CHAPTER – I

CONCEPTUAL FRAMEWORK AND THE BACKGROUND OF THE STUDY

1.1 Introduction

Microfinance as a tool of launching a direct attack on poverty and empowerment of women received a world wide recognition and drew the attention of researchers and practitioners alike after The Micro-Credit Summit, held in February 1997 in Washington DC. This summit announced a countdown for eradicating poverty of 100 million poorest families with micro credit for self-employment within the year 2005. In fact, the war against poverty had already been launched with micro credit as the principal tool in Bangladesh. The stark realities of poverty stricken Bangladesh in 1974 had prompted Nobel Laureate Prof. Muhammad Yunus to set up the Grameen Bank and free the downtrodden rural masses from the clutches of vicious moneylenders.

Poverty alleviation movements have been started in the world in order to create productive employment and generate adequate income. The low level of employment creation, especially for young people, is among the most serious obstacles in reducing poverty. The adoption by the United Nations General Assembly of the resolution in 1995 on the first United Nations Decade for the Eradication of Poverty (1997-2006) marked a turning point in mobilizing international support for the global fight against poverty. Five years later in the Millennium Declaration, poverty has been identified as the greatest challenge of the new century. The poverty eradication programme throughout the world got prominence with the involvement of World Bank as a regulatory authority. The World Bank and the International Monetary Fund (IMF) launched a joint initiative at the end of 1999, stating that they intended to set the fight against poverty at the heart of their development policies. Under this initiative, low-income countries wishing to apply for financial aid from either of the organisations, or for debt relief, are required to draw up poverty reduction programmes. Given this new conditionality and the enormous importance that goes with reducing poverty, in September 2000, a convention was held at the General Assembly of the United Nations to explore ways of pooling their combined will and efforts to revitalize international cooperation on behalf of the less developed countries and, in particular, to mount a frontal assault on extreme poverty

However in many poverty alleviation programmes poverty has been officially looked from the income or consumption perspective implying that the dearth of income denies access of the poor to the basic elements of livelihood-food, clothing

and shelter. According to Sen (2003), "this misses the broad perspective which looks upon poverty as the outcome of multiple deprivations. In absence of skills and abilities, the poor are not capable to earn a livelihood free of hunger and deprivation. Lack of access to social opportunities like primary education, basic health care, shelter, sanitation, drinking water etc. makes deprivation intense and powerful. Vulnerability to external shocks reinforces poor people's sense of ill-being and weakens their bargaining position. It is newly agreed that poverty must be addressed not from income perspective alone but in all its dimensions".

He further opined that " experience all over the developing countries shows that the 'external expert stance' (outsider's perception of problems of poor) has culminated in top down interventions disregarding people's own initiatives and potential for self help". He emphasised that "the microfinance movement aims at building peoples' assets through participation, sharing and collective action with the goal of empowering them to fight poverty. People's ability to draw on relationships on the basis of trust and reciprocity is the social capital".

Poverty amelioration programmes generally aim to increase per capita income with the judicious utilisation of large volume of unproductive human element of all the country. This objective can be achieved with the increase in the scope of employment generation. Upsurge of employment generation expressed as a basic strategy solution in the plight of poverty. The scope of employment generation can be increased by two ways; -e.g., Self-employment and Wage Employment. Both wage employment and self-employment bestow greatly on the robust growth of poverty. The gamut of labour intensive industry and business is limited and the amount of wages is fixed at a certain level. As a result wage employment has minuscule scope. Self-employment has great contribution on the income generation of the people who live in below poverty level.

The promotion of self-employment is a basic element of economic development and social policy in most developed countries and in many less-developed nations. The self-employment is recognized as one means of bringing a person into the mainstream of society as a productive and contributing individual. It signifies that self-employment has robust impact for the sustained growth of per capita income of a country. With this mission, a significant amount of self-employment programmes was launched by different nations around the world.

For self-employment, microenterprises were considered as a double edged weapon to play a significant role in increasing the income level of the poor as well as contributing to this social empowerment, specially women. However, setting up and running microenterprises is easier said than done because the presence of a host of constraints. The most glaring problem, however seems to be inadequacy of finance relating to fixed and working capital and ignorance about the success of finance, margin money, collateral securities, application of loan etc. (Brugger, 1995). The problem gets more compounded for women because "formal financial institutions are less receptive and welcoming to female entrepreneurs. Their collateral requirements, bureaucratic loan applications, disbursement procedure, the time and resources necessary to visit the banks and discriminatory banking culture virtually exclude poor women clients" (ILO, 1998).

Under these circumstances potential microentrepreneurs are forced to access the credit services of local moneylenders and pawnbrokers who offer credit with stringent terms and conditions. "Moneylenders and pawnshops are more costly in direct terms. Sometimes charging very high annual interest rates of 60 to 200 percent, especially when the amounts are small (< Rs 5000) and are urgently required" (Sinha, 2005).

Under these conditions it had been presumed that government and other agencies would act as a supplier of financial services at a subsidised rate of interest for the rural microentrepreneurs and they would be able to run microenterprise by themselves.

However, the question lies that whether the self-employment programmes have been able to have the desired amelioration effort on poverty. Have the policies, strategies and finances for these programmes been effective in metamorphosing the socio economic profile of the poor specially with reference to India. The answer to this question is sought through examination of the antipoverty programmes launched by the Government of India.

1.2. Statement of the problem

Eradication of poverty has been on the agenda of government of India since early fifties. However, the strategy of *direct attack* on poverty was formulated in the

early seventies and special programmes for the poor were introduced in the Fourth Five-year Plan. When it was realised that "the poor" did not form a homogeneous group and the different sections of the poor faced different constraints and impediments, specific programmes for various sections of the poor were formulated.

Expansion of employment generation programme mainly was based on financial assistance or loan. Government and other NGOs generally issued loan and financial assistance to the rural individual. The development agencies were busy to forbear by providing single dose of financial injection to a fixed portion of vulnerable section of rural mass. The recipient of the financial assistance, very often, was unable to utilise the issued fund for the productive purpose and spent the fund for the consumption purposes. As a result they were not able to tress the consumed fund next time anywhere. This assistance had created debt burden for them. As a result in some cases, it was difficult to find out the he existence of existing microenterprises in the rural areas.

The government of India launched many programmes like IRDP, DWCRA, TRYSEM, SITRA etc, which aimed to finance micro enterprises. As a significant initiative towards antipoverty programme Govt. of India launched Integrated Rural Development Programme, which aimed at providing self - employment opportunities to the rural poor through assistance in the form of subsidy and bank credit to enable them to acquire productive assets and appropriate skills to cross the poverty line in a sustained manner. The IRDP was launched in the year 1979-80 with an objective to target group alleviation of poverty in the rural areas. The programme aimed at reaching the people below poverty line in rural areas through subsidised credit for asset creation. Block level governmental machinery played a key role in implementation of this programme to dispense credit through banks. However, it is estimated that only about 20 per cent of the borrowers have crossed the poverty line after assistance. The main causes of failure could be put as:

- Bank, as credit dispensing bodies, did not have any role in identification of borrowers as well as their income generating activities. Local political interest had dominated the credit disbursement procedure. This practice led to emergence of middlemen at all levels and corruption.

- The basic outlook in this permissive atmosphere hinderd the chance of repayment.
- The bankers lost the interest in the programme. The prudential norms of assets classification which had been introduced in 1990s, has shown the major area of default. Bankers highlighted default as the major reason of non-adherence to implementation target of the programme.
- The borrowers had to forgo their wage income due to repeated visit to government officers and bankers for the loans.

Sen (2003) observed that IRDP which was vigorously implemented in west Bengal as the single largest poverty alleviation programme during 1989-90 could not create a sizable impact on poverty. He stated that loan under IRDP " equated with benevolent grants of the government. Many did not create assets because of pressing social and consumption needs. Many felt that the loans would eventually be remitted. As a result, very few the could cross poverty line. Defaults were all pervasive involving heavy costs all around". Narasimham Committee (1998) observed that "the experience with the implementation of government sponsored programmes has also not been altogether happy and instead of developing a sustainable ongoing bank-client relationship, the IRDP and other government sponsored programmed have become a one shot' operation of lending." In assessing the performance of IRDP, the Agricultural Credit Review Committee (ACRC) 1998 was concerned about the extent of involvement of institutional credit with fiscal subsidies in poverty alleviation programmes because of their adverse impact on the credit system. Wrong identification of beneficiaries, leakage through corruption and malpractice, absence of backward and forward linkages in project, inadequacies in delivery and monitoring of credit etc., were certain limitations observed by the ACRC in the implementation of IRDP.

On the backdrop of this situation it was realised that though microenterprises could act as a vehicle for amelioration of poverty yet the programmes that were hitherto administered by the government were off their targets.

Kulshrestha (2000) identified that in spite of administration of these programmes lack of capital was a serious constraint to development for development for women micro entrepreneurs in rural areas. Kaladhar (1997) revealed that though

micro enterprises generally have very small start up capital they cannot provide collateral for loan and microentrepreneurs therefore depend on their friends / relatives or moneylenders for their credit needs. The moneylenders have traditionally provided credit to the rural poor, usually at excessively high rates of interest leading to considerable destitution and impoverishment of borrowers, including undesirable and illegal practices like bonded labour. The financial institutes did not have an adequate credit system for micro business in place (both for saving lending). However, the difficult procedures and requirements withheld the micro business from approaching traditional financial institution. Saving opportunities in FI was very limited and it was seen that in many part of the country, saving with the moneylenders was prevalent. This situation urges to find alternative sources of finance for sustainable development of micro enterprise. This urgency of credit needs has fuelled the emergence of microcredit programmes, or in the wider sense microfinance programme. " In India group based programmes have engaged first and foremost as a mechanism to allow the poor access to financial services that they have historically been denied" (Sen, 2003). Such programmes have been administered for the last two decades in a variety of forms and have multiplied rapidly.

Taking cognizance of the limitations in anti-poverty programmes, Government of India has realigned its efforts by conceiving a new self-employment based Anti Poverty Programme (APP) by the name of *Swarnjayanti Gram Swarozgar Yojana* (SGSY). SGSY is a comprehensive microfinance intervention, which improves upon the earlier deficiencies of the government programmes to fight against poverty. The SGSY has been conceived with the objective of poverty alleviation in rural areas for the vulnerable section of the society through micro-enterprise.

The switch from traditional financing programme to microfinance programme was seen as a welcome step by many and the results were expected to be at higher benchmarks witnessed in many countries. But the questions that can not be bypassed are; - Have there microfinance programmes been able to have the desired impact? Have the new programme been properly formulated and administered, Have the beneficiaries really self helped them toward poverty amelioration by taking up self employment scheme and starting microenterprises? What are the problems in delivery of such schemes? Do the beneficiaries perceive the programmes to be user friendly? etc.

This thesis seeks answer to the questions of means by empirical investigation. However, before venturing into it, it would be prudent to outline the conceptual framework of microfinance.

1.3 Microfinance; Concept, Origin and Spread of Microfinance.

1.3.1 The concept of Microfinance

Microfinance is a financial service of small quantity provided by financial institutions to the poor. "These financial services may include savings, credit, insurance, leasing, money transfer, equity transaction, etc, that is, any types of financial services, provided to customers to meet their formal financial needs: lifecycle, economic opportunity and emergency" (Dasgupta and Rao 2003) with the only qualification that (I) transaction value is small and (ii) customers are poor. According to the accepted definition, Microfinance institutions are those which provide thrift, credit and other financial services and product of very small amounts, mainly to the poor in rural, semi-urban and areas for enabling them to raise their income level and improve their standards. Microfinance refers to the provision of financial services, usually in the form of small-sized financial transactions, to people who usually fall outside the reach of formal finance. They tend to be the poorest members of all societies. Microfinance has emerged as a growing industry to provide financial services to very poor people. Until recently, microfinance focused primarily on providing microcredit (small loans of about $50-$500) for microenterprises. Now, however, there is recognition that poor people need a variety of financial services, not just credit. Current microfinance has therefore moved towards providing a range of financial services, including credit, savings and insurance, to poor enterprises and households. Microentrepreneurs value the opportunity to borrow and save with MFIs since they provide services that are *cheaper* than those that would normally be available to poor clients or that would be entirely unavailable to them. Moneylenders charge very high interest rates, often many times the rate charged by MFIs, and the moneylenders' terms may not be suited to the borrower. Microentrepreneurs have consistently demonstrated that they will pay the full interest cost to have continued access to financial services from MFIs.

Microfinance includes within its gamut both micro credit and micro savings even though the both the terms – microcredit and microfinance have been used interchangeably. Microcredit has been defined by the 1997 Microcredit summit (Microcredit Summit 1997, Draft Declaration and Plan of Action) as "programmes that provide credit for self employment and other financial and business services (including saving and technical assistance) to very poor persons". By implication the amounts of credit and savings are small. Through microcredit, microenterprises are born and nurtured. "The nature of microenterprises is generally perceived to be non farm in character with emphasis on trading, small scale processing, manufacturing activities even as several financial institutions in the developing world involved in microfinancing do not restrict the purpose to non microenterprises" (Hulme and Mosley, 1991). It is called 'micro' but its impact on people is macro; it takes just a few dollars, often as little as $10, to help a woman gain self-employment, to lift her family out of poverty. It is not a hand out; it is a helping hand. Micro actually implies that the size of the savings and credit are very small.

"The world wide awareness and the importance of microfinance for the uplipment of the poor has been growing over the years as different countries are attempting to devise ways and means to enhance access of the poor to credit facilities. As a result, and intense debate has erupted among the planners, bankers and officials of the government and non governmental organisation as to how financial services can be provided to the poor in an effective, efficient and sustainable manner. Finally the attempt and the idea has been praised world wide and the interest reached a new peak with a Micro Credit Summit held in February in Washington which was considered the first step of a decade-long campaign that seeks to ensure delivery of credit for self employment by 2005 to 100 million of worlds poorest families especially the women of those families" (Kaladhar, 1997). "In this respect the focus is explicitly on a 'financial system' perspective that advocates the need for sturdy and sustainable institutions that extend financial services to progressively large number of poor individuals household" (Rhyne, 1994). In the development paradigm, microfinance has evolved as a need based policy and programme to cater to the so far neglected target groups. Its evaluation is based on the concern of all developing countries for empowerment of poor and alleviation of poverty through the use of scare development fund. It is based on the recognition that the latent capacity of the poor

for entrepreneurship would be encouraged with the availability of small-scale loan and would introduce them to the small-scale enterprise sector. This could allow them to be more self-reliant, create employment opportunities, and, not least, engage women in economically productive activities. Currently, there are estimated to be about 8000 Microfinance institutions in developing countries. These institution help create deeper and more widespread financial markets in those countries. Microfinance programs and institutions have become an increasingly important component of strategies to reduce poverty or promote micro and small enterprise development.

Microfinance is a novel way to extend credit to the rural poor. "This is a better mechanism to reduce poverty gradually, as against giving a loan for productive asset, which may not lead sustained increase in income:" (Madheswaran & Dharmadhikary, 2001). "The advocates of microfinance approach to poverty alleviation argue for financial system policies that: (a) make it easier for programmes offering specialised financial services to microenterprises to become financially self reliant; (b) support NGO based programmes to access commercial sources of funds; (c) encourage such programmes to become specialised institutions; and (d) encourage main man steam financial institutions to develop specialised micro enterprise programmes" (Montgomery & Ditcher1996).

Microfinance is a useful tool in building the capacity of the poor in management of sustainable self employment opportunities besides providing other financial services like savings, housing consumption credit, insurance cover etc. The "Task Force on Supportive Policy and Regulatory Framework of Micro-finance" inter alia recommended the formulation of a National Policy on Micro Finance. Under such policy there is a strong case of formal recognition of microfinance, just like institutional credit, as a strategic tool for poverty alleviation and rural development. The National Policy on Microfinance should emphasize on encouraging initiatives and participation of different types of institutions in microfinance, bring the microfinance activities, irrespective of the type of institutions involved, within the regulation and supervision by competent authorities, creating policy environment for closer linkages of the microfinance sector with the formal banking channels, and making available equity, start up capital and capacity – building funds for the existing and prospective institutions engaged in microfinance. The recommendations of the Task Force are intended to address these components (NABARD, 1999).

The basic idea of is simple: if poor people are provided access to financial services, including credit, they may very well be able to start or expand a microenterprise that will allow them to break out of poverty (Khalil Osman, 1999). Microfinance by definition refers to the entire range of financial and non-financial services, including skill up gradation and entrepreneurship development rendered to the poor for enabling them to overcome poverty with special emphasis on empowering women. Therefore, the operational framework of microfinance, essentially rest on the premises that; (a) formation of a self employment enterprise is a viable alternate means of alleviating poverty (b) lack of access to capital assets/ credit act as a constraints on the existing and potential micro enterprises; and (c) the poor are capable of saving despite their poor income levels. Micro finance, therefore, could be referred to as an institutional mechanism of providing credit support in small amount and usually linked with small group along with other complementary support such as training and other related services to the poor with poor resources and skill for enabling them to take up economic activities (Sankar, 2001). Microfinance refers to small-scale financial services provided to people who work in agriculture, fishing and herding; who operate small or micro enterprises; who provided services; who work for wages or commission; and other individuals and groups at the local level of developing countries both rural and urban (Robinson, 1996).

1.3.2 Origin and spread of microfinance

The origin of microfinance could be traced back to the beginning of the co-operative movement in Germany in 1944, where the movement was started in the field of cooperative based credit system by Raiffeisen Societies as well as Rochdale Pioneers in England. Similarly the enactment of the Cooperative Credit Societies Act, 1904 could be considered as the beginning of microfinance in India.

The field of microfinance was pioneered by specialized non-governmental organizations (NGOs) and banks such as Bank Rakyat Indonesia (BRI) Unit Desa (Indonesia), Grameen Bank (Bangladesh), Kenyan Rural Enterprise Programme (K-Rep) (Kenya), Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM), Banco Solidario (BancoSol) (Boliva), and others. They challenged the conventional wisdom of the 1970s and discovered that with new lending methods, the rural poor repaid loans on time. These new methods included providing very small

loans without collateral at full-cost interest rates that were repayable in frequent instalments. They demonstrated that the poor majorities, who are generally excluded from the formal financial sector, can, in fact, be a market niche for innovative banking services that are commercially sustainable.

As a result, current microfinance has made a major shift from subsidised microfinance projects of the past, which ended up serving few people, to the development of sustainable financial institutions specialized in serving the low-income market.

Informal and small-scale lending arrangements have long existed in many parts of the world, especially in the rural areas, and they still survive. Good examples are schemes in Ghana, Kenya, Malawi and Nigeria ("merry-go-round", ROSCA etc.). They provide small amount of loan to the rural people especially to vulnerable section. The absence of commercial banks has led to non-conventional forms of lending. The recent prominence given to the microfinance owes much to the success of a relatively few microfinance programmes and their increasing scale. The Grameen Bank of Bangladesh, the most prominent of the successes, now reaches over 2 million people, with cumulative lending of about $21 billion. Similar successful examples are known in Latin America (e.g., Banco Solidario in Bolivia), less on Africa (the Kenya Rural Enterprise Programme is a good Example). Progress has also been recorded in several institution economies, mixed in some cases (General Assembly resolution 52/194 of 18 December 1997).

Microlending has progressed to the greatest extent in the Asian region. An innovative approach of credit delivery system has been successfully used by Grameen Bank of Bangladesh is 'peer group monitoring'. Not all microfinance institutions use peer group monitoring. Other institutions such as the Bank Rakyat of Indonesia, which serves 205 million clients and 12 million small savers, rely on character references and locally recruited lending agents in place of physical collateral. Thailand's Bank of Agriculture and Agricultural Cooperatives serves approximately 1 million microborrowers and 3.6 million micro-savers. Association for social Advancement of Bangladesh, with half a million of client, and the Peoples Credit Funds of Viet Nam, with more than 200000 members and clients operates in the field of microfinance. Other institutions such as the association of Cambodia Local Economic Development Agencies, Buro-Tangail of Bangladesh, the self-employed

Women's Association Bank of India, and Amanah Ikhtiar Malaysia are also reported to be making good progress. In Latin America, Accion International, a non-profit development agency, and its affiliates was reported to have disbursed in the past five years $ 1 billion in loan to poor microentrepreneurs. Its first time loans are between $100 and $200, and the over all repayment rates is above 98%. Its network of 19 affiliates in Latin America and North America provides $300 million a year in loans to poor entrepreneurs (56% of whom are Women). Since 1987 Accion's network has grown from 13000 to more than 285000 active borrower clients. The six largest affiliates now provide $1million per month in loan. Banco Solidario of Bolivia, which has grown from a credit- providing non-governmental organisation to a fully licensed commercial bank, provides financial services to 67000 people, more than one half of the total numbers of clients in the entire Bolivian banking system. The Association for the Development of Micro-Enterprises of the Dominican Republic and Accion Comunitaria del Peru are reported to have achieved sustainability.

In West Africa, where microfinance institutions a world Bank case study of nine microfinance programmes-the Pride, Credit Rural and credit mutuel de Guinee; Credit mutuel du Senegal and village Banks Nganda of Senegal; Reseau Des Caisses Populaires and Sahel Action Projection De Promotion du Petit Credit Rural of Burkina Faso; and Caisses Villageoises du Pays Dogon and Kafo Jiginew of Mali - concluded that all nine of these programmes are very much in the mainstream of best practice in the field of microfinance. In terms of sustainable lending to microentrepreneurs, the study gave high marks to the programmes on the following basis: all nine programmes are located near their clients and in the largest catchment areas possible; they use lending technologies that are simple, well –tailored to the cultural environment and inexpensive for both lender and client; they have employed effective techniques for obtaining high repayment rates; most include savings, which meet a critical need of many people, and they price their loans far above commercial lending rates though not at full cost recovery.

Recent years have witnessed the emergence of other institutional structures for microfinance, notably, independent, specialized microfinance institutions (MFIs) that are based on the Grameen model pioneered by Muhammad Yunus in Bangladesh. But with a few exceptions, most Indian MFIs are small in size, region specific (with a concentration in the south) 12 and the sector has a limited collective outreach. The

Small Industries Development Bank of India has been the largest lender to the MFIs, though Friends of Women's World Banking India as well as the National Women's Fund (Rashtriya Mahila Kosh) has also played an important role.

NABARD has been instrumental in pushing the programmes at an accelerated rate by linking millions of self help groups with mainstream financial institutions. The role of the government of India in spreading microfinance through self help group has been phenomenal as witnessed by the exponential growth rate of SHGs in India. The details of such programmes will be discussed in the latter section. While outreach and spread is one side of the coin of microfinance programmes, effectiveness of these programmes are the other side of the coin and therefore needs to be deliberated on.

1.4 Microfinance effectiveness – A bird's eye view

Microfinance is double-edged effective weapons for fighting poverty by providing entrepreneurs with the necessary capital to start and expand their entrepreneurial activities. Fawzi Al-sultan, president IFAD (1995) stated "while poverty eradication is the integrating theme for everything we do, we believe that rural credit is the most important single weapon to overcome poverty". James D. Wolfensobn, president, World Bank (1996) stated "micro-credit programs have brought the vibrancy of the market economy to the poorest villages and people of the world. This business approach to the alleviation of poverty has allowed millions of individuals to work their way out of poverty with dignity" Michel Chu, president, ACCION International (2001) explained that "The confirmation that micro enterprise credit can be managed to achieve economic viability is an accomplishment of revolutionary proportions. This permits an activity motivated by social impact to break free of the structural paradox of most humanitarian efforts, in which the cost of reaching every additional person brings the program closer to its economic limits. Successful micro finance on the contrary, becomes more self-sufficient with scale".

Microfinance is also associated with a positive impact on social and human development. For example, impact assessments have found positive changes in microenterprise output, assets, employment and income. "In additional to these effects on the entrepreneurial activity of the poor, microfinance is being attributed with positive effects on issues such as household income, savings, children's education, health and nutrition, and women's empowerment" (Sebstad, Gregory 1996). By

providing sustainable access to financial services for the working poor, a group which has been previously excluded from affordable sources of credit and savings facilities that are secure, convenient and liquid, microfinance programmes demonstrate that the poor are creditworthy: a lesson for banks and development agencies alike.

Women feature prominently among the working poor. Microfinance is especially beneficial for them, by

- Reproductive role of women as brokers of the health, nutritional, and educational status of other household members will be facilitated through the leading to higher income
- Improving the economic status of through the increasing the productivity of women's income-generating activities in their microenterprises, and
- Self-confidence and status within the family will increase as an independent producers and providers of valuable cash resource to the household economy.

While microfinance is not only a panacea to eradicate poverty, it is, as Juan Somavía, Chile's Permanent Representative to the United Nations and Director-elect of the ILO stated at the Microcredit Summit in February 1997, "a new and already tested tool for discovering new solutions to an old and intractable problem". He viewed that, "what I like most about microcredit is that it builds on age-old human instincts: the need to believe in ourselves and use our imagination, to dare, to take risks, all in pursuit of the most worthwhile of all causes - the advancement of your family, yourself, and your community".

Micro-finance, by providing small loans and savings facilities to those who are excluded from commercial financial services has been developed as a key strategy for reducing poverty. Access to these facilities is seen as a way of providing the poor with opportunities to take an active role in their economy through entrepreneurship, providing them with income and bargaining power and building up social empowerment for poor women and men in their communities

"Microfinance programs and institutions have become an increasingly important component of strategies to reduce poverty or promote micro and small enterprise development. However, knowledge about the achievements of such initiatives remains only partial and contested. Studies showthat microfinance has very

beneficial economic and social impacts" (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997).

According to the World Bank (1996), only seven percent of the poor have been covered by institutional credit. Micro-finance/credit has been recognised as an effective tool and viable program for poverty alleviation. Experiences has shown that the poor are able to work their way out of poverty when provided with adequate and timely credit and affirm that they are credit worthy too. This realisation has helped development professionals change their approach to help the poor. The following features of micro-finance/credit have been identified by researchers as attributes of an effective system for credit linkages with the poor.

a. It mobilises the poor into groups
b. Makes credit / finance available and accessible to the poor
c. Change the old image of the poor as non-bankable
d. Micro-credit benefits the poor
e. Gives realistic interest rates that the poor are able to repay
f. Mobilises members' savings and creates sizable group corpus funds.
g. Enhances empowerment process through social and financial intermediation

However, the effectiveness of the programmes needs to tested and retested under different settings and environments. While Government programmes in some Countries may have *spelt* success, they may have been less effective in other countries. It is with this context of effectiveness in mind that this thesis will attempt to gauge the effectiveness and impact of a microfinance programme administered by the Government of India.

1.5 Self Help Groupsas a carrier of Microfinance

The new microfinance is perceived as a paradigm shift in the quality of microfinance delivery. The microfinance providers themselves identify the beneficiaries independently or through NGOs. The new microfinance operates on the principle 'Borrower know the best'. With this aim, the new microfinance program changes its face from individual to group approach as Self-Help Group (SHG) in an effective manner. Harper (1998) described that group system of microfinancial services evolved in particular in Bangladesh (the Grameen Bank method) and in Latin

America (Solidarity groups and village banking), as well as in India (self help group). Sen (2003) observed that " the first and foremost element is self help is the involvement of the poor in their own development preferably as a group. Isolated and dispersed, they have no power or influence over the aspects that affect their lives. Organised, they have the power to ensure that their interests are protected and their opportunities are enhanced. The collective coming together of individuals as groups commonly called self help groups is the building block of microfinance in India. The Self-Help Group (SHG) is a viable alternative to achieve the objective of rural development and to get community participation in all rural development programmes. Self Help groups (SHGs) are voluntary associations of people formed to attain certain collective goals, both economic and social goals. SHGs are normally formed with the people coming from rural or semi urban areas. Each groups consists of 10 to 20 members who are generally land less agricultural labourers, rural artisans and women folk microentrepreneurs.

A SHG is defined as a homogeneous affinity group of rural poor voluntarily formed to save small amount out of their emergent credit needs and revolving their resources among the members both for consumption and small production at such rate of interest. Credit follows thrift. Periods of loans and other terms are decided by the group. Such groups may be informally registered and should not have a membership of more than 20 if they were to be unregistered.

The Self –Help Groups (SHGs) are mostly informal groups whose members pool savings and re-lend within the group on rotation or needs basis. The group is not a static institution; it grows on the resources and management skills of its members and their increasing confidence to get involved in the issues and programmes that require their involvement in the public and private spheres. A common bond like caste affiliation, community or place of residence or activity links the individuals. The development functionary must have the experience to identify these common bonds or binding forces, which are commonly called natural affinities.

The Self Help Groups provide the benefits of economies of scale, cost effective alternative for different financial services, collective learning, democratic and participatory culture firm base and platform for dialogue and cooperation. Self – Help implies a step further from the stage of passivity to activity, and of making a creative contribution.

During the eighties and early nineties, concepts like 'self help and institutional viability' came to the fore and the success of the 'Grameen Bank of Bangladesh' made significant news. The distinguishing features of microfinance evolved only after 1970s with the pioneering work of Grameen Bank in Bangladesh. Some of the features includes reliance on peer group monitoring, 'lumped transaction and therefore reduced costs per transaction and non-collateralised lending. Some of the NGOs, taking a cue from the success of microfinance experiment abroad, made initial attempts to replicate the same in India. The Indian microfinance sector has grown along two parallel routes – SHG Bank Linkage route and alternative microfinance institutions, the former one being largely dominant.

During the 1992, NABARD took initiative and issued operational guidelines to the commercial banks for a pilot project for linking 255 Self Help Groups to the Banks. The SHG-Bank linkage model introduced by NABARD was innovative and attempted to link the formal banking system to the informal groups in a cost effective manner. It was an attempt to develop a transparent supplementary credit system for reaching the rural poor with advantages to both the banks and the rural poor. The system also promoted thrift, self-help and inculcated credit discipline among the members of the Self Help Groups. NABARD's initiative was based on the understanding that the branch net work of the banks in India was unique and had the capability of considerably enhancing the outreach of the banking system provided suitable product and delivery mechanism were designed.

The SHG- Bank linkage programme has registered tremendous growth. According to the date published by NABARD, at the end of March 2007, indicate that total *10,79,091* SHGs have been linked and financed by Banks. The cumulative loans advanced by the banks aggregated Rs. *3904* crore.

NABARD hopes to see a million SHGs serving 20 million households by 2008. The rapid rate at which the model has scaled-up, particularly since the late 1990s, is truly remarkable. Between 1999 and 2007, the number of SHGs linked to banks increased cumulatively from 32,995 to 10,79,091. This is an increase of more than 3200%, a staggering achievement in a short period of eight years.

The microfinance movement in the form of SGSY has been initiated in India on 1st April 1999. As an initial breakthrough, total 292426 groups were formed under

SGSY in 1999-2000. In the 2nd year of its journey, 223265 new SHGs were formed which was 176.34% of its previous year. Highest numbers (434387) of new SHGs were formed in 2001-02. After its eight years journey total 2501623 SHGs were formed in under SGSY in India.

A decade after the SHG Bank Linkage movement was initiated there can be no doubt that, it has significantly helped to widen access to financial services helping banks reach out to market segments not previously considered bankable, providing for some diversification in household livelihoods and (arguable) enabling participants to expand their networks, access information and increase access to new economic opportunities.

The linkage programme has spread all over the country (31 State and Union Territories and 365 district). However, due to the early start, more than 50% of SHGs have been linked in the southern region (Andhra Pradesh, Tamil Nadu, Karnataka, Kerala and UT of pondichery); this is followed by eastern region (Orissa, Bihar, West Bengal, Jharkhand and UT of Andaman & Nicobor island) and central region (U.P., M.P., Chatishgarh and Uttaranchal).

The microfinance movement in West Bengal with new mechanism has started after 1999 after the institution of the SGSY. But primarily the policy makers were in phantasm about the implementation of new policy of Microfinance. As a result new paradigm of microfinance got prominence from the year 2000 onwards. But after the completion of the gestation period, microfinance has been found to be growing exponentially from the year 2000 onwards. A handful of policy initiatives have articulated to its growth, few of them like as: i) SHG Bank Linkage programme initiated by SGSY; ii) Policy initiatives of state government and iii) Strong initiatives of NGOs in the last decade.

This thesis deals with the microfinance and holistic poverty amelioration programme which has been started in 1999 and examine its spread and operation, problems, success, impact and prospect in Jalpaiguri district.

The above deliberations through ample light on the fact that SHGs have evolved as the primary vehicle of microfinance operational systems in India. The emergence of this new phenomenon has evoked the interest of government agencies, bankers, MF practitioners and academicians. This thesis also attempts to have a

details analysis of the operational aspects of a microfinance programme and its impact with special reference to a district in West Bengal. However before venturing on such a task, it would be prudent to have review of the research done in this area.

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