INNOVATIVE MICRO CREDIT DELIVERY SYSTEM FOR RURAL POVERTY ALLEVIATION: INDIAN EXPERIENCE

BY
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ABSTRACT

The basic philosophy behind the micro credit movement is to eradicate poverty and stimulate the growth of micro enterprises by developing new markets and by promoting a culture of entrepreneurship. In recent years, most of the countries across the globe are in a sweeping mood to promote micro finance institutions not only as a positive rural development intervention but also as a rural development panacea. This intervention becomes all the more important for India which houses world's largest poor population. This paper highlights the micro credit initiatives as a rural development intervention and also makes an attempt to bring to the focus the concept of rural micro finance in which the issues of credit markets and the poor are explored. Further it discusses the prestigious program launched by GOI for poverty alleviation namely SGSY. It also highlights the movement of SHGs initiated in India and its impact especially on rural poor. Due to certain shortcomings in the SGSY program the proposed changes in the program are also highlighted in this paper.

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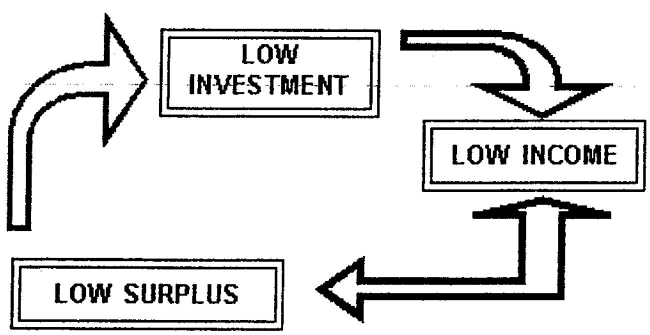
ABOUT INDIA

India falls under low income class according to World Bank. It is second populated country in the world and around 70 % of its population lives in rural area. 60% of people depend on agriculture; as a result there is chronic underemployment and poor per capita income. The obvious result is abject poverty, low rate of education, low sex ratio and poor social and health indicators. The major factor account for high incidence of rural poverty is the low asset base. According to Reserve Bank of India, about 51 % of people possess only 10% of the total asset of India .This has resulted in low production capacity both in agriculture (which contribute around 22-25% of GDP) and Manufacturing sector. Rural people have very low access to institutionalized credit (from commercial banks).

INDIAN POVERTY SCENARIO

Approximately 400 million people in India living below or close to the poverty line could be roughly translated into 75 million households out of which around 60 million are rural household. So poverty in India has predominantly a rural character. While there are several structural dimensions to the rural poverty it is generally accepted that it arises due to the lack of capital or lack of surplus. The rural poor is perpetuating poverty and is the victims of the "vicious cycle of poverty"

Vicious cycle of poverty



The individuals around the poverty line are vulnerable to shocks such as illness of a wage earner, weather, theft, or other such events. These shocks produce a huge claim on the limited financial resources of the family unit, and, absent effective financial services, can drive a family so much deeper into poverty that it can take years to recover.

Today India is facing major problem in reducing poverty. About 250 million people in India are under below poverty line. The problems faced are low per capita income, heavy population pressure, prevalence of massive unemployment and underemployment, low rate of capital formation, misdistribution of wealth and assets, prevalence of low technology and poor economics organization and instability of output of agriculture production.

POVERTY ALLEVIATION PROGRAMMES AND CONCEPUALISATION OF MICROFINANCE

There have been continuous efforts of planners of India in addressing the problem of poverty. Government of India launched various development programmes like Integrated Rural Development Progamme (IRDP), National Rural Employment Programme (NREP), Rural Labour Employment Guarantee Programme (RLEGP) etc. These programmes had contributed in reducing the extent of poverty. However it has been discussed that the impact of these programmes has not been able to give a striking dent to the problem of poverty. Critics point out that the production oriented approach of planning without altering the mode of production could not achieve the desired results of the gains of development by owners of instrument of production. The mode of production does remain same as the owners of the instrument have low access to credit which is the major factor of production.

In the last decade National Bank for Agriculture and Rural Development (NABARD) launched pilot projects of Microfinance to bridge the gap between demand and supply of funds in the lower rungs of rural economy. With this concept of Self Reliance, Self Sufficiency and Self Help gained momentum. The Indian microfinance is dominated by Self Help Groups (SHGs) and their linkage to Banks.

RURAL CREDIT

The Rural Credit Programme has three important components

- Institutionalize credit
- Enlarge coverage
- Provide timely and adequate finance

Increased involvement of banks in rural credit in post nationalization era (1969) essentially viewed credit as an integral part of the socio-economic developmental efforts in the rural area and the network of commercial banks were used especially to enlarge coverage. However, the formal financial systems are not been able to benefit more than half of indebted rural households, despite having a vast network of 125000 commercial, co-operative, rural banks and non-banking financial institutions.

On the institutional front, shortly after independence, the policy makers recognized the criticality of people's participation in the development process. To ensure the peoples' participation, the Government intensified banking activities by opening large number of co-operatives in rural areas to provide credit inputs and marketing facilities to farmers. The other attempt made by the Government was setting up and strengthening of Panchayat Raj institutions through 73rd and 74th amendment of the Indian Constitution.

The largest poverty alleviation programme-Integrated Rural Development Programme (IRDP) was launched in the year 1979-80 with an aim to target group alleviation of poverty in the rural areas. The programme aimed at reaching the people below poverty line in rural areas through subsidized credit for asset creation.

MICROFINANCE

Microfinance services are financial services that the poor people desire and are willing to pay for. It refers to a movement that envisions "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers".

To most, micro finance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny businesses. Over time, micro finance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor who lack access to traditional formal financial institutions require a variety of financial products.

Poverty is multi-dimensional. By providing access to financial services, microfinance plays an important role in the fight against the many aspects of poverty. For instance, income generation from a business helps not only the business activity expand but also contributes to household income and its attendant benefits on food security, children's education, etc. Moreover, for women, who, in many contexts, are secluded from public space, transacting with formal institutions can also build confidence and empowerment. The MF paradigm also fitted well with the adage of 'Growth With Equity', which is integral to the neo-liberal agenda for linkages with the market.

The credit market is an important input in order to remove the distortions of the market. The primacy of the community organization and people's participation in the financial service sector has become the central tenet of the neo-poverty alleviation programme.

FEATURES OF MICRO FINANCE

The micro credit of microfinance progamme was first initiated in the year 1976 in Bangladesh with promise of providing credit to the poor without collateral, alleviating poverty and unleashing human creativity and endeavor of the poor people. Microfinance impact studies have demonstrated that

- Microfinance helps poor households meet basic needs and protects them against risks.
- The use of financial services by low-income households leads to improvements in household economic welfare and enterprise stability and growth.
- By supporting women's economic participation, microfinance empowers women, thereby promoting gender-equity and improving household well being.

The important difference of micro credit was that it avoided the pitfalls of an earlier generation of targeted development lending, by insisting on repayment, by charging interest rates that could cover the costs of credit delivery, and by focusing on client groups whose alternative source of credit was the informal sector.

Traditionally, microfinance was focused on providing a very standardized credit product. The poor, just like anyone else, need a diverse range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risks. Thus, we see a broadening of the concept of microfinance.

Microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients. Micro credit refers to a small loan to a client made by a bank or other institution. Micro credit can be offered, often without collateral, to an individual or through group lending

PRINCIPLES OF MICROFINANCE

These were developed in 2004 by Consultative Group to Assist the Poor (CGAP) and endorsed by the Group of Eight leaders at the G8 Summit on June 10th, 2004. The key principles are the following:

- Poor people need a variety of financial services, not just loans.
- Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.
- Microfinance is about building permanent local financial institutions.
- The job of government is to enable financial services, not to provide them.
- The key bottleneck is the shortage of strong institutions and managers.

Experience shows that microfinance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change.

In order to evaluate whether CGAP and other micro lending programs will actually achieve the goals they set for themselves, it is important to distinguish between the two types of micro lenders: those whose primary goal is empowerment of the poor and those whose primary goal is profit. What is desperately needed are more micro lenders committed to the empowerment of the poor. The laudable successes of micro credit programs like the Self-Employed Women's Association (SEWA) of Ahmedabad was not derived from a simple process of making small loans to the poor. Micro lenders like SEWA combine low-interest micro loans with labour advocacy on behalf of women employed in the informal sector, with provision of health care, training and other services, thereby raising the wages, education and standard of living for the women it serves. Access to credit is only a small part of the picture of SEWA's success.

As stated earlier, 75 million households require micro finance; 60 million in rural India and 15 million urban households. The annual credit usage can be put around Rs 500000 million assuming Rs 6000 as average rural and Rs 9000 as average urban household usage.

GRASSROOT ORGANIZATIONS

There are two critical criteria for success of any credit programme for the rural poor.

1. Such programme should be of high reach
2. The institutional design should be participatory in nature

In this context, the grass root organization plays crucial role. The governmental and institutional policies need to be geared towards providing a conducive environment to the poor to develop their own organizations. The growing realization during the decade of 1990s has resulted in growth of people's organization of various types. If one judges them by the reach and proximity to people, Self-help Groups (SHGs) could be termed as the most prominent among them. Both Government and Financial Institutions are now operating through Non-governmental Organization (NGOs) to develop SHGs.

SELF-HELP GROUPS (SHG)

There may be various medium of micro finance; however, the most prominent among them has been the medium of SHGs. In 1992, national bank (NABARD) gave a fillip to the movement when it started the SHG-Bank linkage programme. This was the first major attempt to link the mainstream financial institutions with the informal groups, thereby, linking them with the market. Till then, the role of financial markets in poverty alleviation and its implications of developing an NGO constituency in financial service landscape had remained a grossly under-explored area in policy research.

The uniqueness of these groups lies in the fact that to a large extent they are self-supporting self-governing organizations free from bureaucratization and politicization. The process empowers the poor and enables them to control direction of own development by identifying their felt needs.

Characteristics of SHG: Homogeneity has been the strongest feature of SHGs. The members are linked by a common bond like caste, sub-caste, community, the place of origin or activity. Even if the group members are from similar economic activity, say pottery, the basis of group affinity is a common caste or origin.

The SHG movement added a very significant dimension as it was to be linked with the micro finance. Micro Finance (MF) has now been widely accepted as an effective intervention strategy for poverty alleviation, which is easily accessible to the poor, reduces transaction cost and where repayments are designed to fit cash flow for the borrowers. Micro finance includes thrift, credit and other financial services and products of very small amount.

Self Help Groups go through various stages of evolution

Social mobilization is not a spontaneous process; it has to be induced. District Rural Development Agencies (DRDAs) are expected to initiate and sustain the process of social mobilization for poverty eradication by formation, development and strengthening of the Self Help Groups (SHGs). Issues that are key to poverty eradication should become entry points for DRDAs to organize the poor into SHGs. There could be different entry points for different SHGs depending on the local situation. The groups that are formed with thrift and credit as an entry point have demonstrated that the poor can secure greater access to credit and other support services for enhancing their income levels.

The process of SHG formation could be divided into phases. Self Help Groups go through various stages of evolution

a. **Group formation** (formation, development and strengthening of the groups to evolve into self-managed people's organization at grassroots level. In our society, members are linked by various common bonds like caste, sub-caste, community, blood relation, place of origin, activity etc. The facilitators must identify these natural groups which are commonly called 'Affinity Groups'. Identification of such Affinity Group is critical for the progress and success of the Self Help Group. This would require staying with the people for some period to facilitate proper understanding and establish rapport with them.
b. **Group Stabilization** through thrift and credit activity amongst the members and building their Group Corpus. The group takes up internal loaning to the members from their Group Corpus. The groups should save regularly and begin to lend to members. This provides the members with

opportunities to acquire the skills to prioritize scarce resources, to assess the strength of each member, to time the loans and schedule of repayments and fix interest rates. The group institutionalizes the need to introduce sanctions for deviant behaviour, which could include delay in repayments, arriving late or absenting from meetings etc.

c. **Micro credit**, the Group Corpus is supplemented with Revolving Fund sanctioned as cash credit limit by the Banks or the group could also have access to credit under the Self Help Group-Bank Linkage Programme of NABARD.

d. **Micro enterprise development**, Group takes up Economic Activity, of their choice for income generation. This phase would include Entrepreneurship Development as well as Skill Development training of the members of the Group to enable them to successfully implement the chosen activity. All the Groups, particularly Groups formed with members who are skill less, asset less, destitute and living under abject poverty might not graduate to the stage of Micro-enterprise with in the time frame indicated in the Guidelines. Such groups may continue to remain in the Micro-Finance stage for a longer period of time and may require intensive training and capacity building inputs to enable them to reach higher levels of income generation.

Formation of Self Help Groups

SHG is group of rural poor who have volunteered to organize themselves into a group for eradication of poverty of the members. They agree to save regularly and convert their savings into a Common Fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management. The group formation will keep in view the following broad guidelines :

i) Under the SGSY, generally a self-help group may consist of 10 to 20 persons. However, in difficult areas like deserts, hills and areas with scattered and sparse population and in case of minor irrigation and disabled persons, this number may be from 5-20. The difficult areas have to be identified by the State Level SGSY Committee.

ii) Generally all members of the group should belong to families below the poverty line. However, if necessary, a maximum of 20% and in exceptional cases , where essentially required, upto a maximum of 30% of the members in a group may be taken from families marginally above the poverty line living contiguously with BPL families and if they are acceptable to the BPL members of the group. This helps the families of occupational groups like agricultural labourers, marginal farmers and artisans marginally above the poverty line, or who may have been excluded from the BPL list to become members of the Self Help Group. However, the APL members are not eligible for the subsidy under the scheme. The group does not consist of more than one member from the same family. A person should not be a member of more than one group. The BPL families must actively participate in the management and decision making, which should not ordinarily be entirely in the hands of APL families.

iii) The group should devise a code of conduct (Group management norms) to bind itself. This should be in the form of regular meetings (weekly or fortnightly), functioning in a democratic manner, allowing free exchange of views, participation by the members in the decision making process.

iv) The group should be able to draw up an agenda for each meeting and take up discussions as per the agenda.

v) The members should build their corpus through regular savings. The group should be able to collect the minimum voluntary saving amount from all the members regularly in the group meetings. The savings so collected will be the group corpus fund.

vi) The group corpus fund should be used to advance loans to the members. The group should develop financial management norms covering the loan sanction procedure, repayment schedule and interest rates.

vii) The members in the group meetings should take all the loaning decisions through a participatory decision making process.

viii) The group should be able to prioritize the loan applications, fix repayment schedules, fix appropriate rate of interest for the loans advanced and closely monitor the repayment of the loan installments from the loanee.

ix) The group should operate a group account preferably in their service area bank branch, so as to deposit the balance amounts left with the groups after disbursing loans to its members.

x) The group should maintain simple basic records such as Minutes book, Attendance register, Loan ledger, General ledger, Cash book, Bank passbook and individual passbooks.

50% of the groups formed in each block should be exclusively for the women

By and large, the SHG will be an informal group. However, the groups can also register themselves under the Societies Registration Act, the State cooperative Act or as a partnership firm. The SHGs can be further strengthened and stabilized by federating them at, say village or cluster of villages or block or District level depending upon the number of Self Help Groups and their spatial distribution. DRDAs may facilitate in planning of network of SHGs by federating them at appropriate level, once SHGs have reached the stage of maturity and have stabilized. This would facilitate regular interaction pooling of surplus with the groups, exchange of experiences including flow of information from DRDAs and other departments, bulk access to Credit from various Micro- Finance Institutions and help them to plan for desired backward and forward linkages including marketing of their products.

Social mobilization and community organization is a process oriented approach as different from target oriented approach. The group formation should not be driven by any targets but lend itself to a 'process approach'. The members of the SHGs should fully internalise the concept of self help.

SGSY PROGRAM

The objective of the Swarnjayanti Gram Swarozgar Yojana (SGSY) is to bring the assisted poor families (Swarozgaries) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. This objective is to be achieved by inter alia organizing the rural poor into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets. The SHG approach helps the poor to build their self-confidence through community action. Interactions in group meetings and collective decision making enables them in identification and prioritization of their needs and resources. This process would ultimately lead to the strengthening and socio-economic empowerment of the rural poor as well as improve their collective bargaining power.

SGSY lays stress on the cluster approach. What this means is that instead of funding diverse activities, each block should concentrate on a few select activities (key activities) and attend to all aspects of these activities, so that the Swarozgaris can draw sustainable incomes from their investments. These key activities should preferably be taken up in clusters so that the backward and forward linkages can be effectively established. This would facilitate not only monitoring but more importantly provision of various services required by the Swarozgaris.

At the end of the third stage, the SHG is broadly expected to demonstrate the following attributes:

1. The per capita loan amount availed by its members increases gradually over the years.
2. There is a shift from consumption loans to production loans.
3. The group is able to clearly identify its training needs to the members and give value to the training input received by its members.
4. The members are able to investigate into their poverty situation and are able to articulate clearly the opportunities for overcoming their poverty.
5. The group is able to develop a portfolio of opportunities (investment opportunities) for the members and has a clear plan of action for meeting the credit requirement of its members.
6. The group acquires the capacity to undertake participatory monitoring of assets created from the loans advanced to its members.
7. The group has implemented some community action programmes and is capable of continuing to do so independently.
8. The dependency on outside facilitating agency or matters related to group

management would gradually come down and the groups emerge as self-managed in terms of managing various aspects of group and financial management.

9. All members have total clarity on the activity, including the economics of the activity.
10. The members have clarity on the responsibility of each and every member and the management of the common activity.
11. The members have clear assessment of their training needs.
12. The members have evolved effective strategy for participatory monitoring of the common activity.

TAKING UP OF ECONOMIC ACTIVITIES

Once the SHG has demonstrated that it has successfully passed through the second stage, it is eligible to receive the assistance for economic activities. This is in the form of loan and subsidy. There are two ways in which a SHG can receive this assistance:

1) Loan-cum-subsidy of SGSY to the individuals in a group, provided the prospective Swarozgaris in the group are capable of and willing to take up income generation activities under these sectors.

2) Loan-cum-subsidy to the group where all the members in the group want to take up a group activity. Ideally, under the group loaning, the group should take up single activity but if there is a necessity, the group could also take up multiple activities under the group loaning. In either case, loan will be sanctioned in the name of the group and the group stands as guarantee to the Bank for prompt repayment of loan

SGSY will seek to develop close linkages with credit mechanism in such a manner as would promote multiple credit rather than a one time credit injection. Multiple doses of credit would mean assisting a Swarozgari over a period of time with a second and subsequent dose(s) enabling him/her to access higher amount of credit. The Swarozgari should have the confidence that so long as he/she proves her credit worthiness by way of proper utilization of the asset and prompt repayment, the bank will stand by him/her and will provide additional credit, whether or not this is backed by subsidy. As already indicated, while SGSY is a credit-cum-subsidy programme, the subsidy is only an enabling element and credit is the key component. The Swarozgaris will be allowed to stabilize and improve their credit absorption capacity and to increase their credit intake over the years either for the same activity or a new activity. The second/ subsequent dose can be given even during the currency of first/earlier loan provided the banker is satisfied about the financial discipline of the first/earlier dose.

Subsidy

Subsidy under SGSY will be uniform at 30% of the project cost, subject to a maximum of Rs.7500/-. In respect of SC/STs, however, these will be 50% and Rs.10000/- respectively. For groups of Swarozgaris (SHGs), the subsidy would be at 50% of the project cost subject to per capital subsidy of Rs.10,000/- or Rs.1.25 lakhs, whichever is less.

Back-end Subsidy

Subsidy will be back-ended. Banks would disburse the full project cost including subsidy to the Swarozgaris as loan. The benefits of subsidy will also be available to Swarozgaris who prefer to avail themselves of required working capital in the form of cash credit.

The repayment schedule of loan would be drawn in such a way that the subsidy kept under Subsidy Reserve Fund would be sufficient for adjustment towards that last few instalments. Swarozgaris will not be entitled for any benefit of subsidy, if the loan is fully repaid before a certain fixed period specified by NABARD depending upon the activity. The availability of the benefit of subsidy to Swarozgaris would be contingent on their proper utilization of loan as also its prompt repayment and maintaining the asset in good condition.

Banks will issue loan passbooks to Swarozgaris. These pass books should, inter-alia, contain details such as the date of sanction of loan, amount of loan sanctioned, subsidy to be adjusted in the final installment of repayment, rate of interest, amount due under each installment, due dates of installments, etc.

BENEFITS OF SHG MOVEMENT

- Financing becomes cost effective According to a study conducted by NABARD, there has been a 40 per cent reduction in transaction cost for banks due to externalizing banks' responsibilities in identification of clients, assessment of risk profile, loan monitoring and recovery
- Borrowing becomes cheaper. The borrowers' transaction cost declined by 85 per cent with doing away of complex documentation and procedures and opportunity cost of wage loss due to repeated visits to banks
- Easy accessibility due to door step delivery of the credit
- Credit is long-term and continuing in nature
- Peer pressure and peer monitoring act as intangible collateral; consequently repayment rates are high
- Avoidance of high cost intermediation between bankers and client by credit brokers
- The sense of ownership of the programme due to community involvement. The people themselves take their credit decisions
- Positive impact on the qualitative dimensions through empowerment

IMPACT IN INDIA SO FAR

The performance highlights during the Tenth Five Year Plan period are as follows: -

(i)	Number of SHGs formed	15.88 lakhs
(ii)	Number of Grade-I passed SHGs	10.36 lakhs
(iii)	Number of Grade-II passed SHGs	5.37 lakhs
(iv)	SHGs that have taken up eco. Activity	3.70 lakhs
(v)	Total Swarozgaris assisted	56.57 lakhs
(vi)	No. of Individual swarozgaris assisted	15.54 lakhs
(vii)	No. of SHG swarozgaris assisted	4.10 lakhs
(viii)	Total SC / ST Swarozgaris assisted	26.70 lakhs (47.19%)
(ix)	Number of women swarozgaris assisted	33.48 lakhs (59.18%)
(x)	Total investment	Rs. 12,363 crore
	Of which: credit	Rs. 8,229 crore
	Subsidy disbursed	Rs. 4,034 crore

(xi) The scheme has been successful in delivering the outcomes in terms of poverty alleviation wherever capacity building and beneficiary mobilization have been carried out.

(xii) The higher performance parameter of multiple lending and increased quantum of lending have been achieved due to the SHGs having been federated at different levels from the village to the district. With the emergence of a well federated organizational base, the SHG network has been observed to acquire dynamism and versatility in activity base in States like Kerala and Andhra Pradesh.

SUCCESSFUL MODELS IN INDIA

(i) **Kudumbashree Model of Kerala** – This approach focuses on building organizations of the poor under the umbrella of local self government. It is a three tier organization viz. Neighborhood Groups, Area Development Societies and Community Based Organizations. The poor families are identified on the basis of 9 major deprivations for targeting assistance.

(ii) **SHG Model of Andhra Pradesh** – Andhra Pradesh brought together the lessons from the UNDP assisted South Asia Poverty Alleviation Project (SAPAP) which has demonstrated that the poor have enough potential to help themselves if that potential is adequately harnessed through a process of social mobilization and empowerment. This process results in the creation of organizations of the poor which are federated at the village, mandal and district levels. Andhra Pradesh has managed to bring about 80% of its rural poor into the SHG network.

(iii) **Individual Household Model of Gujarat** – The Gujarat model utilizes the per capita expenditure based approach to identify rural poor, takes into account the multi-dimensional nature of poverty. It has used 13 score-based socio-economic parameters for assessing the poverty level of each household. Then, it groups them into poor and very poor and prioritizes the poverty alleviation programmes by placing the poorest at the top. The strong co-operative and business ethos of Gujarat and well knit market and other rural infrastructure, including adequate rural power supply, the model has been working well in Gujarat.

REASONS FOR SLOW PROGRESS:

The reasons for slow progress are: -

(i) A specialized, dedicated implementation machinery not put in place for a complex scheme like SGSY in terms of competence, knowledge & resources;

(ii) Size of budget not commensurate with both size of task and stage of existing processes;

(iii) Lack of region specific planning;

(iv) Lack of political commitment and leadership for the scheme;

(v) Adhocism in planning and implementation processes;

(vi) Lack of appreciation of complexity of livelihood issues;

(vii) Lack of comprehensive and effective monitoring.

PROBLEMS FACED BY SHGs

Commercial lending institutions are attracted by the fact that the rate of interest is much higher when lending to the poor. Where interest on a home loan in urban areas would be around 9.75%, interest on loans to SHGs could be as high as 20% or more.

SHGs especially women do not know much about market economy and the outside world, even when they do get loans, the money can easily end up in the hands of their husbands, ultimately to be dispensed by the men.

In India women have no access to land. They rarely own land and even if they do also they do not have any decision- making power related to land. Family mediates ownership and the real actor and power-holder is the male head of the family. That is our Indian tradition irrespective of religion. Moreover, all the laws related with personal matters are based on religious laws or customs and so women, constituting half of the population and two-thirds of the producers, do not have any ownership and title to the means of production. Can the micro-credit schemes provide funds to get the access or ownership to land or to productive assets and then sustain that access?

Credit is one of the many infrastructural needs of a micro entrepreneur. To respond to a potential demand for a good or service, a rural micro entrepreneur requires one or more of the following: transport, communications, power, irrigation, storage facilities etc. Infrastructural needs may be less important for some non-agricultural rural entrepreneurial activities such as cycle repairing, tailoring, etc but they are very important for agriculture which being one of the most significant rural micro enterprises in developing economies. No amount of accessible credit could induce an Indian subsistence farmer to cultivate land for cash crops, if for instance, there is no place to store crops or there is no marketing authority to market the crops or there is no way of getting the crops to the market place.

Besides, market in developing countries is highly imperfect and unstable. Small farmers may not want to change from subsistence crop to cash crop and become entrepreneurs, even if cash crops could provide a significantly higher income in the absence a good transportation system and potential consumers.

Literacy, numeracy and formal education levels in most of the developing countries are extremely low. Non-numerate people find difficulties to start enterprises by themselves as it is extremely difficult for them to keep track of the flow of income in their enterprises. Those entrepreneurs who are numerate but not literate can often go some way in developing their enterprises, but their enterprises are severely limited. For example, they do not have access to information from the print media and can not enter into written contracts. They often have to act on trust and can not easily engage with the State and formal private sector who normally work with written documents.

There are certain inherent weaknesses of the SHG mode of intervention. Such an intervention is being marketed as a 'tool kit' for poverty alleviation and tends to ignore larger structural bottlenecks like inadequate agricultural infrastructure-irrigation, roads and highly in egalitarian distribution of land.

Given the preoccupation with regularity of repayment, the credit programme shows a clear bias towards activities like petty trading (Due to daily cash flows), which do not result in significant value-addition to promote capital formation.

IMPLEMENTATION PROBLEMS IN INDIA

The survey of the impact studies reveal that the procedure followed for the selection of beneficiaries in some states was not proper and monitoring, follow up action and supervision of the program were totally absent. The various shortcomings of the programme as identified are the biasness in the selection of beneficiaries, lack of involvement of the officers in the programme due to their urban bias, absence of horizontal and vertical integration among and within the various implementing agencies, lack of supervision and follow-up action, inertia and immobility of the people, delay, red tapism and corruption in disbursement of funds etc. To make the programme successful in the State and in the entire region there is a need for a band of dedicated workers both at villages and at State level who could implement the programme through their efficient leadership at the political and social level by imbibing a spirit of dedication.

HOW TO STRENGTHEN SGSY PROGRAMME

(i) The States will also prepare a comprehensive Poverty Alleviation Plan with definite milestones in terms of institutions of poor to be created, livelihood support systems, social mobilization, resource persons etc.

(ii) Region-specific Poverty Alleviation Plans (PEPs) will be prepared by the States indicating milestones to be achieved in a definite timeframe. In the preparation of such PEPs, the factors that will be kept under consideration will be the profile of the poor, area resources endowment, institutional support available in the area, banking & credit delivery mechanisms available, stage of the SHG movement in the area, type of economic activity available in the area with potential for exploitation of emerging opportunities for the poor.

(iii) A dedicated rural poverty alleviation machinery at National, State and District levels will be set up, each supported by a Livelihood Resource Center with sufficient resources in terms of manpower, expertise, reach and finances. This will ensure a shift from indifferent bureaucratic implementation to a pro-active passionate and participatory implementation.

(iv) Universalisation of social mobilization, SHG formation and their federations is envisaged. At least one person per BPL family would be brought into the SHG fold. Emphasis on federations of SHGs will be strong due to the greater bargaining power, credit-worthiness and enhanced corpus for group funding that would ensue.

(v) Focus will be on a large scale, demand-based skill up-gradation programmes which carry guaranteed placement. This is owing to the fact that though there is boom in the economy, the BPL population is not capable of capturing the benefits of the opportunities arising as a result of this boom. This is primarily due to the skill gap.

(vi) A Rural Marketing Agency will be created at the National Level to facilitate marketing of products of rural poor.

(vii) A comprehensive and rigorous decentralized monitoring & database management system will be put in place.

ROLE OF BANKS IN THE RESTRUCTURED POVERTY ALLEVIATION PROGRAMME

The salient features of financing arrangements under NRPEP are: -

(i) Banks to treat NRPEP as mainstream business opportunity and view Self Help Groups formed under the programme as business clients. This would provide incentive to banks maximize the business potential in Self Help Groups and extend credit support on continuous basis.

(ii) Banks will make independent assessment of strength of Self Help Groups to extend financial assistance.

(iii) Banks may internalize Rating Index as an appraisal tool for assessing credit-worthiness of Self Help Groups.

(iv) The NRPEP will follow two broad strategies for mobilizing bank finance:

(a) **Financing Self Help Groups**: Micro Investment Plans prepared by the Self Help Groups shall be the basis of bank financing. It is evident from the field practice that, in the initial stages of group development, such plans contain in good measure the financial requirements of the members for meeting social needs. And as the groups mature, the income generating activities become apparent in their plants. This organic process must be respected while financing different doses of bank credit. Banks may determine the quantum of financial assistance based on the credit-worthiness of the Self Help Groups and Micro Investment Plans submitted by them. For the initial dose, the bank finance may be **subject to a minimum of Rs. 50,000 per SHG**.

(b) **Financing Cluster Based Projects**: For cluster based activities where elaborate arrangements for strategic supports like training, infrastructure and market linkages are assured, a banking plan approach may be adopted for supporting household and community level investments in a comprehensive manner.

(v) Representatives of VLFs / BLFs, particularly Bank Linkage Committees shall be included in Block Level Bankers' Committee to gain perception of community aspirations and issues involved in successful implementation of NRPEP.

(vi) **Facilitating banking operations**: The role of banks commences right from inception of Self Help Groups and their Federations. The banks shall open savings accounts for Self Help Groups and VLF / BLFs (unregistered / registered) and facilitate banking operations. State level NRPEP may facilitate consensus on the board KYC and operational norms for these savings accounts. Banks may consider obtaining the support of Bank Linkage Committees at VLF / BLFs to create help desks in each branch for facilitating banking transactions by Self Help Groups and their Federations.

(vii) **Rating of Self Help Groups and VLF / BLFs**: Banks may involve themselves in the rating effort right from design stage. NABARD has developed Rating Index that is broadly acceptable to all stakeholders including financing banks.

(viii) **Multiple doses of credit**: Under the financing mechanism, the banks are expected to provide continuous flow of credit to the groups and nurture them as business clients. Successful repayment of each dose of loan by a Self Help Group shall establish credit history of the group and enhance its credit entitlement.

(ix) **Security norms**: The loans made by banks under NRPEP will be treated as advances to weaker sections and hence no margin / security is required for the purpose.

(x) **Repayment Period**: The loans to Self Help Groups are treated as medium term loans with minimum repayment period of five years, which could be progressively increased with enhancement of credit quantum.

(xi) **Sanction and disbursement procedures**: The banks may maintain a list of Self Help Groups banking with them and monitor their performance on quarterly basis in coordination with DLDA / Bank Linkage Committees.

(xii) While the banks need to view to Self Help Groups of poor as business clients and provide uninterrupted credit support, incentives need to be built within community institutions for prompt repayment of bank dues. One such mechanism could be to reward the groups with monetary incentives for timely and full repayment of bank loan as per the agreed terms. On their part, the banks should develop innovatory approaches for enhancing credit flow to poor. Perhaps, SHG Credit Card holds promise if the banks use credit-scoring methodologies for providing top-up credit facility to groups. Investment subsidy to such groups would be another means worth attempting.

CONCLUSION

In the current global economic climate, micro credit as a poverty alleviation tool, by itself, is analogous to giving a man a fishing pole, and telling him to go fish--in the wake of a giant trawler whose net spans the horizon. Macroeconomic policies of liberalization and globalization have affected many formal sector jobs; the absence of any social safety net has further aggravated poverty for the world's poorest. The only option for many poor is self-employment, which micro credit aims to foster. Yet the odds are stacked against the self-employed in the global marketplace. Consumer trends fluctuate nearly as wildly as the economy, which is becoming more prone to external factors as India opens its markets. Aggressive brand selling and marketing coupled with the strong financial clout of transnational corporations places the poor, especially poor women, at a particularly unfair advantage in the global market place. This is not to say that micro credit cannot play a valuable role in poverty alleviation. But any developmental strategy will require far more than the "band-aid" of micro credit on the gaping wound of poverty and unemployment. As micro lenders chasing the growing ranks of the poor multiply, a proper regulatory and supervisory framework under which these entities should function must be developed in order to ensure that intermediaries, corporate bodies and others involved in micro credit come under close public scrutiny. Otherwise, these new entities may simply lend legitimacy and greater financial clout to an exploitative form of organized money-lending.

The Microcredit Report 2006 makes it clear that microcredit is not a panacea for all ills. It says that what is required are well designed programmes whose ultimate goal is to transform lives and reduce poverty. It cautions against a situation where "the health of microfinance investors and of microfinance institutions is robust but the lives of many very poor clients remain untouched".

As the popularity of microcredit as a development tool increases, the challenge will be to ensure that development of the poor is at the centre of the process.

Thus the success or failure of any scheme largely depends on how best it is conceived, organized and implemented. Micro credit scheme in this regard for the development of rural areas through micro enterprises either in agricultural or non-agricultural sector is no exception. The literature reveals that provision of micro credit is a necessity but not a sufficient condition to ensure the success of rural micro enterprises. It depends upon a large number of factors. It requires an enabling environment for being successful. Even where it does succeed in stimulating the growth of micro enterprises, the developmental impact of this on the poorest members of the target communities varies. Static mindset of the people, societal value system, and lack of entrepreneurship, limited market and absence of a sound infrastructural footing also affect the success of the scheme. Thus, it can be concluded that micro credit scheme as such is not a failure by itself. What matters most is how best micro credits are being utilized and in what conditions. Therefore, institutions of micro credit should address itself to its implantation and limiting conditions for its revival and make it economically viable if they have to play a greater role for developing rural areas in a region or in a country.

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