculture Development and the Tamil Nadu Women's Development Programme.

In Karnataka, MYRADA was an early collaborator with the commercial banks. With several commercial banks having their headquarters in Karnataka and having had the legacy of looking at rural markets positively, it was possible to get the involvement in a significant manner. In fact numbers suggest that Karnataka had the most significant share in SHGs before the Andhra Pradesh avalanche took it over, with fair amount of state support.

The story of Andhra Pradesh reveals something more. Since the state has been topping the numbers in SHG and bank linkage, the language and syntax of micro finance is understood well there. Therefore, there is a possibility of a natural environment for other models of micro finance to emerge there. That possibly explains why four major micro finance agencies that do not necessarily follow the mutual model- BASIX, Share, SKS and *Spandana* are headquartered there. This could be a cluster effect, but this needs to be studied in greater detail.

The study argues that the spread of micro finance hence is possibly not so a natural movement whose emergence indicates conditions ripe for the growth of micro enterprise as is often commonly assumed of. Rather it would seem that it in fact requires some degree of sustained external intervention, whether of the local government or of NGOs.

It points out that Rajasthan seems to be the right state where there should be large scale intervention in micro finance, it would be much more difficult to make it successful, given the geographical conditions and the density of population. However, it could take off in certain pockets of north Rajasthan and then naturally spread across the state. For this, three players - the state government, the non-profits operating in the area and the banking systems need to be systematic and synergistic intervention.

The study argues that alternative methods of reaching financial services to the poor beyond the existing sources and with the limitations of infrastructure are thought of it is imperative that there has to be some significant external push. What is even more interesting would be to look at the growth of the movement in states where it has already spread. In these states, the density of outlets that provide savings and credit services have penetrated deep, with Andhra Pradesh claiming to have one SHG for every 50 households. The challenge in these states will be to leverage these outlets and to provide greater variety and quantum of financial services.

Nutan Kanerai, **Impact Assessment of SHGs**, *Sewa Mandir*, 2003.

This paper looks at SHGs of *Sewa Mandir* in *Girwa* block. It finds that *Sewa Mandir* promoted all the groups. The Para workers played a vital role in the group formation. Initially, the Para workers did record keeping and accounting. But even after training, only few groups maintained records and discussed a wider range of issues.

The focus was only on the finance. The awareness level was also very low. Almost all members were aware of the individual contributions, but group savings was not acknowledged. The confidence level was very low among the members.

Price Water House Coopers, **Rural Finance Sector Restructuring and Development,** Draft Interim Report, Rajasthan, component 1A, August 2004.

This draft report looks at overall restructuring of rural finance institutions in Rajasthan. All co-operative institutions are observed. The report suggests wide ranging structural changes, changes in laws and regulations, governance, operations, human resources training, management information system and technology, security of funds, control and supervision, re-capitalisation and implementation of structuring plan.

It lays stress on PACS and their strengthening. PACS should maximise their outreach and for that working and linking with the SHGs and farmers' groups represents the most interest avenue. It has been demonstrated in many places throughout the country that working with this type of organisations brings a lot of benefits (better outreach, better financial ratios and better organisational involvements).

Rajasthan has a large number of such organisations. The most important factor plaguing the system is recovery of loans; in the first place PACS have a bad record in this matter. The report proposes that the state should use whenever possible the group model, because this model has proven to be creditworthy. It could be through the SHG concept but also and primarily for crop loans through the JLG (Joint Liability Group) model where the loans are individual loans but the whole group is liable for payment.

It also proposes putting an end to a requirement of physical securities for loans under Rs. 20,000, if loan is availed of through a group where members are jointly liable. The loans should instead be linked to recovery rate (when a JLG asks for loans for its members, the amount of shares that the member would have to detain would be directly proportionate to the recovery rate. An example of this would be when borrowing is Rs.10,000, 10 per cent of it should be the amount deposited in share capital. This percentage would increase by the difference between 100 per cent and the effective recovery rate of the group), at the same time good borrowers could be rewarded by a reduction of the interest rate when they had a perfect record of repayment.

To decrease political interference, the report proposes elimination of all non-active accounts, having at least 6 months of activity in the organisation before obtaining voting rights. An active account would mean that there is at least one transaction a month. There is a need to impose a ceiling on loan amount (Rs. 20,000 for an individual loan and Rs. 50,000 in the case of SHG loans).

Surjit Singh, **Micro Finance for Poor in Rajasthan: The Importance of Self-Help Groups,** IDS Jaipur WP No.118, 2000. Also Surjit Singh, **Micro Credit in Rajasthan: The Role of Self- Help Groups**, IDS, Jaipur (a research report), 2000.

This study attempts to look at the micro credit delivery system especially the role of Self-Help Groups in rural Rajasthan sponsored by both NGOs and otherwise. By the end of March 1999, there were 555 SHGs linked to banks of which linkage was provided to 126 SHGs directly without intervention of any NGO and 429 SHGs were linked through NGOs (NGOs were facilitators). Out of these 555 SHGs, 400 were exclusive women groups. These SHGs have been provided Rs.1.70 lakh bank loans. The women groups are largely facilitated by NGOs in Rajasthan.

The study deals with 32 SHGs in Alwar, Udaipur, Jodhpur, Hanumangarh and Kota districts. Of these 18 were exclusive women SHGs, one mixed group and 13 men SHGs. The SHGs in Hanumangarh were not supported by NGOs, but had been promoted by Oriental Bank of Commerce. These districts have about 60 percent of banks linked with SHGs in Rajasthan. Initially, in most groups it was thought that only weaker sections in the village like wage labourers, marginal and landless people would be included in the groups. Later on it was realised that anyone interested in this work is welcome. Credit is provided as per the requirements of the borrower. Besides, the activity for which loan is sought is discussed by the members. The group members fix the interest rates as per the loan quantum.

The basic purpose of SHGs has been to inculcate habit of collective thinking among the members and helping poor to increase their incomes. Each group has been formed after identifying the members' weakness and needs. The study shows that there is a gender difference in the group performance. Women borrow more for household needs while men borrow for income generating activities. The savings contribution of male exclusive groups is higher than female exclusive groups. The mixed groups perform better than male exclusive groups. Males borrow higher amounts than females.

The SHGs in Rajasthan have a large number from non-BPL families. The groups are very cohesive and not a single member has left any of the groups under study. The NGOs it appears make the group more dependent on their own workers while the Bank promoted groups are found to be more independent. The skill development in terms of account keeping, maintenance of ledgers, attendance of meetings, decisions on loan disbursals are collectively done and all members abide by the decision taken. Punishments though minor for default, is sufficient for maintaining discipline among the groups. The mixed caste groups are also better functioning groups and it is the poverty that keeps the people together rather than the caste hierarchies in the villages these SHGs have demonstrated. The smaller the group the more cohesive it is. The different models in operation i.e. NGO promoted, independently formed and bank promoted are more or less equally performing in rural Rajasthan.

There is no doubt that SHGs formation has led to empowerment of the poor in Rural Rajasthan. The role of SHGs in the credit delivery is becoming very important. It is serving dual purpose of bringing the poor together for self-support and enhancing their capacities to raise family incomes. The self- esteem of the poor does go up as observed in the study done in rural Rajasthan.

Surjit Singh, **Self-Help Groups: The Concerns**, paper for a seminar on **Self-Help Groups: Vision, Role and Ideology** organised by IDSJ, CASA, New Delhi and Suskham Vikas Sansthan, HCM-RIPA, Jaipur, June 28-29, 2002.

This paper points out that past experience on SHGs gives the impression that micro financing is the answer to the problem of poverty. But the fact that in a village environment where micro financing has taken roots, what is the extent of its contribution to reducing poverty in that village as a whole is totally ignored. The question also is that how does it compare with the totality of the trends in the village economy?

In this scheme of things, NGO is central, occupying the ‘third space’ in the development process and when NABARD itself argues that in certain areas NGOs are absent, then can the massive task of development initiatives be left to NGOs alone? Past experience, it is argued does not even raise the issue of limitations of SHG model.

It has to be recognised that low default rates are confined to loans of small size that the default rates tend to increase with the loan size and with time and repetitive borrowers. In the same breath, it may be pointed out that while the poor may initially accept the high rate of interest because of their state of helplessness, subsequently it becomes a burden on their incomes and future stream of savings. In other words, debt-cycles are created for the borrowers.

The paper also argues that SHGs have limited scope for future growth as total emphasis on consumption loans may limit the income generating activities. SHGs rapid expansion may lead to poor functioning, as SHGs do not have legal status. On the impact of Self-Help Groups in India, it is stated that SHGs have relatively more pronounced impact on social aspects than on the economic aspects. SHGs have helped in the empowerment of women.

The paper further argues: Is it proper to isolate the poor from the mainstream of an economy and achieve a sustained improvement in their well being over the years when their overall economic environment is constrained by restrictive public policies? Can SHGs replace (micro financing) series of other public programmes that have significant impact on the growth processes and reductions of poverty and unemployment? Further, 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 constrained, the scope for promoting SHGs and instituting SHG-bank linkage gets narrowed (same may happen in backward areas too).

Finally, one can say that most studies throw up important issues, which are either situation specific or generic. One finds that with savings' accumulation and bank linkages, NGOs mainly manage the accounts of the groups. The literacy level of the people involved in is low, while efforts and involvement are more linked to short-term gains.

There is an issue of group formation process and capacity building of group members. The issue of interest rate is not really raised by any of the studies. The sustainability of the group also does not find adequate space in the documents. All studies recognise that SHGs are vital for poor who lack credit support from the formal sector, but the groups competent to reduce the dependence on informal sector are hardly touched upon. The recovery rates are high, but the question is not raised as what the source of payment of the loan is.

Finally one finds lack of critical appreciation of the real problem the poor face. Credit is the only facilitator and final poverty reduction, a different theme altogether. The studies jump to computer based account management without bringing in people per se. Most of the studies/ documents only document what is happening and that with single perspective that micro finance is the solution to all ills that poor face. However, the studies/ documents provide a sound base for future task involved in micro finance delivery and SHGS as important tools.

Studies in Relevance with Rajasthan:

Ajit Kanitkar and Jan Meissner, **Good Practices in SHG Bookkeeping, Case 3: The Computer Munshi Project of Pradan**, December 2005.

Quality book keeping is very important for an SHG. Quality would mean different things to different individuals. The present study adopts five parameters to look at Computer *Munshi* (CM) Project developed by *Pradan* for its SHGs. The parameters used are:

- All the primary books of accounts are maintained.
- The trail balance, income and expense statement and the balance sheet are prepared for all SHGs.
- It is also important that the record keeping is done accurately without mistakes.
- The records should clearly state each member's savings, loans outstanding, interest and principle paid and such other relevant information. Essentially all the accounts are kept up-to-date and these are not pending beyond one week after the transactions are over.
- The financial information should be easily accessible either to the member of the group or to an outsider such as an auditor or a banker.

The principle of transparency is important in this context. Another aspect of accessibility is also the facility to retrieve any data at any point of time. The accounting system should allow the data to be consolidated around any parameter required and made available to any user at any point of time.

The study lists five financial health indicators for SHGs that a good book keeping system should have. These are:

- Regular savings
- Internal and bank repayment
- Regularity in meetings and attendance
- Proper book keeping
- Participation of group members and unity

The study details the computer *Munshi* system in three places viz., *Balaramour* (WB), *Jhalda* (WB) and *Chaibasa* (*Jharkhand*). It is articulated that *Pradan* with Computer *Munshi* system is able to have consistency in book keeping of its entire programme.

CM uses computer software called McFinancier that supports five financial indicators. At SHG level, trial balance is prepared every month in simple, easy to understand and transparent formats. Computer *Munshi* is considered as an entrepreneurial model. Additional services offered by CM to the local community enhance the capacity utilisation in terms of time of CM and additional income sources for the CM. There is a scope for replication and is being used in Rajasthan in *Alwar* district.

Akhileshwar Pathak and M S Sriram, **Community at the Core: A Study of Sarvodaya Nano Finance Limited**, IIM, Ahmedabad, WP. No. 2004-10-04, October 2004.

The paper traces the evolution of Sarvodaya Nano Finance limited (SNFL). At the outset it explores the background of SNFL, the motivation for the promoters to set up the organisation and how it has grown from the time it was taken over by the community trusts promoted by ASSEFA. It also examines the unique legal structure set up for federating the small SHGs that were widely spread out in the areas of its operation. The idea of federating the SHGs was to leverage the dispersed savings and interest earned on the initial donor resources that were made available to the SHGs at their early stages. The aggregation of these dispersed resources into SNFL enables the women SHGs to mobilise funds from commercial banks and specialised MFI lenders for an accelerated growth of the movement.

The paper examines the rationale for having this structure, its vulnerabilities and the possibilities for growth within the given structure. It argues that replicability of the structure is not easy. It also argues that the structure cannot grow aggressively in the long run, unless some basic design changes are made. The paper also discusses the basic question on how to structure resources that are given by the donor community for the larger benefit of the poor; and when to bring in the individual stakes of the beneficiaries if one were to promote long lasting institutions.

The paper also raises critical questions on governance and management. While appreciating the impressive results achieved by ASSEFA and BASIX in getting a community owned professionally managed institution into being, it also raises questions on whether there are inbuilt mechanisms for carrying forward effectively in future, given the structuring of capital and rights of each of the constituents.

C.P. Mohan and Simanchal Sahu, **Information Bureau for Micro Finance** (undated).

This paper seeks to look at micro finance from a wide perspective and define it using an exclusion concept. It argues that apart from the absolute poor, there are several target groups of population that gets excluded from the formal financial sector for a variety of supply side and demand side driven reasons. Such population groups also need specialised approaches for getting included into the formal system and calls for a deeper understanding of the market size and needs. The use of broad based information sharing system is expected to substantially improve the efficiency of provision of holistic financial services particularly for the poor and others who need specialised approaches for inclusion.

The concept of micro finance is looked at from a broader perspective than by any size related parameter. This is considering the fact that the formal financial system has excluded several population groups from its ambit of coverage as discussed herein and their inclusion needs specialised approaches.

The analysis shows that wide based data/information bureau will serve a multiplicity of functions in the course of extending outreach of formal financial institutions. It is argued that while only a small proportion of population enjoys access to formal financial institutions in India, the reasons for that is not only poverty, but various reasons like need for hand holding and specialised services in certain cases, which the formal financial sector is unable to provide either due to cost or policy, the lack of information on the sector, non availability of suitable products etc.

The Information Bureau takes care of such requirements to a large extent. It is also proposed that the Bureau may be set up as a public sector institution with financial support from financial institutions, donors, government etc. There is also a need for supportive research and legal framework that will enable efficient functioning of the Information Bureau.

EDA Rural Systems, **The Maturing of Indian Micro finance,** http://www.edaruarl.com/imar.html.

EDA conducted a national study to assess the development impact of micro finance in the context of the wide variety of product designs and delivery systems in different regions of India. The study concludes that MFIs have a tendency to provide relatively few, standardised products, without any reference to differences in economic context.

The SHG model shows varying degrees of responsiveness. The group loan facility in the SHG model offers the greatest flexibility to members in terms of varying amounts, timely availability and flexible repayment options. The only catch is that it depends on savings being non-withdrawable.

NABARD and GTZ, **Towards a Refined and Improved Management Information System for Linkage Banking: Results of the Study on MIS at SHG Level**, July 2005 (draft).

This study looks at accounting (how to record the data), auditing (how to verify the data), performance indicators (how to measure the performance), benchmarking (how to assess good and not so good performance) and reporting (how to report the performance to the higher level). It works on the view that a well functioning MIS is the backbone of bank linkage approach.

The main objective of the study is to understand the MIS at the SHG level in order to facilitate a meaningful review of the information generation for the use of bankers, SHPIs and the groups themselves. The focus is mainly on examining the different group health indicators and identifying minimum standards to be suggested for application.

On accounting, the report says that though there are some good practices, there are many indifferent practices in recording and verification. The indifference towards MIS is especially due to lack of trained manpower, lack of skills and knowledge and low priority accorded for this aspect. With banks relying on books of accounts predominantly to judge the health of the group**,** it is necessary to follow good practices in recording, verifying financial and non-financial details.

Developing and implementing accounting norms may be difficult for a nation wide programme, the report notes. However, for the monitoring of health of SHGs the indicators have been identified and the calculation of these require some minimal data to be maintained. On verification of records, the report argues that with Self-Help Groups consisting of mostly illiterate members, the verification of BOAs becomes the responsibility of the SHPI.

Each organisation has its own mechanism of verifying the data in the books of accounts. Only five of the SHPIs have utilised the services of external/ internal auditors to audit the books of accounts. The others verify the books of accounts through the staff of NGO. In some of the SHPIs/ groups, verification is a fire fighting measure (when a problem arises staff help in verifying and setting the books right) rather than it being an in-built feature.

Under the present mechanism of performance measurement many of the Self-Help Groups are not readily forthcoming about the aspects of the group, which they periodically review. This is primarily because there is no regular review of performance by SHGs themselves. Either the SHPI or the banker undertakes an assessment.

The Self-Help Groups measure and review some aspects especially in terms of defaults- irregular attendance by any individual member, non-repayment of loans etc, they don't usually participate in their own rating. The groups and SHPIs identify five most critical areas and indicators to measure the performance. The five most critical aspects common to both SHGs and SHPIs are regularity of savings, repayment performance on loans, attendance rate, regularity of meetings and maintenance of books of accounts (in that order).

It is seen that the indicators used to assess the critical aspect mean differently to different players. For the areas considered as critical and for the indicators, it is necessary to come to an awareness creation on how it should be recorded, measured and reported. Existing MIS is not adequate for generating information on aspects identified as critical in some of the SHPIs under study. This requires some minimal modification of the accounting and book keeping system.

The report also argues on benchmarking that its identification is very difficult for most of the SHPIs and SHGs. Even SHPIs using rating instrument find it difficult to identify benchmarks. This is due to lack of clarity and lack of practice about using any kind of performance standards. Most of the SHPIs have not developed the rating format themselves. They have taken it from NABARD or some other NGOs. The rating instrument is not developed/ modified and used to the desired extent by the SHPIs.

The benchmarks identified by the SHGs can at best be indicative and not conclusive looking to the present level of confusion and lack of clarity at various levels. At present there is no consistent mechanism in which the information on group health flows from the SHGI SHPI to the bank. Informal exchanges between branch staff and the group members occur when the members visit the branch. The groups felt that the staff of the branch is usually too busy to seriously discuss about the health of the group and its activities. They make general enquiries about savings, meetings and repayment. However, when bankers visit the group, they check maintenance of books of accounts, loan repayment rates, regularity of savings and regularity of meetings. Very few of the SHPIs share the rating of SHGs with the bankers. Data gathered by many SHPIs are not converted to useful information in terms of indicators. The information on critical aspects (especially indicators) could periodically be collected and shared.

The indicators need to be generated from simple records maintained at the SHG level. The periodicity of generation and reporting of indicators from basic records can be different at different levels such as for SHG to SHPI/ bank, bank to NABARD. There is a need to sensitise NGOs and other SHPIs and SHGs on why, what, when, and how of MIS. SHGs need to be encouraged to self-monitor, measure and review their performance. Banks need to be sensitised to consider the self-monitoring and review reports for important decisions. For sustainable linkage banking, MIS appears to be a critical area to be worked upon.

Wolfgang Hannover, **Impact of Micro Finance Linkage banking in India on the Millennium Development Goals (MDG**), NABARD and GTZ, 2005.

This report documents the results of impact studies on SHGs. The results indicate that considerable socio-economic benefits accrue from the fast growing linkage banking programme of NABARD to small-scale farmers, rural micro entrepreneurs and landless labourers.

The improved access of SHG members to sustainable micro finance services as well as the group approach and related human capacity building processes contribute to cross cutting outcomes in several direct and indirect ways to most impact aspects of MDGs 1 to 6. Most SHG members substantially increase their savings rates.

In borrowing patterns, a shift can be observed over time from consumption loans to loans for income generating purposes. Increased savings and capital formation improve the self-financing capacities and even-out the household's cash flow. Generally higher risk absorption capacities and decreased vulnerability can be assumed. The access to formal financial services also contributes to a strongly reduced dependency on informal moneylenders with positive effects on the reduction of capital costs. The improved access to financial services benefit households and individuals in maintaining, intensifying and diversifying their economic activities, also in the non-agricultural sector with positive effects on income and employment generation.

According to the overall study results average net income increases of more than Rs. 6,000 or by about 32 per cent to nearly Rs. 25,000 are realised per household. With the income increases, substantial contributions are made to poverty alleviation. The share of households living below the poverty line is reduced from about 50 percent in the pre-SHG situation to about 31 percent in the post-SHG situation. Thus, nearly 20 per cent of all sample SHG members are able to raise their income levels above the poverty line.

The study points out that the financial services and their impact on incomes also raise the capacities of the beneficiaries of the programme to increase their household expenditure for basic needs such as better nutrition as well as for education and health. With about 90 per cent, a very high share of micro finance clients of the LBP is a woman. Participation in Linkage Banking SHGs contributes substantially to human capacity building and empowers women to become more self-confident and competent; they are also likely to participate more in family decision-making. It also promotes communication as well as co-operation among group members enhancing the capacities for problem solving. The involvement of women in political bodies remains, however, even on village level still on a low level.

In terms of various assessed parameters linkage models involving non-government organisations (NGO) as SHPI often perform better than the model SHGs formed and financed by banks. The extent and quality of training seems to partly explain the differential impact across linkage models. Sustainability of the Linkage Banking approach is well established in many SHGs and can be verified through the better performances of older groups than those of the more recently formed groups in different impact aspects investigated in the studies.

There are clear indications that with increasing age of the SHGs the performances in respect of poverty reduction are further improving. The study also articulates that more efforts are required for institution building including the strengthening of group functioning in existing SHGs as well as the promotion of federal structures of SHGs. There is a need for the development of more effective management information systems to promote further consolidation of sustainable financial service delivery through well performing SHGs. Also the future strategy should focus more on training and capacity building of SHG members, as it would improve the productivity of financial service delivery.

In order to reduce apparent regional imbalances in Linkage Banking more emphasis should be put in future strategies on widening the outreach of the programme in the Central and Eastern Regions of India. To increase the effectiveness such outreach strategies may have to include different delivery models, the study asserts. Finally, SHGs' role in development could be further enhanced through an increased involvement in development programmes in the area.

Wrap Up

Micro-credit has certain inherent weaknesses, often overlooked in the hype about its purported benefits. The brief review of studies leads us to raise some concerns and issues that require further in-depth research.

- Quality of groups formed across requires attention.
- There is an issue of quality versus target.
- The process of group formation requires serious study.
- Saving and inter-loaning is weak, this requires a look at.
- What could be possible approaches to handle this problem? It also requires research.
- Group members have been found to have weak social skills, poor leadership quality etc. How this aspect can be improved needs an in-depth look.
- If monitoring is poor, then who should do it and how?
- How MIS is working, requires a study.
- Meeting procedure is inadequate and its improvement process is a subject of enquiry.
- There is a need for data base building. How should this be accomplished?

- Bank linkage is a problem. Should bankers' stakes be built in this regard? Training of bankers should be taken up.
- NGOs themselves are reluctant to undertake lending intermediation. How to handle this issue requires a study.
- There is also an issue of lending rates. Are the interest charges and the ways in which they are imposed appropriate? None of the studies have seriously looked into interest rate fixation problem.
- Operational front, cost of funds, operating cost and loan losses need to be revised.
- Why agriculture purposes lending is not taken up. What are the concerns attached and possible recourse? How risk management can yield to risk or price risk can be taken care of? Insurance and commodity future exchange could also be explored.
- There is a failure of institutions to penetrate the saving and loan market. How can financing of non-emergency planned needs such as asset purchase and house construction be tackled?
- Credit alone cannot alleviate poverty. If communities are agrarian then demand for credit and its serving has to be different. To what extent is this a part of micro financing today?
- Most micro financing institutions are facing problems of skilled labour, which is not available for local level accounting. Can automation help require a study?
- All models lack in appropriate legal and financial structure. What could be the statutory structure/ ownership control/ management/ taxation aspects/ financial sector prudential norms? Would a forum/ network of micro financer be desirable?
- There is a sustainability issue of SHGs. Here the issue is of attaining financial viability. Also can the groups survive without the support of the promoter? Have the promoters developed self-interest that withdrawal is very slow or non-existent?
- Deposit mobilisation is the major means for micro finance institutions to expand outreach by leveraging equity. Is it possible to have rules based on market principles?
- Careful research is required on demand for financing and savings behaviour of the potential borrowers and their participation in determining the mix of multiple-purpose loans.
- How to ensure presence of NGOs in SHG-lacking areas?
- Whether banks should promote SHGs?
- How the banks should be influenced to give more emphasis to SHG in terms of both account and amount?
- As there are some conceptual differences between SHG and co-operatives, whether co-operatives should be asked to do business with SHGs?

- 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?
- What is the nature of impact with regard to different models of group lending or different types of promoters or different financial institutions?
- What is and how much should be the role of government?
- Whether SGSY needs a change?
- Whether SHGs should be exclusively for 'Below Poverty Line' people (subject to an official cut-offline) or for the poor people in general?
- How should the public resource be used efficiently for poverty eradication?
- Whether should there be a target approach towards SHGs or should it be allowed to have a natural growth?
- 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 utilization by the poor, (d) ensuring the better financial health of the banks and, (e) changing the attitude of commercial bankers towards micro credit?

  At the macro level there are a few broader questions on:

- the character of financial sector development in India
- the nature of coverage of SHGs in official data and research studies
- the need for undertaking research studies in micro finance 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.

Based on above sets of issues, we classify them for discussion and research under four broad groups.

Basic Issues

- Is the nature of banking development with a degree of social orientation relevant for the simultaneous attainment of micro finance objectives of poverty alleviation as well as women empowerment? Is it necessary to integrate micro finance with the overall financial sector development?
- Is it possible to spell out key pre-conditions- dos and don'ts for the success of micro finance schemes? Is there any discernible lesson in this respect?
- Do we have a total picture of micro finance activities? If not, what is the nature of the gap in the knowledge?

Issues Concerning Institutional Development for the Spread of Micro finance

- Given the knowledge about the nature of NGOs whose activities have been success stories in some regions like the south, is it possible to enlarge the presence of NGOs in Rajasthan? Are individual NGOs sui *generis* as it is said of the Bangladesh Bank?
- Is it not necessary 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?
- Are the limited success stories of commercial banks, RRBs and cooperatives so far in promoting SHGs replicable elsewhere? Is it necessary for them to approach micro finance only through the instrumentality of SHGs? Can we learn from the experience of SEWA Bank in this respect?
- Given the limitations of SHGs, is it possible to visualise a peer-monitoring organisation for larger groups of borrowers comprising poor and non-poor?
- Should the SHGs have homogeneous membership; or is it possible to generally manage heterogeneous groups? What type/ nature of heterogeneity can be tolerated?

Impact of Micro finance:

- Research results on the social and economic impact are not sufficiently robust as to establish a strong case for the success of micro finance arrangements so far and as a replicable system? We need to widen the nascent base and have a closer look at the performance of control groups?

Instruments of Micro Finance:

- Is it possible to evolve a system of micro finance 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 micro finance?
- How should the government programmes like the SGSY be attuned to achieve relatively better success than the old IRDP and other experiences hitherto?

The other vital concerns and roles of micro finance are:

Gender Dimension:

One of the most fundamental problems with micro-credit programmes is the difficulty in actually turning a profit on the loans. In the first place, borrowers must bear not just the cost of the loan and interest payments. But they must also invest a significant part of their time in-group activities mandated by their programmes. The loans usually finance some type of traditional 'women's work' (such as *papad*-making, weaving and sewing) which are not seen as fit for men. This leads women to rely on their female children for supplemental labour, and thus female children are under increased pressure to stay out of school so that they can help contribute to the family income.

Women value wage employment over credit because of stability and a collective workspace, which provides information and solidarity. The status and material benefits of income wage employment are more likely to promote economic and social empowerment as women have a greater degree of control over the money they earn in employment. Also, all investments may not return a profit. In this event the money to repay the loan must come from reduced consumption or borrowing from some other source, usually on worse terms.

Activists in Rajasthan have demonstrated how women take loans from village moneylenders at exorbitant rates to payoff loans from SHGs. Another problem is the capture of the loans by male relatives. In some cases, male relatives use female borrowers as fronts to get relatively low interest loans. These loans mayor may not be used to benefit the family, and the female borrowers rarely see any benefit at all. And yet, the women are still held responsible for repayment of the loans. In fact, the chances of a female-headed enterprise succeeding at all are often quite small in situations where women do not have access to leave aside control of markets. As micro-credit programmes become more successful and hand out more loans, more people enter the local marketplace as micro entrepreneurs.

It has been articulated that the cumulative effect of rising costs, declining demand, and competition from both cheap imports and increased entrants into the sector leads to shrinking profits in informal-sector trade. In other words, the initial success of micro-enterprises can lead to subsequent over-competition problems, especially when international trade liberalisation is factored into the equation.

A few micro-entrepreneurs in a given area may be able to turn a profit. A large number probably cannot. A related problem is the durability of poverty reduction. Infusions of cash in almost any amount are bound to have some effect on the poverty-stricken borrowers. But this does not necessarily mean that the effect will be permanent. Donors and advocates consistently over-exaggerate the power of micro-enterprise credit and related assistance. They ignore key structural issues that are far more pertinent to the long-term problem of women and poverty i.e., agrarian reform, programmes favouring export production (typically male dominated) over subsistence crops (typically female-dominated), and trade agreements structured in the interests of trans-national corporations. The cumulative effect of rising costs, declining demand, and competition from both cheap imports and increased entrants into the sector leads to shrinking profits in informal-sector trade.

Inability to reach the poorest of the poor:

A second important drawback to micro-credit programmes is that they don't reach the poorest members of society. The poorest have a number of constraints, fewer income sources, worse health and education, which prevent them from investing the loan in high-return activity.

It has also been found that the poorest need tiny loans that are not cost-effective even for micro-credit programmes. This section also places the greatest demands on micro-credit training programmes, which makes the cost of lending even higher. Researches do note that as micro-credit programmes are pressured to become more self-sufficient, the incentive to lend to such desperately poor borrowers evaporates.

It has also been argued that a certain sense of proportion regarding micro-credit would seem to be in order. It added that lending to the poor had to be accompanied by training, information and access to land, among other things. Lack of access to land is the most critical single cause of rural poverty.

Micro-credit dependency:

Another possible failure of micro-credit programmes lies behind the statistics. Some researchers have proposed the idea that the high repayment rates, repeated borrowing, and low dropout rates indicate a dependency on micro-credit programmes rather than an attraction to successful micro-credit programmes on the part of poor borrowers. Many borrowers have no alternative to borrowing from micro-credit programmes and consequently cannot afford to default. Neither can they afford to stop borrowing or dropout from the programmes.

In order to stay in good standing with the micro-credit programme, borrowers may even be forced to resort to pawnbrokers or other alternative sources of funding. This is a significant failure, since micro-credit programmes tout themselves as more progressive alternatives to the existing systems of informal credit which could be exploitative, such as share-cropping, debt bondage, and so on.

The current wave of euphoria over micro-credit misses the salient question. Since a majority of people has neither the skills nor the inclination to be entrepreneurs, why are micro-enterprises proliferating?

It has been clear for decades that the informal sector is a depository for the victims of the failure of the formal sector. As long as micro-enterprise development is offered as a substitute for meaningful social development, for employment that offers real security, for viable small-farm and enterprise production, and for fundamental changes in the economic policies prescribed by institutions such as the World Bank and IMF, it will only impede progress toward finding real answers to the very real problem of poverty.

Despite the above concerns micro finance demonstrated that poor people are viable customers, have a number of strong institutions focussed on poor people's finance, and have begun to attract the interest of private investors. But despite these achievements, there is still a long way to go to extend access to all who need financial services. Specifically, three major challenges define the frontier of financial services for the poor viz., scaling up quality financial services to serve large numbers of people (scale); reaching increasingly poorer and more remote people (depth); and lowering costs to both clients and financial service providers (cost). The question is: How can these challenges be overcome? The answer is by making financial services a part of every country's mainstream financial system for the poor.

Just as the term micro credit gave way to micro finance in the 1990s, many people now advocate moving away from the term micro finance. These people argue that meeting the frontier challenges means many different kinds of financial service providers-not just specialised ones-should recognise that poor and low-income clients are a viable business proposition. They believe the prefix micro conjures up an image of something small or marginal. But today's micro finance should not be marginalised or relegated to a narrow space within the financial system. The potential market, which is the majority of people in the developing world, is simply too enormous. The good news is that this integration into the larger financial system is beginning, though progress is uneven across regions and countries.

The borders between traditional micro finance and the larger financial system are starting to blur. Many specialised MFIs are working at the grassroots level and continue to achieve greater scale. Commercial banks and other formal financial institutions increasingly move down-market to reach larger numbers of ever poorer and more remote clients. As these different institutions start to meet in the middle, they hold out the promise of serving more and more people. Unfortunately, no comprehensive database tracks the size of the current or potential market for financial services among poor and low-income clients.

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