GROWTH, STRUCTURE AND TARGETING OF MICROFINANCE IN INDIA

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CERTIFICATE

I, **PRIYANKA GOEL**, certify that the dissertation entitled "**GROWTH, STRUCTURE AND TARGETING OF MICROFINANCE IN INDIA**" for the degree of **MASTER OF PHILOSOPHY** is my bonafide work and may be placed before the examiners for evaluation.

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To God

Maa, Pappa, Bhaiyas, friend like bhabhis
and naughty but adorable Gitansh & Kaashvi, who have always stood by my side.

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Without the support of my parents, professors and friends, it would have been difficult to finish my work.

Priyanka Goel

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List of Acronyms

SHGs	Self Help Groups
SGSY	Swarnjayanti Grameen swarozgar Yojana
RMK	Rashtriya Mahila Kosh
NABARD	National Bank for Agricultural and Rural Development
mFIs	Micro Finance Institutions
SJSRY	Swarnjayanti Shahri Rozgar Yojana
APRACA	Asia and Pacific Rural and Agricultural credit Association
FWWB	Friends of Women's World Banking
SIDBI	Small Industries Development Board of India
DRDA	District Rural Development Agency
USAID	United States Agency for International Development
SBLP	Self Help Group Bank Linkage Programme
NBFCs	Non Banking Financial companies
MACs	Mutually Aided cooperative societies
JLG	Joint Liability group
RRBs	Regional Rural Banks
SBA	Small Borrowal Accounts
IDRA	Insurance Development and Regulatory Authority

CHAPTER ONE

Introduction

1.1 Background

Provision of financial services to the poor at affordable terms has always been seen as a way to ameliorate poverty. Since independence, the government has taken a number of initiatives to include the hitherto excluded population by the banking sector, which include nationalization of the twenty major commercial banks in phases beginning in 1969 in order to prevent the few corporations from controlling all the banks, creation of Regional Rural Banks in 1976 to offer targeted lending in the rural areas, adoption of policy of branch expansion and the priority sector lending. A regulatory framework was set up to this effect that specified the maximum interest rates that can be charged for particular categories of loan. As part of the focus, several subsidy linked programmes were also initiated by the government, most notable being the implementation of the Integrated Rural Development Programme (IRDP) in 1979. The programme was a major intervention for promoting self employment through the creating of income generating assets, using a mix of subsidy and the institutional credit from the formal financial system. However, the programme was characterized by severe inefficiencies, such as low repayment rates which varied between 25 to 33% (John Weiss, 2005), mis targeting of the beneficiaries, etc.

Despite the phenomenal and wide spread growth of the banking institutions network in the country, there is still a vast gap in the availability of the banking services to the vast majority of the populace. Across India, approximately 59% of the population has bank accounts, which leaves approximately a half billion people un-banked (Thorat, U. 2007). The formal credit institutions' reluctance to cater to the unreached segment or the low income segment is not without reasons. The institutions face major constraint in addressing the segment's composite financial needs in the form of demand for production and consumption credit & thrift facilities. Moreover, apart from the large transaction costs involved in dealing with them, they face large non performing loans (India Development Report, 2008). Microfinance, a latest fad or a buzzword in the policy circle has been seen as a panacea for this segment of population.

Microfinance is referred to as the provision of the thrift, credit and the other financial services of very small amounts, mainly to the poor in rural, semi- urban and the urban areas for enabling them to raise their income level and improve living standards. (NABARD, 1998). For the RBI, "provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 either directly or indirectly through a SHG / JLG mechanism or to NBFC/ mFI for on- lending up to Rs. 50,000 per borrower constitute micro credit[1]. In the common parlance, Microfinance services or low amount services could be directly provided by a range of providers such as, moneylenders, banks, Self- help groups or microfinance institutions. However, as Sriram R.S. and Upadhyayula (2004) define, there are certain value attributes attached to the connotation, Microfinance. According to them, Microfinance is provision of financial services to the *poor* and is done by the alternate sector like NGOs which have developmental roots. Dasgupta, R. (2005) argues that Microfinance is distinct from the other regular credit in the sense that it not only involves credit of small amount to the poor clientele but is also characterized by the provision of credit with the 'collateral substitute' instead of traditional collateral and non- financial services for increasing the productivity of the credit. Adopting the definition given by Dasgupta, R. (2005), we may consider the microfinance providers (direct) to be the Self Help Groups and the Micro Finance Institutions.

1.2 Evolution of Microfinance in India

The evolution of innovative approaches to microfinance in India could be traced to the exceptional initiatives undertaken in the urban areas by the cooperative bank, Sewa in 1974 in Ahmedabad and Working Women's Forum in 1980 in Chennai.

The microfinance movement in India has grown due to the exceptional initiatives undertaken by the various NGOs & under the patronage of the governmental institutions such as, NABARD[2], SIDBI, RMK etc. Although SIDBI started of late with the process,

[1] Refer circular no. RPCD. No. RRB.BC. 20 /03.05.33/2007-08
[2] A detailed discussion of their functioning is provided in chapter 2.

NABARD has been at the forefront of the movement. In the early 1980s, recognizing the potential of lending to the poor in the Asia Pacific Region, NABARD supported an action research project undertaken by the NGO, MYRADA. Based on the results of the action research project and elaborate discussions with NGOs, banks and RBI, NABARD launched a Pilot Project in February 1992 and issued operational guidelines to banks for linking of 500 SHGs with banks. The linkage programme benefited both the borrowers and the banks, as it was the most cost effective strategy in lending to the poverty groups. In 1996 Reserve Bank of India decided to include Linkage Banking as a mainstream activity of the banks under their priority sector lending. The Government of India also awarded national priority to the programme through its recognition in the Union Budget 1999. Since, then the process of lending to the poor has been seen as an attractive opportunity by the banks giving a boost to the movement. The sector has also grown due to the initiatives of some of the business leaders, benevolent donors and risk taking investors.

1.3 Models for Provision of Microfinance Services

Reaching the poor became one of the most challenging and daunting task for the government. It was in such an environment that microfinance emerged as an innovative mechanism of provision of credit to the poor. However, the range of services has expanded overtime to include other services also which are deemed to be important for the poor clientele such as, insurance, remittance, etc. There are a diversity of approaches to microfinance in India, involving banks, government agencies and NGOs. In most of these approaches, groups are used as intermediaries for financial transactions, though there are different ways of working with the groups. On the basis of these differences, the models of microfinance delivery may be classified as the Self Help Group (SHG) model, the Grameen model and the Individual Banking Approach (Sa-dhan[3], 2003)

[3] Sa- dhan is an association of microfinance institutions.

Self Help Group (SHG) Model[4] *– Indian Model*

Self Help Groups (SHGs) form the basic constituent unit of the microfinance movement in India. SHGs are small (membership varies between 10 and 20) informal groups that have socially and economically homogeneous membership of poor people drawn from the same locality or nearby locality. The composition is mostly male only or female only (as of now in India more than 90% of the SHGs are female only). While they are formed with the encouragement of NGOs and other agencies such as, government agencies and banks, the members are self selected, that means the potential members have a choice of being in this group or other, depending on their level of affinity with the other potential members. The group meets regularly, usually once in a month, to pool their savings into a fund from which they can borrow as and when necessary. After strengthening of the internal transactions, the groups are linked with a bank – co-operative or commercial – where they maintain a group account. Over time the bank begins to lend to the group as a unit, without collateral, relying on self-monitoring and peer pressure within the group for repayment of these loans.

Grameen Bank Model

The Grameen model has been a case of exceptional success. Though the bank evolved its methodology in Bangladesh, many organizations in India, like SHARE Microfin Ltd., Activists for Social Alternative (ASA), CASHPOR Financial and Technical Services Ltd. have adopted this methodology with slight variations. Some of the salient features of the Grameen Model are:

- It involves formation of homogeneous, affinity groups (also known as Joint Liability Groups) of five members – usually poor women - at the village level; the process of group formation is facilitated by a field worker.

[4] Although for the SHGs, both the terms i.e model and financial intermediary are used interchangeably. In the study it denotes the financial intermediary rather than the technology of providing finance to the poor.

- Group members undergo a 7 day compulsory training of 1-2 hours daily. It basically helps in providing them with the financial literacy.
- The groups undergo the Group Recognition Test (GRT). It is a screening mechanism that helps in distinguishing serious from the non serious groups.
- Eight such Joint Liability Groups join together to form a centre, which conducts weekly meetings. The meetings are very structured in the sense that, they are attended by the bank assistant and are compulsory for all the members to attend.
- Savings are compulsory for all the members. The amount is deposited with the bank. With this deposit, the bank funds their consumption needs.
- Loan disbursement is from the bank fund and not linked with the savings. Loans are given to the individuals of a group and not to the group or centre. But all the loan applications are to be approved by other group members as well as centre members. According to the rules, if one member defaults, all in the group are denied subsequent loans.
- Loans are provided for all kinds of purposes, but there is a provision of 5% tax on all productive loans disbursed to a member, this discourages the clients from diverting the production loans for consumption purposes. This fund remains with the group, from which members can access loans for consumption purposes.
- All loans are repayable within a year (52 installments spread over 52 weeks).

Individual Banking Approach

Although SHGs is one of the most dominant method used for microfinance in India, some of the organizations also follow the Individual Banking Model, eg. SEWA Bank of Ahmedabad, Sadhana in Andhra Pradesh, Satin Credit care in Delhi, etc. It is seen that in the urban scenario, Individual Banking method could prove to be a more sustainable method as, urban clients are likely to come from different parts of the country, so group mobilization may become difficult.

A broad overview of the operational features of the three different models, discussed above, is provided in the Table 1.3.

Table 1.3.1: Operational Features of Different Microfinance Models in India

Operational Features	**Self Help Groups (SHGs)**	**Grameen**	**Individual Banking**
Clients	Primarily women	Primarily women	Primarily men
Groups	15 to 20 clients per group	Usually 5 clients per group	Individual clients
Service Focus	Savings and credit	Credit – regular cycle	Credit
Role of MFI staff	Guide and facilitate (groups may develop autonomy)	Organise (groups dependent on staff)	Organise
Meetings	Monthly	Weekly	Individual transactions – often daily
Savings deposits	Rs. 20-100 / month	Rs. 5 -25 / week	Flexible
Interest on savings	Bank rate (4.25 per cent) + profit share	6 -9 per cent	6 per cent +
Initial loan Size	Rs. 5 -10,000	Rs. 2- 5,000	Rs. 5 -15,000
Effective Interest rate (usual range)	24- 28 per cent	32 -38 per cent	23 -38 per cent
Development Services	Some associated programmes	A few small social projects	Enterprise support

Source: Sinha F. (2005)

1.4 : Microfinance Approaches- A solution to the formal market problems ?

In this section we shall study the dynamic features of microfinance approaches through which it claims to provide a solution to the problems faced in provision of microfinance through the formal market.

The implementation of any formal lending programme directed towards the poor is often characterized by three important agency problems, which arises due to information asymmetries:

- Problem of adverse selection- The lender may have little reliable information about the quality of the borrower or her risk profile. This is because the poor borrowers do not generally maintain any accounts of their past business activity or furnish any documented business plan for which they are seeking loan.

- Problem of moral hazard- The lending agencies may not be able to monitor and ensure the productive usage of the loan.

- Enforcement problem / Strategic default – This relates to the point that if the loan repayment runs into a problem, they may not be able to take any legal action against the borrowers, in the absence of any collateral.

The microfinance approaches tries to address these issues in certain innovative ways. Some of the important features (Murdoch, 1999) of the approaches are as defined, below:

- Peer Selection – It attempts to overcome the screening problem through group formation. Group lending seems to have many advantages, beginning with the mitigation of the problems created by the adverse selection. The key is that group lending schemes provides incentives for similar types to group together. This group can be used to understand the character and proposed loan use of each of the members.

- Joint Liability – Group lending with joint liability may also provide benefits by inducing borrowers not to take risks that undermine the bank's profitability. The group members keep on monitoring each other's activity, as they can be held responsible for the default on the part of their peer. According to Stiglitz (1990), through exploiting the ability of the peers to monitor each other and enforce contracts, the group lending offers a way to the bank to lower the equilibrium interest rates, raise expected utility and the repayment rates.

- Progressive lending - The lenders secure repayments from the borrowers by threatening to exclude the defaulting borrowers from future access to loans. The micro lenders generally enhance the incentives further by promising the borrowers with good standing, an access to larger amounts of loan in the next schedule. These incentives can be exploited to overcome the information problems and improve efficiency, whether lending is group based or individual based.

However, it has been seen that the competition can undermine the benefits of the dynamic incentives in microfinance. This is also one of the prime reasons for focusing on women clients; generally they have a lower mobility and fewer borrowing alternatives exist for the women.

- Sequential lending – Another dynamic feature of the microfinance could be sequential lending. Grameen Bank, the most prominent model figuring in the economic research uses the feature of sequential lending. Under this, in the 5 member group, the loan is initially offered to two members. If the initial installments are made on time, the other two are extended loan & if their repayments are successful, finally the group leader is extended the loan. This is also known as 2:2:1 model of lending.

- Regular Repayment Schedules – This is one of the most important issue overlooked by the academicians. In the traditional loan contracts, the borrower gets the money, invests it, and then repays in full with interest at the end of the term. However, in these microfinance models, repayments start nearly immediately after the loan disbursement. These regular repayment schedules screen out the undisciplined borrowers. They give early warning to the loan officers and the peer group members about the emerging problems. And they also allow the banks to get hold of the cash flows before they are consumed or otherwise diverted.

- Collateral Substitutes – While few programmes require collateral, many have substitutes. A flexible approach to this, where the borrowers lack assets is to provide ways for borrowers to build up financial assets and then to base lending on those assets. In other words, many micro lenders require that borrowers show that they can save regularly for a period before they become eligible to borrow. Sometimes, for e.g. The Grameen Bank model requires the borrowers to contribute to an emergency fund in the amount of 0.5 per cent of every unit borrowed (beyond a given scale).

1.5 Importance of the Study

The section 1 discusses the various attributes of the term Microfinance. As has already been discussed, it refers to the provision of low amounts of credit to the poor without the traditional collateral. The most important qualifications for credit to be termed as microfinance is its provision to the poor . Microfinance services are meant to improve the living standards of the poor, address their empowerment concerns. Various studies have highlighted the positives of microfinance, but there is a dearth of literature showing the caveats in the whole process. This study although very limited in its focus and not without certain digressions, seeks to critically analyse the provision of microfinance by the various providers with the emphasis being on the targeting of the programme. Further, as microfinance is taken to be synonymous with the provision of credit in the rural areas, an attempt has been made to study the availability of financial services to the urban poor.

1.6 Objectives of the study

On the basis of the above discussion the following can be stated as the specific objectives of the present study:

- To study the structure of the microfinance in India.
- To study the functioning & the pattern of the growth of the various microfinance providers.
- To analyze and study the functioning of two of the government microfinance programmes, i.e. SGSY and the NABARD's SHG Bank Linkage programme, with special emphasis on the targeting aspect.
- To study the functioning of the microfinance programmes in urban areas.

1.7 Research Questions

On the basis of the above stated objectives, the present study seeks to provide answer to the following questions:

- Are the microfinance providers able to channelize or provide the credit to the poor population?
- Are the poor borrowers able to receive credit at the rates which should be considered fair?
- Is the provision of finance among the different segments of society equitable?
- Is it fair to ask the poor people forming the group to bear the risk on behalf of the other members in the group?

1.8 Data Sources & Methodology of the study

The study is based on the extensive use of the secondary sources. For the purpose of studying the targeting of the microfinance programme, a case study of the two of the governmental initiatives, i.e., Swaranjayanti Grameen Swarozgar Yojana (SGSY) and the NABARD's SHG Bank Linkage programme is undertaken.

To study the functioning of the SGSY, the data has been taken from the Ministry of Rural Development. Data for the NABARD's SHG- Bank Linkage programme has been taken from the NABARD's annually published reports, "Progress of SHG- Bank Linkage in India". In order to study the targeting of the programmes, district wise correlation coefficients are computed taking the programme performance indicators and the developmental and the deprivational indicators. The programme performance indicators' are constructed through expressing the values of the variable as per thousand rural population. To construct the developmental and the deprivational indicators, district wise data has been taken from the Primary Census Abstract & Village Directory, (Census of India, 2001). For the purpose, the values of the variables which reflect the performance of the programme are expressed as per thousand rural population. The developmental indicators with respect to the electricity availability and communication are constructed through the use of method of Principal composite analysis. The communication index is a composite of indicators, namely; number of post offices, telegraph offices, post and telegraph offices and telephone connections.

1.9 Chapterisation

The study is divided into five chapters. The first chapter of the study is an introductory chapter, the second chapter deals with the structure of the Microfinance in India. An attempt is made in this chapter to study the linkages between the various agencies in the provision of financial services to the poor. The trends and the pattern of the growth of the various microfinance service providers are examined in the third chapter. In the chapter we also try to discuss the availability of financial services to the urban poor. The chapter four tries to analyse the issue of targeting of the programme & examine the various reasons for that. And chapter 5 concludes the study.

CHAPTER TWO

Structure of Microfinance in India

2.1 Microfinance service Providers in India

In India, a range of providers offers the microfinance services. These can be categorized into two, the retailers or the ones which deal directly with the borrowers, and the other comprises of those who provide finance indirectly to the borrowers. While the first category[5] comprises of SHGs (unregistered) & Microfinance institutions (registered under one or the other act), the indirect financial service providers can either be organizations such as, NABARD, SIDBI, Rashtriya Mahila Kosh (RMK), banks, donors & equity fund providers which provide assistance in the form of the grants, capacity building & technical assistance, loans at below market rate of interest and guarantees. In the following section an attempt has been made to study the structure and the linkages between the various institutions in the provision of microfinance.

As has already been discussed in chapter 1, the basic premise of the SHG model is that initially members of the group save, disburse the credit among themselves in order to develop financial discipline and then in order to augment the funds, the group as a whole borrows from the bank wherein 2-3 persons are held responsible for the managing of the funds. The group is generally provided credit upto 4 times the amount of their savings with the bank. While most of the SHGs were initially formed by the NGOs, it later on took the character of SHG Bank Linkage under the patronage of NABARD. SHG - Bank Linkage Programme is the community managed system of provision of microfinance and a model based on linkage between the formal and the informal institutions. This involves the financing of the informal institutions, i.e, SHGs directly by the banking agencies (formal), i.e., Commercial Banks, RRBs and the cooperative banks.

The developmental potential of the SHG-based microfinance process has not gone unnoticed by the Government. In recent years, Government developmental programs

[5] As traditionally defined, although mF could be stated to be offered to the poor by providers like moneylenders, ROSCAs, banks, etc., but we are considering only the ones which use innovative mechanism for its provision

have also sought to target the poor through the SHGs. The Government has used the SHG approach in many of its anti-poverty projects such, as:

- *Swarnjayanti Gram Swarozgar Yojana (SGSY) - launched in 1999*
- *Rashtriya Mahila Kosh (RMK) –set up in 1993.*
- Multilateral funded programmes such as, *Swa Shakti or Swayamsiddha programmes.*

An alternative mechanism of microfinance is wherein some external agency, often in the private sector manages the credit functions using either the group approach or the individual lending. The later is known as Microfinance institution model. Under this model, the microfinance institutions avail bulk loans for on lending to groups or other borrowers. The essential difference between the two models is that in the SHG Bank Linkage model, the single loan is given by the bank to the group as a whole who decides it as to how it should allocate the funds to its members, whereas, in the later case, although the loan is provided through the group dynamics, it is given to the individual members by the microfinance institution. Microfinance institutions can be divided into three categories, i.e., Not for profit mFIs, Mutually Benefit mFIs and For profit mFIs. Table 2.1.1 summarizes the major features of the mFIs.

Table 2.1.1: Characteristics of Microfinance Institutions

Type of mFI	Regulated by RBI	Source of funding				Provision of Services		
		Grant	Loan	Equity	ECBs[1]	Savings	Loan	Insurance[3]
Not for profit								
Trusts	No	Yes	Yes	No	Yes	No	Yes	No
Societies	No	Yes	Yes	No	Yes	No	Yes	No
Section 25 cos.	No	Yes	Yes	Yes	Yes	No	Yes	No
Mutual Benefit mFIs	No	Yes	Yes	Yes	Yes	Yes	Yes	No
For profit								
NBFC	Yes	Yes	Yes	Yes[4]	Yes	No[2]	Yes	No
Total								

Notes:
1 - External Commercial borrowings.
2- It is allowed to mobilize deposits only subject to fulfillment of certain prudential requirements.
3- Can provide it with the partnership of the licensed body.
4- Foreign investment is permitted in case of the NBFCs subject to the condition of minimum investment of US $ 500,000.
Source: Compiled from various sources, *see References.*

While there is no published source of data available on the microfinance institutions, the data from NABARD estimates the number to be around 800 (www.nabard.org). A brief discussion of the different types of mFIs is as provided below:

Non profit mFIs : Majority of the microfinance institutions are registered as Trusts or societies which function as either financial intermediaries providing the financial services to the groups or as non- financial intermediaries like PRADAN, who perform the functions like, social and capacity building activities, facilitating training of SHGs, promotion of the groups, linking them with the banks, etc. However, due to the charitable status of the trusts and societies, it has been argued that they are not the right kind of institutions to carry out microfinance activities. The source of funding for these organizations consists of Grants and borrowings. They are neither allowed to raise equity nor accept deposits from the public, as organizations registered under the Trusts and Societies are considered as unincorporated bodies[6]. However, it is seen that many of them are accepting deposits from their clients.

In order to attain scale with respect to their microfinance activities, some of the NGO – mFIs (registered as Trusts and Societies) have transformed themselves into Section 25 companies or not for profit companies, eg. Sanghamitra, Indian Association of savings and Credit (Sriram MS & Rajesh Upadhyayula, 2004). It is easier for the mFI- NGOs to transform into Section 25 companies than to the NBFCs as the NGO can easily invest in the share capital of the Section 25 company (GTZ, 2004). Like the NGO-mFIs, the section 25 companies are also exempt from paying income tax & cannot accept deposits from its members but have an edge over the former, as they can raise equity. Moreover, it is seen that it has been easier for the Non profit companies to access funds from the banks.

Mutual Benefit mFIs : Mutual benefit mFIs comprise of the State credit cooperatives, National credit cooperatives and generally the Mutual Aided Cooperative societies

[6] In Accordance with the RBI Act 1934, none of the unincorporated body is allowed to accept public deposits. (Refer GTZ, 2004)

(MACS), which have a legal sanction to work as financial intermediaries. As the activities of the State cooperatives are heavily controlled by the State governments, MACS Act was enacted by the various State governments in order to provide autonomy to the cooperatives in their microfinance activities.

For profit mFIs : The for profit or the NBFCs are the only type of mFIs which fall under the purview of the RBI and are subject to prudential regulations. The organizations registered as NBFCs are allowed to accept deposits subject to the condition that they should have been in the operations for at least 3 years with an investment grade rating from an accredited rating agency. Alongwith it the mobilization of the savings is also contingent upon fulfillment of certain prudential norms, such as, capital adequacy of 12% and maintenance of liquid assets of 15% on public deposits (Rao, Murlidhara). Further, they are allowed to only accept time deposits for periods of one to five years (GTZ, 2004). Although, many mFIs find NBFC to be the preferred legal form, they find it difficult to raise the minimum capital requirements of Rs. 2 crores. As they are profit making companies, they do not enjoy the tax exemption status as in the case of section 25 companies.

The distribution of microfinance institutions by the legal form is depicted in Table 2.1.2, below. It shows that around 59% of the microfinance institutions in the sample size of 58 institutions are registered as Societies and Trusts. The other legal form which is found to be of more importance is that of the NBFC, as 26% of the sample microfinance institutions are registered as NBFCs. Around 9 out of the 10 microfinance institutions are also for profit ones. This shows the shift in focus of microfinance institutions from being primarily social oriented or developmental driven to profit driven.

Table 2.1.2: Distribution of Microfinance institutions by their legal status

Form of Registration	2007	Top 10
Not for Profit:		
Societies & Trusts	34 (58.62)	1
....................To be contd...		

Cooperatives	4 (6.90)	
Section 25 companies	5 (8.62)	
For Profit:		
NBFCs	15 (25.86)	9
Total	58	10

Notes: Figures in parenthesis are the percentage shares.

Source: M.Cril Report 2007.

Microfinance institutions disburse credit either to the individuals within the groups of five (Grameen) or to individuals or provide credit to the Self help Groups who act as an intermediary in the process, disbursing the credit to the poor. In other words, it provides credit directly to the poor through the Grameen or individual lending and indirectly through the SHGs. Table 2.1.3 shows the distribution of micro finance institutions on the basis of the Methodology used. It is evident from the table that microfinance institutions are generally providing credit through the group lending models. Although the SHGs have a higher share (46.55%), around 7 out of the top 10 microfinance institutions are seem to be using the Grameen model.

Table 2.1.3 : Distribution of the Microfinance Institutions by Model

(Figs. In %)

Model	2007	Top 10
Grameen	23 (39.66)	7
Individual Banking	8 (13.79)	1
SHG	27(46.55)	2
Total	58	10

Notes: Figures in brackets are the percentage shares.

Source: M.Cril Report(2007)

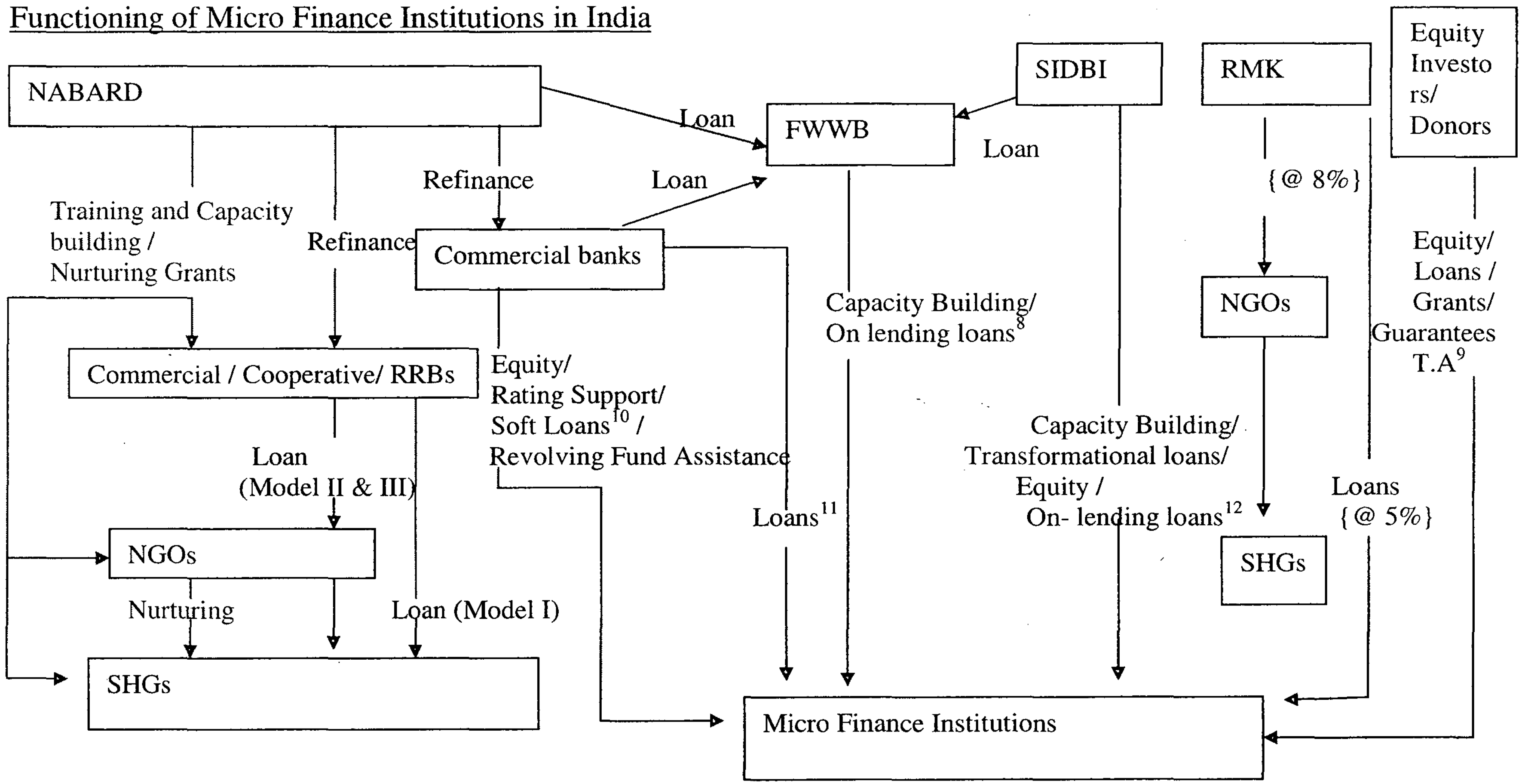
2.2 *Other Microfinance Service Providers*

Alongwith the retailers of microfinance in India, there are other organizations that tend to support these retailers through their lending or promotional activities. These include the apex bodies of microfinance, like NABARD, SIDBI, RMK and the others who are providing microfinance to the borrowers indirectly, like banks[7]. Lately the sector has also benefited from the exceptional business leaders, benevolent donors, risk taking bankers & equity investors and technical assistance provided by organisations such as ACCION & FINO. Figure 2.2.1 summarises the functioning of the different providers.

[7] Banks provide finance to the mFIs & SHGs for further lending.

Fig. 2.2.1

Functioning of Micro Finance Institutions in India



[8] @ minimum being 10.5%

[9] Technical Assistance

[10] @ 3.5 % p.a. with initial moratorium of two years for a tenure of 7 years (www.nabard.org)

[11] @ 10- 14 % p.a

[12] @ 9 -11% p.a to medium and large mFIs.

A detailed discussion of the role played by the different supporters to the microfinance sector is provided below:

1. NABARD: Along with providing refinance facility to the banks for on-lending to the poor through the SHGs, the NABARD undertakes some of the efforts to support the direct providers of microfinance. Some of its promotional efforts are described below:

- Training and Capacity Building: NABARD organizes/ sponsors training programmes and exposure visits for the officials of banks, NGOs, SHGs and government agencies to enhance the effectiveness of the SBLP. As of now, around 15.67 lakh participants have been covered with 2.68 lakh covered during 2006-07 encompassing a fund support of Rs. 5.80 crores.

- Micro Enterprise Development Programme (MEDP) for skill Development : MEDP is a livelihood development programme which was launched by NABARD in 2006, with an objective to enhance the skills & capacities of the members of the mature SHGs to take up micro-enterprises. The duration of the programmes varies between 3 to 13 days. During 2006-07, a total of 297 MEDPs were conducted covering 7,579 members in which training was imparted both for farm and non-farm activities.

- Grant Support to Partner Agencies for Promotion and Nurturing of SHGs: It also provides grants to the tune of Rs. 3,000 per self Help Promoting Institution (SHPI) to the NGOs, RRBs, DCCBs, Farmers' Club and Individual Volunteers for formation and nurturing of the quality SHGs. During 2006-07, it provided grant assistance of Rs. 1,403.96 lakhs to 384 SHPIs for promotion of 59,662 groups.

Besides, providing support to the SHPIs, NABARD has also extended support to the micro finance institutions in the following manner:

- Rating of Micro Finance Institutions: In order to promote the access of commercial loans from the banks by the mFIs, a scheme was launched in 2005-06 to provide financial support to banks towards rating of mFIs by rating agencies such as, CRISIL, M-CRIL, ICRA, CARE and Planet Finance. According to the scheme, NABARD offers for reimbursing upto 80% of the professional expenses of the credit rating agency incurred by the mFIs subject to a maximum of Rs.80, 000, the remaining has to be paid by the mFIs[13]. Lately, the extent of assistance has been raised to 100% subject to the maximum of Rs. 1 lakhs (NABARD. 2006-07). However, there are few takers of the scheme as it is meant for the first rating of the mFIs (meant for small mFIs[14]) and for that too banks have to follow the cumbersome process of first paying the cost to the mFI & then filling for reimbursement from NABARD. They generally prefer to follow a step lending procedure in case of the banks with high repayment rates, whereby, the amount of loan extended by the banks to the mFIs increases gradually, as it happens with the microfinance extended to the clients. (Radcliffe & R. Tripathi, 2006). As of date, only one commercial bank has availed the scheme for rating of mFI, i.e., Bharat Integrated Social Welfare Agency (Orissa).

- Capital / Equity Support to mFIs: NABARD constituted Micro Finance Development and Equity Fund (MFDEF) in 2001 with a corpus of Rs. 100 crores, which was increased to Rs. 200 crores in 2005-06 to ease the capital constraints faced by the mFIs. The fund is supported through the contributions from NABARD (40%), RBI (40%), and eleven commercial banks (20%). Contrary to the conventional equity investors, who provide the equity finance to only those with a sound governance, financial management expertise, social outreach, it seeks to provide support to those mFIs that have difficulty in accessing funds from other sources. However, to avoid the sub optimal ones from gaining access to it, certain criteria is followed (Appendix 2.2.1). Till 2007, only 3 mFIs[15] have been sanctioned equity support of Rs. 100 lakh each.

[13] Refer NABARD circular no. 73/mCID 1/ 2006.
[14] Most of the large mFIs have availed multiple ratings. So, it is meant only for the small mFIs, with clients varying between 1,000- 5,000.
[15] Rashtriya Gramin Vikas Nidhi (Guwahati,Assam), Shri Kshetra Dharamshala Rural Dev. Project (Bangalore, Karnataka) and Sanghamitra Rural Financial Services (Mysore, Karnataka).

- Revolving Fund Assistance to mFIs : Loan is provided in the from of Revolving Fund Assistance (RFA) to the mFIs. RFA is to be used only for on-lending to SHGs or individuals and the amount is to be repaid along with the service charge within a stipulated period of 5-6 years.

2. SIDBI: SIDBI launched the SIDBI Foundation for microcredit (SFMC) in 1999 to create & develop a network of sustainable mFIs in the NGO sector. The programme is funded by DFID, IFAD and SIDBI. It acts as a wholesaler of finance to the mFIs. Table 2.2.1 summarizes its performance over the decade of 2000. Till 2004-05, a total of 15.10 lakh poor were assisted under the programme. The pattern of growth of the sanctions & disbursal of funds is depicted in Fig 2.2.2. Although the sanction and disbursements have increased in absolute terms over the years, sharp decline in disbursements could be witnessed in the year 2002-03 & 2005-06.

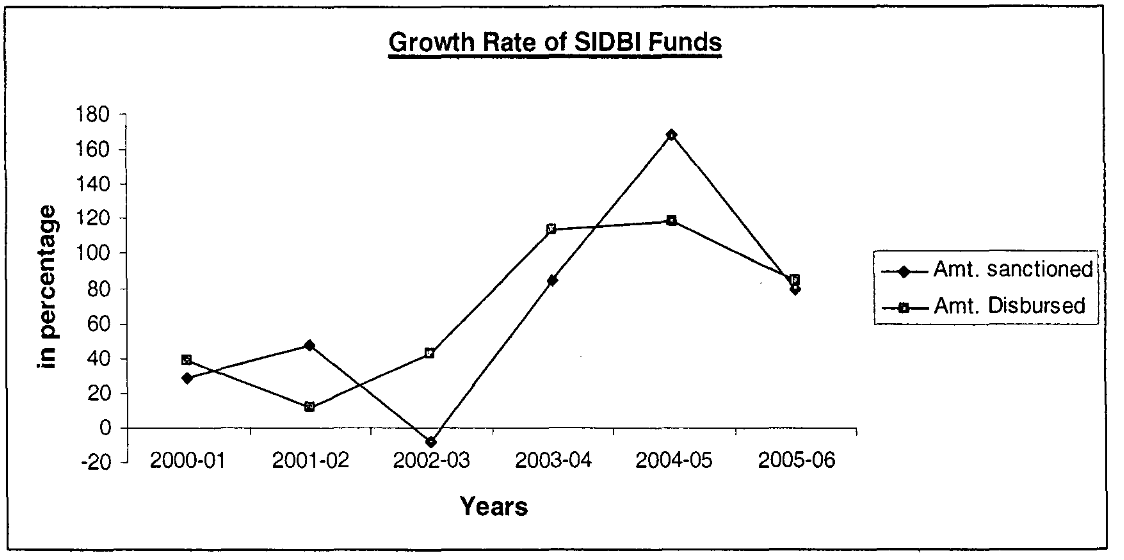
Table 2.2.1: Progress under SIDBI Foundation for Micro credit during 1999-00 to 2005-06

Amount in Rs. Crores

Year	Amount Sanctioned	Amount Disbursed	Number of SHGs Involved	Outstanding loan Portfolio of SIDBI (amount)	Cumulative total number of poor persons benefited (lakhs)
1999-00	21.90	14.03	N.A	N.A	3.14
2000-01	28.28	19.45	20530	33.24 (1.50)	4.42
2001-02	41.70	21.79	28436	43.45 (1.51)	7.28
2002-03	38.50	31.04	N.A	N.A	8.62
2003-04	70.84	66.31	N.A	91.21	10.41
2004-05	189.73	145.06	N.A	199.21	15.10
2005-06	340.00	267.57	N.A	N.A	N.A

Note: figures in parenthesis represent NPAs of the total portfolio.
Source: *India Development Report (2008)*, www.sidbi.org

Figure 2.2.2



Source: ibid

In order to strengthen the mFIs, it provides assistance in the form of equity, capacity building grant assistance, transformational loans, on –lending funds and other support services.

- On- lending: Large and medium scale micro finance institutions having minimum fund requirement of Rs. 10 lakhs are deemed to be eligible under this scheme. They should have considerable experience in managing micro credit programmes, good track record, professional expertise and the ones that are committed to viability are provided financial assistance for on-lending by SFMC. The funds are generally provided at 9-11%.

- Capacity building: The growth of the sector depends upon the viability of the mFIs. However, most of the institutions face high operating costs before they break even. It provides technical assistance and operational support in the form of grants, so as to facilitate the expansion of mFI's activities.

- Transformational Loan: It is provided to the mFIs that are in the process of transforming themselves into a more formal and regulated entities for exclusively handling micro finance operations.

- Liquidity Management Support: It is a short term loan scheme offered by SFMC to its partner mFIs in order to meet their working capital needs.

- Equity Assistance: SFMC also provides equity capital to eligible institutions not only to enable them to meet the capital adequacy requirements but also to help them leverage debt funds.

The disaggregated performance according to the various heads on which amount is allocated as per the disbursements could be seen from the Table 2.2.3. A large proportion of the funds disbursed during the time period under consideration are for on-lending (term assistance). The other categories comprise a smaller chunk (around 9% in 2004-05 and 7% in 2005-06) of the total disbursements.

Table 2.2.3: Assistance under Microcredit by SIDBI (2004-05 to 2005-06)

(Amt in Rs. Crores)

	2004-05	2005-06	Growth rate
Term Loan Assistance	132.05	250.56	89.75
Capacity Building Grant Assistance	8.24	10.34	25.49
Transformation Loan Assistance	3.5	4.25	21.43
Liquidity Management Support	1.27	1.43	12.6
Equity Assistance	-	1	-
Total	145.06	267.57	84.45

Source: www.sidbi.org

3. Rashtriya Mahila Kosh (RMK) / National Credit Fund for Women : RMK was set up in 1993 to fill the gap between demand & supply of credit. It provides loans to SHGs in both urban and rural areas through the intermediaries such as, NGOs, cooperative

societies, section 25 companies, etc. No collateral is charged under the scheme & funds are available to the NGOs and other intermediaries at the rate of 8%. It also lends to mFIs at the subsidized rate of 5% however it has few takers till date because of the condition imposed on mFIs to not to lend the amount availed at more than 18%[16]. The progress of RMK is shown in the table 2.2.4 given below.

Table 2.2.4: Progress of RMK during 1993-94 to 2005-06

(Amount in lakhs)

Year	Loan Sanctioned (Amount)	Loan Disbursed (Amount)	No. of SHGs	No. of Women beneficiaries	No. of NGOs	loan disbursed per NGO (Amount)
1993-1994	439.33	140.82	3707	37066	24	5.87
1994-1995	512.45	429.53	2506	25059	28	15.34
1995-1996	861.66	563.83	3750	37502	48	11.75
1996-1997	1700.55	916.76	9106	91064	70	13.10
1997-1998	1271.4	1395.39	5962	59621	85	16.42
1998-1999	1484.62	1141.5	5198	51982	133	8.58
1999-2000	1958.75	1384.64	5809	58089	324	4.27
2000-2001	2118.5	1675.8	4656	46559	151	11.10
2001-2002	739.11	633.76	1618	16183	154	4.12
2002-2003	1600.23	1058.37	4430	44290	89	11.89
2003-2004	2505.6	1446.07	3637	36371	69	20.96
2004-2005	1549.74	1886.87	2232	22321	40	47.17
2005-2006	1930.9	2068.42	2730	27305	82	25.22
Trend gr. Rate						
1993-94 to 2005-06	9.76 %	14.57 %	-4.07 %	-4.07 %		
1993-94 to 1999-00	25.03 %	34.7 %	11.67 %	11.68 %		
2000-01 to 2005-06	6.3 %	13.25 %	-5.43 %	-5.43 %		

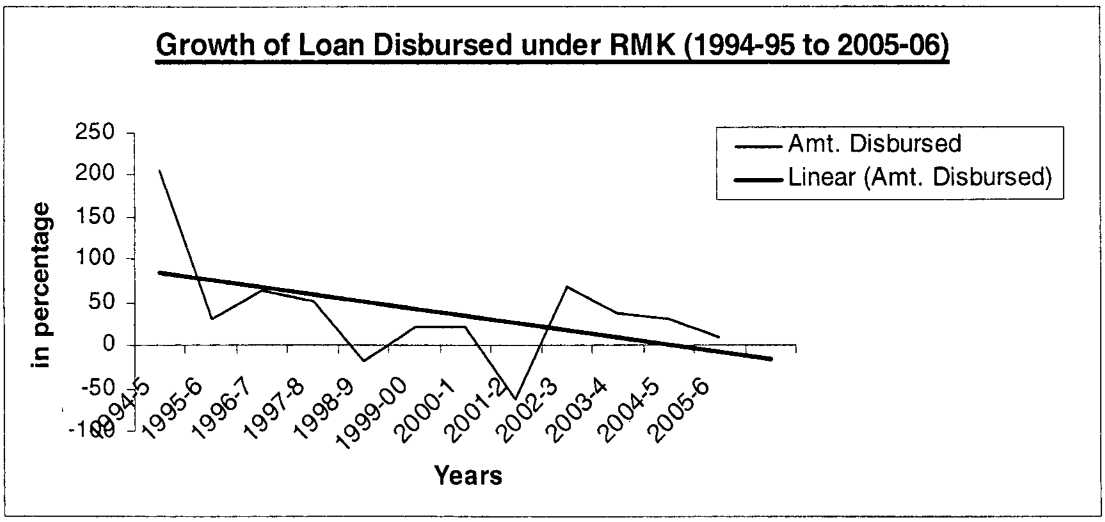
Source: Computed from data given in www.rmk.org

Although the amount of loan disbursed under the programme has increased in absolute terms from Rs. 439.33 lakhs in 1993-94 to 1930.9 lakhs in 2005-06, the decline is well evident from the decrease in trend rate of growth from 34.7% over the period 1993-94 to 1999-2000 to 13.25 % in the decade of 2000.This fall in the trend rate of growth can be witnessed across all the variables. Loan amount disbursed however shows an increasing trend, this is because of the fact that the number of NGOs assisted has decreased

[16] Refer www.rmk.org

particularly in the decade of 2000. Figure 2.2.5 presents the performance of the programme with respect to the loan disbursed at the glance.

Figure 2.2.5 :



Source: ibid

<u>4. Friends of Women's World Banking (FWWB)</u>: FWWB is a tier II wholesaler of finance for the mFIs. Its source of funding comprises of borrowing from the apex institutions such as SIDBI, NABARD and commercial banks and grants from national (SIDBI) and international organizations (CGAP, WWB, GTZ, USAID, CORDAID, etc.). It provides loan support and capacity building services in the form of trainings, exposure visits and small grants to its partner mFIs. Table 2.2.6 highlights the performance of FWWB. It seems that although the rate of interest charged under RMK schemes (8%) is less than the one in FWWB (min. being 10.5%[17]), the unattractive conditionalities attached to the RMK loan has led to the shift of the partner organizations from RMK to FWWB, wherein, it has increased from 88 to 100. During 2005-06, the loan disbursed per partner in case of RMK was Rs. 25.22 lakhs, whereas, the same figure stands at around Rs.89.37 lakhs under FWWB. The loan disbursed per mFI under FWWB is higher than under RMK to its partner organizations. It might be due to the laxity with respect to the implementation of the RMK scheme. Most of the wholesalers or infact the supporting

[17] Ref. Ghate P. (2008)

organizations to mFIs are providing a whole gamut of assistance to them in the form of capacity building of the institution, livelihood support facilities to the members, etc.

Table 2.2.6: Performance of FWWB (2003 -04 to 2006-07)

(Amount in Rs. Lakhs)

Year	No. of Partner organisations	Loan amount Disbursed	Portfolio Outstanding	Beneficiaries of loan	Average loan size	Loan disbursed per mFI
2003-04	88	4740	4860	139366	4885	53.86
2004-05	79	6160	5920	186170	4974	77.97
2005-06	79	7060	6700	217214	5008	89.37
2006-07	100	10770	10400	349310	4992	107.70

Source: FWWB, Annual Reports (2005-06, 2006-07)

Alongwith these wholesalers or developmental institutions of finance, the bank such as, ICICI in early 2000 devised certain innovative strategies such as, Partnership and Securitisation model to ease the liquidity constraints faced by the microfinance institutions and to fulfill its priority sector obligations of lending to the rural sector. In case of the former, the mFI acts only as a service provider or a facilitator in provision of services to the clients, in lieu of which it earns a commission or a service charge. The loans are reflected in the balance sheet of the bank and not the mFI. This helps in reducing the risk of the mFI and also allows it to expand its outreach[18]. However, as has already been mentioned, the risk of the mFI is reduced but not removed as it is supposed to provide a First Loss Default Guarantee(FLDG) to the extent of 10- 20%[19] of the loss on the portfolio . The structure has an additional inbuilt incentive mechanism as, the bank accepts a fixed pay- off, while the remaining whether losses or returns are passed on to the mFI. It is a sort of a financing based on risk sharing arrangement between the mFI and the bank, through which the mFI has an access to funds. Yet another model pioneered by the ICICI was the securitization or portfolio buy-out model, whereby the bank continuously buys the loan portfolio of the mFI and repackages them with other assets, gets them rated and sells them in the capital

[18] According to the Cashpor Chairman, the Partnership deal helps in reaching twice the customers reached through the normal term lending by the banks. (As cited in Ghate P., 2007).

[19] The pricing of the FLDG depends on the operating capability and the maturity of the mFI. Refer Ananth B. (2005)

market. This model of portfolio buyouts is still in the nascent stage. A large proportion of the loan extended by ICICI bank under microfinance consists of its lending through the Partnership model (Table 2.2.7).

Table 2.2.7: Performance of ICICI bank's Microfinance Portfolio

(Amt in US $ millions)

Particulars	FY 2001		FY 2002		FY 2003	
	No. of borrowers	Outstanding Amount	No. of borrowers	Outstanding Amount	No. of borrowers	Outstanding Amount
Direct advances to SHGs	21,900	3.41	65,080	13.96	0	0
Advances under Partnership with mFIs			867	0.12	1,97,257	38.56
Securitised microfinance portfolios					16,666	2.22
Advance to mFIs for on-lending		1.12		1.04		0.43
Individual microfinance loans	N.A	11.44	N.A	13.11	68,105	21.77
Total	21,900	15.97	65,947	28.23	2,82,028	62.98

Source: Nair Tara et al (2007), see *References.*

Financing based on an off balance sheet model of loan portfolio for the mFIs, was also stipulated by the RBI through its guidelines[20] with respect to the Business Correspondent (BC)/ Business Facilitator (BF) model in 2005-06. The essential difference between the Partnership model, which was pioneered by the ICICI & the BC model is that in case of the former while the mFI can charge a commission from the clients, they are not eligible to do so under the later; mFIs are paid commission by the bank. Now many banks have roped in mFIs to provide microfinance services to the poor. The process is facilitated through the technology providers, such as, Financial Information Network & Operations (FINO), Zero Mass Foundation, A little World (ALW), Atom Technologies[21], etc.

[20] As per the RBI guidelines, in case of Business correspondent (BC)model, the banks can use the services of the microfinance institutions (mFIs) for provision of the services to the clients, however, the mFIs are not allowed to charge any fee to the client; they are paid a commission in lieu of the services offered.

[21] Ref. Malhotra S.(2008) , "Banking @ Grocers", Data Quest, Apr 21 (second issue)

CHAPTER THREE

Microfinance Institutions in India with special focus on Urban Areas

Microfinance, the growing buzzword in development economics has emerged in order to fill the gap caused by the traditional financial intermediary services such as, banks, moneylenders and other informal sources. In the last two decades the provision of microfinance services has increased at a rapid rate. In this chapter we may try to look at the pattern of growth of the banking institutions to be followed by a discussion on the growth pattern of various microfinance service providers.

3.1 Trends and Pattern of Growth of the Banking Institutions

The importance of the banking system in the development of the economy hardly needs any emphasis. Since independence, major attention has been devoted to building and nurturing the sector. It has infact been advocated as a tool for the alleviation of poverty. In this section, an attempt has been made to briefly review the trends and pattern of the growth of the banking system in the post- independence period.

The institutional structure of banking system comprises of the commercial banks (nationalized and others), a three tier federal cooperative banking system (agricultural and non- agricultural) and regional rural banks (RRBs). The agricultural cooperative system is a federal three tier structure with state cooperative banks (SCBs) at the state level, district cooperative central bank (DCCB) at the district level and Primary Agricultural credit society (PACS) at the ground level, the developmental banks i.e, state cooperative agriculture and rural development banks (SCARDBs) and PCARDBs. While PACS essentially lend short term loans, SCARDBS & PCARDBs extend medium to long term loans. Along with the rural cooperatives, there are urban cooperative banks which deal with the low income groups.

Table 3.1.1 shows the pattern of growth of the commercial banks with respect to the number of branches, credit and the deposit amount.

Table 3.1.1: Expansion of Bank branches, Credit and Deposit by Population Group

(Amount in Rs. Crores)

	1972-91	1991-2000	2000-06
No. Of Offices			
Rural	29860 (63.43)	-2461(-46.11)	-2063 (-55.53)
Semi- Urban	6959 (14.78)	3014 (56.47)	891(23.98)
Urban	6196 (13.16)	2018 (37.81)	1846 (49.69)
Metropolitan	4059 (8.62)	2766 (51.83)	3041(81.86)
Total	47074 (100.00)	5337 (100.00)	3715 (100.00)
Credit (Amount)			
Rural	18341.70 (15.47)	30154.42 (8.98)	77324.95 (7.34)
Semi- Urban	19524.20 (16.46)	35820.00 (10.66)	95318.02 (9.05)
Urban	26580.12 (22.41)	51316.44 (15.28)	166688.13 (15.82)
Metropolitan	54143.10 (45.66)	218586.89 (65.08)	714430.35 (67.80)
Total	118589.12 (100.00)	335877.75 (100.00)	1053761.45 (100.00)
Deposits (Amount)			
Rural	30470.11 (15.85)	89529.39 (14.42)	105521.99 (8.31)
Semi- Urban	39570.13 (20.59)	120533.25(19.41)	140240.39 (11.04)
Urban	47053.35 (24.48)	139823.42(22.52)	241849.79 (19.05)
Metropolitan	75115.12 (39.08)	270965.27(43.64)	782142.38 (61.60)
Total	192208.71(100.00)	620851.33(100.00)	1269754.55 (100.00)

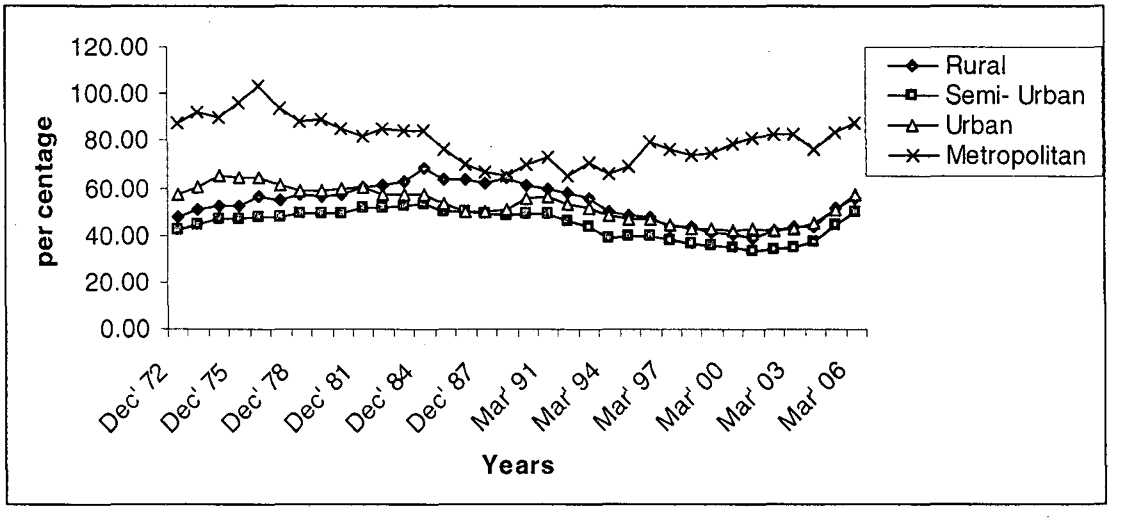
Notes: Figures in parenthesis show the percentage shares.
Source: RBI, *Basic Statistical Returns*, 2007.

During the years 1972-91, the number of total bank offices increased by 47,074.Out of this growth, the maximum increase was recorded by the rural offices (63.43%), followed by the semi-urban areas with a share of 14.78%. It was a result of the RBI's branch expansion policy, whereby, for opening every new branch in an already banked area (with one or more branches), each bank had to open atleast 4 branches in unbanked semi-urban or rural areas[22]. This led to a massive expansion of the branches in the rural areas till 1990; thereafter a decline is witnessed in rural share. As far as the incremental credit and deposits are concerned, an impressive growth is registered by the Metropolitan areas. The share of Metropolitan areas in the total has increased from 45.66% in case of credit during 1972-91 to 65.08% (1991-2000) to 67.80% (2000-06). All the other areas have witnessed a decline in the total incremental credit. A similar trend has been witnessed across all the regions in terms of the incremental deposits. It gives a clear impression that

[22] Shah M et al (2007), see *References*.

there is a tendency for both the incremental deposits and credit to concentrate in the Metropolitans. And it is infact the credit in relation to the deposits which has increased at a greater proportion. Figure 1 highlights the above stated point. While there has been an increase in credit deposit ratio(C-D ratio) till 1991 in case of rural areas, the other areas have registered a decline. On the contrary to this, in the Post nationalization period there has been a sharp increase in the C-D ratio in the Metropolitan areas.

Figure3.1.1: Credit Deposit Ratio by Population group wise (1972-2006)

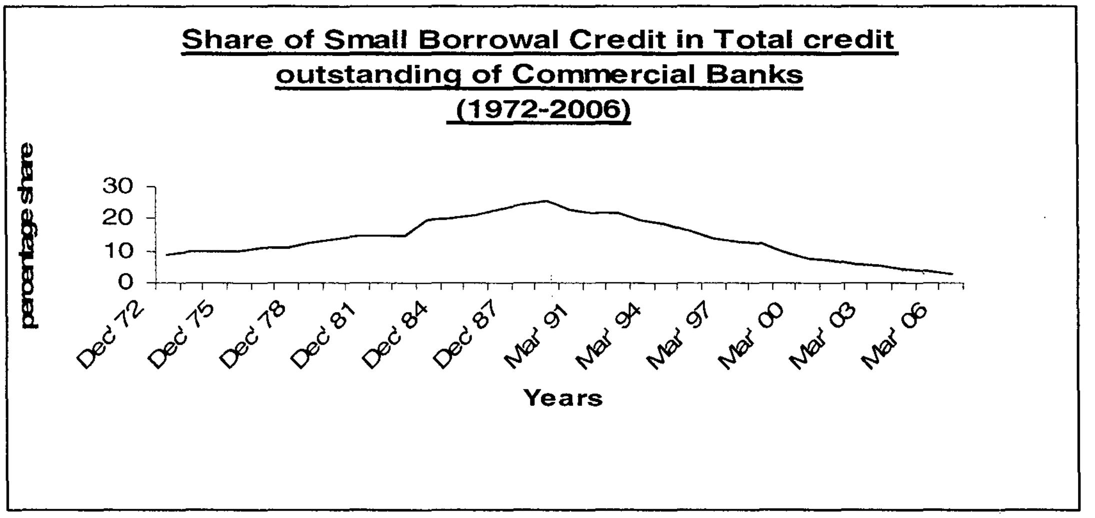


Source: *ibid*

The reason of concern is that not only the expansion has been skewed towards the Metropolitan areas, but their has also been a decline in the share of the small borrowal accounts in the total credit outstanding in the post 1991 period (Figure 3.1.2). The population wise share of small borrowal accounts[23] is presented in Table 3.1.2 below.

[23] The RBI defined the SBAs as one with a credit size of less than Rs. 25,000. This amount was hiked to Rs. Rs.2,00,000 from 1998. However, for the purpose of a consistent comparison, the limit has been taken to be of Rs. 25,000 only.

Figure 3.1.2:



Source: RBI, *Basic Statistical Returns*, various years.

Table 3.1.2: Credit Outstanding of Small Borrowal accounts (SBA) and All borrowal Accounts by Population group

Years	Group	Credit per account (Rs.)	Growth rate	SBA credit per A/c (Rs.)	Growth rate	% share of SBA Amount in total	% share of no. of accounts to total credit accounts
1996	Rural	10150.93		5694.29		54.02	96.31
	Semi-urban	20890.63		7308.81		32.07	91.66
	Urban	62894.70		9873.13		13.11	83.50
	Metropolitan	295129.61		10541.72		2.71	75.94
	Total	44940.65		6984.53		14.23	91.59
2000	Rural	23694.88	23.61	8584.10	10.81	30.92	85.35
	Semi-urban	43585.14	20.18	9868.15	7.79	16.25	71.76
	Urban	102109.91	12.88	10669.35	1.96	5.61	53.73
	Metropolitan	386480.86	6.97	10079.70	-1.11	1.19	45.48
	Total	84619.70	17.14	9270.04	7.33	7.91	72.24
2006	Rural	68639.44	19.40	12222.29	6.07	10.70	60.07
	Semi-urban	81395.48	10.97	12302.45	3.74	7.59	50.21
	Urban	213926.82	13.12	12434.17	2.58	1.82	31.28
	Metropolitan	392599.38	0.26	9111.31	-1.67	0.65	27.95
	Total	177191.48	13.11	11769.49	4.06	2.99	44.97

Notes: SBA or Small Borrowal accounts have been defined to be of Amount less than Rs.25, 000.
Growth rate is a compound growth rate[24] calculated over the years.

Source: RBI, *Basic Statistical Returns*, various years

[24] Calculated using the formula $r = [\exp\{1/t * \ln(A/P)\} - 1] * 100$

It is evident from the Table 3.1.2 that their has been a significant decline in the percentage share of the small borrowal in the total credit accounts over the years concerned with respect to the number of accounts as well as the amount of SBA credit outstanding, across all the major population groups. It is quite worrisome that although the Metropolitan areas command a larger share with respect to the incremental deposits and credit, the share of SBA is infact very marginal. The share of credit outstanding in the SBA in the Metropolitan areas has declined from 2.71% in 1996 to 1.19% in 2000, to register a further decline of 0.65% in 2006. All the more, the credit outstanding per account in regard of the SBA has witnessed a negative growth. In other words, while the total credit per account has increased from Rs. 2,95,129 in 1996 to Rs.3,92,599 in 2006, the amount per SBA has decreased from Rs. 10,541 to Rs.9,111 during the years concerned. This implies that in case of the Metropolitan areas there is a decline in both the breadth & depth of the outreach.

The percentage of credit provided to the weaker sections[25] by the banks also shows a decline during the last two decades. Credit to weaker section comes under the Priority sector lending of the banks for which the quota is fixed at 10% of the net bank credit. It emerges from the Table 3.1.3 that the target of advances of 10% of the net bank credit has never been achieved either through the public sector banks or through the combined commercial banks. Moreover, the percentage of credit to weaker section has shown a decline during the time period concerned.

Table 3.1.3 Commercial bank Advances to Weaker Sections during 1991- 2006

(Figs. in crores)

Year	Public Sector banks	Percentage of net bank credit	Total public and private sector banks	Percentage of net bank credit
1991	10,260	9.7	10,506	9.5
1992	10,881	9.7	11,150	9.4
1993	11,865	8.9	12,148	8.7

....To be contd...

[25] Weaker section is defined to include, (a) Small and Marginal farmers with land holdings less than 5 acres, tenant farmers and share croppers, (b) artisans, village and cottage industries where the individual credit requirements do not exceed Rs. 50,000, (c) Advances to SHGs, (d) beneficiaries under SGSY, DRI, SJSRY, SLRS, (e) SC/ST. (Refer RBI circular no. DBOD. No. Dir BC 14/ 13.03.00/ 2008-09 dated July 1, 2008).

1994	12,779	9.1	13,079	8.7
1995	13,918	8.2	14,257	7.8
1996	15,579	8.4	15,960	7.8
2001	24,899	7.2	25,858	6.4
2002	28,970	7.3	30,116	6.5
2003	32,303	6.7	33,526	5.9
2004	41,589	7.4	43,084	6.4
2005	63,492	8.8	65,405	7.4
2006	78,373	7.7	82,282	6.5

Notes: Data between 1997 and 2001 is not available.
Source: RBI, Report on Trends and Progress of Banking in India (various issues).

In the discussion of the banking system, it becomes imperative to deal with the cooperative system on account of its massive outreach to the low income group in the country. The promotion of cooperatives was the first ever effort in institutionalizing credit in the rural areas. The PACS show a satisfactory performance in absolute terms with respect to the loan amount disbursed and the amount outstanding (Table 3.1.4). The trend rate of growth of the loan disbursed has also increased from 9.84% in the decade of 1980s to 17.13% in 1990s. A similar trend could be witnessed in case of amount outstanding. This implies that both the credit disbursed and the amount outstanding has increased in the decade of 1990s. Figure 3.1.3 shows the rate of growth of the PACS operations during the time period concerned. It is evident from the figure that the increase in trend rate of growth witnessed during 1990s is due to the spurt growth witnessed during 1999-2000.

Table 3.1.4: Status of Primary Agricultural Credit Society (1980-81 to 2002-03)

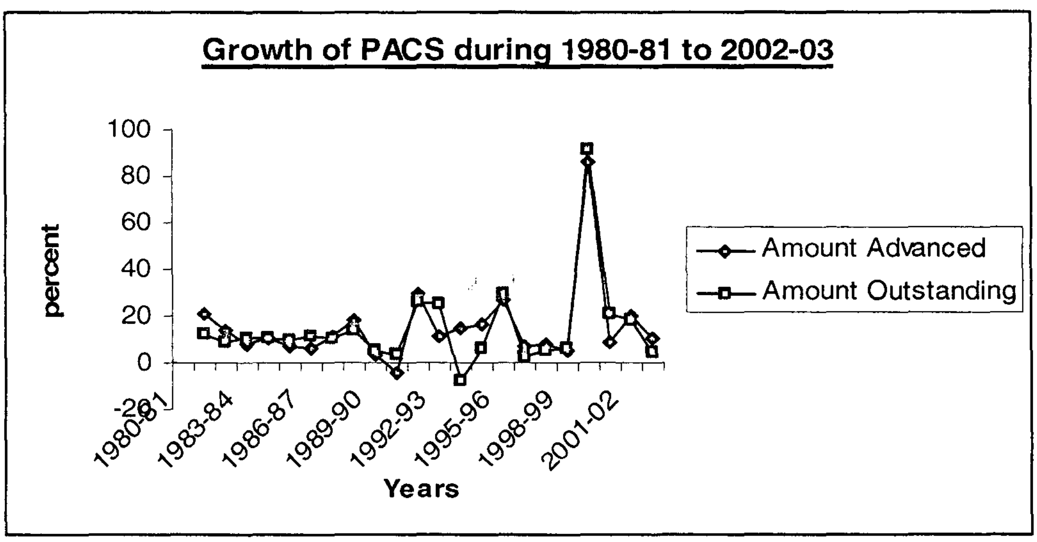
(Amount in crores)

Year	Amount Advanced	Growth rates	Amount Outstanding	Growth rates
1980-81	1769		2621	
1981-82	2134	20.63	2951	12.59
1982-83	2439	14.29	3201	8.47
1983-84	2632	7.91	3522	10.03
1984-85	2915	10.75	3904	10.85
1985-86	3111	6.72	4263	9.20
1986-87	3304	6.20	4732	11.00
1987-88	3688	11.62	5242	10.78
1988-89	4364	18.33	5949	13.49
1989-90	4513	3.41	6284	5.63
1990-91	4311	-4.48	6486	3.21
..................................To be contd..				

1991-92	5575	29.32	8177	26.07
1992-93	6223	11.62	10245	25.29
1993-94	7158	15.02	9399	-8.26
1994-95	8312	16.12	9996	6.35
1995-96	10552	26.95	12980	29.85
1996-97	11292	7.01	13345	2.81
1997-98	12137	7.48	13994	4.86
1998-99	12743	4.99	14894	6.43
1999-00	23662	85.69	28546	91.66
2000-01	25698	8.60	34522	20.93
2001-02	30770	19.74	40779	18.12
2002-03	33996	10.48	42411	4.00
Trend gr. Rate[26]				
1980-81 to 2002-03	12.84		12.17	
1980-81 to 1989-90	9.84		9.82	
1990-91 to 2002-03	17.13		15.58	

Source: RBI, *Handbook of Statistics on Indian economy, 2007.*

Figure3.1.3:



Source: ibid

The performance of India's cooperative credit system in terms of its medium to long term lending can be visualized from the performance of PCARDBSs (Table 3.1.5). Although the trend rates of growth depict an increase during the time period 1990-91 to 2005-06

[26] Calculated using the semi- logarithmic equation , ln (Amount) = a + b Time+ μ

with respect to the PCARDB, sharp fluctuations can be witnessed in the individual years with the maximum rate of growth being achieved in 1994-95, which has again registered a decline in the decade of 2000.

Table 3.1.5: Performance of PCARDBs (1980-81 to 2005-06)

(Amount in Rs. Crores)

Years	Amount Advanced	Growth rate	Amount Outstanding	Growth rate
1980-81	362		1609	
1981-82	373	3.04	1716	6.65
1982-83	425	13.94	1934	12.7
1983-84	410	-3.53	1755	-9.26
1984-85	504	22.93	1846	5.19
1985-86	595	18.06	2685	45.45
1986-87	354	-40.5	1657	-38.29
1987-88	356	0.56	1574	-5.01
1988-89	422	18.54	1978	25.67
1989-90	351	-16.82	1925	-2.68
1990-91	376	7.12	2014	4.62
1991-92	444	18.09	2143	6.41
1992-93	542	22.07	2480	15.73
1993-94	612	12.92	2701	8.91
1994-95	949	55.07	3407	26.14
1995-96	1224	28.98	4096	20.22
1996-97	1477	20.67	4954	20.95
1997-98	1594	7.92	5840	17.88
1998-99	1692	6.15	6820	16.78
1999-00	1822	7.68	7602	11.47
2000-01	1865	2.36	8295	9.12
2001-02	2045	9.65	9982	20.34
2002-03	2151	5.18	10775	7.94
2003-04	2197	2.14	11336	5.21
2004-05	2506	14.06	12614	11.27
2005-06	2254	-10.06	12880	2.11
Trend gr. Rate				
1980-81 to 2005-06	9.06		9.31	
1980-81 to 1989-90	-0.34		1.07	
1990-91 to 2005-06	12.38		13.6	

Source: ibid

Although, the cooperatives have performed quite well with respect to the amount advanced, the increase in the amount outstanding in the decade of 1990 particularly might be on account of the poor recovery rates, which has also resulted in the deterioration of the financial health of the cooperatives. The picture with respect to the urban cooperatives is presented in Table 3.1.6 below.

Table 3.1.6: Performance of Urban Cooperative Banks (UCBs)
(Amount in Crores)

Years	No. of reporting banks	Deposits	Credit	Credit-Deposit ratio (%)
1971-72	964	264	229.00	86.74
1981-82	1174	1650	1377.00	83.45
1991-92	1311	11108	8713	78.44
1992-93	1306	13531	10132	74.88
1993-94	1305	16769	12172	72.59
1994-95	1300	20101	14795	73.60
1995-96	1327	24165	17908	74.11
1996-97	1355	30701	21538	70.15
1997-98	1502	40692	27807	68.34
1998-99	1499	50544	32653	64.60
1999-00	1784	71189	45995	64.61
2000-01	1618	80840	54389	67.28
2001-02	1854	93069	62060	66.68
2002-03	1941	101546	64880	63.89
2003-04	1926	110256	67930	61.61
2004-05	1872	105021	66874	63.68
Trend rate of growth[27]:				
1971-72 to 2004-05		19.75%	18.83%	
1971-72 to 1990-91		20.34%	20.83%	
1991-92 to 2004-05		19.33%	17.69%	

Source: RBI, *Report on Trends and Progress of Banking in India (various years).*

The performance of the UCBs can be regarded as far from satisfactory. The trend rate of growth has clearly registered a decline in the post 1991 period. Moreover, the credit deposit ratios of the UCBs have also witnessed a continuous decline from 86.74% in

[27] Although the table depicts values only for certain years, the rend rate of growth has been calculated taking all the years.

1971-72 to 63.68% in 2004-05. The exclusiveness of the institutional system is reinforced through the study of the All India Debt and Investment Survey (AIDIS).

Table 3.1.7: Incidence of Indebtedness of Households to Institutional and Non-Institutional Credit Agencies by Asset Holding Class (AHC)

(Figs. in %)

	Rural			Urban		
AHC (Rs. 1000)	Institutional	Non-Institutional	All	Institutional	Non-Institutional	All
less than 15	3.6	12	15	1.4	9.5	10.7
15 - 30	6.2	13.9	19	2.4	12.8	14.8
30 - 60	8.7	17.7	25.2	4.5	11	14.8
60 - 100	10.9	17.7	26.5	7.2	11.9	18.3
100 - 150	13.6	17.9	28.9	8.3	12.2	19.7
150 - 200	14.6	17.1	28.7	8.9	12	20
200 - 300	16.2	15.7	28.7	11.1	10.1	19.9
300 - 450	18.7	13.2	28.7	12.1	8.2	18.7
450 - 800	22	13	31	16.9	7.2	22.5
800 & above	26.7	10.3	32.9	18.5	4.2	21.4
All	13.4	15.5	26.5	9.3	9.4	17.8

Source: NSSO, *All India Debt and Investment Survey (2003), Statement 3.*

It becomes clear from the Table 3.1.7 that a higher proportion of the households in the low asset holding class are indebted to the non-institutional credit agencies both in the rural and the urban areas. The percentage of households indebted to the non- institutional agencies declines with the increase in the assets. However, in case of the urban areas, far larger percentage (9.5%) of households having assets less than Rs. 15,000 is indebted to the non-institutional sources.

The above analysis reveals that although their has been a concern towards the performance of the rural institutional credit particularly in the liberalization period, the urban formal sources of credit also do not depict a satisfactory performance. As far as the commercial banking is concerned, following the recommendations of the Narsimhan Committee (1991), the number of rural branches was reduced from 35,134 in 1991 to 30,610 in 2006 and the credit deposit ratio decreased from 60% to 55% during the years concerned. (Appendix 3.1.1). Although, the share of the Metropolitan areas has increased with respect to the incremental deposits and the credit, it has been skewed in favour of the large borrowers. The urban cooperatives have also not been able to meet their desired objectives of reaching to the low & middle income groups. With regard to the rural cooperatives, although they have performed better in the decade of 1990s in terms of the credit disbursed, but it is also accompanied with a decrease in recovery rates as can be visualized from the increase in the trend rate of growth of the credit outstanding.

The above discussion draws our attention to the lacunae with respect to the banking as a channel of provision of credit, especially for the low income group of people. Although the analysis shows that banks have not been able to provide finance to the poor directly both in rural & urban areas, the problem is quite severe in urban areas. Microfinance has clearly emerged as a solution to this, but has largely been a rural phenomenon. The next section deals with the pattern of growth and the trends in the Microfinance sector.

3.2 Microfinance in India- An overview

As has already been discussed in the chapter 1, Microfinance can be provided through a number of approaches, such as, Grameen model, Self Help Group model or through individual lending. SHG approach is a home grown approach which has been widely used by the government in its initiative of provision of credit to the poor. It is based on the affinity of the group members which leverages the vast banking network in the country. On the other hand, Grameen approach is used by the microfinance institutions which are usually in the private sector. In this section, we shall try to look at the performanceof the microfinance providers, i.e, SHGs and the microfinance institutions, to be followed by the functioning and the performance of the government sector through its reliance on SHGs.

Performance of Self Help Groups : The SHG model forms the beginning of microfinance in India. The cumulative performance of the model with respect to the savings could be studied from Table 3.2.1. The total amount of savings of the SHGs with the banks is to the tune of Rs.3,512.71 crores, as on 31 March 07. The commercial banks have stayed at the forefront of the linkage process, as the share of commercial banks in both the savings

(53.87%) of the SHGs and the loans outstanding (65.40%) is higher than the share of the cooperative banks & RRBs taken collectively (Table 3.2.1). Among the commercial banks, the public sector banks are seen to be the major supporters of the SHGs. The share of the both the banking agencies (cooperatives & RRBs) in savings & loan outstanding stood at 46.12% & 29.16% respectively. It is quite peculiar as it is assumed that people have greater ease of access to these institutions. The credit –deposit ratio of the SHGs stood at 3.52 for the banks, implying that the SHGs on an average are being provided credit to the extent of thrice the amount of their savings held with the bank. However, as around 12, 66,079 are not credit linked with the banks, or they are only holding the savings account with the banks, the ratio is a bit lower. It also implies that *around 30% of the SHGs are self financed.*

Table 3.2.1: Savings and Loans Outstanding of SHGs in India As on 31 March 2007

Banks	Savings			Loans Outstanding			Credit Deposit Ratio
	No. of SHGs	Amount (Lakhs)	Per SHG Savings (Rs.)	No. of SHGs	Amount (Lakhs)	Per SHG O/S Loans (Rs.)	
Commercial (Public sector)	2,206,335 (53.0)	181,500 (51.7)	8,226	1,810,353 (62.5)	822,539 (66.5)	45,435	4.53
Commercial (Private sector)	87,436 (2.1)	7,741.44 (2.2)	8,854	82,663 (2.9)	53,499 (4.3)	64,719	6.91
Commercial (Total)	2,293,771 (55.13)	189,241.44 (53.87)	8,250	1,893,016 (65.40)	876,037.81 (70.84)	46,277	4.63
RRBs	1,183,065 (28.44)	115,829.39 (32.97)	9,791	729,255 (25.19)	280,176.15 (22.66)	38,419	2.42
Co-operatives	683,748 (16.43)	46,199.96 (13.15)	6,756	272,234 (9.41)	80,435.43 (6.50)	29,546	1.74
Total	4,160,584	351,270.79	8,442.82	2,894,505	1,236,649.39	42,724	3.52

Source: Status of Microfinance in India, 2006-07, NABARD
Note: Figs. in brackets are percentage shares.

Table 3.2.2 : Bank Loans disbursed to SHGs (2006-07)

	No. of SHGs	Amount (in lakhs)	Per SHG loans (Rs.)
Commercial (Public sector)	537,228 (48.6)	347,913 (53.0)	64,760
Commercial (Private sector)	34,408 (3.1)	43,981 (6.7)	127,822
Commercial	571,636 (51.69)	391,894.32 (59.64)	68,556
RRBs	381,199 (34.47)	205,273.10 (31.24)	53,849
Co-operatives	152,914 (13.82)	59,871.43 (9.11)	39,153
Total	1,105,749	657,038.85	59,420

Source: *ibid*

Note: Figs. in brackets are percentage shares.

The commercial banks also have a higher share with respect to the amount of loans disbursed to the SHGs (59.64%) during 2006-07 (Table 3.2.2). Among the commercial banks disbursements to SHGs, State bank of India in public sector (Rs. 936.48 crores) & ICICI Bank (Rs.296.14 crores) in private sector have reported higher shares.

As far as gendering of microfinance is concerned, of the SHGs who are maintaining the savings account with the banks, *78.62% are exclusively women SHGs*. The share of the women SHGs with respect to the bank loans disbursed to the total loans provided to the SHGs during 2006-07 and *bank loans outstanding against SHGs is 86.40% and 81.9% respectively*. Table3.2.1.3 shows that out of 32.71 lakh (approx) SHGs maintaining saving accounts with the bank, only 23.89 lakh SHGs have outstanding loan balances as on March 31,2007 & 9.58 lakh SHGs are provided credit during the year. There are still 8.82 lakh women SHGs to be credit linked with the bank or they are self financing. *Women are saving a higher amount of the money*, as the savings mobilized per women SHG is Rs.9, 247.2, which is reported to be Rs.8, 442.82 for the SHGs as a whole. With regard to the amount of disbursals per SHG and the loan amount outstanding, the figures are only marginally lower for the women SHGs. The high share of women SHGs in total is a positive factor as it is seen that SHGs not only have a role in economic empowerment of the women, but infact play a significant role in their political and social empowerment.

Table 3.2.3: Savings, Loans Disbursed and Loans Outstanding of Women SHGs in India

Agency	Savings			Loans Outstanding			Loans Disbursed		
	No. of SHGs	Amount (Lakhs)	Per SHG Savings (Rs.)	No. of SHGs	Amount (in lakhs)	Per SHG loans (Rs.)	No. of SHGs	Amount (in lakhs)	Per SHG loans (Rs.)
Commercial	1,794,720 (54.86)	165,147.31 (54.59)	9,201.8	1,570,067 (65.70)	685,671.44 (67.63)	43,671.48	499,120 (52.10)	340,448.09 (59.96)	68,209.67
RRBs	974,811 (29.79)	104,298.77 (34.47)	10,699.3	612,412 (25.63)	241,244.79 (23.79)	39,392.56	343,211 (35.82)	182,656.46 (32.17)	53,219.87
Co-operatives	501,708 (15.33)	33,052.19 (10.92)	6,587.9	206,929 (8.66)	86,822.53 (8.56)	41,957.64	115,589 (12.06)	44,631.84 (7.86)	38,612.53
Total	3,271,239	302,498.27	9,247.2	2,389,408	1,013,738.76	42,426.36	957,920	567,736.40	59,267.62

Source: *ibid*

Note: Figures in the parenthesis represents the percentage shares

Performance of Microfinance Institutions : Microfinance institutions are an important channel in the sector with a market share of almost 47%, growing rapidly compared to the SHG Bank Linkage model (Intellecap,2007). Microfinance institutions in India have emerged as a social business within the larger financial framework, catering to a large number of untapped segments of the market. Some of the leading mFIs have grown at the rate of 80% per annum in terms of number of borrowers reached and & 40% in terms of portfolio reaching from around 3 lakhs to 1 million clients each (MCril, 2007). The institutions have not only achieved scale but they have also expanded their operations to the less developed areas of the country like Orissa, Jharkhand, Rajasthan, Madhya Pradesh, Tripura, Assam or to the areas like Maharashtra which have a substantial number of low income families. Table 3.2.2.1 below shows some of the mFIs that are following a multi- state growth strategy.

Table 3.2.4: Microfinance Institutions following a Multi- State Growth Strategy

Microfinance Institution	North	South	East & NE	West
BASIX- BSFL	MP, Jharkhand, Rajasthan	AP, Karnataka	Orissa	Maharashtra
SHARE	MP, Rajasthan	AP, Karnataka		Maharashtra
SPANDANA		AP, Karnataka		
SKS	UP, MP, Chattisgarh, Jharkhand, Rajasthan	AP, Karnataka	Orissa, West Bengal	Gujarat, Maharashtra
ASMITA		AP, Karnataka	Orissa	
Ujjivan	Delhi	Karnataka	West Bengal	
ESAF	Chattisgarh	Kerala, Tamil Nadu		Maharashtra
KAS Foundation	MP, Chattisgarh	Tamil Nadu	Orissa, West Bengal	Maharashtra
CASHPOR	UP, Bihar			
AWARENESS		AP	Orissa, West Bengal	
Bandhan	Bihar, Jharkhand		Assam, Tripura, West Bengal	

Source: Inverting the Pyramid (Intellecap, 2007)

Client Outreach

Microfinance in India has grown phenomenally over the past few years. The combined outreach of both the mFIs and SBLP is near to 15-20 million clients. As far as the region wise outreach is concerned, southern Region served around 75% of the clientele (Table 3.2.5) during 2006-07. Although it caters to the significant chunk of the clientele as of now also, the percentage share has declined from 80.6% to 75%.The growth is witnessed in the case of Northern & Eastern Region. Sa-dhan's Quick Report 2007 based on 129 mFIs reinforces the above findings. According to the report, the outreach or the number of clientele served during 2005-06 & 2006-07 increased at the rate of 95% and 60% respectively. And Northern and the Eastern regions have been at the forefront of this growth achieved. From the perspective of the legal framework, although only 25% of the mFIs are NBFCs, they serve 73% of the segment (Table 3.2.6).

Table 3.2.5: Outreach of Microfinance Institutions by Regions (in %)

Region	2005	2007
Southern Region	80.6%	75%
Eastern Region	13.5%	20%
Western Region	2.2%	Very few
Northern Region	3.6%	Near to 5%

Source: M.Cril (2007)

Table 3.2.6: Outreach of Microfinance Institutions by legal form (2006-07)

Form of Registration	Outreach
Not for Profit:	
Societies & Trusts	20.9%
Cooperatives	5.7%
Section 25 companies	0.5%
For Profit:	
NBFCs / Banks	73%

Source: ibid

As far as their borrowing from the banks is concerned (Table 3.2.7), the commercial banks have extended a higher percentage of loans to the microfinance institutions (99.98%). The ICICI Bank is reported to have a lion's share with respect to lending to the mFIs . As of March 2007, its loan portfolio in case of mFIs was to the tune of Rs. 307.29 crores with disbursements to 91 mFIs, to be followed by HDFC Bank with a loan portfolio of Rs.300.46 crores with 66 mFIs (NABARD 2006-07). Infact ICICI Bank has shown an active participation in microfinance sector following its merger with the The

Bank of Madura in 2001 & the RBI's policy of considering microfinance as part of its priority sector lending at about that time.

Table 3.2.7: Amount Disbursed and Outstanding with the mFIs

Agency	Loans to mFIs		Loans Outstanding to mFIs (Cumulative figs.)	
	No. of mFIs	Amount (in lakhs)	No. of mFIs	Amount (in lakhs)
Commercial	327	115,133.81 (99.98)	541	158,427.56
RRBs	7	22.55 (0.019)	8	19.79
Co-operatives	N.A	N.A	1	0.60
Total	334	115,156.36	550	158,447.95

Note: Figs. in parentheses denote the percentage shares
Source: NABARD, 2006-07.

The high recovery rates reported by the banks have made microfinance an attractive or viable proposition for the banks. Provision of microfinance has been seen as advantageous to banks, as it has made it possible for the banks to fulfill their priority sector obligations of lending to the rural sector and achieving operational efficiency at the same time through externalizing a part of their transaction cost. Around 73% of the banks[28] lending to SHGs have more than 80% recovery of loans. Out of this, in case of SHGs credit linked under SGSY, only 61 % of the banks (details available for 197 banks) were reported to have recovery rates of above 80%.The banks providing onlending funds to mFIs have reported very high recovery rates, which varies from 92% with respect to public commercial banks to 100% for private commercial banks.(ibid)

3.3 Government Initiatives in Provision of Microfinance

The government has played an important role in the provision of microfinance services in order to include the excluded segments of the society. It has not only acted as a catalyst by supporting the growth of the various agencies & institutions in the microfinance (as

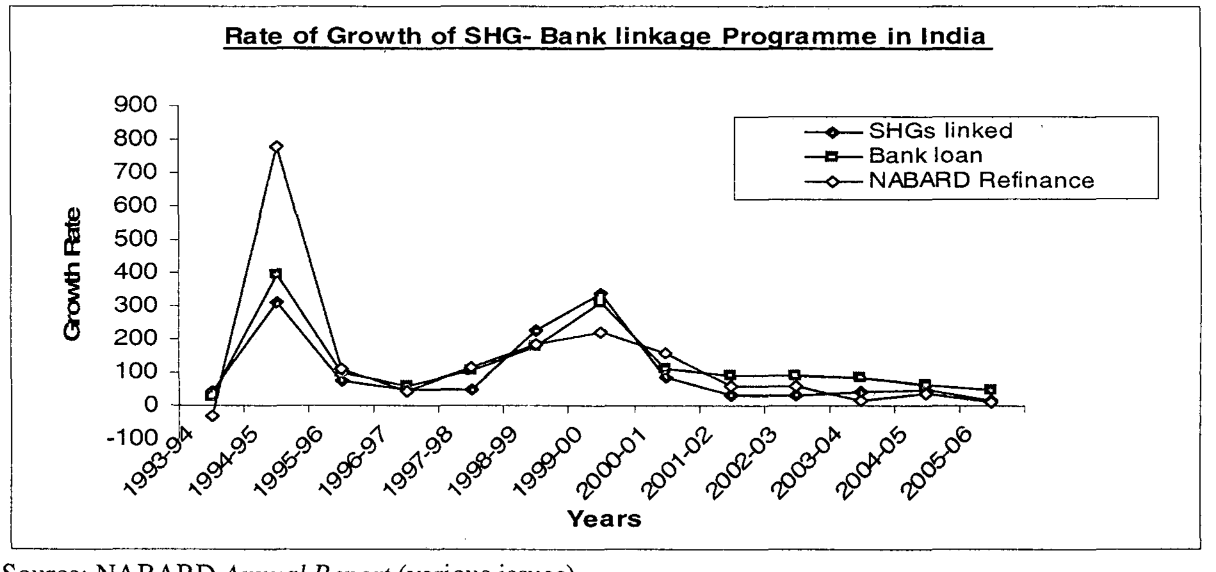
[28] 290 banks reported their recovery performance.

has already been discussed in chapter 2), but it also strives to directly provided the microfinance to the poor. Although in the era of liberalization, the market forces are allowed to determine the rate of interest, the government has not played a hands-off approach. It follows an interventionist approach, wherein the government intervenes in the market in order to improve the equity. The present section is a case study of two of the governmental interventions in provision of microfinance in an attempt to study their performance and the equity issue thereof.

3.3.1 NABARD's SHG - Bank Linkage Programme

The progress of SHG Bank linkage programme (SBLP) in India can be studied from Table 3.3.1.1 & Figure 3.3.1.1. It is clear from the table that although the programme has progressed in absolute terms, the growth rates have witnessed a significant decline from 1999-2000 onwards. The trend rates of growth of the number of SHGs linked has decreased from 76.73% over the time period 1992-2000 to 29.95% over the years 2001-2006. Similarly, the bank loan has declined from 85.52% to 55.57% and the Nabard refinance from 86.44% to 28.8 % during the time period concerned.

Figure 3.3.1.1 :



Source: NABARD *Annual Report* (various issues)

Table 3.3.1.1 : Physical & Financial Progress of SHG- Bank Linkage Programme (1992-93 to 2005- 06) (Amount in Crores)

Year	No. of SHGs Linked			Bank Loan			Nabard Refinance		
	Cumulative	During the year	% Growth	Cumulative	During the year	% Growth	Cumulative	During the year	% Growth
1992-93	255	255		0.29	0.29		0.27	0.27	
1993-94	620	365	43	0.65	0.36	24	0.46	0.19	-30
1994-95	2122	1502	312	2.44	1.79	397	2.13	1.67	779
1995-96	4757	2635	75	6.06	3.62	102	5.66	3.53	111
1996-97	8598	3841	46	11.84	5.78	60	10.65	4.99	41
1997-98	14317	5719	49	23.76	11.92	106	21.39	10.74	115
1998-99	32995	18678	227	57.07	33.31	179	52.09	30.7	186
1999-00	114775	81780	338	192.98	135.91	308	150.13	98.04	219
2000-01	263825	149077	82	480.87	287.89	112	400.74	250.61	156
2001-02	461478	197653	33	1026.3	545.47	89	796	395.26	58
2002-03	717360	255882	29	2048.7	1022.3	87	1412.7	616.71	56
2003-04	1079091	361731	41	3904.2	1855.5	82	2118.2	705.44	14
2004-05	1618476	539385	49	6898.5	2994.3	61	3085.9	967.76	37
2005-06	2238565	620109	15	11398	4499.1	50	4156.6	1070.7	11
Trend gr.									
1992-93 to 2005-06			64.61			79.2		71.3	
1992-93 to 1999-00			76.73			85.52		86.44	
2000-01 to 2005-06			29.95			55.57		28.8	

Source: Computed from NABARD Annual Report (various issues).

A further disaggregated picture is presented in Table 3.3.1.2 below. The decline is witnessed not only in terms of the new SHGs credit linked with the bank, but it is more pronounced in case of the SHGs provided with the repeat loans. The growth rates of SHGs provided with the repeat loans has declined from 147.23 % in 2003 to 32.77% in 2007. Out of the total of 22,38,565 SHGs provided credit till 2006, only 4,57,410 were credit linked during the year.

Table 3.3.1.2: Performance of SHG Bank Linkage Programme at a Glance

(Amount in Crores)

	2001	2002	2003	2004	2005	2006	2007
No. of SHGs provided with bank loans (Cumulative figs.)	263825	461478	717360	1079091	1618456	2238565	2924973
No. of New SHGs provided with bank loans	149050	197653 (32.6)	255882 (29.46)	361731 (41.36)	539365 (49.10)	620109 (14.97)	686408 (10.69)
No. of SHGs provided with repeat loans	21630	41413 (91.46)	102391 (147.24)	171669 (67.66)	258092 (50.34)	344502 (33.48)	457410 (32.77)
Proportion of SHGs provided with repeat loans (in %)	8.198617	8.973992	14.27331	15.90867	15.9468	15.38941	15.63809
Amount of Bank loan provided (Cumulative)	480.9	1026.3	2048.7	3904.2	6898.5	11397.5	18040
Amount of Bank Loan provided during the year	287.9	545.5 (89.47)	1022.3 (87.40)	1855.5 (81.50)	2994.2 (61.36)	4499.1 (50.26)	6643 (47.65)
Amount of repeat bank loan provided to SHGs	N.A	92.4	331.8 (259.09)	697.8 (110.30)	1267.6 (81.65)	2168.6 (71.07)	3599 (65.95)
Proportion of the repeat loans to the total disbursed	N.A	9.003215	16.19564	17.87306	18.37501	19.02698	19.95011
Average Bank Loan per SHG (New) – in Rs.	18227	22918	26985	32004	32012	37582	44343
Average Bank Loan per SHG (Repeat)- in Rs.	N.A	22311	32405	40648	49114	62949	78682

Source: Nabard Annual Report (2005-06), Figs. for 2007 taken from Ghate P.(2007)
Note: Figures in parenthesis are the growth rates

The impact study of the SHGs conducted by NCAER (2008) point out that in case of around 44% of the SHGs, the members seem to drop out from the groups due to lack of benefits from the SHGs (Table 3.3.1.3).

Table 3.3.1.3: Drop out of the members from the SHGs

(Figs. represent % SHGs)

Reason	Model I	Model II	Model III	All
Migration	22.4	32.8	26.9	28.9
Illness	5.6	7.8	10.8	7.8
Not satisfied with SHGs	48	40.6	45.2	43.5
Defaulter	17.6	13.7	17.2	15.4
Others	6.4	5.1	0	4.4
Non availability of loan amount demanded	19.6	11.2	21.2	14.6

Source: ibid

SHGs do not even seem to offer other services to the members. Only 9.8% of the SHGs were seen to provide the health insurance. The financial services provided under Model III were negligible (Table 3.3.1.4)

Table 3.3.1.4: Other Financial services offered by SHGs

(Figs. represent % SHGs)

	Model I	Model II	Model III	All
SHGs offering Health Insurance	18.3	7.6	0.8	9.8
SHGs offering other Insurance	0.4	3.6	0	2.2
SHGs Other Financial Services	0.4	1.8	0	1.1

Source: ibid

The programme not only projects a dismal performance, but is also characterized by sharp inter- regional variations (Table 3.3.1.5). The skewed pattern of the SBLP is clear from the finding that it is still concentrated in the Southern Region, both in terms of the SHGs credit linked and the bank loan provided to them. The maximum number of SHGs credit linked per thousand rural population was in the states of Andhra Pradesh, followed by Tamil Nadu, Pondicherry, Karnataka and Orissa during 2002-03. Although the number of SHGs credit linked per thousand rural population over the years has increased in all the regions, it is more impressive in sates such as Assam, Maharashtra, Chattisgarh, Rajasthan, Orissa and Mizoram. This is because the regional variations have been rectified to some extent due to Nabard's policy of priority state lending (Table 3.3.1.6), as can be seen by the decline in inter- regional coefficient of variation from 114.7% in 2002-03 to 64.98% in 2005-06 in terms of SHGs financed & from 171.4% to 156.47% in case of the amount of bank loan provided. In order to correct the regional imbalances with respect to the programme's implementation, NABARD has identified 13 states as priority states[29] since 2002 and their share has increased from 30% in 2002 to 47% in 2007, whereas, the share of the Southern states has declined over the time period concerned from 68.7% to 52.04%.

Table 3.3.1.5: Progress of SHG Bank Linkage Programme by Regions

Amount in Rs. Millions; All Figs. are in per thousand rural population

	SHGs credit linked with banks				Bank Loan provided			
	2002-03	2003-04	2004-05	2005-06	2002-03	2003-04	2004-05	2005-06
Northern Region								
Haryana	0.035	0.051	0.062	0.091	0.002	0.005	0.003	0.007
Himachal Pradesh	0.674	0.759	0.785	0.867	0.016	0.025	0.043	0.051
Punjab	0.026	0.048	0.085	0.086	0.001	0.003	0.004	0.005
Jammu & Kashmir	0.075	0.044	0.050	0.086	0.003	0.001	0.003	0.005
Rajasthan	0.224	0.238	0.548	0.780	0.005	0.006	0.014	0.021
New Delhi	0.043	0.040	0.037	0.105	0.004	0.006	0.004	0.006
Total	**0.169**	**0.186**	**0.350**	**0.481**	**0.004**	**0.006**	**0.011**	**0.016**
C.V	**140.872**	**145.285**	**123.748**	**112.870**	**107.271**	**116.299**	**134.349**	**114.065**
North Eastern Region								
Assam	0.102	0.297	0.831	1.006	0.001	0.005	0.031	0.019
Manipur	0.017	0.037	0.330	0.380	0.001	0.001	0.014	0.024
Meghalaya	0.000	0.007	0.027	0.229	0.000	0.000	0.001	0.004
Sikkim	0.002	0.015	0.019	0.155	0.000	0.001	0.001	0.001
Tripura	0.036	0.271	0.238	0.170	0.000	0.002	0.005	0.004
Nagaland	0.000	0.005	0.035	0.155	0.000	0.001	0.001	0.014
Arunachal Pradesh	0.000	0.128	0.059	0.070	0.000	0.009	0.002	0.002
Mizoram	0.000	0.046	0.012	1.924	0.000	0.005	0.001	0.125
Total	**0.076**	**0.237**	**0.623**	**0.788**	**0.001**	**0.004**	**0.023**	**0.018**
C.V	**182.527**	**118.693**	**146.093**	**125.970**	**140.380**	**105.734**	**155.514**	**172.820**
Eastern Region								
Bihar	0.054	0.101	0.143	0.216	0.001	0.002	0.005	0.004
Jharkhand	0.163	0.219	0.391	0.400	0.008	0.007	0.013	0.017
Orissa	0.676	1.085	1.384	1.724	0.009	0.023	0.038	0.067
West Bengal	0.260	0.314	0.667	0.697	0.003	0.005	0.011	0.019
A & N Islands	0.028	0.091	0.223	0.139	0.001	0.006	0.010	0.010

[29] Priority States comprise of Assam, Bihar, Chattisgarh, Gujarat, Himachal Pradesh, Jharkhand, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, Uttranchal and West Bengal.

Total	**0.234**	**0.344**	**0.538**	**0.632**	**0.004**	**0.007**	**0.013**	**0.020**
C.V	**111.114**	**114.398**	**89.332**	**101.649**	**86.448**	**97.001**	**84.435**	**107.352**
Central Region								
Madhya Pradesh	0.158	0.251	0.374	0.245	0.003	0.006	0.011	0.011
Chattisgarh	0.175	0.175	0.499	0.714	0.002	0.001	0.005	0.009
Uttar Pradesh	0.149	0.181	0.280	0.286	0.004	0.006	0.010	0.014
Uttranchal	0.389	0.764	0.467	0.519	0.012	0.024	0.031	0.046
Total	**0.161**	**0.214**	**0.325**	**0.319**	**0.004**	**0.006**	**0.010**	**0.014**
C.V	**52.514**	**82.597**	**24.317**	**49.522**	**86.323**	**104.959**	**80.491**	**87.128**
Western Region								
Goa	0.055	0.098	0.152	0.322	0.006	0.010	0.018	0.037
Gujarat	0.133	0.063	0.256	0.271	0.002	0.003	0.013	0.016
Maharashtra	0.147	0.180	0.552	1.007	0.005	0.008	0.019	0.029
Total	**0.141**	**0.137**	**0.442**	**0.734**	**0.004**	**0.006**	**0.016**	**0.024**
C.V	**44.532**	**52.969**	**64.949**	**77.045**	**44.596**	**54.526**	**19.810**	**39.075**
Southern Region								
Andhra Pradesh	1.390	1.809	1.838	1.594	0.080	0.131	0.174	0.270
Karnataka	0.704	1.154	1.623	1.669	0.020	0.039	0.073	0.120
Kerala	0.260	0.524	1.105	1.058	0.013	0.024	0.052	0.094
Tamil Nadu	1.031	1.502	2.048	2.687	0.064	0.147	0.217	0.302
Pondicherry	0.897	0.448	1.127	3.452	0.065	0.106	0.318	0.483
Total	**0.966**	**1.378**	**1.716**	**1.771**	**0.052**	**0.096**	**0.141**	**0.214**
C.V	**48.676**	**54.855**	**27.287**	**45.968**	**61.791**	**61.645**	**65.383**	**61.859**
Grand Total	**0.333**	**0.463**	**0.678**	**0.766**	**0.013**	**0.024**	**0.038**	**0.056**
C.V.(1)	**114.778**	**114.473**	**79.127**	**64.980**	**171.424**	**176.239**	**144.106**	**156.475**

Notes: 1 C.V shows the inter- state variations across regions
2 C.V(1) shows inter-regional variations at the national level.
Source: Progress of SHG Bank Linkage in India (various issues)

Table 3.3.1.6: No.of SHGs Provided with Bank loan in Priority States

(Cumulative Figs.)

Year	Total SHGs credit linked with the bank	SHGs linked in Priority States	SHGs linked in Southern States
2002	461478	141804 (30.73)	317276 (68.75)
2003	716360	249462 (34.82)	462712 (64.59)
2004	1079091	397464 (36.83)	674356 (62.49)
2005	1618456	667761 (41.26)	938941 (58.01)
2006	2238565	1005272 (44.91)	1214431 (54.25)
2007	2924973	1374917 (47.01)	1522144 (52.04)

Note: Figures in parenthesis represents the percentage share.
Source : Compiled from India Development report, 2008; NABARD Annual Report (2006-07).

There could be different models of the linkage between an SHG and the bank. In Model I, SHGs are formed and extended credit by banks; in model II, SHGs are formed and nurtured by NGOs but credit is provided by banks only; in Model III, an NGO in addition to forming SHG acts as an financial intermediary, i.e. it borrows the funds from the banks and on –lends it to the group and earning a margin thereon. Modelwise cumulative bank linkage position over the years is depicted in Table 3.3.1.7.

Table 3.3.1.7 : Model-wise linkage of the SHGs

(figs. in %)

Model	2001	2002	2003	2004	2005	2006
I	13	16	20	20	21	20
II	76	75	72	72	72	74
II	11	9	8	8	8	6

Source: Progress of SHG- Bank Linkage in India, 2005-06

There has been a focus on Model II, wherein the NGO acts as a facilitator in the process. However, the share of Model I has increased from 13% to 20%, which shows that bankers' have developed a sense of faith in the programme. The adoption of Model depends upon the perception of the bankers or the local environment. The modelwise distribution by regions is provided in Table 3.3.1.8.

Table 3.3.1.8: Modelwise Cumulative Distribution of SHGs by Regions (As on March, 2006) (Figs. in %)

	Model I	Model II	Model III
Northern Region			
Haryana	12.60	87.40	0.00
Himachal Pradesh	2.33	97.00	0.68
Punjab	12.91	86.49	0.59
Jammu & Kashmir	0.89	99.11	0.00
New Delhi	0.00	100.00	0.00
Rajasthan	10.23	89.76	0.01
Sub- Total	**8.86**	**90.99**	**0.14**
North Eastern Region			
Assam	79.30	11.92	8.78
Arunachal Pradesh	0.00	100.00	0.00
Manipur	31.34	68.32	0.34
Meghalaya	8.57	77.14	14.29
Sikkim	74.80	25.20	0.00
Nagaland	6.64	93.36	0.00
Tripura	50.75	49.20	0.05

Mizoram	97.74	2.26	0.00
Sub- Total	**75.78**	**16.11**	**8.11**
Eastern Region			
Bihar	1.99	97.43	0.59
Jharkhand	2.41	90.41	7.18
Orissa	37.16	51.54	11.30
West Bengal	44.49	45.86	9.64
A & N Islands	6.10	93.90	0.00
Sub- Total	**32.84**	**58.01**	**9.14**
Central Region			
Madhya Pradesh	30.08	68.81	1.11
Chattisgarh	13.22	86.78	0.00
Uttar Pradesh	17.66	79.56	2.77
Uttranchal	16.16	83.84	0.00
Sub- Total	**19.69**	**78.39**	**1.91**
Western Region			
Goa	29.97	69.87	0.16
Gujarat	6.94	66.77	26.29
Maharashtra	38.14	61.65	0.21
Sub- Total	**31.70**	**62.73**	**5.56**
Southern Region			
Andhra Pradesh	0.39	98.26	1.36
Karnataka	55.31	32.64	12.05
Kerala	16.87	51.48	31.66
Tamil Nadu	4.42	87.73	7.85
Sub- Total	**12.79**	**80.02**	**7.19**
Grand Total	**20.08**	**73.53**	**6.39**

Source: *ibid*

Model II has registered a higher share in all the regions, except for North-Eastern Region. However, there are variations within the region, with the substantial number or all the groups are being linked by Model II, such as, Arunachal Pradesh & Nagaland. The higher proportion of SHGs being promoted by banks within the region might be because of the fact that NGOs are not able to promote the SHGs due to the mismatch between the cost of promotion and the grants available to them. A recent NCAER (2008) conducted study reinforces the above mentioned statement. The NGOs incur more cost in group promotion than banks or Govt. Average cost of group promotion for 2006 is found to be Rs. 8,701 in case of NGOs, whereas, for banks and govt., it was Rs.3,575 & Rs.4,010 respectively (Table 3.3.1.9). The NGOs are provided a promotional grant of Rs.3,000 (Ghate, P. 2006) from the NABARD, which is insufficient to meet the costs. The remaining costs have to be met out of grants available from donors', the state government, or have to be cross subsidized from the other activities they promote.

Table 3.3.1.9: Average Costs of Promotion per SHG incurred by different SHPI

(in Rs.)

Type of SHPI	2004	2005	2006
Bank	2440	2957	3575
NGO	4045	8512	8701
Government	3562	3595	4010

Source: NCAER Report (March, 2008), see *References*.

It is very much possible for the linkage process to follow an evolutionary process, thereby moving from Model III to Model II to Model I. And a IV model could also be perceived, wherein, the bank lends to the individual members of the SHGs. Varman M.(2005) studied the impact of the SHGs on the formal banking habits and came to the conclusion that their exists a positive relation between being a member of the SHG and holding a bank account. In other words, an SHG member is eventually expected to graduate to maintaining individual account with the bank, the probability being high if the member holds leadership position in the group.

It can be concluded from above that the programme witnessed rapid growth rates in regard to the SHGs linked and loans provided to SHGs in the decades of 1990s, with the spurt in the growth rate being achieved in the year 1999-2000, thereafter their has been a fall in the growth rates. There are some serious flaws in the programme. Although the SBLP has an advantage as compared to the others with respect to the outreach as it utilizes the existing banking network, it has not been able to reach the unreached. In the next section, we shall try to look at the performance of SGSY with special emphasis on the targeting of the programme.

3.3.2 Pattern of Growth of Swarnjayanti Gram Swarozgar Yojana

SGSY was launched in rural India in 1999 as a self employment scheme by the Ministry of Rural Development, Govt. of India. It replaces the earlier rural poverty alleviation programmes such as, Integrated Rural Development Programme (IRDP), Development of

Women and Children in Rural Areas (DWRCA), Training of Rural Youth for Self Employment (TRYSEM), Supply of Improved Toolkits to rural artisans (SITRA) and Ganga Kalyan Yojana (GKY). Its basic objective is to bring the assisted families (swarozgaris) above the poverty line with an appreciable increase in incomes over a period of time. It is different from the erstwhile amalgamated rural self employment programmes, in terms of the strategy that is adopted for its implementation. It is achieved by organizing the rural poor into Self Help Groups (SHGs) through a process of social mobilization, capacity building & training, provision of revolving fund, making available credit and subsidy, technology, infrastructure & marketing(SGSY Guidelines, Ministry of Rural Development, Govt. of India).

SGSY is a centrally sponsored scheme and the financing is shared between the centre and the State in the ratio of 75:25. It is a credit cum subsidy programme, wherein, credit is the key component and subsidy is only a minor and enabling component. Subsidy under the SGSY to individuals is uniform at 30% of the project cost subject to the maximum of Rs.7500. In respect of SCs/STs and disabled persons, the subsidy is 50% of the Project Cost, subject to a maximum of Rs. 10,000. For groups of swarozgaris (SHGs), the subsidy would be at 50% of the cost of the scheme, subject to per capita subsidy of Rs. 10,000/- or Rs. 1.25 lakh which ever is less (*ibid*). There is no monetary limit on subsidy for Irrigation Projects. Subsidy is back ended in the sense that the amount of subsidy is released as a part of credit by the banks. However, the banks are not allowed to charge interest on the subsidy amount and can use the amount to set off against liabilities if repayments of the SHGs are not according to the agreed schedule.

The scheme has a special focus on the vulnerable groups among the rural poor. SC/ ST are to account for at least 50% & women 40% of the total swarozgaris. Minorities and the persons with physical disability to constitute 15% and 3% of the swarozgaris respectively.

The Scheme is implemented by the District Rural development Agencies, with the active involvement of the Panchayati Raj Institutions (PRIs), Banks, NGOs and Line Agencies.

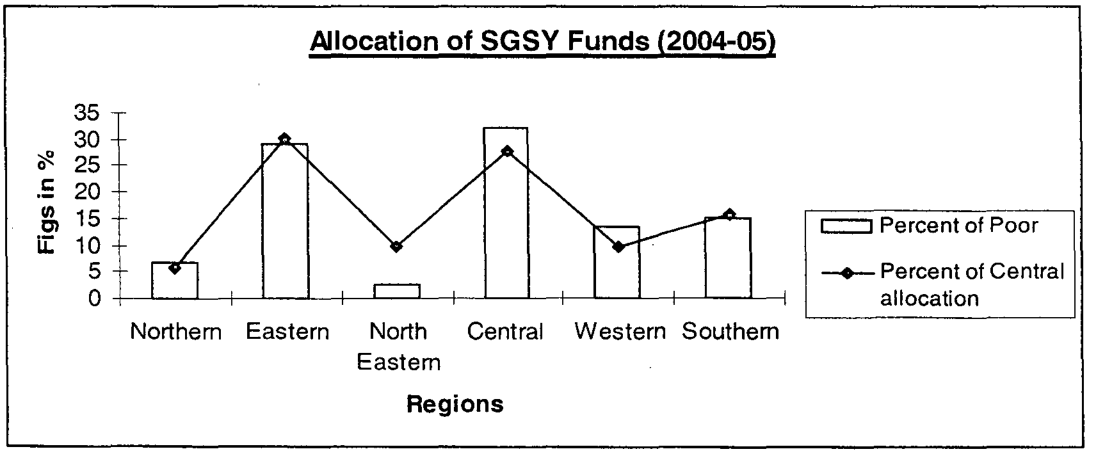
Analysis of Working of SGSY

This section tries to examine the working of SGSY across the six banking regions along the Financial & the Physical parameters during the year 2005-06, the latest year for which the complete set of data was available. Financial parameters being in terms of the funding pattern, the pattern of utilization of the funds, credit and subsidy disbursal, Per Family Investment, whereas, Physical parameters being the no. of beneficiaries, the bank linkage of the SHGs, the effectiveness of the groups formed, the sectoral coverage, the coverage of the marginalized or the disadvantaged section, etc.

Allocation & Utilisation of Funds

According to the guidelines, the central allocation earmarked for the States is to be distributed in relation to the incidence of poverty in the States. The figure 3.3.2.1 below compares the distribution of the poor with the central allocation. Although, Poverty is more prevalent in the eastern and the central regions, there is proportionately more allocation to the North Eastern Regions and less especially to the Western and Central regions. This skewed pattern of central allocation shows that it is not only determined by the size of poverty but also on the performance of implementing agencies in the past years such as, release of funds, utilization of the SGSY funds in the past years or the special demands/ requirements of the States. The absorption capacity of the funds by regions in the various years is well depicted in the Table 3.3.2.1. The percentage of central allocation to the targeted allocation in 2003-04 has been highest in the case of Southern India to be followed by Northern, Western and Central Region. The fund release with respect to the Eastern India was only 64%. However, it has increased in the later years. It might be due to incomplete data. In case of Central and Western regions, the central govt. has released the funds almost in parity to what it had committed. Similarly, the State governments had also released the targeted amount. However, the percentage of fund utilization was poor in respect of all the regions, except for Southern & Western region, wherein it was reported to be around 95%. So, besides the utilization level, the central allocation might be low in the Central Region & high in the North-eastern Regions due to special demands/ requirements of the States.

Figure 3.3.2.1



Source: Poverty estimates from the Planning Commission, Data for Central Allocation from the Ministry of Rural Development.

Table 3.3.2.1 : Absorption and Utilisation of the Funds (2003-04 to 2005-06)

(Figs. In %)

States/ Regions	Central release to central allocation in 2003-04	Central release to central allocation in 2004-05	Central release to central allocation in 2005-06	State release to State allocation in 2003-04	Utilisation to total available in 2003-04	Utilisation to total available in 2004-05	Utilisation to total available in 2005-06
Northern Region							
Haryana	99.29	100.00	130.21	130.20	99.77	70.06	98.80
Himachal Pradesh	77.08	98.50	118.11	119.92	105.61	40.07	78.88
Jammu & Kashmir	87.36	71.33	111.39	156.15	75.28	85.99	78.63
Punjab	92.77	93.01	88.88	95.56	84.57	72.32	77.08
Rajasthan	93.03	96.68	116.66	120.67	75.74	73.39	70.64
Total	**92.28**	**94.67**	**87.86**	**92.81**	**83.19**	**70.71**	**77.93**
C.V	**9.26**	**12.83**	**13.41**	**17.54**	**15.75**	**24.85**	**13.12**
Eastern Region							
Bihar	54.43	76.20	129.75	170.26	73.35	70.49	68.97
Jharkhand	74.12	87.87	98.01	111.55	84.88	58.58	93.44
Orissa	93.91	96.66	135.10	139.77	110.49	111.45	106.31
West Bengal	48.58	68.33	110.89	162.29	64.39	76.65	76.35
A&N Islands	0.00	100.00	25.00	0.00	14.51	5.52	10.11
Total	**64.03**	**80.41**	**86.42**	**107.47**	**79.43**	**76.94**	**79.98**
C.V	**64.85**	**15.65**	**44.45**	**59.21**	**50.76**	**59.51**	**52.16**
North Eastern Region							
Arunachal Pradesh	63.09	100.73	66.40	65.93	64.88	25.73	58.47
Assam	92.30	91.67	97.76	106.65	82.05	76.08	64.38
Manipur	14.71	18.88	38.22	202.46	0.00	0.00	42.69
Meghalaya	27.09	35.31	71.78	203.26	41.09	42.43	76.41
Mizoram	99.92	117.35	132.98	113.32	92.52	84.51	109.27
Nagaland	53.21	55.01	58.24	105.87	91.18	12.35	1047.15

Sikkim	100.00	130.00	143.34	110.26	104.74	79.57	106.50
Tripura	100.00	126.57	143.18	113.13	98.11	79.87	113.09
Total	**83.65**	**87.89**	**84.51**	**96.15**	**82.45**	**72.97**	**69.98**
C.V	**16.98**	**79.26**	**33.10**	**46.74**	**167.88**	**167.88**	**167.88**
Central Region							
Chattisgarh	90.47	95.49	124.68	130.57	91.82	97.53	92.61
Madhya Pradesh	91.61	91.81	126.58	137.86	98.47	92.01	97.31
Uttar Pradesh	80.98	95.16	125.15	131.52	77.64	74.10	91.47
Uttaranchal	89.91	99.95	210.31	210.42	98.78	79.22	85.28
Total	**84.52**	**94.64**	**94.20**	**99.54**	**83.70**	**79.79**	**92.39**
C.V	**5.55**	**3.49**	**28.93**	**25.35**	**10.79**	**12.71**	**5.40**
Western Region							
Goa	50.00	55.64	78.28	140.69	55.37	72.98	78.87
Gujarat	94.51	97.45	133.25	136.74	101.61	70.00	102.13
Maharashtra	90.28	93.55	125.81	134.49	95.05	94.13	92.14
Total	**89.75**	**93.80**	**94.52**	**100.77**	**95.40**	**87.90**	**93.43**
C.V	**31.39**	**28.09**	**26.52**	**2.29**	**29.78**	**16.64**	**12.82**
Southern Region							
Andhra Pradesh	93.01	100.00	131.83	131.83	100.00	89.64	94.55
Karnataka	86.76	93.22	114.81	123.17	102.83	90.57	98.29
Kerala	99.93	99.21	133.33	134.39	96.55	92.80	97.17
Tamil Nadu	98.47	99.67	133.33	133.78	99.79	111.93	97.53
Lakshadweep	0.00	0.00	0.00	0.00	5.33	2.26	4.59
Pondicherry	50.00	100.00	100.00	0.00	94.92	44.72	65.99
Total	**93.29**	**97.95**	**96.89**	**98.92**	**99.98**	**96.06**	**96.32**
C.V	**55.37**	**49.08**	**51.61**	**79.04**	**45.97**	**56.61**	**48.88**
All India	**80.65**	**90.01**	**91.03**	**101.13**	**86.00**	**81.17**	**86.00**
C.V (1)	**12.90**	**6.95**	**5.89**	**5.35**	**8.53**	**13.44**	**12.48**

Source: Ministry of Rural Development, *Annual Reports (various issues).*
Note: 1.C.V denotes intra regional variations.
2. C.V (1) denotes inter- regional variations.

The utilization of the funds was not only poor but was also irregular, as can be seen from the table 3.3.2.2.Although the fund utilization has increased over the years, the unspent amount at an All- India level is reported to be Rs.219.75 lakhs in 2005-06 and Rs.300.35 lakhs in 2006-07. Moreover since 2002-03, almost close to 50% of the funds had been utilized till December or when 75% of the year has passed. Although, the total available funds are not fully utilized, but this shows that the fund utilization gains momentum only in the fourth quarter of the year, in order to avail the allocation in the subsequent years.

Table 3.3.2.2 :Utilisation of Funds during 1999-00 to 2006-07

(Figs. In %)

Years	Percent Utilised to total available	Unspent Funds	Utilisation till Dec
1999-00	48.92	1002.15	16.99
2000-01	69.52	490.24	37.48
2001-02	74.67	329.23	40.36
2002-03	78.18	257.11	49.22
2003-04	85.89	171.45	47.4
2004-05	85.42	220.37	N.A.
2005-06	85.9	219.75	49.22
2006-07	82.58	300.35	51.8

Source: Ministry of Rural Department, Annual Report (various Years).

The pattern of the utilization of the funds is depicted in Table 3.3.2.3. At an All India level, the subsidy forms the major chunk of expenditure with a share of 67%, whereas, infrastructure and training/ capacity building comprise of 11% and 9% respectively. The expenditure on both these heads falls short of the earmarked allocation[30]. Similar pattern could be witnessed across the regions, however, with large inter & intra regional variations. Highest variations are witnessed in Southern Region and Eastern regions.

Table 3.3.2.3 :Pattern of Utilisation of Funds in SGSY (2005-06)

(Figs. In %)

	Subsidy To Total Expenditure	Revolving Fund To Total Expenditure	Infrastructure To Total Expenditure	Training/ Capacity building to total Expenditure	Others
Northern Region					
Haryana	75.58	5.84	11.55	6.55	0.48
Himachal Pradesh	81.87	6.76	7.67	2.78	0.92
Jammu & Kashmir	74.82	6.97	13.24	4.38	0.60
Punjab	86.14	8.45	3.35	1.97	0.09
Rajasthan	70.82	6.26	14.03	6.49	2.40
Total	**74.49**	**6.44**	**11.96**	**5.63**	**1.47**
C.V	**7.83**	**14.49**	**44.52**	**47.20**	**99.41**
Eastern Region					
Bihar	69.73	6.38	16.87	5.35	1.66
Jharkhand	72.24	7.86	15.51	3.58	0.81
Orissa	73.69	6.66	15.73	3.68	0.23
West Bengal	21.46	34.84	18.90	17.35	7.45
Andaman & Nicobar	54.04	44.64	1.33	0.00	0.00

[30] Expenditure on training & capacity building has to be 10% of the total, & for infrastructure an amount upto 20% can be incurred (25% in case of North-Eastern States).

Total	**61.48**	**12.32**	**16.79**	**7.06**	**2.35**
C.V	**37.79**	**91.11**	**51.41**	**110.85**	**152.39**
North Eastern Region					
Arunachal Pradesh	63.21	1.57	29.69	5.53	0.00
Assam	46.66	20.41	22.60	8.34	1.98
Manipur	52.65	38.43	6.20	2.72	0.00
Meghalaya	35.73	21.37	23.58	11.61	7.71
Mizoram	53.79	8.24	28.54	7.22	2.21
Nagaland	49.35	7.40	29.81	13.21	0.24
Sikkim	54.31	6.98	26.45	12.26	0.00
Tripura	62.52	11.49	20.85	4.84	0.30
Total	**49.25**	**18.29**	**22.68**	**8.01**	**1.77**
C.V	**16.98**	**79.26**	**33.10**	**46.74**	**167.88**
Central Region					
Chattisgarh	80.69	4.45	8.65	5.37	0.85
Madhya Pradesh	68.61	7.30	14.85	7.17	2.07
Uttar Pradesh	82.01	5.86	5.73	2.91	3.50
Uttranchal	76.06	10.02	7.35	3.81	2.76
Total	**78.79**	**6.24**	**7.97**	**4.06**	**2.92**
C.V	**7.87**	**34.40**	**43.59**	**38.88**	**49.12**
Western Region					
Goa	72.38	13.59	11.76	0.95	1.32
Gujarat	80.94	4.47	10.13	4.34	0.13
Maharashtra	63.48	11.76	15.63	5.19	3.94
Total	**67.13**	**10.26**	**14.48**	**5.00**	**3.14**
C.V	**12.08**	**48.54**	**22.59**	**64.21**	**108.65**
Southern Region					
Andhra Pradesh	78.64	3.30	8.25	9.81	0.00
Karnataka	68.29	5.06	15.18	10.42	1.05
Kerala	74.74	9.99	8.28	6.95	0.04
Tamil Nadu	35.21	41.65	14.46	8.56	0.12
Lakshadweep	67.39	0.00	6.52	26.09	0.00
Pondicherry	80.68	14.50	2.53	2.29	0.00
Total	**62.28**	**16.18**	**11.96**	**9.25**	**0.32**
C.V	**24.74**	**122.46**	**52.52**	**75.68**	**207.36**
All India	**67.27**	**11.03**	**13.24**	**6.28**	**2.17**
C.V (1)	**16.01**	**42.72**	**35.28**	**30.08**	**52.26**

Source: Ministry of Rural Department, *Annual Report (2006-07)*.

Note: 1. C.V denotes intra-regional variations.

2. C.V (1) denotes inter- regional variations.

3. Aggregation of columns across the rows may not be equal to 100, due to rounding of figs.

Disbursal of Funds

The percentage of both credit disbursed to SHG swarozgaris has increased from 17.73 % in 1999-2000 to 69.96 % in 2006-07. A similar trend could be witnessed in the case of subsidies provided to the SHG swarozgaris also. However, it can be seen from Table

3.3.2.4 that over the years 1999-2000 to 2006-07, both the credit disbursed & the subsidy provided to the individuals shows a continuous decline. Although, per capita investment to swarozgaris is below the stipulated level of Rs.25000, it has shown an increasing trend in the time period concerned.

Table 3.3.2.4: Distribution of Credit and Subsidy to Swarozgaris (1999-00 to 2006-07)

	Per cent of Credit disbursed	Per cent credit disbursed to SHG members	Percent credit disbursed to individuals	Per cent subsidy provided to SHG members	Percent subsidy provided to individuals	Per family investment (in Rs.)
1999-00	32.96	17.73	82.27	23.00	77.00	17113.00
2000-01	45.54	17.58	82.42	23.93	76.07	21481.00
2001-02	41.54	23.94	76.06	31.54	68.46	21284.00
2002-03	46.90	38.76	61.24	46.63	53.37	21666.00
2003-04	61.15	54.36	45.64	62.29	37.71	22472.00
2004-05	66.12	61.98	38.02	68.24	31.76	22555.00
2005-06	72.47	69.96	30.04	74.18	25.82	23699.00
2006-07	79.86	78.71	21.29	79.45	20.55	19281.00

Source: Ministry of Rural Development, *Annual Report (2007-08).*

As far as the region wise pattern of disbursal of funds is concerned, the percentage of credit disbursed to SHGs is highest in the case of North Eastern States, high in Southern & central regions and low in the case of Western, Eastern and Northern States. It is due to the higher percentage of SHG swarozgaris (96%) in North- Eastern States. Infact, it is seen (Table 3.3.2.5) that the SHG swarozgaris exceed the individual swarozgaris in all the six banking regions & except for the states of Jammu & Kashmir and Rajasthan (Northern Region), Bihar (Eastern Region), Chattisgarh (Central), Gujarat (Western) & Tamil Nadu in the South. However, investment per SHG member of Rs. 18,465 is lowest in case of the North- Eastern States. This shows that although there is focus on disbursal of funds through the SHGs, the amount of per capita investment is low. A similar pattern could be witnessed in case of the Southern Region also. It is a peculiar observation that although there is a thrust on group activity or cluster approach & the percentage of SHG swarozgaris exceed the individual swarozgaris, the per capita investment in SHGs is low across all the regions .(Table 3.3.2.6).

Table 3.3.2.5: Release of Credit and subsidy to Swarozgaris (SHGs & Individuals), 2005-06 (Figs. in %)

	Credit disbursed to target	Credit to SHGs to Total Disbursed	Credit to Individuals to Total Disbursed	Subsidy to SHGs to Total Subsidy	Subsidy to Individuals to Total Subsidy	Per family investment
Northern Region						
Haryana	81.86	78.88	21.12	82.71	17.29	33247.88
Himachal Pradesh	103.55	68.33	31.67	73.90	26.10	34053.64
Jammu & Kashmir	65.80	11.76	88.24	23.83	76.17	35929.02
Punjab	82.29	46.50	53.50	58.31	41.69	31494.18
Rajasthan	121.01	37.88	62.12	37.27	62.73	39259.73
Total	**98.66**	**46.79**	**53.21**	**52.44**	**47.56**	**36347.25**
C.V	**21.17**	**48.47**	**45.96**	**49.13**	**39.86**	**7.61**
Eastern Region						
Bihar	69.22	25.08	74.92	36.72	63.28	24456.53
Jharkhand	65.92	34.08	65.92	37.13	62.87	15420.60
Orissa	73.48	94.33	5.67	94.71	5.29	26047.61
West Bengal	22.52	83.39	16.61	89.09	10.91	20539.43
A&N Islands	0.00	0.00	0.00	91.30	8.70	435.61
total	**62.45**	**47.76**	**52.24**	**55.14**	**44.86**	**21978.12**
C.V	**63.86**	**75.64**	**96.40**	**89.03**	**38.54**	**53.12**
North Eastern Region						
Arunachal Pradesh	21.09	24.92	75.08	16.93	83.07	14046.70
Assam	34.75	99.02	0.98	98.87	1.13	17602.41
Manipur	18.40	100.00	0.00	100.00	0.00	14977.60
Meghalaya	10.48	94.19	5.81	97.57	2.43	13445.78
Mizoram	19.65	72.87	27.13	74.85	25.15	11244.06
Nagaland	12.92	75.33	24.67	73.40	26.60	6842.93
Sikkim	61.27	56.11	43.89	58.99	41.01	21418.14
Tripura	61.43	100.00	0.00	100.00	0.00	39003.35
total	**34.36**	**96.35**	**3.65**	**94.98**	**5.02**	**18550.64**
C.V	**64.36**	**32.14**	**112.66**	**121.18**	**35.03**	**52.63**
Central Region						
Chattisgarh	73.84	38.64	61.36	42.74	57.26	27518.59
Madhya Pradesh	84.71	81.93	18.07	86.50	13.50	35679.59
Uttar Pradesh	99.02	85.51	14.49	87.43	12.57	23612.79
Uttaranchal	93.04	98.28	1.72	98.36	1.64	27874.96
Total	**92.59**	**81.60**	**18.40**	**83.67**	**16.33**	**25998.74**
C.V	**10.79**	**29.51**	**93.92**	**100.33**	**27.06**	**15.27**
Western Region						
Goa	67.55	47.38	52.62	61.14	38.86	21176.00
Gujarat	95.75	20.00	80.00	21.37	78.63	24764.28
Maharashtra	61.82	82.13	17.87	86.25	13.75	25258.59
Total	**69.02**	**62.60**	**37.40**	**69.94**	**30.06**	**25089.26**
C.V	**24.20**	**62.48**	**62.07**	**58.15**	**74.78**	**9.39**
Southern Region						
Andhra Pradesh	82.81	83.16	16.84	86.00	14.00	15559.71

Karnataka	67.51	88.44	11.56	91.14	8.86	25573.08
Kerala	65.91	73.75	26.25	77.26	22.74	23522.08
Tamil Nadu	52.12	96.64	3.36	95.30	4.70	24080.24
Lakshadweep	0.17	0.00	100.00	73.58	26.42	36333.33
Pondicherry	138.12	97.95	2.05	98.10	1.90	24561.14
Total	**68.71**	**86.36**	**13.64**	**88.01**	**11.99**	**19665.04**
C.V	**60.22**	**46.09**	**126.67**	**68.60**	**10.35**	**24.34**
All India	**72.48**	**69.95**	**30.05**	**74.18**	**25.82**	**23698.88**
C.V(1)	**29.65**	**54.37**	**90.65**	**105.14**	**219.64**	**27.85**

Source: Ministry of Rural Development, *Annual report (2006-07).*

Note: C.V denotes inter-state variations across regions.

C.V(1) denotes inter- regional variations.

Table 3.3.2.6 : Distribution of Swarozgaris & Per Capita Investment

(Figs. in %; Amount in Rs.)

	Percent of SHG swarozgaris	Percent of individual swarozgaris	Investment per SHG swarozgari	Investment per individual swarozgari
Northern Region				
Haryana	80.41	19.59	33069.18	33981.60
Himachal Pradesh	74.53	25.47	31713.20	40902.18
Jammu & Kashmir	31.75	68.25	16131.08	45137.64
Punjab	57.61	42.39	27327.37	37156.11
Rajasthan	34.33	65.67	43172.98	37214.10
Total	**50.74**	**49.26**	**34458.47**	**38292.56**
Eastern Region				
Bihar	33.49	66.51	21259.26	26066.25
Jharkhand	56.73	43.27	9585.65	23070.16
Orissa	94.78	5.22	25960.62	27628.38
West Bengal	87.14	12.86	20217.77	22718.41
A&N Islands	100.00	0.00	397.73	0.00
Total	**56.82**	**43.18**	**19505.72**	**25231.79**
North Eastern Region				
Arunachal Pradesh	53.95	46.05	5440.15	24129.45
Assam	99.25	0.75	17552.18	24219.05
Manipur	91.96	8.04	16287.93	0.00
Meghalaya	98.69	1.31	13039.76	44083.33
Mizoram	81.95	18.05	10177.90	16085.41
Nagaland	87.00	13.00	5845.67	13517.54
Sikkim	64.53	35.47	18958.77	25892.31
Tripura	100.00	0.00	39003.35	0.00
Total	**96.25**	**3.75**	**18465.83**	**20727.21**
Central Region				
Chattisgarh	47.71	52.29	23179.56	31478.10
Madhya Pradesh	83.32	16.68	35656.94	35792.72
Uttar Pradesh	86.27	13.73	23594.53	23727.51
Uttaranchal	98.51	1.49	27816.67	31727.63
Total	**83.32**	**16.68**	**25684.40**	**27568.83**

Western Region				
Goa	59.04	40.96	18382.11	25203.13
Gujarat	21.19	78.81	23857.30	25008.20
Maharashtra	88.35	11.65	23915.73	35445.47
D & N Haveli	0.00	0.00	0.00	0.00
Daman & Diu	0.00	0.00	0.00	0.00
Total	**68.46**	**31.54**	**23882.12**	**27709.67**
Southern Region				
Andhra Pradesh	92.71	7.29	14085.23	34314.34
Karnataka	93.24	6.76	24505.58	40297.35
Kerala	79.13	20.87	22279.69	28232.95
Tamil Nadu	96.42	3.58	24050.67	24876.99
Lakshadweep	6.67	93.33	390000.00	11071.43
Pondicherry	98.06	1.94	24546.62	25294.12
Total	**92.18**	**7.82**	**18526.46**	**33078.51**
All India	**75.88**	**24.12**	**22283.38**	**28152.51**

Source: *ibid*

As the credit in the programme is routed through the banks only, so it becomes important to look at the bank's linkage process.

Quality of Groups Formed/ Grading Process

The performance of the programme cannot be measured only in terms of credit disbursed, it becomes imperative to look at the efficacy of different agencies with respect to the grading or the bank linkage process.

The SGSY is a group based mechanism of delivering credit. Under this the groups that are formed for the purpose are to clear the grading process. As per the process[31], the groups so formed are taught to save money at regular intervals & build up a group corpus, which is deposited in the local bank. After the six months or so, the group is evaluated by a team comprising of the Project Director (DRDA), a member of the Block Development Office & a representative of the bank. If the group clears the test, it is given the *Grade I status*. At this stage the group is paid an amount of Rs.25000 (also known as cash credit) for intra group loaning, out of which Rs.10000 is the revolving fund. This implies that individual members can borrow this amount but they do not have to pay any interest on it. After an year, according to the repayment performance, the group is again

[31] Ref, Sen Joyanti, Nirmala Banerjee(2003): *The Swarnjayanti Gram Swarozgar Yojana, A Policy in Working.*

evaluated. If it clears the test, it gets a *Grade II status* and becomes eligible for credit cum subsidy facility and training is also provided at this stage. Now, with provision of training and other hand holdings, the members of the group can undertake the activities, which are identified by the agencies on the basis of the availability of resources, skills, market and infrastructure. The activities can be undertaken either by the individual members of the group or the group as a whole, but the policymakers prefer the group approach, as it leads to reaping of economies of scale.

As the programme emphasizes on the cluster approach, the SHGs should be nurtured carefully. However, it seems that the agencies responsible have not been able to grade the SHGs formed under SGSY. Out of the 22.8 lakh groups formed till 2005-06, only 13.4 lakh (58 %) have passed Grade I, 6.1 (26%) lakhs have passed grade II & 3.20 lakhs (14%) have commenced economic activities[32]. The low number of groups clearing the grade I & still lower passing Grade II, shows that the quality of the groups formed is poor. Most of the groups are formed by the promoting agency in order to avail the nurturing charges (Rs. 2,000)[33] from the govt. However, if they are not able to pass the test, the promoting agency might not be able to sustain it resulting in the group becoming defunct, as the further release of grant to the promoting agency is contingent on the group passing the next stage (Grade I stage). Thekkekara T. Francis (2008) in his study focused on Maharashtra states that banks have shown reluctance in grading the groups.

Table 3.3.2.7 shows that out of the 3.146 SHGs formed per 10000 rural populations during the year 2005-06, the most of the SHGs are formed in the Southern & the North-Eastern States with the least being in the case of Central and the Western Region. However, it is evident from the table that most of the groups that are formed during the year have passed the Grade I test. It is because the groups that have passed the test are not necessarily the ones that have been formed during the year. Although, the groups can approach the bank after six months of its formation for the grading, the time frame is fairly elastic. The group can proceed to the next stage only when the experts are satisfied with its progress. At an All India India level the group that took up economic activities

[32] Calculated from the *Ministry of Rural Development, Annual Report (2007-08)*.
[33] Ministry of Rural Development.

during the year is as low as 0.99 per 10,000 rural population. This shows the inefficiency of the agencies or the extent of handholdings in terms of training, etc. which is provided to the swarozgaris.The status of bank's provision of credit is revealed from Table 3.3.2.8. Across all the banking regions except for Southern Region, the percentage of applications sanctioned by the banks range between 60% - 70 %, with lowest being in Northern Region (57%). This shows that although the groups have passed the Grade II or have become eligible for the credit, banks are still reluctant to lend to the poor borrowers. This might be due to the poor recovery performance of the loans (Table 3.3.2.9). In the Southern Region, the percentage of loan sanctioned (91%) is high, because the recovery rate is also relatively higher (70%).

Table 3.3.2.7: SHG Formation and Gradation under SGSY (2005-06)

(Figs. in per 10000 rural population)

	SHGs formed (Cumulative figs.)	SHGs formed during the year	SHGs passed Grade I	SHGs passed Grade II	SHGs took up economic activity
Northern Region					
Haryana	6.053	1.381	0.815	0.718	0.689
Himachal Pradesh	9.063	0.885	0.932	1.338	1.208
Jammu & Kashmir	8.377	0.769	0.574	0.217	0.217
Punjab	2.392	0.612	0.297	0.153	0.188
Rajasthan	5.344	0.657	0.722	0.294	0.213
Total	5.428	**0.797**	**0.663**	**0.399**	**0.351**
Eastern Region					
Bihar	11.453	2.455	1.222	0.498	0.477
Jharkhand	11.269	2.950	2.282	0.865	1.328
Orissa	44.754	5.607	4.934	2.272	1.584
West Bengal	23.980	5.753	5.030	1.055	0.242
A&N Islands	10.721	1.813	1.427	0.116	1.427
total	20.739	**4.040**	**3.121**	**1.002**	**0.685**
North Eastern Region					
Arunachal Pradesh	3.217	1.019	0.425	0.425	0.212
Assam	49.417	8.402	7.057	2.559	2.222
Manipur	3.989	3.989	0.786	0.204	0.096
Meghalaya	18.997	4.719	3.100	0.901	0.906
Mizoram	26.968	2.664	1.505	2.847	1.851
Nagaland	8.753	1.449	1.043	1.081	1.624
Sikkim	18.328	6.869	4.628	1.567	1.567
Tripura	62.820	6.781	6.725	2.397	7.796
total	42.044	**7.133**	**5.846**	**2.178**	**2.376**
Central Region					
Chattisgarh	28.001	1.836	1.164	0.869	0.759

Madhya Pradesh	49.982	1.478	2.042	1.132	0.957
Uttar Pradesh	21.885	0.920	1.413	1.235	1.276
Uttaranchal	27.989	0.791	2.942	2.976	2.953
Total	28.803	**1.114**	**1.580**	**1.236**	**1.216**
Western Region					
Goa	9.312	2.324	1.296	0.909	0.879
Gujarat	25.461	1.454	1.173	0.496	0.359
Maharashtra	20.777	3.273	2.861	1.369	1.033
D & N Haveli	2.742	0.000	0.000	0.000	0.000
Daman & Diu	0.000	0.000	0.000	0.000	0.000
Total	**22.333**	**2.593**	**2.226**	**1.043**	**0.783**
Southern Region					
Andhra Pradesh	77.417	5.177	3.115	2.062	1.898
Karnataka	10.557	1.086	1.092	0.770	1.236
Kerala	22.691	2.256	1.790	0.825	0.581
Tamil Nadu	69.601	20.669	10.598	1.515	0.743
Lakshadweep	0.973	0.000	0.000	0.000	0.000
Pondicherry	34.632	7.570	5.076	5.279	1.856
Sum	**50.977**	**7.156**	**4.075**	**1.444**	**1.276**
All India	**28.056**	**3.416**	**2.603**	**1.136**	**0.990**

Source: ibid

Table 3.3.2.8: Status of Bank Linkage Process during 2005-06

	Percent of Loan Application Sanctioned to Submitted	Percent of Loan Application Disbursed to Sanctioned
Northern Region		
Haryana	74.19	99.49
Himachal Pradesh	76.62	97.48
Jammu & Kashmir	48.47	86.45
Punjab	91.57	99.96
Rajasthan	53.38	83.72
Total	**57.00**	**87.71**
Eastern Region		
Bihar	50.42	92.68
Jharkhand	59.46	97.82
Orissa	80.11	94.51
West Bengal	76.16	137.82
Andaman & Nicobar	100.00	100.00
Total	**59.34**	**94.87**
North Eastern Region		
Arunachal Pradesh	61.61	95.08
Assam	70.94	86.85
Manipur	79.64	100.00
Meghalaya	63.89	95.88
Mizoram	41.34	128.21
Nagaland	28.33	99.49

Sikkim	91.43	100.00
Tripura	83.26	99.36
Total	**67.42**	**91.76**
Central Region		
Chattisgarh	62.41	91.68
Madhya Pradesh	55.62	87.33
Uttar Pradesh	79.16	95.06
Uttranchal	84.41	96.48
Total	**70.47**	**93.09**
Western Region		
Goa	392.86	81.56
Gujarat	58.03	107.71
Maharashtra	56.65	91.76
Total	**57.95**	**101.99**
Southern Region		
Andhra Pradesh	97.39	98.90
Karnataka	86.10	83.00
Kerala	80.69	85.73
Tamil Nadu	94.12	97.23
Lakshadweep	60.00	100.00
Pondicherry	100.00	92.59
Total	**91.12**	**92.87**
All India	**63.20**	**94.29**

Source: *ibid.*

Table 3.3.2.9: Recovery Performance of Banks (in %)

Regions	Individual Swarozgaris	SHG Swarozgaris	SC/ ST Swarozgaris	Total Swarozgaris
North	41.7	50.4	39.1	43.2
Central	49.7	60.7	43.9	53.8
East	24.6	45.6	29.7	30.5
North- East	25.2	58.1	37.8	39.8
West	45.1	69.2	43.6	51.6
South	54.4	80.8	68.6	69.7
All India	34.3	58.6	37.3	42.2
Banks				
Public Sector	33.9	58.4	37.1	41.9
Private Sector	46.7	73.5	49.1	51.6
All Banks	34.3	58.6	37.3	42.2

Source: Report on Action Research Project on Gendering Microfinance under SGSY[34].

[34] Undertaken by the National Institute of Bank Management (NIBM) and National Institute of Public Finance and Policy (NIPFP).

Sectoral Coverage

As far as the sectoral coverage is concerned, the SGSY credit is directed towards the primary sector across all the regions. A similar pattern could be observed for the states with Andaman & Nicobar Islands being the exception to this, wherein the credit disbursed to the tertiary sector is higher (Table3.3.2.10)

Table 3.3.2.10: Sectoral Allocation of Credit & Subsidy

(Figs. in %)

	Percent disbursed to Primary Sector	Percent disbursed to Secondary sector	Percent disbursed to tertiary sector
Northern Region			
Haryana	79.53	15.01	5.46
Himachal Pradesh	66.58	13.01	20.41
Jammu And Kashmir	52.59	21.44	25.97
Punjab	47.12	22.71	30.17
Rajasthan	67.84	8.28	23.87
Total	66.71	13.11	20.18
Eastern Region			
Bihar	52.59	16.42	30.99
Jharkhand	54.72	16.59	28.69
Orissa	68.05	19.40	12.55
West Bengal	56.48	35.37	8.15
Andaman And Nicobar	40.58	2.90	56.52
Total	57.26	18.38	24.36
North Eastern Region			
Arunachal Pradesh	78.65	6.64	14.72
Assam	58.57	30.44	10.98
Manipur	78.57	13.68	7.75
Meghalaya	89.58	9.57	0.85
Mizoram	91.80	7.35	0.85
Nagaland	66.06	17.47	16.47
Sikkim	99.22	0.62	0.15
Tripura	85.33	8.51	6.16
Total	66.12	24.21	9.67
Central Region			
Chattisgarh	59.94	16.00	24.06
Madhya Pradesh	71.62	15.34	13.04
Uttar Pradesh	78.45	11.57	9.98
Uttranchal	88.80	7.84	3.36
Total	75.88	12.59	11.53
Western Region			
Goa	100.00	0.00	0.00
Gujarat	72.80	10.58	16.62

Maharashtra	83.34	6.39	10.27
Dadar & Nagar Haveli	0	0	0
Daman & Diu	0	0	0
Total	80.37	7.57	12.06
Southern Region			
Andhra Pradesh	58.73	14.05	27.22
Karnataka	86.02	12.42	1.57
Kerala	48.72	27.67	23.61
Tamil Nadu	55.58	31.46	12.96
Lakshadweep	100.00	0.00	0.00
Pondicherry	58.75	41.25	0.00
Total	63.60	18.84	17.56

Source: ibid

The above discussion highlights the fact that both the microfinance programmes initiated by the government in the rural areas are confronted with serious lacunae. The implementation of the programmes needs to be given due consideration. In the next section, we try to look at the provision of financial services in the urban areas.

3.4 Provision of Microfinance services in the urban areas

While microfinance in urban areas has developed in many parts of the world, in India it is still seen as a rural phenomenon. According to the Census of India 2001, the urban poor comprise 35 to 40 % of the population, but only .01 % has formal banking relations[35]. The discussion in the earlier section of the chapter also points out the fact that there exists a vacuum with respect to the institutional finance for the urban poor. The reasons for this could be the lack of documentation with respect to the residence proof, discomfort in visiting banks or the attitude of bankers, irregular incomes, etc. All these factors led to the exclusion of the urban poor or acted as a stumbling block to their access to credit. Along with the vast segment of the unbanked urban population, the sector has witnessed a growth of the microfinance institutions due to the support of equity investors such as, Michael and Susan Dell Foundation (MSDF) with an exclusive urban focus and technology assistance providers such as Accion.

[35] Refer, Reaching the Other 100 million Poor in India

Since independence, the government has also initiated a number of programmes to address the issue of the urban poverty. However, till late 1970s the urban poverty was considered to be associated with the problems like shortage of housing, & other welfare services, such as, education, health, nutrition, etc; but the issue of urban livelihood through provision of credit & employment never figured in the list of the urban poverty alleviation schemes. The first attempt in this direction was the extension of the Differential rate of Interest Scheme (DRI), to the urban areas in 1977. It was followed by other targeted credit schemes such as, Self Employment Programme for Urban Poor (SEPUP,1986), Nehru Rozgar Yojana (NRY,1989), Prime Minister's Rozgar Yojana (PMRY,1993), Scheme of liberation and Rehabilitation of Scavengers (SLRS,1993), Prime Minister's Integrated urban Poverty Eradication Programme (PMI-UPEP, 1995) & Swarna Jayanti Shahri Rozgar Yojana (SJSRY, 1997). Although SJSRY[36] was designed on the basis of the PMI- UPEP which involved the community based organizations, it was the first scheme under which the groups were delivered credit. However, nothing much can be inferred about the programme's performance in the absence of impact based studies of the schemes.

Although the government has tried to address the issue of financial exclusion, the outreach with respect to its urban poverty alleviation programme remains subtle and the microfinance institutions can have a major role to play. An attempt has been made hereby to analyze their functioning with respect to the mechanism followed, products offered, clientele, source of funding etc., primarily on the basis of the data collected from the secondary sources. For the purpose of the study, or to understand the dynamics of the sector, the pioneers (Sewa bank & Working Women's Forum) & the recent ones have been covered. The availability of the information has been one of the prime factors governing the selection. Table 3.4.1 briefly describes the characteristics of the sample.

[36] SJSRY subsumed the earlier schemes of Urban Basic Services for the Poor (UBSP, 1990), Nehru Rozgar Yojana (1989) and PMI- UPEP (1999).

Table 3.4.1: Characteristics of the sample urban microfinance institutions

Decade		Region**		Legal Status	
	Number		Number		Number
1970	2 (18.18)	Northern	1 (9.09)	Society & Trust	3 (27.27)
1980	N.A	Eastern	2 (18.18)	Cooperatives	2 (18.18)
1990	3 (27.27)	North Eastern	N.A	Section 25 company	1 (7.69)
2000	6 (54.45)	Central	2 (18.18)	NBFC	5 (45.45)
		Western	2 (18.18)		
		Southern	4 (36.36)		
Total	11		11		11

Note: Figure in parentheses show the percentage share.
** - Region wise classification has been done on the basis of the region in which a particular mFI is headquartered. It is assumed that the majority of its urban operations are also in that particular region.

A glance at the table reveals that around 54.5% are recent start ups that have either been started by new social entrepreneurs like Swadhaar Finaccess in Mumbai, Ujjivan (Bangalore), Mimofinance (Dehradun) or by microfinance managers who have turned into practitioners. Most notable being the case of Arohan (kolkata) and Sonata (Allahabad). As far as the legal status is concerned, a little less than half (45.45%) are NBFCs or are for profit companies. They have primarily been set up as commercial entities. Table 3.4.2 shows the region wise distribution of the urban microfinance institutions. Although the central region has a higher proportion of urban poverty (27.17%), only 18.2% microfinance institutions are catering to the urban poor. Otherwise, it presents a satisfactory picture with respect to the regional coverage.

Table 3.4.2: Distribution of Urban Microfinance Institutions and Poverty by Regions

Region	Percentage of urban mFIs	Percentage of urban poverty
Northern	9.09	11.06
Eastern	18.18	13.36
North Eastern	0.00	0.28
Central	18.18	27.17
Western	18.18	21.72
Southern	36.36	26.41

Source: Computed from Poverty estimates for 2004-05 (Press Information Bureau, G.O.I)

Functioning of Microfinance Institutions

Target Group/ Beneficiaries: The urban microfinance institutions lend generally to the economically active people. Their target group does not consist of poorest of the poor segment. Like their rural counterparts, they follow more of a demand driven approach rather than supply oriented approach. The supply oriented approach is followed especially by the Ministry of Rural development with regard to its SGSY programme. Therefore, repayment rates (usually varies from 92 % to 98%, as opposed to 46.79[37] % under SGSY) are also high in case of microfinance institutions.

Products Delivered

As the term *Microfinance* goes, these institutions intend to provide a whole gamut of financial serves to the urban poor, like Savings, insurance, remittances, range of credit products, Pension to suit their diverse needs. Like their rural counterparts, the urban microfinance institutions have moved up the ladder from being minimalist in their operations to provision of comprehensive range of services. Most notable being the case of Sewa bank in Ahmedabad, Basix in Delhi. However certain institutions such as, Arohan (West Bengal) have restricted their operations to provision of credit facilities only.

Loan: Although the urban clients have varied demand for the products, some of the microfinance institutions are offering loan products to meet the productive expenses or they are meant for income generating activities only[38]. However, around 80% of the debt in the clients' portfolio is meant for the non productive purposes (Table 3.4.3). Therefore, in order to meet their needs the clients have to depend generally upon the moneylenders who charge exorbitant rate of interests varying between 26-200%[39] (EDA, 2004).

[37] Refer, B. Pramod: "SHG Bank Linkage Programme: Future Scenario"
[38] Such as, Satin credit care & Basix in Delhi.
[39] effective interest rates.

Table 3.4.3: Share of debt by purpose of loan for each Asset Holding Class

(Figs. in %)

	Rural			Urban		
AHC (Rs. 1000)	Productive	Household expenditure	Total	Productive	Household expenditure	Total
Less Than 15	24	76	100	15	85	100
15 - 30	37	63	100	23	78	100
30 - 60	31	69	100	18	82	100
60 - 100	35	65	100	24	77	100
100 - 150	42	58	100	23	77	100
150 - 200	44	56	100	17	83	100
200 - 300	47	53	100	19	81	100
300 - 450	50	50	100	17	83	100
450 - 800	58	42	100	16	84	100
800 & Above	72	28	100	32	68	100
All	53	47	100	25	75	100

Source: NSSO, All India Debt and Investment Survey(2003).

The pattern of usage of the credit by the microfinance clients is presented in the Table 3.4.4. The data collected across the mFI clients' reinforces the fact that in case of the very poor segment, around 53% of the loan is used for non productive purposes with a major proportion (29%) on the risk needs. This is more evident in the case of the SHG models, wherein around 84% of the loans are used for non productive uses, out of which 47% is for risk needs. It could be due to the reason that SHGs allow greater flexibility to the clients with respect to the loan usage.

In order to meet the varied needs of the clients, Sewa bank provides a diversified mix of loan products (Table 3.4.5). It has designed its products in a manner that they meet their occupational requirements, as well as their life cycle needs from childhood to old age. It is not only providing the clients with the loans to meet their daily expenditure needs, emergency purposes, but as housing is the more pressing need in the urban areas, it also provides them with the housing loans at easy terms. In order to upgrade the slums (Parivartan Scheme), it is working into partnership with the government (Ahmedabad Municipal Corporation), private sector and NGOs.

As the bank's client generally starts at a negative capital (since her family is already indebted to a moneylender), the bank provides her loan at the rate of 18% per annum to pay off the past debt.

Table 3.4.4: Use of Microcredit across Wealth Rank Categories

	Overall	Very Poor	Poor	Borderline	Non Poor
Number of clients	3,908	309	1,110	1,347	1,142
Average loan size (Rs.)	7,000	5,000	6,000	6,900	10,000
Credit use (%)					
Direct investment	63 (21)	47 (16)	56 (14)	64 (24)	72 (30)
Risk needs*	17 (39)	29 (47)	22 (45)	17 (37)	10 (27)
Housing	7	9	8	6	7
Education	3	1	2	3	3
Other Household purchases	10 (26)	14 (26)	11 (27)	10 (23)	8 (28)
Total	100	100	100	100	100

Note: Figures in brackets are percentages for SHG models.
* Defined as expenditure on health, debt redemption, and costly family events (marriages), etc.
Source: Frances S.(2005), see *References.*

Table 3.4.5: SEWA Bank's Loan Schemes

S.No.	Name of Scheme	Purpose of Loan / features	Amount of loan	Rate of interest charged	Time period
1.	Unsecured loans	All purpose. A client must provide a guarantee for the loan.[40]	Up to Rs. 25,000	Decreasing balance interest rate of 17% p.a.	35 months
2.	Sanjivani loans	Business purpose. Were specially designed to meet the needs of the unemployed mill workers.	Slightly larger amount	-----Do------	35 months
3.	Daily Loans	To meet the daily working capital requirements	Up to Rs. 4,000	------Do ------	15 months
4.	Secured loans	Lent against securities such as, jewellery or govt. securities. It is given to clients who want instant loans against their jewellery as collateral.	Up to Rs. 25,000	2% above the interest rates on fixed deposits.	---Do-----
5.	Urja Loans	For provision of energy saving and renewable energy	----Do------	17%	35 months

[40] The no. of guarantors required depends on the amount of the loan. For an amount equal to or less than Rs.10,000, one individual is required who may be a family member. And for amounts greater than Rs. 10,000, two guarantors are required one of whom should be a govt. worker.

		equipment like solar cookers and lights.It is secured against fixed assets.			
Housing Loans					
6.	Paki Bhit	To make improvements in home such as room additions or minor improvements such as plastering and tilling.	Up to Rs. 25,000	14.5% for HUDCO[41] financed loans, otherwise 17%.	60 months
7.	Equitable Mortgage	To purchase new home. It is secured by land titles.	Up to 80% of the property value.	17 %	60 months
8.	Panprakash	Parivartan Slum Upgradation loan	Upto Rs. 1,600	17 %	35 months.

Source: Compiled from various sources

This is not the exhaustive list of the products offered by the bank, as it does not advertise its products and they are designed on the basis of person's requirements and the economic situation. Similarly, Ujjivan also offers a range of products through the Grameen Methodology (Table 3.4.6).

Table 3.4.6 : Ujjivan's Loan Products

S.No.	Name of Scheme	Purpose of Loan	Amount of loan	Rate of interest charged	Time period
1.	Family loans	To finance a range of family needs, including school expenses, medical care, housing expenses, and the repayment of high-cost debt previously taken for family needs.	Rs. 6,000-10,000	1.25% p.m. flat or 26.9% p.a. declining.	Upto 12 months
2.	Business loans	To finance a range of business needs, including working capital, capital equipment, vocational training, or the repayment of high-cost debt previously taken for business needs	Rs. 6,000 – 12,000	1.1% p.m. flat or 24% p.a. declining.	Upto 24 months
3.	Combo loans	Provides financing for a combination of family and business needs.	Rs. 6,000 – 12,000	1.1% p.m. flat or 24% p.a. declining.	Upto 24 months
4.	Housing loans	Provides financing for rental deposits, lease amounts, or house improvements.	Rs.10,000 – 30,000	1-1.1% p.m. flat or 21.5-24% p.a. declining.	Upto 36 months.

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41 SEWA Bank is among the recipients of HUDCO capital at a below-market interest rate of 9%.

5.	Emergency loans	Allows a customer with strong track record of over 6 months to avail loans to meet unforeseen emergency requirements. The loans are disbursed within 24 hours.	Rs. 1,500	Same as existing loan.	6 months
6.	Festival loans	Gives customers with strong track record of over 6 months to avail loans for festival expenses.	Rs. 1,500	1.25% p.m. flat or 26.9% p.a. declining.	6 months
7.	Top Up loans	Provides additional financing of 10-20% over initial loan sizes for customers with strong track records of over 6 months.	110-120% of initial loan sizes.	Same as existing loan.	12 months

Source: Ujjivan, *Annual Report (2006- 07).*

Family loans have a higher uptake in the total loan portfolio of the mFI (68%) to be followed by the business (27%) and the festival & the emergency loans (5%). Even though housing loans are a major need in the urban context, many mFIs have apprehensions in its provisions, as it is deemed to involve large amounts with long tenors. However, it found in its geography that people do not require loan necessarily for buying of house. The clients have varied needs within their demand for housing such as, Renting, leasing and owning of house and they graduate from one to another in a sequential manner (Ghate, P. 2007). Its innovative strategy pertains to designing of different housing products.

Savings can be a major source of funding for the organizations and is an integral financial need of the people. The huge demand for savings is also revealed by the MSDF- ICICI Bank- Care conducted research[42]; 69% of the slum dwellers save an average of Rs.1, 415 per month across the year at home. However, the microfinance institutions, except for Cooperative and Local Area Banks are not allowed to raise deposits[43]. As deposit can also serve as a cheap source of funding for the micro finance institution, it can thereby also help in reducing the interest rates charged to the borrowers. From the very beginning the SEWA Bank has also emphasized on the need for mobilization of savings. It provides

[42] Refer, A promise to pay the Bearer: An exploration of the Potential for urban microfinance in India.
[43] The much discussed microfinance bill & currently considered by the Parliamentary Standing committee seeks to provide the authority to the Micro finance organizations (Societies, Trusts, cooperatives) to collect the thrift with certain safeguards.

wide range of savings products to meet their needs and the cash flows, such as, recurring deposits, Daily saving scheme, housing fund scheme, schemes meant for emergency & other purposes. Due to the prevailing regulatory environment most of the urban organizations are prohibited from raising deposits, but in order to cater to the poor's diverse needs, organizations such as, Swadhaar FinAccess is acting as a Business correspondent[44] of ICICI Bank and Citibank.

Micro insurance: Along with the provision of savings and credit, micro insurance constitutes an important part of the financial services of the mFIs to cater to the poor. It is estimated that India has the largest number of micro insurance providers globally. However, despite this reality, only 0.46% of India's population has health insurance (Dror, I. 2007). According to a UNDP study, approximately 950 million people have no insurance coverage (ibid).

In case of most of the microfinance institutons, the micro insurance is packaged along with the microcredit in the sense that it is mandatory for the client to take insurance. These schemes have generally contributed to loan security. As per the regulatory environment, the minimum capital requirements for obtaining the insurance license is Rs. 100 crores and no waivers are granted to micro insurers (Alliance AG, GTZ & UNDP ,2006). The new guideline issued by the IRDA, allows for the microinsurance to be provided by the regulated insurer through an NGO, mFI or any community organization. The rate of caps for commissions is fixed at 20% for servicing life insurance and 7.5% in case of health insurance. In order to serve their clients, most of the mFIs have partnered with the insurers (Table 3.4.7). The mFIs are generally on the look out for the insurer providing the best deal, therefore it is subject to change. However, in majority of the cases, the coverage is restricted to the life insurance only.

[44] As per the RBI guidelines, in case of Business correspondent (BC)model, the banks can use the services of the microfinance institutions (mFIs) for provision of the services to the clients, however, the mFIs are not allowed to charge any fee to the client; they are paid a commission in lieu of the services offered.

Table 3.4.7: Channels of Provision of Insurance to the Urban Clients

S.No.	Micro finance Institution	Insurer	Product
1.	Sewa Bank*	LIC, Om Kotak and Bajaj Allianz	Life Insurance
		ICICI Lombard General Insurance	Non life products
2.	Ujjivan	LIC	Life Insurance
3.	ICNW	LIC	Life Insurance
		Royal Sundaram	Health Insurance
4.	Sadhana	LIC	Life insurance
5.	Satin Credit Care	Max NewYork Life Insurance	Life Insurance
6.	Mimofinance	Birla Sunlife	Life Insurance

Note- * Sewa Bank has consistently switched between the Partner- Agent & in-house model.
Source: Compiled from respective websites.

Microinsurance in India is largely supply driven on account of lack of awareness on the part of the microfinance clients. Their has infact been a paradigm movement from the saying that the "poor are unbankable" to the "poor are uninsurable".

Remittances : Like Savings, Credit and insurance in microfinance, remittance is yet another crucial need of the migrant workers in the urban areas. If urban microfinance is a growing sector, then remittance services are still in infancy. The remittance services available to the poor are very limited with formal sources like Postal money order and bank draft, whereas, informally it could be remitted through the friends and the informal money transfer channels. The postal money order charge of 5% is quite high, and although the Bank draft comes at a relatively cheaper rate, most of the families back home might not have an access to the bank branch to encash their drafts. Similarly, the informal sources have their own flaws, in the sense of waiting for the friends to visit the home place or an insecurity of funds transfer. All this created a demand for the provision of remittance service by the microfinance organizations. However, not enough institutions have entered into provision of this service. It was against this backdrop that Adhikar, one of the microfinance institutions in Orissa started the money transfer service at the rate of 2%[45] of the funds remitted.

Like the other microfinance services, as of now, the provision of remittance can be provided through tie up with some other Micro finance institution, banks or money

[45] As given in, 'Adhikar Annual Report 2005-06'

transfer company. The micro finance institution Spandana's tie up with the Western Union, a money transfer services provider is a case that can be illustrated in this regard (Intellecap, 2007). However, to provide the service there should be a critical number of migrants in the place of destination from a particular place of origin. Therefore, there are not many urban microfinance institutions offering this service.

Pension : As it cannot be provided by the microfinance organizations, as per the RBI regulations, it is being provided by certain mFIs in partnership with the UTI Bank. The notable being the case of SEWA Bank, which partnered in early 2006 with the Unit Trust of India for the provision of the service to its members. It strives to benefit the self employed women who are currently deprived of formal age old benefits. The installments (in multiples of Rs. 50) are collected by the SEWA bank and are transferred to the UTI, which opens individual retirement accounts. This amount is then invested through the UTI mutual fund into debt and equity. Through this the members are cushioned for their old age and are also able to invest in the stock market and reap profit accordingly.(Intellecap ,2007 & IFMR study, 2005)

Mechanism

Although, like the rural areas most of the microfinance institutions in the urban areas seem to be following the group lending methodology for disbursing of credit to the poor, and report high repayment rates (around 99% in case of Ujjivan), the problems associated with the joint liability mechanism under group lending need not be overlooked (a brief discussion is provided in the next chapter). However, certain microfinance institutions prefer to provide loans through the individual lending only, such as, Sewa Bank in Ahmedabad and Satin credit care in Delhi. In fact, the institutions are not relying on one delivery channel. It has become more flexible and innovative.

Funding Pattern

Barring few, like SEWA Bank in Ahmedabad & Working women's forum in Chennai, most of the urban microfinance institutions are late starters, i.e. making a presence into the scene in post 2000 period. And they are more geared towards achieving scale by rapid expansion of their operations in the urban areas. It perhaps seems that the goal of serving the poorest of the poor appears to be sub-serviant to the goal of achieving sustainability. So, they have either entered into the sector with the legal form (NBFC) or are in the process of transformation, which would facilitate their expansion. Their legal status coupled with the professional background of the promoters[46], has made it easier even for the start ups to attract the commercial private equity. The equity infusion & the guarantees provided by the organizations, such as, Grameen Foundation and Duetsche Bank has better placed the microfinance institutions to leverage the commercial debt at a cost ranging from 10-14%. Furthermore, the NBFCs are charging a rate of interest which varies between 25-35%.

Cost of Lending

Although the cost of lending is highly location specific, it cannot be generalized for the microfinance institutions operating in different locations. However, for the constraints with respect to the available information, it has to be studied for a microfinance institution operating in a particular semi- urban area (Table 3.4.8).

It is clear from the table 3.4.8 that in case of both the rural and the semi- urban branches of the microfinance institutions, a higher cost is incurred on monitoring & collection of the dues (Rs. 97) to be followed by the loan disbursal process (Rs. 83 in semi- urban and Rs. 92 in the rural areas). While the direct transaction cost is relatively lower in the semi-urban areas due to the higher population density, it is vice-versa with respect to the indirect transaction cost (fixed costs at the offices eg., rent, electricity, maintenance expenditure etc.).

[46] According to the Sa-dhan (2007): side by side Report, Promoters are mostly men with around 13 years of experience in microfinance, professional backgrounds of law, consultancy, banking, accounting, etc.

Table 3.4.8: Transaction costs for the first loans of mFI operating in semi- urban and rural area (per member costs)

	Cost	Semi-urban (Rs.)	Rural(Rs.)
I.	***Direct Transaction cost***	***237***	***260***
A.	**Group Formation cost**	**57**	**71**
	Cost of formation	41	55
	Cost of training	16	16
B.	**Cost of Direct Admin. activity**	**83**	**92**
	Cost of Appraisal	4	4
	Documentation	2	2
	Disbursement	2	2
	Other Direct Admin. cost	29	38
	Cost of branch manager supervision	46	46
C.	**Cost of Monitoring**	**97**	**97**
	Loan utilization checks	8	8
	Collection of installments	89	89
II.	***Indirect Transaction cost***	***184***	***161***
	Allocated Head office exp.	69	69
	Allocated Branch Office exp.	115	92
	Total	421	421

Source: Shankar S. (2006)

The above discussion centers on the trends & pattern of growth of the various microfinance programmes in the rural and the urban areas. It highlights the performance of the programmes, in terms of their growth and outreach. In the next chapter, we shall try to examine the nature of this outreach. As for a poverty alleviation programme to be successful, what matters is not only the growth but the inclusiveness of the programme.

CHAPTER FOUR

Targeting under the Microfinance Programmes

One of the key considerations under the provision of financial services which entail huge subsidies from the government & other donors is to examine their targeting. It has been observed from the impact studies on microfinance which although are scanty, that the advantages in terms of income enhancement and other parameters are skewed in favour of the not so poor segment. Hulme and Mosley (1996) who carried out an impact assessment study of 13 selected microcredit programmes worldwide, found that the impact of loan on the borrowers' income was related to their existing level of income. The upper and the middle poor sections have a greater capacity relative to the core poor, to utilize the enterprise opportunities opened up through the access to credit. The World Development Report (2001) emphasized the potential of microfinance programmes to address the issue of vulnerability. However, it recognized that the reach of the programme has been limited to moderately poor sections rather than the poorest and recommends greater flexibility in loan size and repayment schedules to reach the poorer sections. It is not only the issue of beneficiaries of the programme belonging to the not so poor segment, but it has been seen that the benefits are being availed by the richer segment. Coleman B.E.(2006) evaluating the outreach and the impact of two microfinance programmes in Thailand, reports that the wealthier villagers are significantly more likely to participate than the poor. Moreover, the wealthiest often became programme committee members and borrow substantially more than the others.

In this section we have tried to examine that whether the concerns raised from the studies on the global microfinance programmes regarding the microfinance bypassing the poor segment of the population hold also in case of India.

"Did you know that more than 400 women join the SHG movement in India every hour and an NGO joins the Microfinance programme every day?"

www.nabard.org

This is the statement which greets the visitors to the microfinance home page of the NABARD, the apex national bank that actively promotes the microfinance movement in India .NABARD considers this model to have great potential not only as a means of financial intermediation but also social empowerment. But the question that arises is that is it really addressing its goal of serving the poor, or is it benefiting the richer segment as has generally been seen in the microfinance programmes in the global context.

For the purpose, targeting under the microfinance programmes, SGSY and SBLP are studied. As has already been explained in the chapter 1, we construct the districtwise developmental and deprivational indicators reflecting the poverty level of the districts from Primary Census Abstract (2001) and we try to correlate them with them with the programme performance indicators, which are normalized as per thousand rural population.

4.1 Targeting under Self Help Group Bank Linkage Programme

The performance of the programme is measured in terms of two variables, no. of SHGs Bank linked per thousand rural population and the bank loan provided to the SHGs per rural thousand population (Table 4.1.1). As far as the developmental indicators are concerned, their exists a positive and significant relation between the Communication index and the number of SHGs credit linked. The same picture is witnessed in case of female literacy, implying that higher level of literacy and awareness fosters the programme. Availability of electricity is yet another developmental indicator that has a positive impact on the programme. SBLP has not been able to reach the districts with high concentration of female marginal workers. However, it has been a bit inclusive in the sense that it has registered growth in the districts where the share of the agricultural labourers is high. Although their exists a negative relation between the ST population per thousand rural population and the SHGs bank linked, it could be ignored as it is insignificant.

Table 4.1.1: Targeting under SBLP (2001-02)

	No. of SHGs bank linked per thousand rural population	Bank loan to SHGs per thousand rural population
Female Literates per thousand female population	.083	.110 **
Agricultural Labourers per thousand rural population	.205 **	.230 **
Female Marginal Workers per thousand female population	-.088 *	-. 119 **
SC population per thousand rural population	.089 *	.085 *
ST population per thousand rural population	- .062	-.077
Communication index	.429 **	.436**
Electricity available per thousand rural population	.115 **	.177 **

Note :

1.** Correlation is significant at the .01 level (2 tailed)
2.* Correlation is significant at the .05 level (2 tailed)
3. No. of Districts = 561

From the analysis, it can be inferred that the programme largely caters to the developed districts. One of the important reason resulting in the programme being non-inclusive is the high rate of interest charged on the loans given to the members. Table 4.1.2 shows the interest rate charged under the programme.

Table 4.1.2 : Rates of Interest charged by different intermediaries under Microcredit

(figs. in % p.a)

	Model I		Model II		Model III	
	interest	Margin	interest	Margin	interest	Margin
NABARD refinance to bank*	6.5		6.5		6.5	
Bank to SHGs	12-14	5.5-7.5	12-14	5.5-7.5		
Bank to NGOs	N.A.		N.A.		10-10.5	3.5-4
NGO to SHG	N.A.		N.A.		12-24	2-14
SHG to members	24-36	10-24	24-36	10-24	24-36	6-12

Note: * Refer circular no.116/ ICD-11/ 2006.
Source: Adapted from Chavan P. and R.Rajkumar (2005)

The rate of interest charged from the SHG members is particularly high varying between 24-36%. The finding of the table 4.1.2 is confirmed by the impact studies carried out thereafter (Appendix 4.1). The recent impact based study carried out by NCAER (2008) shows the interest rate charged by the SHGs to its members in different states (Table 4.1.3).

Table 4.1.3: Loan provided by SHGs to the members in different States

State	Average no. of months after group formation, when the SHGs starts providing loan	Average loan amount per member (Rs.)	Interest rate charged per annum (%)
Assam	7.3	3093.68	33.4
Orissa	9.1	2040.07	28.1
Uttar Pradesh	6.2	6428.6	23.2
Maharashtra	5.4	6516.27	21.4
Andhra Pradesh	6	4754.38	17.8
Karnataka	8.2	5859.13	20.6
All India	7	4833.86	24.1

Source: NCAER Report (March, 2008), see *References*.

It can be inferred from the above that the programme has not been able to focus on the poor because of the high interest rates charged by the groups, due to which the members tend to exclude themselves from it. Moreover, the members have an access to loan after almost 7 months of the group formation.

4.2 Targeting under Swarnjayanti Grameen Swarozgar Yojana (SGSY)

A major finding of the C & AG's evaluation study (2003) was that only 4.59 per cent of the total BPL families were covered during 1999-2002. The above findings have been reinforced by other studies also. National Study on SGSY (2006), a NIRD study estimates that around 20-25% of the Above poverty line were included in the list of the swarozgaris. Regional evaluation studies also point out to the mistargeting under the programme. A mid term evaluation study(2007) in West Bengal, states that only 42 % of the Below Poverty Line population was assisted under the programme.

The present section tries to look at the targeting of the programme at the district level by constructing the developmental indicators & others that show the inclusiveness of the programme & correlating them with programme performance indicators. All the variables are normalized at per thousand rural population. The inclusiveness indicators are, Agricultural Labourers per thousand rural population, Female marginal workers per thousand female population, SC population per thousand rural population, ST population per thousand rural population ; the developmental indicators being female Literates per thousand female population, Communication index, Electricity available per thousand rural population. The programme performance indicators taken in the case of SGSY are total allocation per thousand rural population, no. of SHGs formed per thousand rural population, No. of SHGs taken up economic activities per thousand rural population. The table 4.2.1 presents the results of the correlations, so obtained.

Table 4.2.1: Targeting under SGSY (2001-02)

	Total allocation per thousand rural population	Total SHGs formed per thousand rural population	SHGs taken up economic activities per thousand rural population
Female Literates per thousand female population	.031	.016	.170**
Agricultural Labourers per thousand rural population	-.142 **	.324 **	- .036 **
Female Marginal Workers per thousand female population	-.049	.121 **	-.003
SC population per thousand rural population	-.324 **	-.026	-.130 **
ST population per thousand rural population	.474 **	.079	.194 **
Communication index	.212 **	.110 **	.124 **
Electricity available per thousand rural population	- .322 *	.106 *	.080

Note :

1. ** Correlation is significant at the .01 level (2 tailed)
2. * Correlation is significant at the .05 level (2 tailed)
3. No. of Districts = 569

The table 4.2.1 shows that the female literacy has a positive bearing on the amount of funds allocated, the number of SHGs formed and the SHGs that took up economic activity. Although, it is significant only in the later case, it highlights the fact that the female education level helps in progress of the programme. As has been expected, the communication or the awareness among the people fosters the programme. The negative relation between the Electricity availability to the population & the allocation shows that funds are flowing to the less developed districts. In case of the inclusiveness of the programme, the table reveals that their exists an inverse relationship between the allocation & the no. of agricultural labourers, the female marginal workers & the SC population across the districts. This shows that allocation is relatively less in the districts with a higher percentage of the agricultural labourers, female marginal workers and the SC population. This complements our earlier finding that not only the are allocation of funds at the State level discretionary with little depending on the utilization pattern, but so are the funds allocated by the DRDAs to the districts. The fund allocation across the districts has no relationship with the requirements of the districts. The ineffectiveness or the reluctance of the implementing agencies can also be observed at the distict level. Although SHGs are being formed in the districts, where the agricultural labourers, the women marginal workers or the ST population is more, they have not commenced the economic activities. Infact it highlights the overall lacunae with respect to the programmes' design and implementation, the lack of integration between the different agencies, the disinterest shown by the agencies towards the programme.

The more worrisome fact about the programmes is that they have bypassed the marginalized population. An important reason for which can be highlighted as the high interest rates compared to the other formal sources, which often leads to self exclusion by the members. It is seen that in the case of SHG- Bank linkage programme the rate of interest at which the members are provided loan varies from 24-36%, it is in the range of 24-60% (NIPFP, 2005) under SGSY. Although, the proponents[47] of the SBLP argue that the high rates of interest is not a deterrent as the returns are internalized or used for the

[47] Based on discussions with the Ramanathan

welfare of the group activities only. However, initially what matters the most while forming the groups for availing the loan is the cost of the funds.

4.3 Microfinance Institutions -Targeting

The microfinance institutions have also not been able to include the excluded segment. Sa- dhan (2007) reports that the 129 microfinance institutions listed, are able to reach only 117 (58 %) of the 200 poorest districts identified under the National Rural Employment Guarantee Programme. According to M.Cril (2007), the coverage of the microfinance institutions is not very inclusive in the sense that they hardly cover 10% of the poor.

Moreover, it cannot be considered as successful poverty alleviation programmes as it also leaves the weaker sections out of its fold. As far as microfinance institutions are concerned, Sa-dhan (2007) shows that in the sample of the 97 institutions for which the data was available, only 32% of the clients comprise of SC/ST segment. A brief analysis of the above is shown in the Table 4.3.1. It is quite evident from the table that 69% of the micro finance institutions have less than 50% of their clientele belonging to the SC/ST segment.

Table 4.3.1 Distribution of Micro Finance Institutions by the SC/ST served

SC / ST clients (in %)	Number of mFIs	Percentage share
< 10	14	14.43
10 - 25	20	20.61
25 - 50	33	34.02
50 - 75	15	15.46
75 - 90	09	9.27
> 90	06	6.18
Total	97	100

Source: Computed from Sa-dhan (2007)

Like the governmental programmes, the microfinance institutions seem to be charging a higher rate of interest from the poor. Table 4.3.2 shows that around 33% are charging a rate of interest higher than 24%.

Table 4.3.2 : Distribution of Microfinance Institutions by rate of interest charged

Rate of interest (in %)	Number of mFIs	Percentage share
10-15	16	12.8
15-20	39	31.2
20-24	29	23.2
> 24	41	32.8
Total	125	100

Source: Computed from Ghate P.(2007)

4.4 Remarks

The above discussion shows that generally the poor borrowers are provided the loan at high interest rates ranging from 24-36%. In some of the cases, it is reported to be as high as 60%. It has been argued that the high costing of the provision of the services to the poor of low amount gets translated into the high rates of interest. The pricing of the loans is determined by three factors; the cost of the credit, loan loss provision and the transaction cost.

As far as the cost of mobilization of the funds is concerned, most of the microfinance institutions have an access to subsidized credit as can be seen from the Table 4.4.1.

Table 4.4.1: Cost of credit for various microfinance service providers

S.No.	Funding Agency	Borrowing agency	Cost of credit	Type of support
1.	Deutsche Bank Microcredit Development Fund (Donor)	mFIs	1-5%	Subordinated debt*
2.	Hivos (Donor)	mFIs		Grants which can be used for investments, meeting start up losses, capacity building.
3.	kfW (Donor)	mFIs	2 %	Loans, equity investment, Grants, Guarantees, Technical assistance

4.	Rabobank foundation (Donor)	mFIs		Loans, Grants, Guarantees, Technical assistance.
5.	NABARD	Banks	6.5%	Loan, Grants for capacity building
		mFIs	3.5%	Loans, Equity
6.	SIDBI	mFIs	9- 11%	Loans, Grants
7.	RMK	NGOs	8%	Loan
		mFIs	5%	Loan
8.	FWWB	mFIs	10.5%	Loans, Grants

Note: * Donor is willing to be repaid after other lenders have been paid.
Source: www.mixmarket.org, various sources.

Besides, the high rate of interest the other major issue which often leads to the exclusion of the poor is the methodology of providing loan to the poor. It is seen that most of the microfinance institutions are lending through the group lending methodology

4.4.1 Group Lending Mechanism based on Joint Liability under Microfinance –A debate

Mohammad Yunus advocated the methodology of group lending for bringing the financial access to the poor, which later on took the form of the Grameen Bank in 1983. Since then the model of group lending based on the Joint liability has been adapted world over although with slight variations. The most celebrated feature of the model was its reliance on the Joint Liability mechanism through which the bank seek to pass on its monitoring costs on to the group. Most of the early literature focused on group lending with joint liability as it was purported to allow the lender to bypass the problems of moral hazard and adverse selection. As the members are jointly liable for the repayments of the loan, the members tend to select the peers, whom they conceive to repay their loans, thereby lessening the effects of adverse selection. In addition to this, the problem of moral hazard is reduced as the members have better information about their peers' activities, and an incentive to monitor each others' behaviour. In this section, we first discuss the premises on which the various authors have shown that the Joint Liability feature under the microfinance programmes leads to desirable outcomes, to be followed by the basis on which it has been criticized.

Joint Liability Mechanism- An innovative strategy for positive outcomes

The borrowers are seen to take unobservable actions after the loan is disbursed and before the returns are realized, thereby affecting the loan repayments. Stiglitz (1990) considers this as a problem of ex-ante moral hazard, wherein although the borrower has a choice between opting for the safe or risky project, but he undertakes risky project which has a lower probability of success and higher returns.Stiglitz shows that this problem could be mitigated through the joint liability mechanism. In this case, the borrower tends to monitor each other so that they take safe projects, leading to an increase in the likelihood of the repayment. The paper demonstrates that although it results in transfer of monitoring costs from the bank which is in a better position to bear the risk to the group members, it also leads to an improvement in the welfare of the borrowers.

The basis of his theoretical exercise can be explained as follows. In case of the individual lending, the lending agency is not able to distinguish the safe from the risky borrowers; therefore it charges a higher rate of interest (r) from the borrowers. Contrary to this, assuming that there are two borrowers in a group, the borrower pays to the lender a rate of interest equal to r* if her project succeeds and a joint liability payment of c*, if her partner's project fails and pays nothing in case of failure of her project. Therefore, if the c* is set high enough, the borrowers tend to monitor each other so that the peer chooses the safe project. Thus, by exploiting the ability of the peers to monitor each other and enforce contracts, the group lending contracts offers a way to the lending agency to lower the interest rate thereby raising the expected utility of the borrowers.

However the advantages of joint liability mechanism under the group lending are based on certain conditions. Besley and Coate (1995) point out the importance of *social connectedness* among the group that leads to the successful borrower repaying the loan of the fellow member who obtains poor returns on her project. Under the individual lending, in case the borrower defaults he fears only the penalty imposed by the bank, but under the group lending she also incurs the wrath of her group members, even more so when the groups are formed from the same community with the high degree of social connectedness. Ghatak and Guinnane (1999) reinforces the above findings, by stating that the joint liability mechanism works only when the social sanctions are effective and the monitoring costs are low. Ghatak (1999) argue that the group lending always leads to positive assortative matching, i.e. members of the same type (risky or safe) uniting together, leading to positive outcome.

The above section shows that the joint liability leads to peer monitoring which can alleviate the problems of credit market failure, even though the borrowers have no collateral to offer. The next section discusses that it is not the joint liability mechanism but the other incentives such as sequential lending, Progressive lending which describe the efficacy of the microfinance institutions.

Beyond Joint Liability Mechanism

Departing from the Joint liability mechanism under the groups, the recent theorists have propounded that there are other dynamic features related to microfinance which results in higher repayment rates or infact including the excluded segment who find it difficult to group with the others.

Jain and Mansuri (2003) point out that it is the existence of regularly repayment schedules which result in high repayment rates which start immediately after the disbursal of loans. The borrowers are able to repay the loan not out of their present income stream but by borrowing from the informal lenders. The microfinance market thrives due to the presence of informal lenders in the area. It is due to the tightly structured repayments that a large number of eligible households do not participate in the programme. The early installment plan although leads to a higher repayment rates, it tends to exclude the eligible borrowers of microfinance who often have few assets, less diversified income and are more likely to rely on the wage labour. Evans et al (1999) reported that some two –thirds of the eligible participants in the sample of 24, 234 households in Bangladesh did not participate in any microcredit programme.

According to Roy Caudhary P. (2005), the joint liability mechanism may weaken, as their could be an under monitoring of the peers by the members. He states that the joint liability mechanism, which purely relies on the peer monitoring could result in the zero monitoring in the equilibrium. An individual monitors the others, only if he is monitored, otherwise he may invest in the non- verifiable private benefit project and the lending agency incurs losses. However sequential financing with or without joint liability, can lead to positive level of monitoring by the borrowers. If initially borrower 1 does not monitor and borrower 2 gets the loan, she will invest in the project with non-verifiable private benefits- the bank does not receive repayments and would not lend borrower 1. Because of this borrower 1 would monitor borrower 2, forcing her to take the project with verifiable returns, ensuring that she gets the loan from the bank in future. This in turn creates a greater incentive for borrower 2 to monitor borrower 1. The other features which could result in increased repayments in absence of the joint liability have been stated as access to additional loans as a way to discourage borrowers from default (Tedeschi G., 2006).

According to some, the joint liability mechanism under the group lending has been criticized as it can also lead to free rider problems (Cassar, et al 2005) wherein the bad client tries not to repay the loan as the returns are unobservable and believes that the other members would pay on his behalf. Moreover, the lending institution is indifferent as the amount of credit is repaid. In other words, the group liability is costly or acts as a burden for the member who has to repay the loan of the fellow member. Although the empirical studies are relatively scanty on this matter, however, a study carried out in Philippines bank reports that the group lending may create excessive pressure and discourage the good clients from borrowing.

On the basis of the above cited theoretical exercises, it can be inferred that using individual lending with dynamic incentives can be a more sustainable alternative in order to avoid strategic default .However, it relies more on development of savings and insurance product that can protect the members in case of non- strategic or negative economic shocks.

CHAPTER FIVE

Conclusion

Microfinance has become the latest buzzword in the developmental economics. It is considered to be a panacea for all the problems related to poverty. Following the success of the Grameen Bank in Bangladesh, it is being pushed downwards by the theorists and the politicians alike in an attempt to reach the unreached. The present study tries to look at the functioning of the microfinance sector in India with the emphasis on the targeting of the credit under the various microfinance programmes. For the purpose of the study, the case study of two of the governmental initiatives on the front of microfinance is undertaken.

It seems from the analysis that there are certain serious flaws with the microfinance programmes. The Nabard's SHG Bank programme (SBLP) which reported rapid growth rates with regard to the number of SHGs provided with the credit and amount of loan provided to them in the decade of 1990 has witnessed a decline thereafter. The programme is also seen to be concentrated in the southern states, however, some regional imbalances have been rectified following the Nabard's policy of priority state lending. Further, in case of SBLP around 67% of the SHGs provided with the credit in the earlier years remained outside the further access to credit in 2007 from the same source. This is despite the fact that the repayment rates have been reported to be as high as 95% (Nabard, 2006-07). Among others like being minimalist in approach, one of the important reasons that can be attributed to the decline in the number of SHGs availing repeat loans can be the high interest rates. In regard to the SGSY, like the erstwhile IRDP it follows more of a supply driven approach. At each & every stage right from the formation of groups to the utilization of funds, there is an attempt to fulfill the targets. Considering the SHGs formed under all the programmes, there is haste in forming of groups, as around 30% of the SHGs promoted or formed are still not provided credit or are self- financing. As a result of which the programme faces serious failures like lower number of groups passing grade II and becoming eligible for undertaking economic activities, lack of interest shown by the bankers. Moreover, a higher percentage of expenditure under the programme is incurred on provision of subsidies rather than on more essential heads like on infrastructure and training.

As far as the urban microfinance institutions are concerned, there are still a very limited number of microfinance institutions operating in urban areas. Regarding their service provision, they use service widening approach rather than the service deepening approach. In other words, although some of them tend to provide a comprehensive range of services ranging from credit to insurance to remittance, the designing of the products is rigid, in the sense that it is not able to cater to the diverse needs of the segment. Even though housing loans are a major need in the urban context, many microfinance institutions have apprehensions in its provisions, as it is deemed to involve large amounts with long tenors. The range of insurance products offered by the microfinance institutions also seem to be restricted to the life insurance only, which is generally provided to cushion the microfinance institution in case of the non- strategic default by the member. The urban poor are not being safeguarded against the risks which inflict them the most like related to the health which is more expensive in the urban areas or the ones which are covariant in nature. Summarizing, although some microfinance institutions have started providing microfinance in the urban areas, there is a clear need for diversification of services. The access to funding does not seem to be a deterrent in their achieving a scale and diversifying their product offerings. Most of the microfinance institutions are charging a rate of interest greater than 30%. It can be argued that it is to meet the high operating costs in the urban setting. However, Shankar S. (2006) on the basis of the field experiments has shown that the cost of lending in the urban setting is at par with the rural operations.

Although, the microfinance programmes claim to be making substantial contribution in reducing poverty, improving education and health, the status of client households, and empowering women both financially & socially, they are not without weaknesses .Along with the above mentioned flaws, the most worrisome fact is that they have not been able to serve the very objective for which they were designed. Microfinance in simple terms means the provision of credit facilities to the poor at affordable terms. Both the aspects of the credit delivery i.e., the reach of the programme to the poor and low interest rates are significant and infact subservient to each other. The poor cannot be reached with the high interest rates. Most of the poor tend to exclude themselves from the programmes due to the high interest rates.

The discussions in the preceding chapters point out that generally the borrowers are provided the loan at high interest rates ranging from 24-36%. In some of the cases, it is reported to be as high as 60%. It has been seen that in the initial years, rate of interest was recognized as an important factor in the access of credit by the poor leading to a focus on the provision of the credit to the poor at low rates through the RBI's policy of differential interest rates. However, in the recent years although the interest rates seem to have moderated for the other categories, it has hardened for the poor. In order to create a competitive environment for the certain categories, like in case of exports, the credit is provided at less than prime lending rates[48].Although their are still caps by the RBI which prohibits the banks' from lending an amount less than Rs 2,00,000 at the rate higher than the prime lending rate, but the poor often do not have access to such loans.

Therefore, the question that arises is *how far is it equitable to charge a higher rate of interest from the poor who are faced with uncertain returns?*

Although arguments have been raised in favour of interest rates being fair on account of the high mobilization costs and transaction costs incurred on the provision of the low amount services, much remains to be seen in this context. The major chunk of the credit is availed by the microfinance institutions from the donors who provide credit at subsidized rates and the social investors which do not demand a high return and can take on a broad higher risk such as, Oikiocredit (Dutch cooperative), Calvert Foundation, Gray ghost etc. (CGAP,). As of now, most of the funds are of the nature of social investments with very few being purely commercial, which demand a high rate of return.

[48] Like in case of exports of certain commodities, like leather, marine products, textiles excluding man made fabrics, handicrafts, etc. , the credit is provided at PLR (-) 6.5% .(Refer RBI circular no. DBOD. Dir.(Exp).BC.No.54/04.02.01/2007- 08)

This shows the adequate availability of funds for the microfinance institutions at affordable rates or highly subsidized sector. According to Morduch J. (2005), this subsidization is also not likely to end soon. The other component leading to the high pricing of the loan is the transaction costs. Although it is infact the highest component of the total cost, it will decrease over time as the microfinance institution gains experience & through the use of technology.

It might be argued that a higher proportion of the subsidized funding is cornered by the relatively larger microfinance institutions or in other words, the bigger or the better-established microfinance institutions might be getting all the funding (Barua, K. and Arjun Raychaudhuri, 2005). The shortage of funds for the NGOs could be overcome through the legalization of thrift facilities as proposed by the recently drafted Micro Finance Sector Development and Regulation Bill (MFDRB, 2007). The thrift could also prove as a cheap source of funding for them, thereby leading to a decrease in the cost of lending.The way out could also be the provision of subsidies by the government to the start-ups or better per se the NGO - mFIs to manage their cost, even though NABARD seeks to focus exclusively on the start-ups which have a problem in accessing loans and equity from other sources (Appendix 3.1). In the recent years although their has been a focus on moving towards operational sustainability by the microfinance institutions, but the subsidies are required as they prevent the full costs of operation from being passed on to the customers in the form of higher fees and the interest rates. They allow the institutions to immediately charge the customers the rates that will become feasible only once the institution reaches the large scale (Morduch, J. 2005).

At this juncture, it might be raised that Subsidies are neither flawed nor inherently useful, rather it depends on its design and implementation. There is a need for smart subsidies, which are not provided to the beneficiaries but to the institutions, so that the services could be provided to them at the affordable rates. The recently announced loan waiver policy of the government will prove to be a serious failure on this ground. According to the above mentioned policy[49], the marginal (holding upto 1 hectare) and the small

[49] Refer "Agriculture Debt waiver and Debt Relief Scheme, 2008"(http://finmin.nic.in)

farmers (1-2 hectares) are to receive a complete waiver on loans & the disbursed upto 31 March 2007 with overdue as on 31Dec'2007, whereas, the other farmers (holding greater than 2 hectares) are to receive a debt relief in the form of one time settlement (OTS) under which they are given a rebate of 25% or Rs. 20,000 whichever is higher, subject to the condition that the farmer pays the remaining in not more than 3 installments. There are certain ill-effects that can be perceived in this scheme. Firstly, the loan waiver could deteriorate the credit culture among the beneficiaries, as they often act as an indicator of future loan waivers. Secondly, the implementing agencies i.e. the banks would be less willing in the future to provide the loans to the farmers as there are a lot of procedural formalities associated with it and there are certain ceilings imposed on the amount that a bank can claim as reimbursement from the central government.

The studies emphasize that the high interest rates are accepted initially by the poor because of their helplessness, which nevertheless becomes a burden on their incomes and the future stream of savings (Rahman, 1999). The high repayments that most of the microfinance programmes project is made not out of the income stream flowing from the assets gained but through further borrowing, even from the moneylenders. Among the target group households, 45 % of the informal loan was utilized for repaying the loans taken from the micro credit institutions (ibid). This often leads to creation of vicious debt cycles for the borrowers. The above mentioned finding was reinstated by Jain and Mansuri (2003), on the basis of the theoretical exercise. According to them the loan repayment schedules in the micro credit programmes allow the informal markets to survive. It states that the entry of a microfinance institution within the village, might increase the activities of the informal credit sector. The microfinance due to its structured repayment schedules tends to *crowd in* rather than *crowd out* informal finance.

Besides, the high rate of interest another issue that demands consideration is the group lending methodology, of which the joint liability is the most celebrated feature. In recent years, however, some micro-lenders, such as the Association for Social Advancement (ASA) in Bangladesh or the Bank Rakyat Indonesia (BRI), have expanded rapidly using individual liability loans. Even the Grameen Bank in Bangladesh, has recently relaxed the group liability clause in the Grameen II program by allowing defaulters to renegotiate their loans without the group pressure. Many of these groups (e.g., ASA) have made this shift while still keeping the groups intact and relying on the other dynamic features of the group lending. In case of Grameen Bank II, although the liability is individualized, the members are still given loan within the groups & have to make public repayments (www.Grameen.org). The public repayments have several incentives for the lender as it acts as an inducement for the borrower to repay her loans in order to avoid the social stigma.

The shift to the individual lending has taken place due to the recognition of some of the drawbacks of the group lending liability. As has already been seen from the studies reported that the reliance on group liability can result in the problem of free riding wherein the bad client tries not to repay the loan as the returns are unobservable and believes that the other members would pay on his behalf. Moreover, the lending institution is indifferent as the amount of credit is repaid. In other words, the group liability is costly or acts as a burden for the member who has to repay the loan of the fellow member.

The point which the above discussion tries to focus on is that microfinance being a tool of poverty alleviation should be designed in a manner that it addresses its objectives of reaching the poor. Long term sustainability of the microfinance institution is important, but it should not be at the cost of excluding the poor clients by charging high rates of interest. The rates of interest should be equitable where the poor should not be charged more than the Prime Lending Rates. The microfinance institutions argue that the pricing of the loans is high because of the high cost associated with the cost of mobilization of funds and the transacting it to the poor. However, the issue is that the highly subsidized large mFIs should provide the credit to the poor at affordable rates and the smaller ones o could be provided a time bound & better targeted subsidy by the government for overcoming their high costs. The loan waivers & other policies which are announced by the government to ease the burden of the poor can not prove to be an effective strategy. Along with the rate of interest, there is a need to explore the more dynamic methodologies of lending to the poor which do not pose a constraint for the poor in availing of credit.

"Poverty is not created by the Poor, but by institutions and policies which surround them. In order to alleviate poverty appropriate changes have to be made in these institutions or Policies. Alternatively, new ones have to be created."

(Mohd. Yunnus)

ANNEXURES

Annexure 2.2.1

Criteria for lending to mFIs under MFDEF [50]

Under the scheme, capital / equity support to mFIs is provided to enable them to leverage capital / equity for accessing commercial and other funds from banks, for providing financial services at an affordable cost to the poor and enable mFIs to achieve sustainability in their credit operations over a period of 3-5 years.

The nature of support is contingent on the legal status of the mFIs. While, the micro finance organizations (mFOs) such as, Society, Trust, Section 25 companies and Cooperative Societies are eligible for long term debt & soft loans @ 3.5% for a tenure of 7 years with an initial moratorium of 2 years (www.nabard.org), the mFI- NBFCs are eligible for equity & preference shares. The maximum capital support provided to the mFOs depends upon the outreach and the amount of loan outstanding (Table A1)

Table A1 : Criteria for lending to mFOs

Outreach (No. of clients)	Loan Amount Outstanding	Capital Support
Upto 10,000	Less than Rs. 2 crores	Max Rs. 25 lakh
10,001 - 20000	Less than Rs. 4 crores	Max Rs. 50 lakh
20,001 - 30,000	Less than Rs. 6 crores	Max Rs. 75 lakh
30,001 - 50,000	Less than Rs. 10 crores	Max Rs. 1 crore

In case of mFI – NBFC, the equity support is restricted to 10% of the paid up capital of the entity subject to the maximum amount of Rs. 2 crores. The general criterion for lending to the mFIs is as given below:

- mFI should have a track record of having undertaken micro finance operations for a minimum period of two years.
- mFI should have achieved the minimum outreach of 2500 poor individuals either through the SHGs, Grameen Groups or Individual lending.

[50] Ref. NABARD Newsletter (May 2006), Vol. 17, No. 2.

- mFI should have been rated by an accredited rating agency under the NABARD's MFI rating scheme.
- It should have formulated a realistic business for the next 3-5 years demonstrating the financial sustainability of its operations.
- It should have competent and adequate staff for proper appraisal and intensive supervision of its operations.
- It should have strong internal control systems and operating procedures. It should maintain a satisfactory and transparent accounting system, MIS, and appropriate internal & external audit systems.

Annexure 3.1.1 :

	Rural		Semi - Urban		Urban		Metropolitan		Total	
	No. of Offices	Credit	No. of Offices	Credit	No. of Offices	Credit	No. of Offices	Credit	No. of Offices	Credit
Dec' 72	5274	25727	4607	78324	2637	119260	2132	338070	14650	561381
Dec' 73	5931	37877	5013	102482	2973	149741	2468	419010	16385	709110
Dec' 74	6441	48271	5474	122475	3327	186997	2696	466798	17938	824541
Dec' 75	7106	60811	6160	145623	3782	218087	3002	582824	20050	1007345
Dec' 76	8588	86987	7133	186857	4413	281782	3351	799684	23485	1355310
Dec' 77	10856	110481	7702	224942	4769	326937	3631	870365	26958	1532725
Dec' 78	12534	153005	8019	287037	5037	394228	3886	996739	29476	1831009
Dec' 79	14171	200304	8295	347986	5494	458583	4259	1149029	32219	2155902
Dec' 80	16111	264284	8678	420065	5462	553528	4134	1238163	34385	2476040
Dec' 81	18887	353125	9054	517103	5726	661401	4268	1406550	37935	2938179
Dec' 82	21265	449559	9332	610587	5980	758111	4389	1688937	40966	3507194
Dec' 83	23782	557579	10115	757536	6649	871634	4839	1911896	45385	4098645
Dec' 84	25541	658857	10331	834906	7347	1089374	5101	2309963	48320	4893100
Dec' 85	29408	748870	10745	908908	8117	1185420	5629	2573037	53899	5416235
Dec' 86	29754	910507	10834	1070194	8256	1334171	5771	2798564	54615	6113436
Dec' 87	30724	1076578	10924	1241929	8364	1550221	5843	3004270	55855	6872998
Dec' 88	31808	1324479	11374	1443018	8576	1803036	5975	3563759	57733	8134292
Mar' 90	34184	1606785	11490	1787551	8744	2359442	6097	4677415	60515	10431193
Mar' 91	35134	1859897	11566	2030744	8833	2777272	6191	5752380	61724	12420293
Mar' 92	35254	2069226	11606	2159928	9023	2964300	6238	6477128	62121	13670582
Mar' 93	35360	2290640	11692	2359174	9376	3301996	6346	8294919	62774	16246729
Mar' 94	35396	2467035	12041	2455394	9529	3586922	6392	9079776	63358	17589127
Mar' 95	33017	2517431	13502	2839385	9575	3914843	7723	11822253	63817	21093912
Mar' 96	32981	2901237	13731	3327877	9798	4510179	7946	14729919	64456	25469212
Mar' 97	32909	3252522	13931	3738360	10061	4993094	8210	16453354	65111	28437330
Mar' 98	32854	3759808	14174	4236013	10341	5800845	8459	19197778	65828	32994444
...............To be contd...............										

Mar' 99	32840	4209081	14348	4851270	10706	6815881	8783	22366272	66677	38242504
Mar' 2000	32673	4875339	14580	5612744	10851	7908916	8957	27611069	67061	46008068
Mar' 01	32640	5443125	14700	6173715	11026	9370580	9159	32855959	67525	53843379
Mar' 02	32443	6668190	14910	7381429	11252	10825401	9292	40724288	67897	65599308
Mar' 03	32283	7715335	15042	8541155	11423	12366196	9330	46974195	68078	75596881
Mar' 04	32107	8502095	15252	10016603	11703	15033609	9583	54478896	68645	88031203
Mar' 05	31967	10997562	15619	13064117	12304	18923656	10079	72261457	69969	115246792
Mar' 06	30,610	12607834	15471	15144546	12697	24577729	11998	99054104	70776	151384213

Source: RBI, Handbook of statistics on Indian economy (2007)

Appendix 4.1

SHG based Studies in India

S.No.	Study	Conducted by	Coverage	Description	Terms of loan
1.	Survey on SHGs (1987)	NABARD, Indian Members of APRACA[51]	46 SHGs spread over 11 states & associated with 20 SHPIs.	Carried out in form of Case Studies.	• Amount ranged from Rs.20 to Rs.500 for the members. • Small emergency loans of up to Rs.100 for a month @ 10%per month could be taken from the accumulated profits of the group. • Interest rates on short-term loans ranged between 2-3 % per month. • Loans taken for consumption purposes generally carried a higher interest rate than that of loans for productive purposes.

					• Longer term loans (10 months or more) formed a very small proportion of the total loans. The interest rates ranged between 1-1.5 % p.m, irrespective of the purpose for which it was being taken.
2.	Impact study on SHG-Bank Linkage programme (2000)	Puhazhendhi and Satyasai for NABARD.	560 household members from 223 SHGs spread over 11 states[52].	A socio-economic impact study. Included SHGs that had completed a minimum of one year of bank linkage.	Rate at which members were borrowing tended to converge towards the range of 12-24%
3.	Impact study on SHG-Bank Linkage programme (2002)	Puhazhendhi and Badatya for NABARD	115 members of 60 SHGs spread over 3 eastern states, i.e. Orissa, Jharkhand & Chattisgarh.	Socio-economic impact study. A comparatative study of the NGO promoted & bank promoted groups.	Interest charged on loans out of group savings in bank linked groups was 2.68% & it was 2.50% per month in case of NGO supported groups.
4.	EDA Rural Systems and APMAS (2006)		214 SHGs in 108 villages in 9 districts in 4 states, i.e., Andhra, Karnataka, Orissa & Rajasthan		Around 83% of the SHGs were lending at the rate of interest greater than 24% per annum.

Compiled from NCAER (2008), *see References.*

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