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Micro-Finance
Retrospect and Prospects

B. Jayaraman

NABARD
National Bank for Agriculture and Rural Development
Mumbai

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### TABLE OF CONTENTS

1. Introduction ..................................................................................................... 1
2. Genesis of Micro-finance .............................................................................. 4
3. Micro-finance Programmes - Indian Experience ...................................... 15
4. Micro-finance Programmes - Other Country Experiences ....................... 34
5. Lessons Learnt ............................................................................................ 59
6. Prospects and Issues ................................................................................. 72

    Appendix I - Major Recommendations of the Task Force
INTRODUCTION

Some 160 years ago the world launched a successful campaign against slavery. Today we must all help to lead a similar campaign against poverty.

James Gustave Speth
UNDP Administrator

One of the objectives of development planning is to reduce the extent of poverty by providing employment opportunities and raising the income levels of the population. In some of the industrialised countries, this was successfully achieved through a high rate of economic growth. In the USA, the incidence of poverty was reduced from a level of 80 per cent in 1939 to 16 per cent by 1969. However, in the next 25 years, the reduction in poverty levels had decelerated considerably and by 1994, the proportion of population below the poverty line was 14 per cent. In Japan the incidence of poverty was reduced from 10 per cent in 1960 to 7 per cent in the early 1970s and further to 4 per cent by 1992. In contrast, the proportion of poor people declined rather slowly in East and South Asia while in Sub-Saharan Africa, Latin America and the Caribbean, it increased. In 1993, the number of poor in South Asia was 515 million constituting 40 per cent of the world's poor people and about a third (446 million) of the poor were concentrated in East Asia, South-East Asia and the Pacific.

2. Data on the extent of the poor across the countries is an indication that a high level of economic growth by itself cannot enable people to cross the poverty line unless it is accompanied by policies and programmes, specifically targeted at the poor. The Vietnamese experience with Doi Moi shows that both human and income poverty can be reduced through a combination of understanding of the problems of the poor and implementation of proper policies for the poor. Countries like Korea, Singapore, Malaysia, Thailand and Philippines also witnessed substantial reductions in poverty during the decades of 1970 and 1980 by adopting similar policies.

3. Of the estimated 1.3 billion people below the poverty line (1993) in the developing countries, the Asia region (South Asia and East Asia, including China) accounted for 74 per cent. The proportion of the rural population,

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1 Income poverty for the industrial countries was measured at US $14.40 (1985PPP$) a day person, which corresponds to the national poverty line of USA. (Human Development Report, 1997)

2 Defined as $1 a day per person based on 1985PPP$.
whose income and consumption were below the nationally defined poverty lines, was estimated at 31 per cent in Asia. The bulk of the South Asian poverty is concentrated in Bangladesh, Pakistan, India and Nepal. These countries have implemented various programmes for the poor, chief among them being the Grameen Bank in Bangladesh and the Integrated Rural Development Programme in India, with varying degrees of success in poverty alleviation.

4. The publication of the World Development Report, 1990 on Poverty, brought into sharp focus the extent of poverty prevalent both in the developed and under-developed countries of the world and the need for designing appropriate development strategies for alleviating poverty. The two World Summits on Micro-Enterprises held in 1987 and 1997 in Washington, DC, USA brought out the serious concern of the international community in combating poverty. The establishing of the Consultative Group to Assist the Poorest (CGAP) is an outcome of this concern to reduce the levels of poverty, in terms of income poverty and deprivation of basic needs for a decent living. In the context of designing programmes for the poor, micro-finance is recognised and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor, with special emphasis on empowering women. The concept of micro-finance\textsuperscript{3} essentially rests on the premise that: (a) self-employment/enterprise formation is a viable alternative means of alleviating poverty, (b) lack of access to capital assets/credit acts as a constraint on existing and potential micro enterprises and (c) the poor are capable of saving despite their low level of income. Micro-finance could be referred to as providing credit support, usually in very small amounts\textsuperscript{4}, along with other components such as training and other related services to the people with poor resources and skills but who are in a position to undertake economic activities.

5. In the Indian context while the poverty ratio has substantially been brought down from a level of 54.9 per cent in 1973-74 to 36.0 per cent in 1993-94, the number of poor has marginally reduced from 321.3 million

\textsuperscript{3} Micro-finance, by definition, refers to the entire range of financial and non-financial services, including skill upgradation and entrepreneurial development, rendered to the poor for enabling them to overcome poverty. In the literature on the subject, the terms micro-finance, micro-credit and micro-enterprises are interchangeably used although there are nuances, which differentiate each other. In this paper, the term micro-finance is used in its broadest sense.

\textsuperscript{4} Defining a universal cut-off point of the credit amounts for being considered as micro-credit is difficult as the income poverty line varies across the countries. In the Indian context, although no limit has been defined under micro-finance, financial assistance up to Rs. 25,000 (approximately US $ 600) could be considered as micro-credit.
during 1973-74 to 320.3 million\(^5\) in 1993-94. The perspective plan envisages reducing the proportion of the poor from a level of 29.18 per cent during 1996 to a level of 4.37 per cent by the year 2011, as indicated in the Ninth Five Year Plan. In order to realise these targets in poverty reduction, a focussed attention for evolving suitable strategies and designing of appropriate programmes, which would meet the needs of the poor, is called for. Further, the role of different entities, viz., Government, Credit institutions and NGOs/VAs in poverty alleviation needs to be delineated. This paper is an attempt to document (a) the genesis and importance of various micro-finance programmes, (b) experiences of the agencies involved in the programme and (c) lessons learnt. It also highlights the future prospects for micro-finance as an approach for poverty alleviation, issues in implementation and suggests strategies for tackling these, either through evolving appropriate policies and bringing about necessary changes in the existing institutional arrangements.

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GENESIS OF MICRO-FINANCE IN INDIA

Viewed from a historical perspective, the origins of micro-finance could be traced to the beginning of the co-operative movement in Germany where the movement was started in the field of credit, the Raiffeisen Societies. The peasant at that time was perpetually dependent on the merchant-usurer and could not arise out of poverty and squalor because of continuously living on the border (of poverty) and facing risks of agricultural production. The objective of the society was to improve the situation of its members both morally and materially. This was sought to be achieved through obtaining the necessary capital for granting loans to members for the development of their business and household. The fundamental concept is, thus, common guarantee, which was based on mutual knowledge and confidence of neighbours. Loans, short or medium term, were given for specific purposes, which had to be productive. All loans were granted on the basis of two securities. No long-term loans were issued nor mortgage of assets as collateral was asked. Societies, based on the principles of co-operation, were also established in France for Producer-Workers, in Sweden for industrial production and in Denmark and Norway for the agricultural sector.

I. Developments in the formal sector

2. The enactment of the Co-operative Credit Societies Act in 1904 could be considered as the beginning of micro-finance in India. The co-operative credit system was established primarily to combat the problems of usury and indebtedness of the farmers to moneylenders and to bring together people of small means for promoting thrift and mutual help for development. The Co-operative credit agencies included the primary agricultural credit society (PACS) at the village level, which was the basic unit in the short-term credit structure and were federated into the Central Co-operative Banks (CCBs) at the district level. These were, in turn, federated at the state level as apex co-operative banks. The Land Development Banks (LDBs) met the long-term

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6. The Co-operative movement started in 1844 with the opening of the stores by the Rochdale Pioneers in England. This is considered as the beginning of the Consumers' Co-operative movement.


8. ibid.
credit needs. Unlike the short-term credit societies, the LDBs issued loans only against the mortgage of land and, therefore, the landless poor were excluded from the purview of these banks.

3. After Independence, the Government of India (GOI) appointed a number of Committees\(^9\) to review the arrangements for institutional credit delivery. The main focus of these Committees was sector oriented rather than people centered, possibly because of the then prevalent view that the development of the agricultural and rural sectors were closely inter-linked with the goals of poverty eradication. The reduction in social and economic inequalities was expected to take place as a result of the "trickle down" effect. The recommendations of these Committees, therefore, dealt more with the need for streamlining the flow of credit to the rural sectors, mainly agriculture sector, through appropriate institutional arrangements than with providing access to institutional credit for the asset less rural poor.

4. The concern with providing access to credit to the weaker sections of the society was expressed first by the All-India Rural Credit Review Committee (1966), in its suggestion that credit must be made more accessible to the small farmers. In order to facilitate access to credit for small farmers, the setting up of a specialised agency, the Small Farmers' Development Agency (SFDA) in each of the state was recommended. Based on the recommendations of the Committee, during the Fourth Five-Year Plan period (1969-74), SFDAs were established in 45 selected districts to assist farmers with land holding size of up to 2 hectares. The setting up of 40 projects under the Marginal Farmers and Agricultural Labourers (MFAL) Development Agency was also approved. The objective of setting up the MFAL was to provide avenues of supplementary employment opportunities for marginal farmers, agricultural and landless labourers.

A. Nationalisation of Banks

5. After the nationalisation of commercial banks in 1969, the country witnessed not only rapid expansion of the banking network in the rural and semi-urban areas but also an increased flow of credit to the priority sectors like agriculture, small scale, tiny, cottage and village industries, etc. The induction of the commercial banks into the realm of rural credit also ensured that a larger proportion of the rural poor, especially marginal and small farmers, rural artisans, had access to banking facilities. Nevertheless, it was increasingly felt that the rural poor needed exclusive attention and specialised services, especially in remote and hitherto unbanked areas.

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\(^9\) The important Committees constituted by the GOI were Rural Banking Enquiry Commission (1949), All-India Credit Survey Committee (1951), All India Credit Review Committee (1966), Working Group on Rural Banks (1975), Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (1979) and Agricultural Credit Review Committee (1986).
B. Regional Rural Banks

6. The Working Group on Rural Banks, appointed by the GOI in 1975, recommended the setting up of State sponsored, regionally based and rural oriented banks called Regional Rural Banks (RRBs). The RRBs were to be established with the major objective of developing the rural economy by providing credit and other facilities to agriculture, trade, industry and other productive activities in the rural areas, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. The coverage of the weaker sections and the envisaged "low-cost"10 structure of the RRBs characterise them as the "small man’s bank”

7. The RRBs were expected to combine the "local feel and familiarity with several problems which the co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to central money markets and a modernised outlook which the commercial banks have". The GOI, accepting the recommendation, enacted the RRBs Act in 1976 and thus, the RRBs formed the third pillar of the multi-agency credit system for agriculture and rural development. A total of 196 RRBs have been established in the country.

C. Differential Rate of Interest (DRI) Scheme

8. The Differential Rate of Interest (DRI), a scheme to benefit the poor, was introduced by the GOI in April 1972 covering 162 districts and was later extended to the entire country. Under the scheme, banks are required to earmark one percent of their previous year’s total outstanding advances for giving loans at a concessional interest rate of 4 per cent to the weaker sections of the society, who have no tangible security to offer but could be expected to improve their economic condition through financial assistance from the banks. The target fixed for SC/ST is 40 per cent of the amount under the DRI. The amount disbursed under the scheme during 1997-98 was Rs. 598.92 crore to 14.07 lakh borrowers while the amount disbursed (Rs. 349.96 crore) to SC/ST constituted slightly more than 58 per cent of the amount disbursed under DRI. During the three-year period from 1995-96 to 1997-98, the number of accounts and the amount disbursed under the scheme has shown a declining trend.

D. Establishment of NABARD

9. In 1979 the RBI, at the instance of the GOI, constituted a Committee to Review Arrangements for Agriculture and Rural Development

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10. With the implementation of the award of the National Industrial Tribunal, giving parity with the commercial banks on pay scales and allowances to the staff of RRBs, the RRBs can no longer be considered as "low-cost" banking.
(CRAFICARD) under the Chairmanship of Shri. B. Sivaraman. Stressing on the need to provide the rural poor with access to institutional credit, the Committee in its Report stated "the lack of assets coupled with lending policies based on assets leads to reduced opportunities of the rural poor to avail of credit facilities for improving their incomes. Thus rural poverty is also the result of an inequitable access to resources and lack of institutional backing. The former requires transfer of capital resources to give them a better base for production and the latter requires a more realistic credit policy and comprehensive infrastructure. The capital base and the productive capacity of the rural poor will have to be improved and strengthened with the aid of institutional support". On the need to adopt innovations in credit delivery, the Committee observed "the normal criterion of banking that a family of the poor is not credit worthy will have to give place to the concept that many of the poor can be brought into the mainstream of economic development through credit worthy programmes. Modern technology has shown that many families earlier considered credit risks can be effectively brought into the pool of credit worthy families through a judicious use of credit for improvement of the base of production and for production itself, with the supply of necessary inputs and supporting infrastructure". National Bank for Agriculture and Rural Development (NABARD) was founded in June 1982 on the recommendations of the Committee for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development. These observations of the Committee have been the guiding principles for the National Bank in its quest for innovations to improve the access of the institutional credit for the poor. Prior to the formation of National Bank, the emphasis in financing the weaker sections was largely confined to the agricultural sector due to the national priority of attaining self-sufficiency in food production. Since its inception in 1982, National Bank’s efforts have been directed towards extending the coverage of weaker sections in other sub-sectors of the rural economy. In order to encourage capital formation on marginal and small farms, credit was made available to these sections of people at concessional terms including lower rate of interest, down payment and extended repayment period. Stipulating that at least 60 per cent of the credit disbursed under investment credit for agriculture by banks and at least 20 per cent of the crop loans by DCCBs reached the small farmers, ensured credit flow to the weaker sections.

10. The National Bank, as part of the programme of banking with the poor, has adopted since 1985-86 the twin strategy of (i) promoting the development of rural non-farm sector through various promotional schemes


12. ibid, p-10.
for imparting training through Training and Production Centres, Training by Master Craftsmen, Rural Entrepreneurship Development Programmes in collaboration with NGOs, and (ii) extending refinance support on liberalised terms to the credit institutions for financing the setting up of Mother Units, Common Facility Centres. Further, refinance support is also available for financing individuals under the Composite/Integrated Loan Scheme for NFS. Emphasis was also laid on empowering women in rural areas by constituting a Women Cell in the bank in 1992 to address issues relating to credit and other supportive needs of rural women through refinance.

11. The institutionalisation of the rural credit delivery system had facilitated the building up of a vast network of credit infrastructure and helped in weaning away a substantial proportion of the borrowing households from the usurious moneylenders. The share of rural household borrowings from formal institutional sources increased from a meagre 3 per cent in 1951 to 64 per cent by 1991. Notwithstanding this favourable shift in the dependence on institutional sources of credit, the dependence of non-cultivator households, who constituted the rural poor, on non-institutional sources of credit continued to be very high in 1991. Nearly 41 per cent of the non-cultivator households were dependent on informal sources of credit in 1991.

E. Integrated Rural Development Programme (IRDP)

12. The focus of the direct attack on poverty got a further impetus when the GOI combined the Command Area Development, Drought Prone Areas Programme, SFDA and MFAL into a new programme called the Integrated Rural Development Programme (IRDP) in 1978-79. IRDP, which was initially taken up in 2300 blocks, was extended to all the blocks of the country since 2 October 1980. The main thrust of the programme was to help the poorest of the poor in rural areas. The target groups under the programme are the rural poor belonging to the families below poverty line and comprise of small and marginal farmers, agricultural labourers, rural artisans, etc., whose annual family income does not exceed the poverty line of Rs. 11,000 at 1991-92 prices.


14. Income Poverty in India is defined as that level of income which is sufficient for keeping a family at the subsistence level of existence measured in terms of minimum nutritional requirement, which is taken as 2400 calories per day per person in rural areas and 2100 calories in urban areas. The cut-off point for below poverty line has been changed based on the changes in the price level. At 1984-85 prices, the poverty line for rural areas was defined at Rs. 6,400 per family and was used during the Sixth Five Year Plan period (1978-83). The poverty line for the Eighth Plan period (1992-97) was defined at Rs. 11,000 per family. The current level of poverty line is defined at Rs 266.27 per month of per capita (at 1996-97 prices) at the All India level, which translates into about Rs 16,000 (about US$ 400) per annum per family of 5 persons. The Planning Commission, based on the NSSO Consumer Expenditure Survey every five years, arrives at official estimates of the poverty line.
assets and self-employment opportunities to the target group through providing financial assistance in the form of subsidy by the Government and credit by banks. Special safeguards to ensure adequate coverage of the disadvantaged sections of the society like SCs/STs, physically handicapped and women were also provided for in the programme. These included stipulations that ensured at least 50 per cent of the families assisted belonged to SC/ST families, 40 per cent of the total beneficiaries were women and 3 per cent physically handicapped. A separate agency called the District Rural Development Agency (DRDA) was created to co-ordinate with various agencies, including banks, to implement the programme.

13. With a view to improving the efficacy of the programme, the policies have been fine-tuned based on the feedback obtained through the Concurrent Evaluation studies conducted by research institutions/organisations and review of implementation of the programme by various Committees constituted for the purpose. The important policy changes effected since the inception of the programme include, (a) giving supplementary dose of assistance to the families who were provided financial assistance but could not cross the poverty line due to variety of exogenous factors, (b) cash disbursement of assistance in selected blocks, (c) issue and updating of passbooks to the beneficiaries, (d) providing back-ended subsidy to prevent misuse of subsidy and (e) increased emphasis on group loans.

14. Based on the feedback that the per capita level of assistance to the poor families was very low and it was not helping the destitute and very poor families to cross the poverty line, the concept of Family Credit Plan (FCP) was introduced in the year 1994-95. Under the scheme, more than a single member of the family could be given assistance for acquiring multiple assets, subject to the overall ceiling of subsidy for the family and banks were expected to mobilise higher amounts of credit for the families selected. The scheme was operationalised in 316 selected districts of the country.

15. In order to provide basic technical and managerial skills to the rural youth (in the age group 18-35) from families below the poverty line and to facilitate them to take up self-employment, the scheme of Training of Rural Youth for Self Employment (TRYSEM) was started in 1979 as part of the IRDP. The objectives of the scheme were enlarged in 1983 to include training for enabling the youth to take up wage employment. The scheme also aimed at imparting new skills as well as upgrading the existing skills of beneficiaries, who were largely attuned to only stagnant levels of agricultural or artisan skills. The duration of the programme is normally six months, during which period the trainees are paid a stipend, to offset the loss in wages.
16. The role of women and the need to empower them are central to the human development programmes, including poverty alleviation. Inspite of safeguards provided in many of the poverty alleviation programmes, it was observed that women in rural areas, especially from poor families could not benefit. Recognising this, an exclusive programme for women, viz., Development of Women and Child in Rural Areas (DWCRA), was launched in 1982-83, as a sub-component, of the IRDP in 50 selected districts. The scheme was subsequently extended in 1994-95 to cover all the districts in the country. The scheme aims at economic empowerment of women in rural areas through providing training, employment management skills and additional channel of funds in the form of working capital and investment credit. Such an intervention not only seeks at raising the incomes of rural women of poor households but also facilitates organised participation of women, who cannot take up economic activities individually on their own, in groups.

F. Swarnjayanti Gram Swarozgar Yojana (SGSY)

17. Past experience showed that due to the multiplicity of programmes, the emphasis was on achieving the targets of the individual programmes rather than focussing on the core issue of achieving sustainable income generation for the poor. Lack of co-ordination among the implementing agencies also diluted the efficacy of the programmes. A series of evaluation studies conducted by various agencies documented several weaknesses in its implementation. These weaknesses included (i) poor quality of assets procured by the beneficiaries, (ii) inadequate financial assistance including subsidy, (iii) lack of inter-agency co-ordination in ensuring backward and forward linkages, (iv) concentration on a few activities, (v) misutilisation of loans for meeting the consumption requirements and (vi) inappropriate identification of beneficiaries and activities. On the recommendations of the Hashim Committee, the Government of India restructured all the poverty alleviation programmes under one umbrella scheme "Swarnjayanti Gram Swarozgar Yojana" (SGSY) from 1 April 1999.

18. The objective of the SGSY is to bring the assisted poor families above the poverty line in three years, by providing them with income generating assets through a mix of bank credit and government subsidy to ensure that the family has a monthly income of at least Rs. 2,000. The focus of the scheme will be on group approach and organising the poor into Self-Help Groups (SHGs). Efforts will be made to cover 30 per cent of the poor families in each block during the next five years.
II. Developments in the Informal Sector

19. Development interventions in the rural areas by Voluntary Agencies (VAs) or, as they came to be known later, Non-Governmental Organisations (NGOs) dates back to the pre-independence days. These interventions emanated from the prevailing situation of mass poverty, due to high levels of illiteracy and social discrimination as well as the inability of the official delivery mechanism to reach the benefits of social and economic development to the weaker sections of the society. The role of VAs/NGOs, which was initially confined to the social aspects of development, was later on enlarged to help the poor and weaker sections of the rural society in their economic pursuits. This foray by the VAs/NGOs into the economic development could also be attributed to the inability of the formal credit institutions to cover a larger section of the rural poor, despite the expansion in the network of the bank branches in the rural areas.

20. The inability of credit institutions to cover a sizeable segment of the rural poor is generally attributed to the high cost of administering large number of small loans and the perceived lending risks in the absence of any collateral. This prompted a number of VAs/NGOs to enter the rural credit scene for organising the poor into informal groups for mutual help and benefit. Many of these groups have been provided credit support. These NGOs are instrumental in promoting informal structures of the poor to help them save and promote self-reliance in financing their needs through the concept of Self-Help Groups (SHGs). SEWA, an NGO in Ahmedabad, has promoted a bank in the co-operative sector. The SEWA Bank caters exclusively to the needs of women and is engaged in financing income-generating activities of women. Friend’s of WWB(FWWB), Ahmedabad, an affiliate of Women’s World Banking (WWB), New York, is networking with NGOs giving financial assistance to women groups. The Working Women’s Forum, Chennai has organised Women Co-operative Societies for pursuing income-generating activities and facilitating their empowerment. MYRADA, an NGO based in South India, is engaged in promoting SHGs and has done pioneering work in providing access to credit through linking with formal credit institutions.

III. Linkage Between Formal and Informal Sectors

21. The National Bank’s involvement with Self-Help Groups (SHGs) came about in 1986, when the Sixth General Assembly of APRACA at Kathmandu

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15. There are number of such agencies/organisations working in the area. Some of them are mentioned here only to illustrate the role they are playing in the field of micro-credit. For full details the directory published by the Association of Voluntary Agencies in Rural Development (AVARD) may be referred.
in Nepal considered a proposal for Promotion of Linkages between Banking Institutions and Self-Help Groups in rural savings, mobilisation and credit delivery to the rural poor. As a consequence, NABARD conducted an All-India Survey of the existing SHGs operating in the country and gained insights into the dynamics of group formations and their operations, the key role of the NGOs/VAs in organising and promoting SHGs. It organised workshops and National Consultations to share the experiences and to chalk out the future strategy for specialised micro-finance programmes. Based on the feedback obtained, NABARD launched a pilot project in 1992 for linking 500 SHGs with Commercial Banks. Linking of SHGs with banks has evolved as a cost effective and transparent supplementary credit system for reaching the unreached rural poor with advantage to both the banks and the rural poor. Besides building mutual trust and confidence between the banks and the rural poor, the linkage is expected to promote the thrift and inculcate credit discipline among the rural poor\(^\text{16}\).

22. The pilot project was further extended to Regional Rural Banks (RRBs) and Co-operative Banks in 1993 and is now considered by the Reserve Bank of India (RBI) as a regular component of priority sector lending. Under the linkage programme, three models have emerged. In the first two linkage models, the NGOs take on the role of only a facilitator (Model 1) or that of a facilitator and financial intermediary (Model 2). In the third model there is a direct linkage programme between NABARD, banks and SHGs, without any role for the NGOs. However, experience shows that models envisaging a role for NGOs are more popular among the rural poor.

IV. Developments in Other Countries

23. Such experiments or innovations in micro-finance were not just confined to any particular country or region but could be seen as a peoples' movement for empowering the poor in many countries, with predominantly poor population, all over the world. Perhaps, the precursor to this movement was in Bangladesh, which began the experiments with a model which later became well known as the "Grameen Bank" Model. The success of the bank in term of its outreach to the poor and the excellent recovery performance has prompted many countries, including India, to replicate the Model for implementing programmes of micro-finance for the poor. Similar innovations were also tried out successfully in Indonesia, Thailand and Bolivia.

24. In 1986, a group of Bolivian business leaders created PRODEM with the assistance of ACCION International. Since then, PRODEM has expanded its operations to provide credit services in rural areas and secondary cities throughout Bolivia. In 1992, BancoSol was formed as the first commercial bank in Latin America dedicated to serving micro-enterprises in urban areas. Women constitute a major share of the clients of PRODEM and BancoSol.
One of the focus areas of the planned development in the country, beginning with the First Five-Year Plan in 1950, is the alleviation of poverty. The emphasis was on promoting economic growth in the agricultural and industrial sectors, which in turn was expected to provide employment opportunities in the form of productive employment for the poor and, thereby, increase their income levels. Despite this, poverty level continues to be high in the country due to rapid population growth. In absolute terms, the number of poor, which was around 200 million in the 1950s\(^{17}\) rose to 320 million by 1993-94\(^{18}\). However, in terms of the proportion of population living below the poverty line, there was a steady decline from 54.1 per cent in 1956-57 to 46.8 per cent during 1964-65 but during the three years, 1965-66 to 1967–68, the proportion of population below the poverty line went up from 53.9 per cent to 56.5 per cent\(^{19}\). The increase in the proportion of the poor during this period could be attributed to occurrence of droughts of moderate to severe intensities in the country. Further, this was followed by a drought of severe intensity in 1972 and, as a consequence, during the Fourth-Five Year Plan Period (1969-74) the focus shifted to targeted poverty alleviation programmes, aimed at directly helping the poor to cross the poverty line. The approach to the Fifth Plan also emphasised the need for direct and targeted intervention by the Government for poverty alleviation and stated that “the elimination of abject poverty will not be attained as a corollary to certain acceleration in the rate of growth of the economy alone. In the Fifth Plan it will be necessary to launch a direct attack on the problems of unemployment, under employment and massive low level poverty”\(^{20}\). The implementation of targeted programmes for poverty alleviation had helped in

\(17\). World Bank "Household Archives: Poverty Assessment Summaries: India", World Bank, Washington DC, USA.


\(20\). GOI (1972) "Towards an approach to the Fifth Plan", Planning Commission, Government of India, New Delhi, p-7.
bringing down the proportion of the population living below the poverty line. The proportion of the population living below the poverty line has been brought down from a level of 54.9 per cent during 1973-74 to 36.0 per cent during 1993-94 (Table I). This is expected to have further come down to 27 per cent by the year 1996, as per the projections made by the Planning Commission. Compared to the achievements in some of the neighbouring countries in the Asian region, the reduction in the poverty levels in the country could be considered as modest.

### Table I: Poverty Ratio and Number of Poor in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty Ratio (%)</th>
<th>Number of Poor (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>1973-74</td>
<td>56.4</td>
<td>49.0</td>
</tr>
<tr>
<td>1977-78</td>
<td>53.1</td>
<td>45.2</td>
</tr>
<tr>
<td>1983</td>
<td>45.7</td>
<td>40.8</td>
</tr>
<tr>
<td>1987-88</td>
<td>39.1</td>
<td>38.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>37.3</td>
<td>32.4</td>
</tr>
</tbody>
</table>


I. Micro-finance Programmes

2. One of the targeted poverty alleviation programmes is the Integrated Rural Development Programme (IRDP), for providing self-employment opportunities for the poor by way of asset creation supported by credit and subsidy. Under the programme, 54 million families have been benefited (till February 1999) and total credit mobilised from banks was to the tune of Rs. 220 billion. The assistance from the banks and the subsidy by the government had resulted in investment of Rs. 354 billion at the ground level (Table II). The average credit disbursed to a beneficiary family under the programme during 1998-99 was Rs. 12,949 (approximately US$ 308) while the average investment (credit + subsidy) worked out to Rs. 17,771 (US$ 423). The commercial banks and the Regional Rural Banks have provided the bulk of the credit (85 per cent).

21. The other two programmes relate to providing wage employment through the Jawahar Rozgar Yojana, Employment Assured Scheme and Million Wells Scheme and providing access to food at subsidised rates through the Public Distribution System. The discussions in the paper are, however, confined to the IRDP, which is a micro-finance programme implemented by the Government.
### Table II: Performance under IRDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of families assisted (million)</th>
<th>Credit mobilised at ground level (Rs. in million)</th>
<th>Total investment (Rs. in million)</th>
<th>Credit per family (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81 to 1981-82</td>
<td>5.44</td>
<td>7566.4</td>
<td>1,1799.0</td>
<td>1391</td>
</tr>
<tr>
<td>1982-83</td>
<td>3.45</td>
<td>7139.8</td>
<td>1,0735.7</td>
<td>2067</td>
</tr>
<tr>
<td>1983-84</td>
<td>3.68</td>
<td>7735.1</td>
<td>1,1796.0</td>
<td>2099</td>
</tr>
<tr>
<td>1984-85</td>
<td>3.98</td>
<td>8574.8</td>
<td>1,3296.8</td>
<td>2154</td>
</tr>
<tr>
<td>1985-86</td>
<td>3.06</td>
<td>7301.6</td>
<td>1,1712.6</td>
<td>2386</td>
</tr>
<tr>
<td>1986-87</td>
<td>3.75</td>
<td>1,0148.8</td>
<td>1,6282.6</td>
<td>2709</td>
</tr>
<tr>
<td>1987-88</td>
<td>4.25</td>
<td>1,1753.5</td>
<td>1,9027.9</td>
<td>2767</td>
</tr>
<tr>
<td>1988-89</td>
<td>3.77</td>
<td>1,2316.2</td>
<td>2,0009.9</td>
<td>3265</td>
</tr>
<tr>
<td>1989-90</td>
<td>3.35</td>
<td>1,2205.3</td>
<td>1,9859.6</td>
<td>3642</td>
</tr>
<tr>
<td>1990-91</td>
<td>2.90</td>
<td>1,1900.3</td>
<td>1,9988.9</td>
<td>4106</td>
</tr>
<tr>
<td>1991-92</td>
<td>2.52</td>
<td>1,1332.6</td>
<td>1,9342.5</td>
<td>4502</td>
</tr>
<tr>
<td>1992-93</td>
<td>2.07</td>
<td>1,0368.0</td>
<td>1,7309.6</td>
<td>5012</td>
</tr>
<tr>
<td>1993-94</td>
<td>2.54</td>
<td>1,4084.4</td>
<td>2,3650.9</td>
<td>5565</td>
</tr>
<tr>
<td>1994-95</td>
<td>2.21</td>
<td>1,4505.8</td>
<td>2,4588.9</td>
<td>6549</td>
</tr>
<tr>
<td>1995-96</td>
<td>2.09</td>
<td>1,7013.3</td>
<td>2,7784.9</td>
<td>8164</td>
</tr>
<tr>
<td>1996-97*</td>
<td>1.92</td>
<td>1,9691.6</td>
<td>3,1011.6</td>
<td>10,235</td>
</tr>
<tr>
<td>1997-98*</td>
<td>1.71</td>
<td>1,9966.4</td>
<td>3,0416.4</td>
<td>11,897</td>
</tr>
<tr>
<td>1998-99**</td>
<td>1.27</td>
<td>1,6419.7</td>
<td>2,5163.2</td>
<td>12,949</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>53.95</strong></td>
<td><strong>220,023.6</strong></td>
<td><strong>353,768.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

* : Provisional  ** : upto February 1999  
Source: Annual Report, Ministry of Rural Areas and Employment, GOI, Various Issues

3. Under TRYSEM, a total of 42.34 lakh youth have been trained till 1998-99 (up to November, 1998), of which 23.43 lakh are gainfully employed. As against the target of covering 50 per cent of SC/ST youth and 40 per cent women under the programme, the achievement was 42.84 per cent (18.14 lakh) and 46.24 per cent (19.58 lakh), respectively. A total of 2.45 lakh groups have been formed and 38 lakh women were benefited till 1998-99 under the DWCRA programme.

4. The IRDP is evaluated periodically for assessing its impact and to identify the strengths and weaknesses in the programme so that necessary steps are taken to streamline its smooth implementation. The results of the last Concurrent Evaluation, conducted during 1992-93 revealed that 14.8 per cent of the old beneficiaries assisted under the programme could cross the
revised poverty line Rs. 11,000 (at 1991-92 prices) while 50.4 per cent of the families were able to cross the earlier poverty line of Rs. 6,400. The IRDP assets had generated an incremental income of more than Rs. 2,000 for 56.6 per cent of the assisted families at the national level. In about 29.3 per cent of the cases, the assets had not generated any income. The study also revealed that only 3.9 per cent of the IRDP beneficiaries received training under TRYSEM and as much as 47.2 per cent of the TRYSEM trained beneficiaries could not graduate for undertaking economic activities.

II. Role of Apex Level Institutions

5. The two apex level financial institutions, which are promoting, supporting and financing micro-finance programmes in the country, are the NABARD and Small Industrial Development Bank of India (SIDBI).

A. NABARD

6. NABARD’s involvement in promoting micro-finance through the concept of SHGs started in 1987, with a sanction of Rs. 10 lakh as grant assistance from its R&D Fund to MYRADA for providing seed money to the Credit Management Groups (CMGs) promoted by it. The objective of providing grant assistance was to facilitate building up a thrift fund and aiding the members of the CMGs with margin money to borrow from the formal credit system. The success of this experiment was the precursor to the launching of the Pilot project in 1992 for linking 500 SHGs with banks. The linkage programme promoted by NABARD is unique as it facilitates “relationship banking” as compared to “parallel banking” practised in other countries. Under the “relationship banking”, improvements in the existing relationship between the poor and the banks are attempted with intermediation by the NGOs, who either play the role of promoters of SHGs or financial intermediaries. The basic philosophy of the “linkage models” promoted by NABARD is to establish synergy between the banks, who have the financial strength and the NGOs, who have the ability to mobilise the poor and build-up their capacity to avail loans from the banks. This is expected to facilitate the poor to graduate to a level from where they can access larger amounts of loan directly from the banks without the intervention of NGOs. A special feature of the linkage model is that the banks also directly act as SHPs (Linkage Model III). By end March 1999, 17 per cent of the total groups linked were promoted and nurtured by bank branches without the


involvement of the NGOs. As many as 202 banks (comprising 38 commercial banks, 129 RRBs and 25 co-operative banks) and 550 NGOs are participating in the linkage programme. Women SHGs constituted around 84 per cent of the groups linked. A total of 32,996 SHGs were linked with banks by March 1999. The cumulative disbursement of bank loans was Rs. 570.3 million and refinance assistance of Rs. 520.6 million (Table III). The linkage programme is estimated to have benefited 5,60,000 rural poor families in about 280 districts of the country.

Table III: Cumulative Progress in SHG Linkage Programme

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of SHGs linked</th>
<th>Bank Loan</th>
<th>Refinance Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>255</td>
<td>2.9</td>
<td>2.7</td>
</tr>
<tr>
<td>1993-94</td>
<td>620</td>
<td>6.5</td>
<td>4.6</td>
</tr>
<tr>
<td>1994-95</td>
<td>2,122</td>
<td>24.4</td>
<td>23.0</td>
</tr>
<tr>
<td>1995-96</td>
<td>4,757</td>
<td>60.6</td>
<td>51.6</td>
</tr>
<tr>
<td>1996-97</td>
<td>8,598</td>
<td>118.4</td>
<td>106.5</td>
</tr>
<tr>
<td>1997-98</td>
<td>14,317</td>
<td>237.6</td>
<td>213.9</td>
</tr>
<tr>
<td>1998-99</td>
<td>32,995</td>
<td>570.7</td>
<td>520.6</td>
</tr>
</tbody>
</table>

Source: Annual Report, 1998-99, NABARD

7. The Credit and Financial Services Fund (CFSF) was set up with NABARD in 1995 for supporting banking and financial service institutions (including NGOs) for undertaking credit delivery innovations and increase the access to financial services for the rural poor and women. The major activities covered for financial assistance from the Fund are promotion and linkage of SHGs, capacity building of rural banking and financial services institutions, other micro-credit delivery innovations, etc. (Table IV).

i. Revolving Fund Assistance (RFA)

8. In addition to providing refinance to banks, NABARD has been supporting various partner agencies for capacity building through grants and Revolving Fund Assistance (RFA) for micro-credit innovations. As on 31 March 1999, aggregate RFA/Corpus Fund support aggregating Rs.137.2 million was sanctioned under Bulk Lending Scheme to 21 NGOs/VAs (Table V).
Table IV: Financial support extended by the National Bank for micro-credit innovations (Cumulative position as on 31 March 1999)

(Rs. million)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Amount sanctioned</th>
<th>Amount disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No. of Agencies</td>
<td>Amount</td>
</tr>
<tr>
<td>1</td>
<td>SHG Refinance</td>
<td>202</td>
<td>520.6</td>
</tr>
<tr>
<td>2</td>
<td>Revolving Fund Assistance</td>
<td>21</td>
<td>107.2</td>
</tr>
<tr>
<td>3</td>
<td>Grants</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Promotional Assistance</td>
<td>70</td>
<td>20.0</td>
</tr>
<tr>
<td></td>
<td>(ii) Corpus Contribution</td>
<td>1</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>280*</td>
<td>677.8</td>
</tr>
</tbody>
</table>

* After adjusting NGOs assisted for more than one type of assistance.

Table V: Revolving Fund Assistance - Bulk Lending to NGOs (As on 31 March 1999)

(Rs. million)

<table>
<thead>
<tr>
<th>St. No.</th>
<th>Particulars</th>
<th>No. of NGOs</th>
<th>RFA/Corpus sanctioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>BGB Replication</td>
<td>8</td>
<td>70.4</td>
</tr>
<tr>
<td>II</td>
<td>NGO Networking</td>
<td>2</td>
<td>51.0*</td>
</tr>
<tr>
<td>III</td>
<td>SHG Federations</td>
<td>2</td>
<td>2.4</td>
</tr>
<tr>
<td>IV</td>
<td>Others</td>
<td>9</td>
<td>13.4*</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>21</td>
<td>137.2</td>
</tr>
</tbody>
</table>

* Includes Rs. One million released to RDO, Manipur for assisting REDP trainees.

ii. CDS Experiment in Kerala

9. A unique approach to poverty alleviation of poor rural women was implemented in Alappuzha and Malappuram districts of Kerala. The Government of Kerala, NABARD, UNICEF and banks joined together to create a people based structure to help the women to identify their problems and to implement their own programmes. The programme aimed at providing basic food and hygienic needs of the poor with focus on women and children. The community, through a survey using an independent set of poverty indicators identified poor women. One woman each from every family so identified became a member of the Neighbourhood Group (NHG) of 15-20
members. Each NHG had a five-member committee. The NHGs were federated into ward-level Area Development Societies (ADS) and further with the panchayat or town level Community Development Societies (CDS). The entire CDS structure comprised only of poor women. Over 1,60,000 poor women are the members of the NHGs in the two districts. NABARD played an important role in developing a simple but effective accounting system and facilitated organising of programmes to train women volunteers in management of groups. The bank also provided appropriate financial support through the banking system for taking up a wide range of income generating activities. Banks had disbursed loan of Rs. 4.6 million with refinance support of Rs. 3.9 million from NABARD under the programme till 1996-97. The repayment from the members to the NHGs is 100 per cent. A positive feature of the programme is its ability to generate sufficient funds through the savings of its members such that it does not require bank credit for financing the members.

B. SIDBI

10. The Small Industrial Development Bank of India (SIDBI) was established in 1990 to serve as the principal financial institution for promotion and development of industry in the small scale sector as well as to co-ordinate the functions of other institutions engaged in these aspects in the sector. The bank launched the Micro-credit Scheme (MCS) in 1994 for extending financial assistance to the rural poor, particularly women, through NGOs for taking up income generating activities at the micro-level. The scheme envisages provision of soft loan assistance at 9 per cent per annum to accredited NGOs for on-lending to the poor women (SHGS/Individuals), an amount not exceeding Rs. 25,000 per borrower for promoting micro-enterprises. Savings form an integral part of the programme and members of the SHGs are encouraged to plough back their savings to the group corpus for building up borrower’s equity over a period of time. A salient feature of the scheme is the grant assistance extended by the bank for developing the capacity of the NGOs to run credit programme efficiently and to enhance the credit absorption capacity of the borrowers. Till March 1999, the cumulative net effective sanctions since inception of the MCS aggregated Rs. 307.1 million channelised through 142 MFIs/NGOs, spread across 24 States/Union Territories. Besides 97 programmes have been supported for providing training to 1,550 NGOs.

11. An impact evaluation study of the MCS by two independent agencies, viz., PRADAN, Madurai in 1995 and EDA Rural System in 1997 revealed the following: Firstly, the support provided by SIDBI through NGOs reached deserving poor women who did not have access to credit from the formal banking system. Secondly, since the support was mainly provided for
strengthening the existing income generating activities and for initiating new activities, it resulted in increase of income in almost all cases. In the Eastern region, an increase in the savings was reported by 96 per cent of the sample borrowers. Thirdly, the loan amounts provided to the existing activities ranged between Rs. 2,000 to Rs. 5,000. The repayments were regular with the recovery rate ranging between 95 to 100 per cent. Fourthly, the interest spread available to NGOs was rather tight for meeting operational costs and creating provisions for risks. Fifthly, the NGOs required support in the area of financial management and for developing appropriate accounting systems. Lastly, there was a reduction in the extent of indebtedness to local middlemen, traders or money lenders due to the intervention.

12. The GOI has identified the Bank as a major partner for implementing the UNDP supported Trade Related Entrepreneurship Assistance and Development (TREAD) programme for women. Under the programme, GOI provides financial support for capacity building to financial intermediaries while the loan component is provided by SIDBI.

i. **SIDBI Foundation for Micro-credit**

13. Considering the satisfactory performance of MCS in the pilot phase, the Bank set up 'SIDBI Foundation for Micro-credit' in November 1998 with an initial corpus of Rs. 1 billion with a view to upscaling the activities under MCS. The objective of the Foundation is to raise the standard of living of the poor, with focus on women, by meeting their genuine credit needs. It extends financial support to well managed Micro-Finance Institutions (MFIs) for on-lending to poor (individuals/groups) and for strengthening the MFIs financial, technical and managerial capabilities as well as improving their credit absorption capacity. The MFIs may on-lend directly to both SHGs and individuals or through smaller MFIs/NGOs to the end-users. Unlike NABARD, which extends financial assistance to income generating activities in both the farm and non-farm sectors, SIDBI's financial assistance is restricted to only those activities, which come under the non-farm sector. Loan assistance for on-lending is need based and is subject to a minimum of Rs. 1 million per MFI while the ceiling on the amount lent by the MFIs to a single borrower/SHG member is Rs. 25,000. Loans are provided to MFIs @11% p.a. (subject to revision from time to time) for on-lending to SHGs/individuals at a rate determined by them for covering their operational expenses. However, the rate charged must be in tune with market rates. The repayment period, in general, is 4 years including a moratorium of 6 months.

II. Capacity Building of Intermediaries

14. Towards ensuring that a supplementary channel of credit delivery is properly developed, SIDBI has been making investments in improving the credit absorption and usage capacity of the women’s groups and credit delivery skills of the functionaries of MFI/NGOs working with savings-cum-credit groups. Financial support is extended to NGOs for training interventions in the area of maintenance of accounts, book keeping, credit management, identification and selection of income generating activities and management of micro-enterprises. The Bank has been supporting orientation programmes for NGOs desirous of undertaking thrift-cum-credit activities. These programmes are being conducted through NGOs and professional institutions having ample exposure/experience in the areas of managing micro credit programmes. Besides, financial assistance is extended by way of grant to NGOs for meeting part of their administrative expenses and cost of management support services for effective implementation of the programme.

C. Rashtriya Mahila Kosh

15. The National Credit Fund for Women or Rashtriya Mahila Kosh (RMK) was constituted in March 1993 by the Government of India (GOI) and is registered as a Society under the Societies Registration Act, 1860. The RMK was established with the objective of promoting support schemes for improving the facilities of credit to women, which could be used as an instrument of socio-economic change and development. It also supports experiments in the formal and informal sectors using innovative methodologies to reach poor women with credit and other social services. The RMK was established with an initial corpus of Rs. 310 million, contributed by the Department of Women and Child Welfare, Ministry of Human Resource Development, GOI. The important schemes under which financial assistance is available are (a) Main scheme providing loan assistance, (b) revolving fund scheme, (c) scheme for providing financial support for development and stabilisation of SHGs, (d) nodal agency scheme, (e) umbrella scheme and (f) resource NGO scheme.

16. Under its Main Scheme, loans at concessional rate of interest are made available to Voluntary Organisations and to women below the poverty line. The ceiling for short-term loans (loan period ranging between 6-15 months) is Rs.4,000 while for the medium-term loans (loan period ranging between 2-5 years) it is Rs.6,000 per beneficiary. The organisation generally gives 25 per cent of the amount by way of medium-term loan and 75 per cent for short-term loans. Rate of interest charged to NGOs is 8 per cent per annum and the NGO is under obligation to charge a rate of interest not exceeding 12 per cent per annum from the SHGs or from the ultimate
beneficiaries financed directly by the NGOs. Organisations, having experience in thrift and credit for at least one year, are eligible for loan assistance up to Rs. 0.2 million under the RMK loan promotion scheme while those having 3 years experience and with good recovery performance are eligible for another loan under the main loan scheme.

17. The main objective of the ‘Revolving Fund Scheme’ is to provide lump sum fund to NGOs to supplement their own resources, to recycle loans to poor women in need of credit and to provide more flexibility to the NGOs in the management of the Fund. The ceiling under the Revolving Fund is Rs. 5 million per annum per NGO. This amount is over and above the loans under the ordinary loan. The loan period is 3 years and repayment, in four half-yearly instalments, starts on completion of 18 months of the release of loan. The rate of interest charged from the NGOs and the rate to be charged by the NGOs from the SHGs is the same as in the case of loans under the main scheme. SHGs have the freedom to decide the rate of interest to be charged from the ultimate members/borrowers. However, these rates are not to exceed the lending rate of State Bank of India on unsecured loans during the previous financial year. A grant of one per cent of the loan amount is given towards upgrading skills of the women borrowers.

18. With a view to promoting the development and stabilisation of SHGs, the RMK provides financial assistance in the form of interest free loans to the NGOs. Each loan is repayable after one year repayment holiday so as to provide time for stabilisation of the SHGs. The grants to the NGOs are given every year (from the 2nd year onwards) on the following scale:

(i) 25 per cent of the loan amount advanced by the SHGs promoted under the RMK scheme.

(ii) 5 per cent of the growth of savings, provided the growth in savings is atleast 10 per cent over the previous year.

19. RMK provides credit mainly to NGOs, Women Development Corporations and Co-operative Societies for on-lending to poor women. By end February 1998, it had covered 2,33,277 women to 237 organisations throughout the country. The recovery rate of RMK’s dues has been consistently good ranging from 94 to 95 per cent. RMK has also entered into an agreement with some bigger NGOs to work as umbrella or resource organisations to extend necessary help and guidance to the smaller NGOs in the area in organising savings and credit programmes. The progress under the various schemes of the RMK for the last five years is presented in Table VII.
Table VII: Progress under Various schemes of RMK for Micro-credit

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of the Scheme</th>
<th>No. of Borrowers</th>
<th>Amount sanctioned</th>
<th>Amount disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>Main scheme</td>
<td>37066</td>
<td>439.33</td>
<td>140.82</td>
</tr>
<tr>
<td>1994-95</td>
<td>Main Scheme</td>
<td>25059</td>
<td>512.45</td>
<td>429.54</td>
</tr>
<tr>
<td>1995-96</td>
<td>Main Scheme</td>
<td>34302</td>
<td>786.70</td>
<td>534.13</td>
</tr>
<tr>
<td></td>
<td>Revolving Fund</td>
<td>3000</td>
<td>60.00</td>
<td>20.00</td>
</tr>
<tr>
<td></td>
<td>Loan Promotion</td>
<td>200</td>
<td>3.50</td>
<td>1.50</td>
</tr>
<tr>
<td>1996-97</td>
<td>Main Scheme</td>
<td>51864</td>
<td>1273.90</td>
<td>748.11</td>
</tr>
<tr>
<td></td>
<td>Revolving Fund</td>
<td>39000</td>
<td>395.00</td>
<td>150.00</td>
</tr>
<tr>
<td></td>
<td>Loan Promotion</td>
<td>200</td>
<td>3.50</td>
<td>3.50</td>
</tr>
<tr>
<td>1997-98</td>
<td>Main Scheme</td>
<td>27761</td>
<td>897.20</td>
<td>898.51</td>
</tr>
<tr>
<td></td>
<td>Revolving Fund</td>
<td>31300</td>
<td>313.00</td>
<td>444.00</td>
</tr>
<tr>
<td></td>
<td>Loan Promotion</td>
<td>560</td>
<td>12.00</td>
<td>6.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>250312</strong></td>
<td><strong>4698.58</strong></td>
<td><strong>3376.11</strong></td>
</tr>
</tbody>
</table>


III. Role of Informal Sector

20. A number of NGOs/VAs in the country play an important role, either independently or in collaboration with apex institutions like NABARD, SIDBI, RMK or with banks, in promoting micro-finance as a viable system for helping the poor in crossing the poverty line. These organisations have adopted different models in promoting programmes of micro-finance. Some have followed the path of direct financial intermediation through co-operative banks (SEWA) or establishing micro-finance institutions (SHARE, BASIX), while others like MYRADA have played an indirect role through promoting and fostering SHGs of the poor and linked them to the formal credit institutions. The experiences of selected NGOs, which represent different approaches, are presented.

A. Self-Employed Women's Association (SEWA)

21. SEWA, established in December 1971, was registered as a trade union in April 1972. In 1974, the Shri Mahila Sewa Sahakari Bank Ltd., was established with the specific objective of providing credit to self-employed women so as to empower them and reduce their dependence on money sharks. Initially, it concentrated on attracting deposits from self-employed women and served as an intermediary to enable its depositors to obtain loans from nationalised banks, which were required to lend to the poor at
During this period, about 6,000 members received nearly Rs. 2.5 million in credit from the banks. In 1976, the Bank extended loans to its depositors from its owned funds and gradually withdrew from the credit arrangement with the nationalised banks.

1. Micro-finance Programmes

22. The intervention methodologies of SEWA in micro-finance include (a) providing facilities for savings and fixed deposit accounts, which would inculcate the habit of thrift in women and facilitate them in managing their savings, (b) providing credit for income generating activities of poor self-employed women and helping in creating assets of their own and (c) adopting procedures and designing schemes, which are suited to them and (d) imparting training in understanding banking procedures. The first step in Bank's scheme of financial intermediation is to extend credit to highly indebted women, which will release them from the high-interest debts with money-lenders and provide them better bargaining power with suppliers. The second step is to use the new credit productively and generate more income, which can be used to repay the loan and also plough the surplus into the enterprise.

23. SEWA lends to its members for working capital, investment in working tools and for capital investments like work areas, houses or storage space for their produce. Loans are available only for economic activities and not for personal use. The Bank provides loans with a repayment period of three years for productive purposes. There are no subsidies or grants and therefore, the Bank borrows and lends at market rates. Its attraction is that it provides services tuned to the poor (especially poor women) and its interest rates are much lower than those of usurious money-lenders, albeit higher than the interest rates charged by other banks. The bank also employs woman 'savings mobilisers' to encourage women to save with the bank. The mobiliser visits women at their homes or workplaces so that they can easily deposit their savings.

24. Sub-sectors of the economy that SEWA's members have identified and developed are dairy farming, gum-collection, embroidery, salt-farming and plant nurseries. The benefits in these sectors have been economic and social. Activities like embroidery, normally considered women's work and non-wage earning, have been successfully converted into wage labour. SEWA has also succeeded in minimising seasonal migration due to lack of employment by encouraging women to form self-employed producer groups and then finding new markets for their products.
B. MYRADA

25. The Mysore Resettlement and Development Agency (MYRADA), based in Bangalore, was established in 1968 to facilitate the resettlement of Tibetan refugees. Since 1978-79, the NGO has been involved with programmes in the rural areas for the poor, whom it defines as “those who depend on others for their basic needs”25. The five major areas in which the NGO has intervened are (1) Rural Credit Systems through socially functional groups (2) Development of Women and Children (3) Resettlement of released bonded labourers and displaced persons (4) Forestry and (5) Participative Integrated Development of Watersheds. MYRADA believes in social interventions rather than on financial intermediation and, therefore, envisages its role in microfinance as a Self-Help Promotion Institution than as an MFI.

26. MYRADA’s experience in the early eighties indicated that the poor almost depended on the moneylenders to provide credit for consumption, trading and for small enterprises and the search for an alternate credit system began with an emerging consensus that along with it efforts to make the mainline delivery system not only more appropriate and effective were required but which would also be willing to accept and relate to an alternate system with its own rules and management systems. It was out of this conviction about an alternate credit system that MYRADA experimented with various systems. The search for an alternate credit system began with the co-operative societies, then shifted to Village Development Societies, before culminating with the Credit Management Groups (now known as Self-Help Groups), which is widely recognised as a viable system. The process of building up SHGs involved three phases. These are (a) identification and formation of the groups in the first phase (0-5 months), (b) stabilisation of the groups in the second phase (6-15 months) and (c) after the members of the group realise that the functioning of the group is their responsibility the intervenors withdraw from the group in the third phase (16-36 months). NABARD provided Rs. one million as a grant from its R&D Fund to MYRADA in 1988. MYRADA matched the CMGs’ savings with this amount. The CMGs used this amount to extend loans to its members. Several CMGs also decided to repay this original grant to MYRADA in order that other groups could benefit. The same holds true for the grant of Rs. 0.1 million given by CAPART to match the savings of the CMGs.

27. This experiment in the mid 1980s was geared to achieving a change in banking policy that would enable the banks to relate directly with the credit groups as “bankable institutions”. The affinity group strategy of credit

management based on groups of 15-20 members is an alternative strategy for credit, which is not part of the official credit delivery system. It is also a decentralised model where decisions are taken at the group level; it is based on alternate institutions, which are free to operate according to their own rules and regulations.

28. These groups not only mobilised savings and managed credit but were also agents for change both within the SHGs as well as in society; this is what the description of the SHG’s role as “Credit-Plus” intends to convey. Credit is used as a tool to develop their management skills and their ability to participate in group discussions which prepares them to participate effectively in larger groups like Co-operative Societies which are not homogenous. It is because their management skills have developed that they move beyond monitoring activities and mobilising savings, to take decisions, which require a degree of confidence to take risks, to establish priorities and to apply sanctions for deviant behaviour. The strategy, therefore, evolved around (i) the potential of the SHG to provide space and support so that each of its members can identify and use opportunities for her/his empowerment both in private and public life and (ii) the capacity of the SHG to relate effectively with other institutions.

29. Decisions on loans, on the rate of interest, on payment and repayment schedules and sanctions are taken in each group; the representatives of the group collect savings and recoveries during the meetings and deposit these funds in the nearest Bank or Post Office; they sign and cash cheques. Each group also decides to undertake various other types of community activities besides credit management. As a result of this decentralised model, MYRADA has been able to organise about 3130 SHGs with 62,769 members (approx. 4,50,000 people).

i. Common Fund of the SHGs

30. One of the aspects of the underlying philosophy of self-reliance and sustainability of the SHGs is the need for members of the group to save regularly so that the habit of thrift is inculcated among them. All the savings do not go into the Common Fund (CF). It is a practice for members to put part of their savings in the CF and part into their personal accounts. The first contribution to the CF is usually the membership fee. Regular savings collected at meetings follow this. Several groups fix a lower limit of savings and some impose fines if this amount is not forthcoming. Other groups do not fix the amount but encourage the members to save and contribute to the CF as much as they can. The latter groups tend to attract a higher
level of savings. Experience in some of the projects indicates that poor people have a higher capacity to save than normally assumed, and are willing to save if they are sure that they will have ownership and control of these savings. The CF grows gradually over the first few months. An analysis of the source of funds of the CFs in all MYRADA's projects indicates that major contributing factors to the CF are savings and interest recovered on loans. These amounts indicate the degree of "self help" and ownership by the members. Another source of the CF is "fines", levied by the group on "deviant behaviour". The members do not object to paying a fine when they realise that the money goes into the common fund. The practice of levying fines is a significant factor that contributes to establishing group behaviour, especially in terms of controlling consumption of non-essentials as well as in making sanctions more effective. Fines, for example, are levied on defaulters, for smoking and drinking, chewing paan and coming late to and talking during meetings.

ii. Apex Level Bodies of SHGs

31. A unique feature of the alternate credit system evolved by MYRADA is the federal structure of these groups, which has been adopted by some other NGOs. MYRADA's experience indicates that a few SHGs (8-10) come together to function as service societies; they purchase agricultural inputs and equipment in bulk once or twice a year; a few are also involved in marketing produce. At another level several SHGs (20-40) come together to form an Apex Body.

32. There are several functioning Apex Bodies in MYRADA projects. In general they have focused on (i) supervision of SHGs, (ii) fostering linkages with Government and private support institutions and (iii) solving problems within the SHG and among the SHGs, including resolution of conflicts that arise between SHGs and other groups or individuals. Some Apex Bodies are initiating larger projects with loans from Banks; the move to purchase transport vehicles is one example. Others have built up a common fund from which loans are given to SHGs. These initiatives, which are a further stage in the growth of people's institutions, are closely monitored by MYRADA in order to gather experience in this new area.

C. BASIX

33. Basix is a group of five financial and technical companies that extends credit for agriculture, allied and the non-farm sector activities. Their mission is to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner. The company also strives to
yield a competitive rate of return to its investors so as to be able to access mainstream capital markets and human resources on a continuous basis. This is perhaps the only MFI in the country with profit as a corporate goal, thereby demonstrating that it is possible to temper commercial considerations simultaneously with a serious concern for the poor. The company is currently having its operations in 421 villages spread over five districts in the states of Andhra Pradesh and Karnataka. The area of operations cover Adilabad, Kurnool, Khammam and Mehboobnagar districts in Andhra Pradesh and Raichur district in Karnataka.

34. The holding company of the Group, Bhartiya Samrudhhi Investments and Consulting Services Ltd. (BASICS), leverages funds in the form of capital and loans from donor agencies and the market for its operations. In February 1999, the Krishna Bhima Samruddhi Local Area bank Ltd., was established as a banking subsidiary, after obtaining the RBI’s permission. However, the bank is yet to receive the license for commencing its banking operations from the RBI. The company, therefore, accesses funds required for its operation from donor agencies and private banks in the form of grant or soft loans. BASICS have accessed funds to the tune of Rs. 32.1 million in April 1998 from SDC as soft loan carrying an interest rate of one per cent per annum on current basis and a further seven per cent on a deferred basis. The company had also accessed Rs. 35.65 million from the Ford Foundation during 1996-97. Indian Grameen Service (IGS) was able to access Rs. 3.6 million from the Ford Foundation, Rs. 0.3 million from SDC and Rs. One million from the Sir Ratan Tata Trust for carrying on with its operations. Bharatiya Samruddhi Finance Ltd., (BSF) could also negotiate a loan for Rs. 20 million from the Global Trust Bank Ltd, a bank in the private sector. Loans are given either directly to the borrowers or channeled through collaborators like NGOs or agri-business firms or through intermediaries like commission agents, seed production organisers or SHGs. Direct loans constituted 44 per cent of the loans outstanding, followed by direct loans through the Joint Liability Group (25%), on-lenders (17%) and SHGs (13%).

35. The cumulative disbursement of loans till end-March 1999 was Rs. 129.9 million to 16,165 borrowers. The purpose-wise classification of loans indicate that a major share of the loans was accounted for by crop loans (43% of loans outstanding). This was followed by micro-loans for NFS (19%), term loans for agricultural/allied activities (18%), general-purpose loans (13%) and NFS loans for small and medium enterprises (7%). The repayment of loans by the borrowers was very good at 94.5 per cent.
D. SHARE

36. SHARE\textsuperscript{27}, an MFI, was registered as a Society in 1989 and is operating in 502 villages spread over five districts in Andhra Pradesh through twelve branches. The MFI has adopted the Grameen Model of Bangladesh in working with the rural poor in the state. It provides financial and support services to the very poor with an annual per capita income of Rs. 3,000 and asset holding of less than Rs. 20,000. The focus of the MFI is essentially on rural women, allowing them to generate income for themselves and their families. Loans have been provided without any collateral and are available for agriculture and non-agricultural activities as well as for housing and improvement in sanitary conditions. A maximum loan amount of Rs. 25,000 is lent at interest rate of 15 per cent on a flat rate basis to an individual. However, interest on housing loan is under reducing balance basis and is repayable in 4 years. The first loan size is a maximum of Rs. 4,000 and, subsequent loans of higher amounts are given, if the first loan is repaid within a year. The objective of such upscaling of subsequent loan is to facilitate the borrowers in upscaling the same business or to undertake diversified projects. As of September, 1998, SHARE had a membership of 13,140 and disbursed loans amounting to Rs. 86 million to its members. A break-up of the purposes for which loans were disbursed indicated that the highest share was accounted for by loans for animal husbandry activities (54%), followed by non-farm activities (20%), housing (11%), agriculture based projects (10%) and hawking (4%). Sanitary loans constituted a meager 0.38% of the total loans\textsuperscript{28}. The repayment of loans by the members was 100 per cent.

37. SHARE is financially supported by NABARD, SIDBI, HUDCO, the World Bank, Grameen Trust, Friends of the Women's World Banking, Tata Trust, Dr. Reddy's Foundation, Ford Foundation and IDS. Of the twelve branches, which were established, two have achieved financial self-sufficiency in terms of meeting the cost of capital remitted by the headquarters and its overheads.

IV. Government Agencies as SHPIs

38. The success of the SHG linkage programme in the country has prompted the District Rural Development Agencies (DRDAs) in some of the states, notably Andhra Pradesh and Rajasthan, to adopt the programme.

\textsuperscript{27} There is another NGO operating in Vellore district of Tamil Nadu, which is a separate entity and has no links to the one discussed in this section.

With a view to ameliorating the socio-economic conditions of women in the state, the Government of Andhra Pradesh has actively encouraged organising rural women into groups by the DRDA with the support of other government agencies. By end-March, 1999, about 0.16 million groups were formed in the state, of which 79,500 groups were supported with revolving fund assistance under DWCRA. A system of grading of these groups, depending upon their age, group dynamics and fund management practices was developed for selecting appropriate groups for their credit linkage with banks. Nearly 5,700 such groups have been linked to banks. In Rajasthan, the District Women Development Agencies (DWDAs) acted as SHPIs in 13 districts facilitating linkage of 257 SHGs.

39. In Belgaum district of Karnataka, the Zilla Parishad took the initiative in 1997 to promote SHGs in the district by involving its own staff at the district, taluka and panchayat levels. By the end of March, 1999, a total of 887 SHGs were formed, of which 593 were women groups. The SHGs had mobilised savings totalling Rs. 5.7 million and 28 such SHGs were linked with banks for a bank loan of Rs. 0.4 million.
MICRO-FINANCE PROGRAMMES
Other Country Experiences

The poor need opportunity, not charity.
Prof. Mohd Yunus

In this section, the experiences of selected countries in South East Asia and Latin America in implementing the programmes of micro-finance are documented.

I. Bangladesh

2. Since 1985-86 poverty had risen consistently in the country due to rapid increase in the working age population, increasing landlessness and low growth of employment in non-farm sector. According to the Bangladesh Bureau of Statistics sources, 47.5 per cent of the population in 1991-92 lived below poverty line, pegged to daily intake of 2,122 calories. The incidence of poverty was broadly similar both in rural and urban areas. Contrary to the official estimates, the study by Ravallion and Sen (1996) estimated that in 1991-92, 49.7 per cent of the population were below the poverty line, comprising 52.9 per cent of the rural population and 33.6 per cent of the urban population. Thus, the incidence of poverty was higher in rural areas and women headed families suffered the most. Poverty estimates for the country during 1995-96, on the basis of daily calorie intake, indicate that 49.7 per cent of urban and 47.1 per cent of rural population was in the absolute poverty bracket (2,122 calories). About 27.3 per cent of urban and 24.6 per cent of rural population was categorised as in the “hard core” poverty group (1805 calories).

3. Rural Credit in Bangladesh is purveyed by three different types of institutions, viz., formal, semi-formal and informal credit agencies. Formal agencies include agricultural banks, rural branches of Nationalised Commercial Banks, Grameen Bank, two Co-operative networks and private banks. The semi-formal agencies include Non-Governmental Organisations (NGOs). The informal sector consists of private moneylenders, friends, relatives, shopkeepers, etc.

29. This section draws largely from the visit reports filed by the team of officers of the National Bank, who visited some of the countries in South East Asia for studying the experiences in implementing micro-finance programmes and from “Getting the framework right - Policy and regulation for micro-finance in Asia” by Paul B. McGuire, et al published by The Foundation for Development Corporation, Brisbane, Australia. The experience of the Latin American Countries is drawn from the material available at website http://www.accion.org.
A. Micro-finance Programmes

4. With the commercial banks largely ignoring the rural poor, specialised Micro-finance Institutions (MFIs) have emerged over time to bridge the gap and provide financial services to the unreached segment of the rural population in the country. Three types of micro-finance institutions have emerged in the country. These are (a) NGOs turning into specialised formal banks or formal banking system for micro-finance, e.g., Grameen Bank and Janata Bank, (b) NGOs purveying micro-finance in a big way along with providing other services, e.g., BRAC, ASA, etc., and (c) Small NGOs, numbering about 2000, facilitating micro-finance in their area of operations. There are about 369 NGO-MFI in the country with a total membership of about 7 million poor.

I. Grameen Bank

5. Grameen Bank is the largest provider of micro-credit in Bangladesh. After liberation of the country in 1971, Prof. Mohd. Yunus, the man behind the Grameen Bank, realised that getting credit from the banking system without collateral was an impossible task for the poor, who were in dire need of it, and the money lenders were exploiting the poor beyond imagination. Therefore, he obtained certain amount from the bank for on-lending without any security/collateral to the poor who were organised into small groups. The idea worked well and demand for such credit increased manifold. Prof. Yunus started the experiment in Chittagong district in 1976 by giving small amounts to the borrowers to buy raw materials like bamboo, etc. After selling goods, they repaid the money. The process was repeated again and again and the institution promoted by Prof. Yunus in 1976 expanded its operations to other districts of Bangladesh. The bank was constituted under Grameen Bank Ordinance of the Government of Bangladesh in 1983. Ultimately, what was once an action research project got transformed into a specialised bank for the poor. The credit needs, as well as non-credit requirements of 2.4 million poor members, are met by the Bank. Amongst its clients, 95 per cent are women.

6. The Bank lends without any collateral security to groups and a group consists of five members coming from different families. There is no membership fee and saving is not compulsory for access to loan in the first instance. Saving starts after the first loan, when repayment starts in weekly instalments. Savings are at the rate of TK. 2 per week per member which have since been enhanced to TK. 5 per week (1US$ = 48TK). Members can avail of loans any number of times after repaying earlier loans, which are generally repayable in 50 weekly instalments, excepting housing loans, which has a repayment period of three years. Loans are
given for processing and manufacturing, agriculture and forestry, livestock and fisheries, service activities, trading, peddling, shop-keeping, housing, seasonal loans for cultivation, cattle rearing, leasing, equipment leasing, medium size loans and education loans for member's children. The loans carry interest rates ranging between 5 to 20% per annum. Repayment instalments consist of principal, interest and compulsory deposit of the borrowers.

7. The Bank emphasises on intensive training to its staff as well as to group members. All the group members have to undergo intensive training of 1-2 weeks about the philosophy of the Grameen Bank and its rules and procedures. This is an important training and motivation input for the group members.

ii. Bangladesh Rural Advancement Committee

8. The Bangladesh Rural Advancement Committee (BRAC) was established in 1972, initially, with an aim to provide relief and rehabilitation to the refugees. It shifted its emphasis in 1973 to community development involving the rural poor. In the year 1976, it adopted a target group approach consisting of the landless and the poorest, particularly the women. Realising that the donor funds might dry up eventually and that the programmes must become self-sustainable, BRAC focused attention on development of Micro enterprises and Support Enterprises from 1997. It has also decided to discontinue taking donor funds and to make it self-sustainable by 2001. Recognising that social services like health care and primary education may not be self-financing, it proposes to cross-subsidise these activities through profits generated from its commercial ventures.

9. BRAC undertakes both credit and non-credit related activities. Among its credit activities, the important ones are:

- **Rural Development Programme**: The programme aims at enterprise development through credit facilities and capacity building of the rural poor, focussing on women. The programme includes development activities such as poultry, livestock, vegetable cultivation, sericulture, pisciculture, plantation, SRTO, small trades, etc. The programme covered 2.8 million households from all the 64 districts.

- **Programme Support Enterprises**: With a view to supplying quality inputs to its members, BRAC established two poultry farms, two feed mills, seven grainages to support sericulture activities, five prawn hatcheries, two vegetable seed production centres, etc. Further, to encourage women for non-traditional projects, BRAC
has established 2800 grocery stores, restaurants, operated by women and provides technical and technological assistance to its members.

- **Micro Enterprises:** In order to create wage employment opportunities, BRAC has provided loans to about 700 rural entrepreneurs for activities in areas such as textile, cottage industries, SRTO, food processing, etc. Further, with a view to attaining self financing status for its activities, BRAC has established one cold storage, printing press, a chain of shops for selling products of rural craftsmen, dairy and food products, etc.

BRAC's non-credit related activities include (a) Health and Population Programme, (b) Non-formal Primary Education Programme and (c) Training and Resource Building

### a. Micro-finance Activities of BRAC

10. The aim of BRAC is to help the poor, who are willing to embark on activities to better their lives, through its Savings & Credit Programme. The programme helps in creating a financial base for the members of the group. The membership is open to landless labourers or those having land up to 5 cents of land and who are in the age group 18 to 54 years. Preference is given to women. A group consists of not more than 40 members, who form the Village Organisation (VO). Each VO is divided into groups of 6-8 members. A member is eligible for first loan after 6 weeks of membership, having 2% of the loan as savings to his/her credit. The quantum of loan is as per the recommendation of the group, since the peer pressure is the only security for recovery of the loan. The maximum amount of first loan is TK. 3000. The loan is repayable in a year on weekly instalment basis. Interest on loans is charged at a flat rate of 15 per cent (nearly 30% if it is charged on reducing balance method). On repaying the loan amount, the member is eligible for subsequent loans. The loan disbursed by BRAC to 2.8 million members throughout the country amounted to TK. 30 billion, as on December 1998, and the recovery rate was 98.6 per cent.

### iii. Palli Karma Sahayak Foundation (PKSF)

11. The success of Grameen Bank in providing the poor with access to credit prompted many NGOs to replicate the model in the country. Against this background, the Palli Karma Sahayak Foundation (PKSF) was set up by the Government in May 1990 as a non-profit foundation under the Companies Act, 1913. The main objectives of the Foundation are to provide assistance for generating income and/or employment opportunities for the
landless and assetless for alleviating poverty and to build and strengthen the institutional capacity of partner organisations (POs). The PKSF receives funds for its operation from the Government of Bangladesh, foreign donors and international agencies. The main activities of PKSF are (a) Credit, (b) Training and Institutional Development and (c) Research

12. The Credit Programme of PKSF is run through its POs. PKSF has funded 158 POs covering 59 districts of the country. As on June 1998, the number of borrowers stood at 1.21 million, 90 per cent of whom were female. The total amount of loan disbursed by PKSF, as on June 1998, was Taka 3.68 billion. The Foundation has been able to maintain a loan recovery rate above 98 per cent from its POs. PKSF charges a service fee ranging between 3 and 5 per cent from the POs, depending on the amount of loan disbursed, and the POs in turn charge a flat rate interest of 15 per cent from the borrowers. Training is also provided by the PKSF to the staff of POs for their capacity building. With a view to improving the efficiency of the POs and to provide mobility to their staff, the foundation also gives interest free loans to buy computers and motorcycles.

II. Nepal

13. Nepal is one of the poorest countries in the world with an estimated 42 per cent of the population being below the poverty line of Rs. 4,500 (US $ 82) defined for the country during 1993-94. While poverty in urban areas is less pronounced at 23 per cent, in the rural areas, where 90 per cent of the population live, poverty is estimated at 44 per cent. The country, like India, has adopted a system of planned development under which developments plans are prepared (Five-Year Plans) and implemented. Many schemes, like Tribhuvan Village Development Programme (1950), the Integrated Rural Development Programme (1980), the WFD supported Food for Work Programme (1970), implemented towards alleviating poverty suffered from poor implementation and failed to achieve their objectives, resulting in an increase in the number of poor people in the country. The proportion of the population below the poverty line had gone up from 36.2 per cent in 1976-77 to 42.6 per cent in 1984-85 but marginally fell to 42 per cent in 1993-94.

14. The Eighth Five-Year Plan (1992-97) had recognised that the absence of targeting the poor was a major shortcoming of the earlier programmes in alleviating poverty. Accordingly, for the first time, the Plan proposed targeting poverty specifically and included several programmes to ensure that the poor

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30. The methodology followed in defining the poverty line differed in the three surveys and hence, the data for poverty may not be strictly comparable for the three periods but at the same time it gives a fairly good idea of the trends in the growth of poverty in the country.
would have access to employment opportunities and to social and economic resources. Programmes of poverty alleviation under the Plan included Small Farmers' Development Programme (SFDP) and the Production Credit for Rural Women (PCRW). The Ninth Plan (1997-2002) provided a perspective of twenty years and had targeted a reduction in the level of poverty from the level of 42 per cent to 32.5 per cent by the terminal year of the Plan (2002) and to 10 per cent by 2017. The specified targets are to be achieved through implementing various sectoral plans and making available credit from specialised financial institutions such as the Regional Rural Development Banks and the micro-finance programmes of NGOs.

A. Micro-finance Programmes

15. Several micro-finance programmes are in operation, among which the SFDP is the largest. The programme was launched in 1970 and targets farmers with a per capita income of up to US$ 46 per annum covering 190,000 small farmers. The Agricultural Development Bank of Nepal (ADBN) is the implementing agency. The programme was observed to be unsustainable because of defaults in loan repayments (recovery during 1995-96 was only 58 per cent) and low or negative margins (the cost of funds and transaction costs together averaged 21 per cent while the bank was expected to lend at 16-18 per cent). Since the year 1990, the German Association for Technical Co-operation (GTZ) has been assisting ADBN to restructure the programme to make it self-sustaining. Towards this end, in selected districts, groups of farmers are being linked with Small Farmers' Co-operatives, which is owned and managed by the farmers themselves. The ownership and autonomy bestowed in decision making have encouraged the active participation of members, recovery rates have improved and some of these co-operatives have already become operationally self-sustainable.

16. Production Credit for Rural Women was started in 1982 to improve the socio-economic status of rural women. Under this programme, the Women Development Section (WDS) of the Ministry of Local Development acts as a social intermediary while the banks provide loans directly to groups of women members, which are developed and promoted by the WDS staff. Ninety per cent of the loan funds under the programme come from IFAD (since 1998) and banks contribute ten per cent while technical support is provided by IFAD and UNICEF on a grants basis, so that banks do not incur any cost in social preparation of the groups. Since its inception (till 1996), about 35,000 rural women have received loans and the programme could be considered as successful, viewed from the point of recovery of loans (82 per cent during 1995-96). However, the programme cannot be considered as viable since the cost of delivery is high at 42 per cent (excluding cost of funds and risk costs) whereas the interest charged by
banks ranged between 15-16 per cent.

17. Micro-Credit Project for Women (MCPW) was initiated by the government in 1994 with assistance from the Asian Development Bank. The project is designed to provide (a) group formation and training of women, (b) institutional support to NGOs and (c) credit to women. MCPW serves mostly the poorest, as women with annual income of less than US$ 45, are only eligible to join a group as members. The project is committed to involving NGOs in service delivery aspects in the first phase and as financial intermediaries in the second phase. The recovery rate under the project is 100 per cent.

18. The Intensive Banking Programme (IBP), initiated in 1981, is one of the programmes focussing on poverty alleviation under which commercial banks were obliged to lend 12 per cent of their loan portfolio to this programme. Lending under the programme is recognised as priority sector lending. An area approach is followed under the programme with each IBP branch covering 250 to 400 households. Households are categorised as “high income” and “low income” families. Collateral is required for viable projects of the high-income families. In the case of low-income families, which are financed under the group guarantee scheme, collateral is not insisted. Loans are granted on an individual or group basis with the maximum size of individual loans limited to US$ 544. Loan amounts in the range of US$ 91 to US$ 272 are treated as loans given to hard core poor. Because of the hesitancy of the commercial banks to finance under the scheme due to poor repayment performance by the borrowers (recovery being generally less than 50 per cent), lack of cost effectiveness in lending as a result of scattered borrowers and political pressure on the banks, their obligation has been eased by treating loans to micro-finance institutions, Grameen Bank replicators and regional rural development banks as lending under the priority sector lending.

III. Philippines

19. In Philippines, a family of five having an income below 7400 pesos per month is considered to be poor while a family with an income up to 1000 pesos is categorised as the poorest of the poor. Among the South East Asian countries, the incidence of poverty, particularly in the rural areas, is substantially higher in the country. Although the incidence of poverty declined from about 59 per cent in 1961 to 37 per cent in 1991, the extent of poverty in rural areas is much higher at 53 per cent as compared to 23 per cent in the urban areas. Poverty in rural areas is attributed to lack of access of the poor to financial resources provided by formal credit institutions.
20. The year 1980 witnessed changes in the policies and programmes to tackle poverty in the country. One of the major policy change was in involving the government banks in the wholesale lending to the private banks. These changes in the policies were a reflection of the commitment of the government to provide essential credit facilities to the poor, who did not have any access in the past. In order to improve the outreach of the formal credit system to the rural poor, the credit policy was reoriented to provide thrust to (a) greater reliance on market mechanisms, (b) termination of directed lending, (c) greater private sector participation and (d) consolidation of agricultural credit programmes. With a view to reducing the incidence of poverty to 30 per cent by 1998, the Presidential Committee to Fight Poverty identified measures to address the issue of poverty. These measures included building up of the capabilities of the poor to help themselves and redirect the flow of credit for livelihood programmes to the poorest of the poor.

A. Micro-finance Programmes

21. Micro-finance in the county is generally referred to as providing "small loans to small people", who work in agricultural and allied activities. In Philippines, the term micro-finance and micro-enterprise are synonymously used. In financial terms, micro-finance involves providing credit support in the range of 1,000 to 14,000 pesos for various activities, including agricultural production. Thus, many credit programmes run by the government agencies and financial institutions are referred to as micro-finance but are not necessarily directed to the poorest of the poor. In recent years, however, the concept of micro-finance is undergoing a change in the country. With the involvement of foreign donors and NGOs, micro-finance has come to connote providing access to savings, credit and other services to the poor. Linking of micro-finance with savings and sustainability of the linkage mechanism are essential components of the programme. In 1993, a multi-sectoral group forged a Social Package on Credit, which included a commitment to have a separate credit programme for the poorest of the poor and to designate a government bank as a Trustee for financial resources mobilised for the purpose. This resulted in the creation of Peoples' Credit and Finance Corporation (PCFC). The PCFC is the most important programme in the country for catering to the needs of the poor and provides investment credit to accredited NGOs, financial institutions and co-operatives, which are implementing credit assistance programmes for the poor.

22. The PCFC started its operations in 1996 with a capital of 100 million pesos and raises its resources from private/government funding agencies in the form of loans or grants. Its operations cover loans disbursed under the ADB-IFAD Rural Micro-enterprise Finance Projects and HIRAM (Helping
Individuals Reach their Aspirations through Micro-credit) and has 94 accounts supporting 70,000 client borrowers. Under the ADB-IFAD project, support is extended for financing the investment and institutional credit requirements of NGOs, People’s Organisations (POs) and Financial Institutions (FIs), who are implementing the Grameen Bank approach. Lending, other than under Grameen Bank approach, are supported under HIRAM. The salient features of PCFC approach in micro-finance are (a) promotion of micro-credit on commercial terms of credit without subsidy, (b) stipulating minimum capacity criteria for implementing agencies although no rating criteria is followed for assistance to these agencies, (c) emphasis on viability at the level of the implementing agency and at level of the target clients and (d) implementing exclusive programmes for non-agricultural micro-enterprises. Interest rates charged by the PCFC vary at the borrower level from 13 per cent under HIRAM to 24 per cent under the Grameen Bank approach, with a repayment period of one year. Institutional credit is provided for supporting staff, training, etc., and carries an interest rate of 3 per cent per annum with a repayment period of 7 years. The recovery at PCFC level is 40 per cent.

23. Centre for Agriculture and Rural Development Inc. (CARD), a non-political and non-profit development institution, was established in 1986 with the objective of (a) developing viable savings and credit association and (b) developing appropriate farm technology suited for the rural poor and disseminating information about it. It focuses on land less workers in coconut plantations, who are one of the poorest groups in the country. The activities of CARD cover four spheres, viz., capacity building, providing credit assistance, developing farm technology and implementation of special projects having social and development objectives. CARD has successfully adopted a modified group lending approach on the lines of the Grameen Bank, as evidenced in the repayment rates of loans and the level of participation by the poor. The cumulative disbursement by the Centre was of the order of 63 million pesos to 1,463 groups with a membership of 6,399 in 169 villages. The average repayment rate was 98 per cent\(^3\). The main features of the delivery mechanism of CARD are (a) formation of groups of five members before disbursing credit, (b) emphasis on savings mobilisation, (c) prioritisation of loans to members, based on the group decision, (d) other members of the group become eligible for loans only after repayment by two borrowers in the group, (e) emphasis on involvement of women and (f) opportunity given to the members to select, evaluate and manage the chosen activity. Realising its need to be financially sustainable for it to continue serving the poor with minimum or no dependence on donor funds, CARD has adopted credit policies that give it a positive net return.

24. Tulaysa Pag-unlad, Inc. (TSPI) is a non-governmental organisation involved in the micro-finance activities in the country and is registered with Philippines Securities Commission. It commenced its operation in 1982. The resources of TSPI had amounted to 78.4 million pesos reaching more than 7,500 borrowers. The target group of TSPI covers both rural and urban poor, including women and small entrepreneurs. The lending schemes are formulated keeping in view the levels of poverty and the funds are channelled directly or indirectly through co-operatives or smaller NGOs. Loans under all the schemes bear the prevailing market rates of interest. TSPI also subscribes to the view that micro-finance institutions must be viable and sustainable. Therefore, its approach to micro-credit is to treat it as a commercial activity, not an act of welfare or charity. TSPI’s training and consultancy services, which include value addition, serve to instill discipline among its clientele and assure it of loan repayment. It has employed a mutual guarantee scheme for loans to the poorest borrower under which each and every member of the group agrees to guarantee the loan. The mutual guarantee scheme is a substitute for physical collateral.

IV. Thailand

25. Thailand had the largest proportional reduction in poverty between 1975 and 1995. The number of poor, which was 3.4 million in 1975, has been brought down to less than half a million by 1995 through implementation of various programmes. Households having an annual income of up to US$324 are considered to be living below the poverty line. The concept of micro-finance as perceived by the banking sector in Thailand distinctly differs from other Asian countries, especially India. There is no specific definition of Micro-finance or Micro-credit in the country. There are rather a large number of tiny enterprises with the entire household participating in running them. Most of the micro-enterprises have a typical pattern where the front of the house is used as the shop - be it a sweet meat shop, food and beverages, tailoring, etc. Majority of household enterprises, both in the urban and the rural areas, are generally considered as micro-enterprises requiring micro-finance.

26. In the area of micro-finance, the Government is the leading player providing support for community development and improving the employment opportunities in the country through various programmes. However, these programmes cover not only poor but also those who are not so poor but need credit. In other words, there is no micro-finance programme in Thailand with an exclusive focus on the poor.

27. The Community Development Department (CDD) is implementing a large poverty alleviation programme covering over 2 lakh households. The other two major programmes are the rural development fund operated by Government Savings Bank (GSB) and Urban Community Development Office (UCDO). The community organisations financed under the GSB and UCDO programmes are implementing micro-finance programmes in the country.

28. Among the financial institutions, the Bank of Agriculture and Agricultural Co-operatives (BAAC) is the only one catering to the credit needs of 86 per cent of the total 5.7 million farm families in Thailand (1993 Census). The average loan size of BAAC was Bt 24,000 (approximately US$ 750) per member. The focus of BAAC was on reaching a large number of rural households rather than in providing adequate credit to the farm households with exclusive focus on poor.

29. Besides BAAC, Co-operative Credit Unions and Thrift Societies, which are considered to be in the non-banking financial sector, are supporting this sector both in the rural and urban areas. In the case of the Credit Union (there are over 230 credit unions in the country), the average loan size was Bt 12,500 (Rs. 15,600).

A. Micro-finance Programmes

30. There are different approaches in the area of micro-finance being followed in Thailand. These could be broadly classified under the following models.

- Collateral Substitutes

31. BAAC has introduced a Joint Liability Group (JLG) approach for dispensing credit to the farmer households. A group of 5 to 30 (average 14-15) farmers is encouraged to become members of informal groups mainly to avail the loan from BAAC without any mortgage of fixed assets. BAAC could develop a cost-effective micro-finance credit delivery system in rural areas through JLG approach. The average loan size under this approach was Bt. 27,500 (US$ 850). However such loans are restricted to those members who need funds not exceeding Bt 60,000. The studies conducted by Thailand Development Research Institute (TDRI) on rural financial market revealed that about 42 per cent of the rural households are yet to get the loan from the formal sources. This could be attributed mainly to the inability of BAAC to provide non-farm sector loans to its clients due to the limitations imposed by the statutes governing it.
• NGO support programmes/approaches

32. The role of NGOs as specialised micro-finance institutions in Thailand appeared to be limited with the notable exception of the Small Enterprises Development Company, which deals exclusively in micro-finance activities concentrating mainly in the North Eastern Region of Thailand, where the poorest reside. This institution is registered as a private sector company under the Civil and Common Code. However, some NGOs are undertaking micro-finance activities as an "add-on" activity to their community based development projects and programmes. A few of these NGOs operate in one or two sectors, viz., family planning, health care, etc. Others are multipurpose, engaged in a wide ranging gamut of activities like family planning, primary health care, sanitation, primary education, environmental conservation, income generation activities and micro-finance.

33. Micro-finance, which appears to be a relatively new field for NGOs, is expected to be a stabilising and strengthening factor for community level organisations. The major thrust of micro-finance is to supplement the resource base and income of the villagers from the farm or the wage employment. It seeks to stem the migration of rural poor to Bangkok and other urban centres and even to reverse the process by way of creating the same jobs in the rural areas. The strategy mainly consists of skill development among the rural people and providing access to credit at a later stage to help them to set up small enterprises on their own. Savings mobilisation through micro-finance programmes often help the villagers to considerably enhance their financial strength and impart them the level of self-confidence required.

i. Community Based Integrated Rural Development (CBIRD)

34. The Population and Community Development Association (PDA), which is promoting family planning, established the CBIRD in 1979 to augment the basic needs of village, to enhance the incomes of the villagers and improve the living standards through community participation. Programmes of CBIRD in the rural areas have helped in water resource development, income generation, occupational training, environmental conservation and local institution building. The strategy helped farmers acquiring skills in poultry production, pig rearing, silk weaving, handicrafts production, small household industries, managing co-operative stores and several other activities resulting in supplementary income to the farmers. Revolving loan funds and basic training in book keeping and project management provided the necessary support to small farmers to rise above the subsistence level of farming.
II. **Thai Business Initiative in Rural Development (TBIRD)**

35. TBIRD was launched in 1988 as a major innovative strategy for rural development adopted by PDA by bringing together the corporate sector and the rural poor. The role of corporate sector was ensured mainly in terms of providing linkage support for the business activities and running the same on commercial basis. Despite the impressive economic growth of Thailand during the eighties, the "trickle-down" effect was not strong enough and rural population fell far behind the urban centres in terms of wealth and income distribution. Massive investments in infrastructure like roads, electricity, access to health facilities and education in rural areas failed to raise the income levels of rural households and the rural-urban divide seemed to be widening. It also resulted in shrinking share of agriculture in the economy as more and more people migrated to urban areas leading to several social problems. TBIRD is a response to addressing these problems since it enables the villagers to acquire the skills and resources required to launch and sustain income generating activities in their own communities. It is also a means to transfer some of the wealth accruing to the private business sector from high economic growth to the rural areas through skill upgradation and capacity building of rural population.

V. **Indonesia**

36. The country’s record in poverty alleviation has been remarkable since 1975 and it witnessed a decline of about 82 per cent in the proportion of people living below the poverty line. The head count index declined from a level of 64.3 per cent in 1975 to 11.4 per cent in 1995. In absolute terms, the number of poor fell by almost three fourths – from 87.2 million in 1975 to 21.9 million in 1975\(^33\). The reduction in the poverty level in the country was possible due mainly to the achievement of rapid economic growth (average growth rate of GDP was 6.6 per cent between 1980-1995), the implementation of financial sector reforms from 1980 onwards and the initiatives taken by the Government for focussing on reducing poverty in the country. Despite the impressive gains in poverty alleviation in the country, there are large variations in the extent of poverty across the regions, e.g., in 1990 the incidence of poverty ranged from 1.3 per cent in Jakarta to 46 per cent in the West Nusa Tenggara. Vulnerabilities to poverty remain considerable, given the large number of households just above the poverty line. A 25 per cent increase in poverty line results in more than doubling the head count index\(^{34}\).

\(^{33}\) ibid.

\(^{34}\) ibid.
A. Micro-finance Programmes

I. Bank Rakyat Indonesia (BRI)

37. Micro-finance services to the poor are provided by small financial institutions as part of their more general outreach. These institutions are the Unit Desas of Bank Rakyat Indonesia (BRI), Bank Perkreditan Rakyat (BPR-rural banks) and the Bank BUKOPIN (Co-operative banks). The country's experiment with poverty alleviation programmes could be traced back to 1970, when the BRI, a state owned commercial bank, established over 3,600 Unit Desas (Village units) to channel subsidised credit to farmers taking part in the government's agriculture development programme BIMAS (Mass Guidance). The objective of the programme was to increase rice production quickly by getting farmers to shift to fertiliser responsive rice varieties and high cash inputs of fertilisers and pesticides. The inputs and credit were subsidised to give farmers a 12 per cent rate of return. The operating expenses of the Unit Desas were also subsidised. By the year 1984, the Unit Desas had accumulated losses of Rs. 4284 million, due to high default rate (more than 50%), low volumes of business and poor quality of services.

38. With the Government's decision to discontinue BIMAS, the BRI decided to turn the operations of the Unit Desas into a completely commercial banking, including adjusting their interest rates to provide a spread that would sufficiently cover their operating costs and loan losses. A new credit instrument called KUPEDES (meaning General Rural Credit) was developed, whose portfolio presently includes over 2.6 million borrowers with a total loan outstanding of US$ 138 million (Rp. 4.6 trillion), constituting 20 per cent of the total loan portfolio of the BRI. Over 75 per cent of the loans disbursed were less than US$600 (Rp. 2 million). A savings instrument, SIMPEDES (village savings) was added in 1986. There are 21 million deposit accounts in the BRI units with a total of US$ 453 million (Rp. 15.1 trillion), 60 per cent of them in SIMPEDES. Individual accounts are, however, small with 72 per cent of the account holders having balances of less than US$ 61 (Rp. 200,000). Since 1984, the Unit Desas had recovered 97.8 per cent of loan instalments that had become due. The units achieved break-even levels on a monthly basis in 1985, eighteen months after they began loaning under KUPEDES. They have maintained their viability since then. The viability of these units was facilitated by the high interest rates, ranging between 32 – 33 per cent per annum on the loans disbursed while the cost of funds was only 15 per cent and default rates were only 2.2 per cent. One of the reasons that is attributed for the success of the Unit Desas in micro-finance is the strong political support of the government and the protection given to it by the Minister from outside interferences.\(^{35}\)

39. A lesser known but one of the oldest programmes of micro-credit catering to the rural poor, with emphasis on petty traders, is the Bank Kredit Desa (BKD), a sister institution to BRI. Under the BKD system, loans are made available to the poorest households and the size of the loan is small, averaging around US$ 71. The term of the loan is generally 10-12 weeks with weekly repayments and interest of 10 per cent on the principal, which translated to 55 per cent nominal annual rate and a 46 per cent real rate in 1993. Loan losses in 1994 were just 4 per cent of loans outstanding. The funds are allocated to village level management commissions and loans are without any collateral. This system has worked successfully as there was clearly defined authority at various levels, from the Government level to the village head level. Successful BKD borrowers graduate to large scale borrowing from BRI units. At the end of 1994, the BKDs generated profits of US$ 4.73 million on net loan outstanding of US$ 30 million disbursed to 0.7 million borrowers.

ii. Income Generating Project for Marginal Farmers and Landless (P4K)

40. One of the poverty alleviation programmes implemented by the Government is the Income Generating Project for Marginal Farmers and Landless (P4K) through the BRI. Under the programme, the participants (comprising of small farmers, the landless, farm labourers, sharecroppers and small fishermen) are organised in “small farmer groups” and operate on the principles of homogeneity, group decision making, self-reliance and learning by doing. Loans are made to the groups by the BRI branches. Individuals make the repayment of loans to the Unit Desas. About 47,000 SHGs had been formed with over half a million members below the poverty line. More than a third of the groups are exclusively for women. Loans to individuals have an upper limit of US$ 420 (Rp. 1.4 million) for first loans and graduate to a loan level of US$ 1,280 (Rp. 4.3 million) for the fourth loan cycle. An evaluation of P4K by the Ministry of Agriculture has shown that the volume of production increased in 80 per cent of the groups while qualitative improvement in the living standards was observed in 65 per cent of the groups.

iii. Project for Linking Banks and SHGs (PHBK)

41. The project for linking banks and SHGs (PHBK) was launched in 1989, in partnership with the German aid agency, GTZ, in four provinces of the country. By September 1996, the PHBK programme involved 410 banks, 183

37. ibid.
NGOs and some 6,800 SHGs in 16 provinces. Total savings mobilised had reached US$ 3.7 million while the cumulative credit extended was US$ 19.2 million. The cumulative repayment rate was reported to be 96.4 per cent. A flexible savings to credit ratio which ranges from 1.3 to 1.6 determines the size of the loan. Interest rates are market based and transaction costs are covered by interest margins.

**iv. Impres Desa Tertinggal (IDT)**

42. The Impres Desa Tertinggal (IDT), meaning President’s Instruction for Poverty Alleviation, was launched in 1993, reflecting the concern of the Government to tackle the problems of the hardcore poor. The aim of the programme is to reduce the disparities between the villages and between individuals by targeting the poorest people in these villages. The IDT programme acts as a focus for all poverty alleviation efforts in the country and essentially combines three components. These are, (a) capital injection ranging from Rp. 20 million (US$ 6000) to Rp. 60 million (US$ 18,000) for each village as grants, which are used by a group of villagers (By 1996, over 28,000 villages had received at least Rp. 20 million each), (b) assigning facilitators to assist the village groups and (c) linking infrastructure development. About 4,650 villages were assisted under infrastructure development in the first two years of the programme and another 7,500 villages were to be assisted during 1995 and 1998. A key element is the empowerment of the people by ensuring integrated institutional co-ordination amongst the various agencies in implementing the programme. The poor are encouraged, guided and empowered to solve their economic problems by formulating and implementing own economic activities, derive benefits from the programme and sustain the same. The programme had reached 2.8 million members, resulting in the reduction of the number of the poor from 25.8 million in 1993 to 22.6 million in 1996.

**VI. Latin American Countries**

43. The two major economic crisis in the last 15 years, having its origin in Mexico, had its impact on the poverty levels in many of the Latin American countries. As a result of Mexico’s debt crisis in the 1980s, poverty levels increased by more than 30 per cent in Argentina and Mexico while the crisis of 1995-96 had resulted in an increase in poverty by more than 50 per cent. The governments in these countries had responded with initiating

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38. McGuire, P.B. *op cit*, p-156.


40. *ibid*, p-150

a variety of programmes to tackle the issue of rising poverty. These included macro-economic stabilisation measures and setting up of special funds designed to cushion the social cost of economic adjustments. The NGOs had also initiated steps for setting up micro-finance institutions.

A. Argentina

44. In Argentina, of the 33 million population, nearly 85 per cent live in the urban areas while 11 million people live in the Metropolitan Buenos Aires (MBA) region. The country significantly reduced poverty in the early 1990s compared to the immediately preceding years as a result of a successful macro-economic stabilisation programme. Increasing income generating opportunities through sustained economic growth and boosting investment in human capital facilitated reduction in the poverty levels in the country. In 1993, the incidence of urban poverty was estimated to be about 20 percent in the nation as a whole. In MBA, the 1993 estimated poverty rate was 17.6 percent or about half the 1990 level. The continued reduction in poverty incidence in the first three years of the 1990s provides a dramatic contrast to the 1989 crisis when almost 50 percent of the MBA population reported incomes below the poverty line. Not only was poverty in MBA greatly reduced in the 1990s but the poor as a group also did not experience such extreme poverty as in the past. By 1993, the poverty gap index decreased to less than half of its 1990 level, and the poverty severity index fell to two-fifth of its 1990 level\(^{42}\).

45. The incidence of poverty varied considerably across the regions, with the highest rates (averaging 40 percent) being registered in the northeast and northwestern provinces. The rate of decline of poverty incidence between 1990 and 1992 has been much swifter in MBA than in the more remote provinces. While all provincial cities had experienced a fall in poverty between 1990 and 1992, the rate of decline was the slowest in the Northwest and Northeast.

46. Emprender, an NGO founded in 1992 by a group of Argentinian business leaders, provides the basic tools, viz., access to credit and business training, which facilitate the small and marginal business enterprises to graduate from subsistence level to self-sufficiency. Most of its clients are either involved in commerce or in small scale manufacturing and has concentrated its operation within Buenos Aires "second belt", the ring of poor neighbourhoods on the outskirts of the city. During the period between 1994 and 1998, the NGO had disbursed loans amounting to US$ 60 million. The

\(^{42}\) The estimates of poverty for the Latin American countries are based on the "Household Archives: Poverty Assessment Summaries" published by the World Bank for various countries.
The number of active and new clients between 1994 and 1998 was 13,569 and 8,621, respectively. The proportion of women clients has been steadily increasing, from 35.6 per cent during 1994 to 44 per cent during 1998. The average size of the loan varied from US$ 1,259 in 1994 to US$ 1,422 in 1998 and the average size of the first loan was US$ 980. Defaults in repayment of loans constituted 13.45 per cent of the loan portfolio in 1998 (as at end-December). The results of an evaluation study conducted by the NGO showed that credit and training had helped in improving the business income and basic household income. Seventy two per cent of the active clients reported that businesses were much stronger after receiving the loans while 62 per cent expressed that they had much more confidence for the future.

### B. Bolivia

47. The updated Bolivia Poverty Report\(^{43}\) has observed that while there was some progress in reducing urban poverty between 1976 and 1992, little has been achieved in rural areas of the country, having a high concentration of the poor (95 per cent). The poor are generally peasants or wage earners, who have limited land holdings and lack access to credit and basic infrastructure.

48. Two important organisations, which are providing micro-finance to the poor, are the PRODEM and BancoSol, a bank promoted by the former. A group of Bolivian business leaders founded PRODEM in 1986, with assistance from ACCION International for introducing financial services in the rural and urban areas of the country and for increasing access to credit for the poor. Of the 47,130 active clients of PRODEM in 1998, 65 per cent were women clients. Clients included merchants, producers and service providers. The loan amount disbursed by the organisation during the period 1994 to 1998 was US$ 144 million. The average amount of loan varied from US$ 298 in 1995 to US$ 616 in 1998. The default risk on loans constituted 2.73 per cent of the loan portfolio in 1998 (end-December). By the year 1988, PRODEM had grown so large that it was outstripping the capacity of the local banking sector to supply it with lending capital and, therefore, in 1992, in association with ACCION International, Calmeadow Foundation and others, it launched BancoSol. This was the first private bank to be established in the world dedicated exclusively to micro-finance.

49. BancoSol was established by transferring the base of 14,300 clients and a loan portfolio of US$ 4 million from PRODEM, to give it an

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immediate source of revenue and a base from which to expand future operations\textsuperscript{44}. The clients of BancoSol typically work in the informal urban economy, have no access to formal financial services and come from economically active households. In order to qualify for a loan from the bank, the clients must be operating a pre-existing micro-enterprise. Of BancoSol’s 81,555 active clients in 1998, 75 per cent were women. Clients included market vendors, seamstresses, bakers and candy makers. With first loans as low as US$ 100, BancoSol effectively reaches the poorest of the economically active and serves more than 40 per cent of all the borrowers in the banking system, despite holding less than two per cent of the banking system’s total assets. During the five year period, 1994-1998, the bank had disbursed loan amounts totalling US$ 532 million. The average loan size increased from US $533 in 1994 to US$ 916 in 1998, due to the progress of its clients, who borrowed larger amounts as their business grew. The portfolio at risk constituted only 2.46 per cent as at end-December, 1998. Despite its small loan size, the bank has proved as one of the soundest in the country in terms of rankings based on asset quality, solvency and risk management. In 1997, it became the first micro-finance institution in history to issue dividends to its shareholders. According to Morduch\textsuperscript{45}, the success of the bank could be attributed to the following: First, its focus is sharply on banking, not on social service. Second, loans are made to all group members and the “solidarity groups” can be formed of three to seven members. By the end of 1998, 92 per cent of the loan portfolio was in loans made to solidarity groups and 98 per cent of the clients were members of solidarity groups. The bank has started lending to individuals as well and by end of 1998, 28 per cent of the portfolio had some kind of guarantee beyond solidarity groups. Third, interest rates are relatively high. Loans denominated in bolivianos were made at an annual base rate of 48 per cent, plus a 2.5 per cent commission, charged up-front while loans denominated in dollars (constituting 70-80 per cent of loans) are charged 24-30 per cent per year with a one per cent up-front fee. Clients with solid performance records are offered loans at 45 per cent per year. Fourth, due to the high rates of interest, the bank does not rely on subsidies but makes a respectable return on lendings. The bank reported returns on equity of nearly 30 per cent and return on assets at 4.16 per cent by end 1998. Fifth, repayment schedules are flexible, allowing borrowers to make weekly repayments and others to do so on monthly basis. Sixth, loan durations are also flexible, ranging from one month to two years – 81 per cent of the loans in 1998 were of duration ranging from one to 10 months.


\textsuperscript{45} Morduch, J. (1999) op cit.
C. Chile

50. According to the Poverty Assessment Summary for Chile, even within a short period of time (1987-1994), there has been a significant decline in poverty. The poverty head count and poverty deficit was halved during this period. Poverty declined from 41 per cent in 1987 to 23 per cent by 1994. Chile’s success in reducing poverty between 1987 and 1994 compares favourably with countries such as China, Indonesia and Korea. The reduction in poverty during this period benefitted almost all groups classified as vulnerable at the beginning of the period. This was possible due to the high economic growth in the country during the corresponding period. While growth helped those among the poor who could work, poverty reduction policies pursued by the Government benefited even the non-workers among the poor.

51. PROPESA, an organisation founded in 1988 by a group of Chilean businessmen with support from ACCION International, is dedicated to creating jobs and bettering the lives of micro-entrepreneurs in the informal sector through credit programmes and training. Start-up and operational funding for the organisation came primarily from USAID while the portfolio was capitalised with loans from the domestic banks, which were backed by ACCION’s Latin American Bridge Fund. The clients of PROPESA are involved in a variety of commercial activities such as cloth manufacturing, carpentry and appliance repairs. About 80 per cent of its clients are engaged in manufacturing while 10 per cent are involved in commerce and a small percentage are service providers. The organisation has disbursed loans totalling US$ 36 million during the period 1994-98 and an amount of US$ 3.8 million disbursed to 3,823 clients was active during 1998. The average loan amount varied from US$ 532 in 1994 to US$ 1,023 in 1998. Women clients constituted 55 per cent of the active clients in 1996 and 66 per cent of the clients belonged to solidarity group. The portfolio at risk was 4.86 per cent by end 1998.

52. An independent study has assessed that after 3 years with PROSPERA, a client’s assets increased by 52 per cent, the value added increased by 45 per cent and the number of employees employed by him increased by 30 per cent. The study also concluded that, as of March 1995, PROPESA’s lending activities created more than 7,500 new jobs and had strengthened 17,000 additional jobs.

D. Colombia

53. Poverty in the country declined steadily from an estimated 50 per cent of the population in 1964 to 19 per cent in 1992. Nevertheless, disparities in
income and living standards continue among regions and socio-economic groups. It was estimated that in 1992 more than 6 million people had income levels below the commonly accepted subsistence level, with three out of four of the poor living in rural areas. On an average, the income of the rural poor was 43.3 per cent below the subsistence level while for the urban poor it was estimated at 31.3 per cent. Although Colombia’s economic growth in the 1980’s was not as rapid as in the previous decade, stability was maintained and recession avoided, which contributed to the continued success in reducing poverty and inequality.

54. The four important micro-finance institutions operating in Colombia are the Actuar Tolima, Co-operativa Emprender, Fundacion Mario Santa Domingo (FMSD) and Finamerica. Actuar Tolima was established in 1986 to help victims of a devastating mudslide rebuild their lives and communities. It is affiliated to ACCION’s Latin American network since 1996. Majority of its clients work as artisans, seamstresses or in the agricultural sector. By 1998, the organisation had loaned over US$ 37 million to 21,000 micro-entrepreneurs, of whom more than 50 per cent were women. The average loan size ranged from US$ 480 in 1994 to US$ 915 in 1998 while the average size of the first loan was US$ 444 in 1998. The portfolio at risk was relatively higher at 14.94 per cent.

55. Co-operativa Emprender, a co-operative funded by member micro-finance institutions, started its operations in August 1990 by linking 13 NGOs specialised in micro-finance. Presently, there are 44 affiliated NGOs. It functions as a development institution helping its affiliates develop the social and economic activities, facilitates credit and management of resources, promotes savings and channels economic resources to finance the micro-enterprise sector. By end 1998, it had disbursed an amount of US$ 275 million and had an active loan portfolio of US$ 28.75 million disbursed to 63,497 clients. The coverage of women as per cent to total clients has shown improvement over the five-year period 1994 –1998. The proportion of women clients increased from 54 per cent in 1994 to 64 per cent in 1998.

56. FMSD, a non-profit organisation dedicated to development programmes for the poorest sections of the population, was established in 1960. Initially, it focussed its attention on supporting educational institutions and other philanthropic work but since 1989 its focus includes rehabilitating/retraining workers and supporting micro-enterprise development with loans and business training. Most of its clients are single mothers, who serve as heads of households, fishermen, food suppliers, small distributors and merchants. As of 1998, it had disbursed a total of US$ 7.2 million in loans to micro-enterprises, benefitting an estimated 31,000 clients and their families. Women account for 85 per cent of its clients. The average loan size steadily
increased from US$ 220 in 1994 to US$ 711 in 1997 with the average size of the first loan being US$ 511 during 1998. The portfolio at risk was 8.63 per cent of the loans outstanding. Since FMSD operations are fully funded with philanthropic money, its cost of funds could be treated as zero. FMSD is currently developing strategies to improve housing, build more houses, instill environmental consciousness through community educational efforts and initiate programmes that will create jobs for the disabled and the handicapped.

57. Finamerica, previously known as Finansol, is a finance company established in 1993 and is regulated by the Colombian Superintendency of Banks. In 1996, Finansol experienced severe erosion of its net worth and ACCION arranged over US $9 million recapitalisation effort to save the institution. It strives to participate in the creation of jobs and the improvement of incomes in the poorest communities of Colombia. This goal is reached by disbursing credit to micro-entrepreneurs and supporting individuals as well as family economic activities. In the last five years (1994-1998), Finamerica has disbursed over US$ 137 million. It had an active portfolio of US$ 13.68 million in 1998 to 9,798 clients. Women constituted 45 per cent of its active clients. Risk portfolio by end 1998 was about 10 per cent of its active portfolio.

58. The cross country experiences documented in this section clearly brings out the fact that there is no unique model that can be replicated across the countries for the success of micro-finance programmes in alleviating poverty. The paradigm of micro-finance has varied from country to country depending upon the prevalent social, cultural, economic and political milieu. In some countries like India, Indonesia, Nepal and Thailand, etc., the government has taken the initiative in alleviating poverty through micro-finance programmes while in some others like in Bangladesh, the initiative was taken by the non-governmental organisations. In the case of the countries in Latin America, it was the initiative of a group of individuals or individuals that facilitated in promoting micro-finance programmes.
LESSONS LEARNT

*Human Destiny is a choice, not chance.*

Mahbub ul Haq

Experience all over the world in implementing poverty alleviation programmes reveals that reduction in poverty levels had been accomplished through a combined strategy of broad-based economic growth and policies that encourage income-generating activities for the poor. Countries that pursued these strategies effectively and in a sustained manner reaped the largest gains in terms of reducing the incidence of poverty. In Indonesia, the incidence of poverty declined from about 64 per cent in 1975 to a level of just over 11 per cent by 1995 and in Malaysia, poverty incidence was brought down from 17 per cent to 4 per cent during the corresponding period (Table VIII). In these two countries, rapid economic growth had increased the demand for labour, creating opportunities for the poor and the governments also adopted targeted policies to improve the productivity of the poor through infrastructure development and income-generating projects. China and Thailand were successful in reducing the incidence of poverty due to higher levels of growth in the agriculture sector. This corroborates the view that pursuing policies that facilitate in raising the agricultural productivity and the return to farm labour could be an effective way of reducing poverty. In India, most of the decline in poverty levels took place at a time when agricultural purchasing power was increasing and the terms of trade were in favour of the agricultural sector. Econometric analysis confirms that rural poverty in the country had a strong negative link to farm incomes. The World Development Report for 1990 found that the issue of poverty reduction could be effectively tackled through a strategy of (a) promoting the productive use of the poor's most abundant asset, their labour and (b) promoting basic social services to the poor since primary health care, family planning, nutrition and primary education are equally important in this regard.

2. In the context of promoting the acquisition of income-generating assets by the poor, providing access to credit assumes criticality. This requires putting in place a credit delivery system, which is attuned to not only the credit but also the other financial needs of the poor.

### Table VIII: Poverty Incidence, GDP Growth Rates & Inflation in Select Asian Countries

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>54.9</td>
<td>36.0</td>
<td>3.2</td>
<td>5.8</td>
<td>0.9</td>
<td>3.0</td>
</tr>
<tr>
<td>China</td>
<td>59.5</td>
<td>22.2</td>
<td>5.0</td>
<td>11.1</td>
<td>1.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>64.3</td>
<td>11.4</td>
<td>7.8</td>
<td>6.6</td>
<td>2.6</td>
<td>3.2</td>
</tr>
<tr>
<td>S. Korea</td>
<td>23.0</td>
<td>5.0</td>
<td>9.0</td>
<td>8.7</td>
<td>0.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>17.4</td>
<td>4.3</td>
<td>7.8</td>
<td>6.4</td>
<td>0.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>35.7</td>
<td>25.5</td>
<td>6.2</td>
<td>1.4</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Thailand</td>
<td>8.1</td>
<td>0.9</td>
<td>7.2</td>
<td>7.9</td>
<td>0.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>50.0</td>
<td>41.3</td>
<td>4.1</td>
<td>4.0</td>
<td>NA</td>
<td>2.6</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>27.3</td>
<td>22.4</td>
<td>2.8</td>
<td>2.1</td>
<td>NA</td>
<td>2.1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>46.0</td>
<td>34.0</td>
<td>4.9</td>
<td>6.0</td>
<td>NA</td>
<td>4.4</td>
</tr>
</tbody>
</table>


3. Despite several measures taken to streamline the credit delivery system, the experience has been that a vast majority of the poor still remained outside the purview of the formal credit system. This was due to the perceived unviability of small loans in terms of the high transaction costs and high level of default. The growth of micro-finance in the last decade could be attributed to the fact that there were many households, who had a legitimate demand for credit but which remained largely unsatisfied. In these cases, the mismatch came, not from lack of demand but from insufficient and inefficient supply mechanism. Moreover, the demand for other financial services that do not need demonstration of credit worthiness, in particular deposit facilities and payment services, is not being met by supply either, especially in the rural areas of developing countries. This section deals with the lessons learnt from implementing micro-finance programmes with special reference to the Indian experience. The discussion on micro-finance that ensues in the following paragraphs is in terms of its characteristics.
outreach\textsuperscript{48}, cost effectiveness and sustainability. These factors are important in judging the efficacy of the delivery system.

I. Characteristics of Micro-finance

4. Implementation of the micro-finance programmes all over the world brings out the fact that the poor can and do save. The poor are also capable of using credit in a productive manner provided there exists an appropriate institutional mechanism which is sensitive and responsive to the needs of the poor by designing specific products and services. Micro-finance programmes have proved to be effective in combating poverty and in empowering the poor - both economically and socially. Micro-finance, as opposed to micro-credit (small loans), is provision of a range of financial services like savings deposits, credit, insurance, payment and transfer services. It can also be perceived as a "credit +" approach by formal or informal agencies providing, besides credit support, other components such as training and other related services to the poor. The Task Force constituted by NABARD\textsuperscript{49} defines micro-finance as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and in improving living standards." The World Summit on Micro-credit defined it as "programmes that extend small loans and other financial and business services to very poor people for self employment projects that generate income, allowing them to care for themselves and their families". The focus of micro-finance programmes is on facilitating the poor to graduate from the pre-micro-enterprise stage to the micro-enterprise stage and in successfully accessing credit from financial intermediaries.

5. Micro-finance is sector neutral although at times it has come to be equated with financing micro-enterprises in the rural non-farm sector, as in the case of the countries in Latin America. In the Asian context, it encompasses even the on-farm and off-farm enterprises. Micro-finance also transcends rural areas. About 78 per cent of the micro-credit is concentrated in rural (49 per cent) and semi-urban (29 per cent) areas. In India, micro-credit delivery system was essentially linked to the formal credit institutions, viz., co-operative banks, commercial banks and regional rural banks, which facilitated the expansion in outreach of credit. However, the impact was adverse as the health of the credit institutions suffered due to the policy

\textsuperscript{48} Outreach, as defined by Schreiner (1998) covers six aspects, viz., depth, worth to users, cost to users, breadth, length and scope. In this paper, however, the term outreach is used in a narrower sense to include only the number of people reached and the models adopted to achieve this objective. For a fuller discussion on outreach by Schreiner, see Aspects of Outreach. Message to the Development Finance Network. May 8,1998. http://www.agecon.ag.ohio-state.edu/Rural Finance.

environment of directed lending, administered pricing of credit, lack of freedom in selection of clientele, etc. A characteristic feature of the microfinance programme in India is the thrust given to the formation of SHGs of the poor, with the intermediation of NGOs and, subsequently, linking it with formal credit institutions. This approach combines the strengths of the commercial banks in financial management with the ability of the NGOs to reach the poor. Many of the NGOs have an advantage in reaching the poor, reflecting factors such as proximity, trust, commitment, flexibility in approach, responsiveness and cost-effectiveness. SHGs are voluntary and informal associations of the poor with a commonality of interests, formed to achieve social and economic goals and are usually promoted by NGOs. The SHGs have definite objectives like savings mobilisation, availing of credit for emergent consumption or production requirements, mutual help, economic upliftment through income generating programmes. Where the groups are formed to take up joint activity like income generation, community development projects, etc, this itself forms an important objective. The size of the groups ranges between 10 to 20 members although larger groups of more than 40 members promoted by SEWA and AKSRP in Gujarat and by ASSEFA in Tamil Nadu are also functioning.

6. Many NGOs, of late, have assumed the role of financial intermediation either directly or through working with smaller NGOs or by promoting Federation of the SHGs and other outfits like the Mutually Aided Cooperative Societies (MACS). It is estimated that over 500 NGOs are engaged in financial intermediation in different parts of the country. These Microfinance Institutions (MFIs) are broadly classified, depending on their constitution, as (a) not for profit MFIs, (b) Mutual Benefit MFIs like cooperative credit societies and MACS and (c) for profit MFIs, which are NBFCs working amongst the poor and are registered under the Companies Act, 1956. The Task Force constituted by NABARD makes a distinction between MFIs and MF service providers. Banks, which provide microfinance along with their usual banking services, are termed as MF service providers.

II. Outreach of Micro-Finance

7. Micro-finance is estimated to be reaching out to over 16 million poor through 7,000 MFIs operating in the developing countries, most of them in Asia and many in India, besides several hundred credit unions and other "quasi-financial" MFIs in the industrialised countries (Table IX). Despite this rapid growth of MFIs in recent years, their outreach appears to be inadequate compared to the potential demand. The CGAP in 1995 estimated that fewer than 10 million of the few hundred million people who run micro and small enterprises in developing countries had access to financial
resources. Several MFIs in Bangladesh and Indonesia have already achieved an extremely high coverage. The Grameen Bank's market outreach covers almost half the villages in the country, reaching nearly two million very poor clients. The total micro-finance clients in the country number at least six million poor, served by smaller MFIs, representing not less than 25 per cent of the total households in Bangladesh. In Indonesia, the BRI Unit Desas also have nearly 2.6 million borrowers and about 18 million savers. The BRD system covers 20 per cent of the villagers in East Java. Further, there are around 7,300 small financial institutions operating at the local level. In Bolivia, by the year 1998, BancoSol catered to about 81,500 active clients and served more than 40 per cent of all the borrowers in the Bolivian banking system while PRODEM served 47,000 active clients. The proportion of new clients to the active clients in these institutions was 44 per cent.

<table>
<thead>
<tr>
<th>Group</th>
<th>Number of active clients</th>
<th>Estimated number of institutions</th>
<th>Total number of clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Giants</td>
<td>100,000 - 1,000,000</td>
<td>9</td>
<td>8,500,000</td>
</tr>
<tr>
<td>Large</td>
<td>10,000 - 100,000</td>
<td>34</td>
<td>1,010,000</td>
</tr>
<tr>
<td>Medium</td>
<td>3,000 - 10,000</td>
<td>500</td>
<td>2,490,000</td>
</tr>
<tr>
<td>Small</td>
<td>1,000 - 3,000</td>
<td>890</td>
<td>1,780,000</td>
</tr>
<tr>
<td>Startup</td>
<td>&lt; 500</td>
<td>5,800</td>
<td>2,450,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>7,233</td>
<td>16,230,000</td>
</tr>
</tbody>
</table>


8. Between 1994 and 1998, the needs of about one million clients were catered to by the major MFIs in the five Latin American countries, viz., Argentina, Bolivia, Brazil, Chile and Columbia. A redeeming feature of the outreach in Latin America is the coverage of women clients, who constituted 44 per cent to 85 per cent. In Malaysia and Thailand, the poor are well served by MFIs although the absolute number of poor clients served is low while outreach of MFIs is modest in Nepal and Sri Lanka and negligible in Pakistan.

9. In India, although micro-finance through SHGs is only a recent phenomenon, micro-credit has been an integral part of the banking system, especially after the nationalisation of the commercial banks in 1969. The IRDP could also be considered as part of micro-finance since it facilitates the capacity building of the poor through upgrading their skills by imparting

training under TRYSEM and empowers women under the DWCRA programme. Despite the shortcomings in the implementation of the IRDP and criticisms about its efficacy in terms of cost, leakage, targeting, etc., the fact is it had facilitated some of the poor to cross the poverty line.

10. Besides the IRDP, the emphasis in micro-finance outreach is on promoting the formation of SHGs of the poor and linking of these groups to the formal banking system. Apex level institutions like NABARD, SIDBI and RMK are promoting the micro-finance programmes. These three institutions had together facilitated in reaching financial assistance of about Rs. 1.49 billion to 1.06 million poor families in the rural areas through the SHG linkage programme till March 1999. At the grass roots level, the MFIs have made a modest beginning of reaching the poor with their financial and other services. A study of eight major MFIs in the country indicated that their outreach was as not as high as those reached in Bangladesh or in Latin American countries. A redeeming feature of the outreach of the MFI programmes in the country is the coverage of women members. Seven of the eight MFIs studied, had only women members (Table X).

<table>
<thead>
<tr>
<th>Name of MFI</th>
<th>Number of Groups</th>
<th>Number of Members</th>
<th>Percent Women Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHARE</td>
<td>299</td>
<td>1495</td>
<td>100</td>
</tr>
<tr>
<td>Nari Nidhi</td>
<td>297</td>
<td>2350</td>
<td>100</td>
</tr>
<tr>
<td>WWF*</td>
<td>—</td>
<td>59870</td>
<td>100</td>
</tr>
<tr>
<td>SEWA Bank*</td>
<td>#</td>
<td>56541</td>
<td>100</td>
</tr>
<tr>
<td>Rural Development Trust</td>
<td>867</td>
<td>13201</td>
<td>100</td>
</tr>
<tr>
<td>Santhidan</td>
<td>69</td>
<td>4221</td>
<td>100</td>
</tr>
<tr>
<td>MYRADA**</td>
<td>172</td>
<td>3075</td>
<td>63</td>
</tr>
<tr>
<td>SPMS</td>
<td>233</td>
<td>2621</td>
<td>100</td>
</tr>
</tbody>
</table>

* : Figures relate to 1994-95, ** : relate to 1995, # : The rural clientele of 6043 members are organised into 171 groups.

11. Viewed against the extent of rural poverty in the country, estimated at 244 million during 1993-94, the outreach of micro-finance is a miniscule fraction. Even if the number of rural poor families, who would be in need of micro-finance services is considered, conservatively estimated at 60 million by Sa-Dhan, the MFIs in India have yet to make a perceptible dent to tackle the issues of the rural poor. This calls for concerted efforts to promote micro-finance innovations as complementary to the mainstream credit delivery mechanism.
12. A study of the various models of micro-finance revealed that the most common model was the group approach of lending, practised in Bangladesh, India, Indonesia and Latin American countries. In Bangladesh, specialised institutions were established with the initiatives of NGOs to purvey micro-credit due to the non-participation of formal institutions. In India, the Government and the formal credit institutions have played a significant role, with the NGOs taking on the mantle of Self-Help Promoting Institutions (SHPIs). The involvement of NGOs in the linkage was crucial to the success of the programme since the groups directly promoted by banks constituted only 17 per cent of the nearly 33,000 groups linked and accounted for about 20 per cent of the loans disbursed. In Thailand, micro-credit is channelised through agricultural co-operatives to individual and farmers' institutions while in Philippines the approach to micro-finance is through ladderised credit.

III. Cost-effectiveness

13. Empirical studies show that micro-finance is one of the cost-effective alternatives for reaching credit and other financial services to the poor. In the Indian context, under the SHGs-Bank linkage models, the cost-effectiveness is a result of the synergy between the SHPIs and the Banks, which is reflected, in the following aspects. Firstly, the banks are able to reach a large number of small borrowers at a lower transaction cost and with a lower risk cost due to good repayments. The cost of monitoring the end-use of credit by the borrower is also reduced. Secondly, it facilitates the MFIs in leveraging funds from the banks at a lower cost for financial intermediation. Thirdly, for the poor borrower it reduces the cost of transacting the loan. It also ensures timely availability of credit at his doorstep. Even though loans from the village moneylender have the latter characteristics, the hidden costs are not reflected in the interest rates charged by him.

14. A study in South India\(^1\) estimated the average transaction cost of lending for the banks per account at 3.68 per cent of the loan amount, if the loan was given directly to the borrower. The intermediation of the NGOs and SHGs helped banks to reduce this transaction cost by an extent ranging between 21 and 41 per cent. The dynamic nature of the reduction in transaction costs, because of intermediation, effected a downward shift of the marginal cost curve. This was possible due to the active role played by NGOs and SHGs in identification of borrowers, follow-up for ensuring end-use of the loans and its recovery. This resulted in significant reduction in

\(^1\) Puhazhendhi, V. (1995) "Transaction Costs of Lending to the Rural Poor - Non governmental organisations and self-help groups of the poor as intermediaries for banks in India". The Foundation For Development Co-operation, Brisbane, Australia.
time spent by the bank staff on these functions. Among the different models of linkages, the most cost-effective transaction was where banks used SHGs as financial intermediaries and NGOs as non-financial intermediaries. Similarly, the intermediation of NGOs and SHGs contributed in reducing the transaction cost of borrowers by about 85 per cent, due mainly to the elimination of expenditure in documentation procedures. Such procedures are not only cumbersome in India but also time consuming and costly. The intermediation by the NGOs resulted in a reduction in opportunity cost to the borrowers in terms of the number of visits and the time spent on the bank premises in negotiating the loan. The intermediation of NGOs and SHGs had also proved useful in recovery rates. While the estimated default risk was very high at 22 per cent in case of direct lending by banks, it was negligible when there was intermediation by NGOs.

15. A study\(^{52}\) of the linkage between the Bank of Baroda and SEWA in Uttar Pradesh indicated that the cost of delivery of credit through NGOs was nearly halved when compared to the direct loaning by the bank branch (Table XI). Transaction cost from the point of the borrower was one per cent as compared to 16.8 per cent when the loan was directly accessed from the bank branch.

Table XI: Comparative Transaction Costs under the Linkage Programme

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Loans through NGOs</th>
<th>On-lending by NGOs</th>
<th>Direct loans by branch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of funds</td>
<td>6.83</td>
<td>6.83</td>
<td>6.83</td>
</tr>
<tr>
<td>Transaction cost</td>
<td>1.00</td>
<td>0.10</td>
<td>1.43</td>
</tr>
<tr>
<td>Risk cost</td>
<td>0.64</td>
<td>0.50</td>
<td>7.46</td>
</tr>
<tr>
<td>Loan cost</td>
<td>8.97</td>
<td>7.43</td>
<td>15.72</td>
</tr>
</tbody>
</table>

16. A comparison of the transaction and risk costs between three types of financial intermediation, viz., direct lending to small borrowers, lending under IRDP and lending to SHGs by the bank branches, revealed that transaction cost in the latter case was 0.91 per cent compared to 3.76 per cent and 8.20 per cent, respectively in the former two cases. The recovery was higher at 100 per cent in the case of lending to SHGs, compared to 34 per cent and 12 per cent in the other two types of financial intermediation, reflecting lower risk costs.\(^{53}\)

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17. These studies had not taken into account the cost of group formation, which has to be incurred either by the NGOs or by the banks themselves, presumably for the following reasons. Firstly, NGOs had formed groups for other purposes and, therefore, the formation of groups was not treated as an “add-on” cost since no additional cost was involved. Secondly, in the case of groups promoted by the bank personnel, the time spent by them was not accounted for, since the bank incurred no additional cost. Despite these plausible reasons, there are other costs like conveyance, expenses for the initial meetings, supply of ledgers, etc., which are to be borne by the NGOs or by the bank branches. As there are economies of scale in the group formation, the average cost per group, if a large number of groups is promoted, will be a small proportion of the credit business of the branch. This may not adversely affect the cost-effectiveness of the linkage programme.

IV. Sustainability

18. There is a growing realisation that large scale lending of small amounts cannot be accomplished through dependence on subsidies or grants for an indefinite period. The programmes of micro-finance will have to be self-sustainable in the long run. Therefore, the success of the micro-finance programmes is to be judged in terms of not only its outreach but also in terms of its financial sustainability. Experience in implementing micro-finance programmes reveal that most of them have evolved through a three-stage sustainability. The first stage is their dependence on subsidy or grants from either donor agencies or apex refinancing agency. The second stage is the achieving of operational sustainability wherein the programmes/institutions are able to cover all administrative expenses and absorb loan losses from their operating income. The third stage is the financial self-sufficiency. In this stage, they are able to cover all administrative expenses, loan losses and financial costs from the operating income, after adjusting for inflation and subsidies and treating all funding as if it had commercial costs. An analysis of 72 micro-finance programmes indicated that only 34 of them had become fully sustainable\textsuperscript{54}. Many of the micro-finance programmes are still dependent on subsidies or grants from the donor agencies or on concessional funds from the refinancing agencies. A study on the performance of 11 micro-enterprise finance programmes\textsuperscript{55}, indicated that 10 of the 11 institutions


\textsuperscript{55} Programmes examined were Agence de Crédit pour l'Enterprise Privée (ACEP) of Senegal, La Asociacion Dominicana para el Desarrollo de la Mujer (ADOPEM) of the Dominican Republic, Banco Solidario S.A. (BancoSol) of Bolivia, Badan Kredit Desa (BKID) of Indonesia, the Unit Desa System of the Bank Rakyat Indonesia (BRI), Bankin Raya Karkara of CARE (BRK) of Niger, Corporacion de Accion Solidaria (CorpoSol, formerly Actuar/Bogota) of Colombia, Fundacion Integral Campesina (FINCA) of Costa Rica, the Grameen Bank of Bangladesh, Kenya Rural Enterprise Programme (K-REP), and Lembaga Perkreditan Desas (LPDes) of Indonesia.

63
examined were operationally efficient. They fully covered the cost of day-to-day operations, including salaries and other administrative costs, with programme revenues from interest and fees, while reaching large numbers of poor people. The programmes achieved these goals in a variety of settings, ranging from rural Bangladesh to urban Bolivia, and with a range of clientele, with average loan sizes as low as US$ 38. For these programmes, administrative expenses fell into a narrow range of 9 percent to 21 percent of the average loan portfolio outstanding. Five institutions were fully profitable, generating inflation-adjusted positive returns on assets. Programme revenues covered both the non-financial "operating costs" and the financial costs of obtaining loanable funds on a commercial basis. These programmes no longer relied on concessional funds or other subsidies. They brought their cost structures in line with spreads available in local markets, controlling delinquencies and increasing productivity through client/staff ratios. They adapted credit methodologies to the demands of the market, contributing to efficiency. The results of the study clearly demonstrate that MFIs can achieve operational efficiency consistently in a range of settings and with diverse levels of clients.

19. In the context of the SHG-Bank linkage programme, which is the major thrust of the micro-finance programme, the aspect of financial sustainability raises two important questions. The first is the type of institutions or entities that should be subjected to the criteria of financial sustainability. The second is the time frame by which the micro-finance operations are expected to graduate to the level of financial sustainability. The criteria of financial sustainability cannot be used for those NGOs, which have assumed the role of SHPIs and are promoting groups for the linkage programme. The cost incurred by the NGOs in promoting, nurturing and capacity building of the groups (till the groups graduate to the stage of directly dealing with the credit institutions) may have to be borne by the banks linked to the groups. In such cases, the social cost-benefit analysis might be a more appropriate tool to judge the performance of the programme while the criteria of financial sustainability may be appropriate for the banks.

20. In the case of NGOs directly involved with financial intermediation, their attaining financial self-sufficiency is necessary. However, this aspect has not been studied and examined rigorously, probably for the reason that the emphasis initially under the micro-finance programmes in the country is on increasing the outreach of these programmes. From the limited information that is available, it was observed that all the 12 branches of SHARE, an NGO replicating the Grameen Bank Model and directly involved in micro-finance operations, attained operational self-sufficiency in about five years.

These branches were able to meet the cost of the funds remitted by the Head Office and their overheads. One of the branches attained operational sustainability in about four years time and financial self-sustainability in five years, after making adjustments towards subsidies and inflation. The cost of lending has been brought down from a level of 42 per cent during the first year to 3 per cent during the fifth year. This was made possible due to dedicated staff, effective management system, which was used to monitor employee accountability, and borrower repayment. Two of the branches attained financial self-sufficiency in terms of meeting its own overheads and the cost of funds remitted by the Head Office. BASIX is still to achieve financial self-sufficiency although it has attained operational sustainability. The operational self-sufficiency of BASIX was made possible due to the soft loan assistance from SDC. Many of the NGOs in the country are still dependent on grants and concessional terms of funding for promoting micro-finance among the poor.

21. The impact of micro-finance operations of commercial banks on their financial sustainability is a moot point when viewed against the fact that it constitutes a small proportion of the loan portfolio. Loans up to Rs. 25,000 constituted only 16.2 per cent of the loans outstanding of commercial banks by end-March 1998. The fact that the linkage programme is cost-effective to the banks, as discussed earlier, should justify the micro-finance operations of the banks. The RRBs, which were initially established as micro-credit institutions catering to the needs of the weaker sections of the society, were observed to be financially unsustainable and a majority of them had been incurring losses. This was attributed to a variety of reasons including the administered regime of interest rates (till the deregulation of interest rates), high cost structure, poor recovery of loans and lack of cross subsidisation opportunities. The linkage programme because of its cost-effectiveness and better recovery performance is likely to improve the financial sustainability of the RRBs. An attempt to estimate the impact of reductions in transaction costs on the viability of banks revealed that if all loans were disbursed through intermediation, RRB branches would become financially viable after wiping out current losses. Commercial banks, both public and private, would improve their viability status further\(^\text{57}\). A significant reduction in default risks would have a cascading impact on the profitability of bank branches. Among banks, the SEWA Bank, an urban co-operative bank implementing micro-finance programmes exclusively for women, has achieved financial self-sufficiency and is consistently earning profits since 1975-76. The profit during 1998 was Rs. 4.69 million on a working capital of Rs. 275.9 million. The bank’s equity-consists exclusively of the money of poor self-employed women and is not dependent on grants from external donors. This demonstrates that given the commitment of the NGO and its track record, it should not be a

difficult task to leverage low cost funds for its micro-finance operations. The financial sustainability of the banks and NGOs engaged in micro-finance operations will be determined by its outreach, the margins available to it for on-lending, the loan portfolio at risk as a proportion of its loan outstanding and the cost effectiveness of its loan transactions.

22. Financial sustainability, in the case of SHGs, is not an appropriate criteria to judge the performance of these groups. Since the SHGs by themselves do not perform the function of financial intermediation (unlike the credit societies or unions), the bankability of the group is relevant. The banks or MFI's should primarily be concerned with whether the money lent to the group will be fully repaid to it in time.

23. While the concept of SHGs is sustainable, it will be untenable to expect the individual groups to be a permanent feature in the micro-finance scenario. Since a group is formed with the specific objective of leveraging loans from financial intermediaries and improve the economic and social conditions of its members, the group may dissipate after these objectives are achieved. Alternatively, while the group may exist in name only, there may be continuous turn over of members. Rather than be concerned with the sustainability of the groups, lessons have to be drawn from analysing the factors that caused the breaking up of the groups and which had not achieved their objectives.
Providing self-employment opportunities to the poor through credit-based programmes is one of the strategies for poverty reduction in the country, besides the strategy for providing wage employment opportunities. Experience under the formal credit delivery system has been that a large number of the poor could not be provided credit for their productive and consumption needs. Implementing micro-finance programmes, especially the innovation of linking banks with groups of the poor, in the nineties have shown that micro-finance can effectively supplement the efforts of the formal credit system to reach the poor in a cost-effective manner. The NGOs, with their inherent advantages of empathising with the needs of the poor, have played an important role in successfully establishing links between the poor and the banks. Factors, which contribute to the success of the micro-finance programmes in the country, are (i) organising the poor into homogeneous and cohesive groups, (ii) inculcating the habit of thrift amongst the members of the groups, (iii) reducing transaction costs to the borrowers and lenders, (iv) providing timely credit, (v) freedom to the group to charge interest rates as per their perceptions, (vi) efficiency in recovery of loans through peer pressure and (vii) stress on empowerment of women.

2. The Ninth Five Year Plan document envisages reducing rural poverty in the country from a level of 30.55 per cent (208 million) during 1996 to 9.64 per cent (73 million) by 2006 and further to 4.31 per cent (35 million) by 2011. Thus, the fifteen-year perspective plan entails raising about 173 million rural poor above the poverty line. The assistance under IRDP, a government sponsored credit-based programme to assist the rural poor, averaged about 2.83 million families, not all of whom could rise above the poverty line. Against this background, the National Bank has prepared a strategic action plan of linking one million SHGs (100 million rural poor) with banks by 2008.

3. Considering the achievements in the past (poverty reduction in rural areas in the last 20 years during the period 1973-74 to 1993-94 was only 17.3 million), concerted efforts in terms of identifying the issues and drawing up of an appropriate strategy to promote micro-finance will have to be made. The major issues relating to micro-finance operations can broadly be grouped as (1) Structure of Micro-Finance Institutions, (2) Role of NGOs (3) Role of
Apex Financing Institutions (4) Interest rates (5) Supervisory and Regulatory Mechanisms and (6) Role of Government.

I. Structure of micro-credit

4. Three distinct models of micro-finance have emerged under the linkage programme in the country. In the first, the NGOs take on the role of only a facilitator in formation of SHGs, i.e., they act as SHPIs and withdraw after the groups become mature enough to access credit from banks. In the second model, they fulfill the role of a facilitator and a financial intermediary. The NGOs or MFIs directly deal with groups of the poor by accessing funds from external donor agencies, apex institutions like NABARD or SIDBI and/or from the savings mobilised from the client members. In the third model, the banks themselves directly promote groups of poor and render micro-finance services to them. With an extensive network of bank branches under the co-operative and commercial bank structure in the country, it may not be necessary to create further structures for micro-finance operations but to use the existing structure with modifications, if required. Promotion of groups of the poor require specialised skills to establish a rapport with and it is for this reason that NGOs are best suited for the purpose. Groups promoted by NGOs constituted 83 per cent of the 33,000 groups formed till March, 1999. In view of this, instead of the banks getting involved in promoting SHGs, it may be more effective if this responsibility is exclusively with the NGOs. Once the credit linkage of the groups with the banks has been stabilised, the NGOs could cease performing the function of financial intermediation. Financial intermediation has become complex covering a broad spectrum of activities ranging from micro-credit at lower end to corporate/market instruments at the higher end. The complexities of financial intermediation necessitate specialisation both in terms of organisational reorientation and upgrading the skills of its personnel to deal effectively and efficiently with such activities. In view of this, opening up of specialised branches with trained manpower to deal effectively with the complexities of micro-finance could be thought of as was done in the case of sectoral financing like agriculture, industries and hi-tech. Alternatively, some of the existing branches at the block level could be converted into specialised branches for micro-finance. Some of the Local Area Banks, which are likely to be set in the near future, could pay focused attention on providing micro-finance services.

5. Presently the involvement of the co-operative credit banks in micro-finance is negligible considering their network in the country. The PACS with their extensive network (approximately 92,000) and local level knowledge of the borrowers provide an excellent potential for promoting micro-finance. The district level co-operative banks could meet the requirement of financial
resources by the PACS for the start-up operations and, subsequent lending programme.

II. Role of the NGOs

6. The NGOs have been playing an important role in reaching credit and other financial services to the poor. An important aspect of the credit-plus role performed by the NGOs in the micro-credit delivery system is the capacity building of the poor by meeting their training needs, providing inputs for sustained production and marketing of the finished products for remunerative prices. It is necessary to recognise this role of the NGOs in the development of human resource capital. The cost of such developmental activities cannot be fully recovered through lending activities, and therefore, the credit institutions that are linked to groups and derive the financial benefits of the linkage, have to assume full responsibility of meeting the cost incurred by the NGOs for human resource development. This would help in not only reducing the cost of the NGOs and make them viable in the long run, but also facilitate them to play an important role of capacity building, which consequently facilitates larger credit off-take from the credit institutions.

III. Role of Apex Financing Institutions

7. Apex level institutions like NABARD, SIDBI and RMK have played an important role in promoting micro-finance operations in the country by providing financial assistance in the form of grants, loans or revolving fund assistance to the NGOs. Till such time the credit institutions are able to meet the capacity building costs of the NGOs, they may have to continue providing financial support. In the long run, however, the banks have to meet these costs from their own resources, which will accrue to them due to the reduction in the transaction and risk costs. Some of the NGOs have promoted formal micro-finance institutions by hiving off their credit activity to exclusively focus on providing micro-finance. In the case of such MFIs, refinance could be made available on the same terms and conditions as applicable to other credit institutions. It will be necessary to make a clear distinction between NGOs performing the role of SHPIs and those rendering direct financial intermediation for the purpose of providing financial support.

8. Capacity building of the poor as well as trained manpower is crucial to the success of upscaling of micro-finance in the operations. Although efforts have been made to identify the NGOs, which could act as resource center for training of the poor and the bank personnel, these efforts have to intensified through a cohesive approach in policy. Co-ordination between the NGOs, Federation of SHGs, government agencies and apex financial
institutions is necessary for effective capacity building of the people involved in promoting micro-finance in the country.

IV. Interest Rates

9. An important aspect relating to the operations of MFIs is the interest rate that they should charge on their credit portfolio and the margins, which should be made available. Often it is argued that adequacy and timely availability of credit is more important rather than its price and, therefore, high interest rates are indeed justified. This view is taken on the basis of comparing the interest paid by the poor to the village level institutions. In the context of micro-financing, where evidence supports that transaction costs and risk costs have been considerably reduced compared to that under traditional banking, the moot point is how much margins should the NGOs and SHGs be allowed. The interest charged by the MFIs in the country range from 15 per cent to 24 per cent. Although in the initial stages of the operations of the MFIs such high interest rates may be warranted and necessary because of the high start-up cost. In the long run, the interest could be pegged at a level which will be sufficient for the MFIs to break-even. Industry cost norms could be developed to judge the efficacy of the operations of the MFIs.

10. Charging high interest rates is not the only way of achieving sustainability by the MFIs institutions. Sustainability can also be achieved through improving productivity of bank employees, efficient fund management, maintaining financial links, better record-keeping, collecting and maintaining appropriate information on loan portfolio, etc. All these tend to reduce the transaction costs significantly. Transaction costs may also be sharply reduced through an effective Management Information System.

V. Supervisory and regulatory mechanism

11. The existing provisions in the banking statutes are not adequate and conducive for growth of the MFIs. The recognition of these institutions as purveyors of credit would require general support systems and exclusive provisions in the banking statutes. The MFIs, although many of them operate in the informal sector, constitute an integral part of the financial system and, therefore, it will be necessary to provide a level playing field for them. An effective system of regulating the growth and functioning of the MFIs has to be put in place. The Task Force on Supportive Policy and Regulatory Framework work for Micro-finance has looked into these aspects and made a number of recommendations (Appendix 1). These recommendations require serious consideration at the level of Government of India and the Reserve Bank
of India to promote the development of micro-finance institutions in the country.

VI. Role of the government

12. Despite the liberalisation of the financial sector, under which the role of the Government in credit dispensation is expected to be minimal, the Government has a positive and an important role to play in ensuring that an appropriate policy environment is created for the growth of micro-finance operations. Appropriate banking policies could be evolved and amendments to Banking Regulation Act be enacted so that MFIs and other credit institutions have the freedom in the choice of their clientele, the pricing of credit, based on their cost and risk perceptions, and in accessing of funds.

13. The growth of the SHGs in the country demonstrates the willingness of the poor to pay for the credit and other financial services rendered by NGOs and credit institutions without depending on any kind of subsidy from the Government agency. In a market-oriented economy, this is a right attitude. There is an apprehension that the launching of the SGSY, under which SHGs are to be promoted by the DRDA also and back-ended subsidy is to be provided, may hamper the development of micro-finance sector as it promotes a subsidy culture, which goes against the philosophy of micro-finance. This aspect needs to be examined in the light of the feedback obtained and if warranted, the modalities may have to be refined so as to provide a conducive environment for the growth of micro-finance sector.

14. Considering the extent of poverty in the rural areas and the perspective plan of reducing the poverty levels in the country, micro-finance through SHGs may not, per se, be able to achieve the targets. Micro-finance will enable the poor to directly access higher quantum of loans from the banks at a later stage. Efforts will have to be made to explore the possibilities through other avenues, especially in increasing employment opportunities in the agricultural and rural non-farm sectors. Poverty alleviation strategies in terms of interventions in the labour and credit markets work in the short to medium run. But the long-term strategy must involve policies that enhance economic growth and productivity. Data on changes in poverty show a causal relationship between poverty eradication and employment intensity of growth and productivity in agriculture. Therefore, the strategy for micro-finance must also be accompanied by a strategy for raising agricultural productivity.

through creation of appropriate infrastructure for irrigation, post harvest management and processing of agriculture produce. Such a strategy will also increase the demand for credit for productive purpose from the rural poor. Simultaneous with the strategy for increasing the productivity of workers in the agriculture sector, it is necessary to promote the growth of the rural non-farm sector, on which a large number of the poor are dependent for their livelihood, to provide gainful self-employment opportunities.
Appendix I

Recommendations of Task Force on Supportive Policy and Regulatory Framework for microFinance

The major recommendations of the Task Force can be divided into four broad heads:

Mainstreaming of mFIs and other mF structures, Regulation and supervision of mFIs Organisational aspects relating to mFIs; and Capacity building of mFIs, banks, SHGs, etc.

Mainstreaming of mFIs and other mF Structures

SHG-Bank Linkage Programme - Scaling up

SHG-bank linkage programme is gaining increasing acceptance among NGOs and bankers. Continuation of the linkage programme to cover at least one third of the rural poor population by the year 2008 through one million SHGs, as envisioned by NABARD, is a logical extension to the budget announcements of the Government of India (GOI) for linkage of 200,000 SHGs by the year 2002-03. Other institutions like Rashtriya Mahila Kosh (RMK) also expect the NGOs assisted by it to direct their SHGs to take to linkage banking after the experimental phases. SHG-bank linkage will, thus, be a major way of banking with the poor in the coming years. At least 25,000 bank branches, 4,000 NGOs and 2,000 federations of SHGs involving over 100,000 personnel of these institutions would have to be associated for scaling up and bank linkage of one million SHGs. Many of these NGOs will transform themselves into mFIs and will not only facilitate microfinancing, but will also themselves do the necessary financial intermediation. Similarly, many federations of SHGs will take on financial intermediation and act as mFIs.

As the intermediation of SHGs as a sub-system of the cooperatives could be useful both for the revival of the cooperatives and increased support to the poor, State governments may take steps for framing or amending the Cooperative Societies Acts and Rules to provide for the enrolment and financing of SHGs by PACS and DCCBs.

Operational Issues

Despite RBI guidelines and intensive programme support from NABARD in the form of refinance, training of bank officials, and capacity building support to NGOs and SHGs and other encouraging developments, a number of operational problems are still faced by NGOs and SHG members due to
incorrect interpretation of instructions as also ambiguity in certain instructions. Impounding of deposits and insistence on collateral for loans, insistence on Income Tax PAN or alternative declarations with specified proofs like ration card and minimum balances even for opening of Savings Bank account (SB a/c.) are some of the multifarious operational problems faced by NGOs and SHGs. RBI and NABARD may therefore issue necessary instructions indicating the correct position and approach in respect of such contentious issues. RBI also needs to issue clear guidelines with regard to waiving of IT-PAN and minimum balances to be maintained by the SHGs to emphasise the distinct nature of such SB accounts. As regards urban SHGs, RBI may issue suitable instructions to banks to facilitate opening of SB accounts and extending credit on the lines of SHGs in rural areas.

Rating Norms for SHGs

As socio-economic conditions vary significantly in different areas, all the participating agencies, viz., banks, NGOs and mFls may collaborate together to develop localised SHG rating norms to facilitate financing of SHGs and rectifying their weak areas.

SHGs in Government Sponsored Programmes

While appreciating the initiatives of certain State governments and bureaucrats in including SHGs or their variants as delivery mechanism of government sponsored programmes, the Task Force emphasises the need to ensure that the basic tenets of SHGs are not lost sight of in pursuit of targets. For example, the absence of linking revolving fund assistance and loans to savings and not leaving the choice of activities to the discretion of the groups are areas of serious concern in the Swarnjayanti Gram Swarozgar Yojana (SGSY). Ministry of Rural Development, GOI, may, therefore, review the SGSY guidelines in consultation with RBI, NABARD, banks and NGOs to avoid any dilution in the essential features of SHGs, and may issue necessary supplementary instructions.

mFl - Bank Linkage

As more and more mFls enter the scenario, their need for loanable funds will increase, and it will become difficult for Development Financial Institutions (DFIs) and donors to continue to meet their loanable fund needs. Wholesale financing of mFls, including SHG federations, by commercial banks for further retailing of micro-credit is, therefore, likely to gain momentum in the coming years. Linkage of mFls with the banking system has many advantages like high recovery performance, reduction in the transaction costs for both banks and mFls, reasonable margins for both and opportunity to the banks for
getting future quality clients. RBI may, therefore, consider issuing appropriate guidelines to all banks to treat lending to mFLs for further onlending as part of their regular credit operations under priority sector.

Banks may develop and select appropriate loan products to suit the needs of both mFLs and their borrowers. As the interest rates on loans from banks to mFLs and from mFLs to clients have been totally deregulated by RBI, both banks and mFLs will have to fix their respective interest rates judiciously. With registration of mFLs, fixation of minimum performance standards, application of prudential accounting norms, and development of proper selection criteria for the mFLs, as recommended by the Task Force, banks may take assignment of book debts as a major component of security and finance without traditional collaterals. The savings mobilised by the mFLs from their clients and loanees and deposited with the banks could also be treated by them as collateral substitutes. It is recommended that loans through mFLs be covered under the Miscellaneous Loans Recovery Act.

DICGC may also work out a suitable deposit insurance scheme for the savers of the mFLs on payment of some reasonable premium by the NGO-mFLs.

All banks may set up mF cells in their Head Offices and controlling offices. In addition, they may consider converting some of their potential rural branches into specialised mF branches. Commercial banks may consider setting up trusts or foundations for intensifying promotional activities under mF.

**Non-Credit Financial Services**

The importance of various financial services like savings and insurance within mF is well recognised. Coverage of the Social Security Fund set up by GOI could be extended to cover all borrowers of mF irrespective of occupational categorisation. mFLs and other mF service providers may be made the channelling agencies for such schemes. The Personal Accident Insurance Scheme for poor families and the Hut Insurance Scheme may be modified to cover clients of mF schemes.

**Regulation and Supervision of mFLs**

At present, only mFLs registered as Cooperatives and NBFCs are regulated. The need for regulation and supervision of NGO-mFLs arises from several considerations like protecting the interests of the small savers, ensuring proper terms of credit and financial discipline, institution of a proper reporting system as also for their orderly development. The regulation of mFLs may
cover registration to act as mFI, reserve requirements, compliance with prudential accounting norms, and directions in respect of operations and reporting systems, while supervision may comprise on-site inspection and off-site supervision.

**Status of Savers and Loanees of NGO-mFIs**

The savers and loanees (and other clients) of NGO-mFIs are legally not their “members” as membership, *per se*, comprises the promoters who themselves cannot avail of any benefit from the societies or trusts. Consequently, the “members” of development programmes of such societies or trusts can be classified, at best, as “clients” or “beneficiaries” of their various interventions.

**Mode of Regulation - SROs**

The Task Force recognises the mechanism of self-regulation for NGO-mFIs and the need for encouraging promotion of Self-Regulatory Organisations (SROs). It recommends that the major functions of SROs would be: (i) overseeing functioning of mFIs as base-level regulators, (ii) undertaking registration, (iii) evolving proper systems for maintenance of accounts and reporting, (iv) setting performance standards, (v) conducting inspections, (vi) undertaking training and, (vii) representing mFIs in various fora.

The SROs should be registered as non-profit organisations evolving from the mFI sector with a duly elected Governing Body and a minimum membership of 50 mFIs (relaxable during the first three years). RBI may work out a mechanism for recognition of the SROs. Apex institutions like NABARD, SIDBI and RMK and leading commercial banks may work out, in consultation with some mFIs and their associations, norms for recognition of such SROs. RBI may constitute a working group for this purpose. 6.5 Associations of mFIs can play a responsible role in the evolution of SROs. However, as evolution of the SROs is likely to take time, GOI and RBI may start the process of regulation and supervision of mFIs immediately.

**Registration and Classification of mFIs for Regulation**

All existing NGO-mFIs may be asked to compulsorily register themselves with a designated regional authority within one year. A new mFI would also have to register itself with this authority before commencement of mF business. If the savings operations of an mFI exceed a predetermined cut-off limit, the mFI will have to register itself with the RBI. A cut-off limit with duality in registration and other components of regulation is envisaged as the area of operation and the range and volume of activities of a large number of mFIs
are small. They work with limited staff and management capability and hence would need barest minimum regulation. An mFI's track record, nature of social and non-financial services provided, nature of mF interventions, period of service in the area, its general reputation and acceptability, financial and manpower resources, membership of an association of mFIs and the association's recommendation may be the determinants for registration. Once the process of registration of mFIs has started, financial institutions, banks and all donor agencies will ensure that the mFIs approaching them for any financial assistance are duly registered. The cut-off level of business for the NGO-mFIs may, for the present, be fixed at mobilised savings of Rs. 25 lakh.

**Regulation for mFIs not Mobilising Savings**

The mFIs purveying credit but not mobilising savings may be required to furnish only periodic statements of their financial operations after initial registration. mFIs availing loans from banks, DFIs, etc., will have to comply with certain prudential accounting norms relating to asset classification, income recognition and provisioning. In the ordinary course, regulation of such mFIs will be through the reports of statutory auditors.

**Regulation for mFIs Mobilising Savings**

mFIs with mobilised savings not exceeding Rs. 2 lakh may be excluded from any regulation other than registration and submission of periodic statements to the competent authority. For those mFIs mobilising savings above Rs. 2 lakh and below the cut-off level of Rs. 25 lakh, reserve requirements of 10% of savings in the form of bank deposits as at the end of the second preceding quarter are recommended. In respect of the mFIs having savings above the cut-off level, besides reserve requirements of 15% and registration with RBI, compliance with prudential accounting norms regarding income recognition, asset classification and provisioning may be prescribed. The savings mobilised by the mFIs should be withdrawable as per the discretion of the savers and may not be kept with the mFIs for a period exceeding 5 years. In case any mFI mobilises savings in excess of the cut-off level, it may also have to go for rating by any accredited agency.

**Prudential Accounting Norms**

RBI may specify, in consultation with NABARD and other agencies, the prudential accounting norms on income recognition, asset classification and provisioning in respect of mFIs availing bank loan and/or those mobilising savings above the cut-off level of Rs. 25 lakh.
Role of Auditors

As regards compliance with regulation requirements, statutory auditors of the NGO-mFLs may be required to file a special report along with the audit report certifying compliance or otherwise of specified parameters. Suitable instructions may be issued in this regard to the Registrars of Societies and Association of Chartered Accountants of India by RBI and GOI. RBI may initiate action for preparation of a panel of auditors for NGO-mFLs on the lines of bank auditors.

RBI may have to take a separate view regarding registration and regulation in respect of NGO-mFLs providing financial services to non-poor also. Further, non-NGO-mFLs may continue to be regulated as hitherto. However, regulations for mF-NBFCs, registered under Sec.25 of the Companies Act, may be on the lines of NGO-mFLs.

Supervision of mFLs

A system of off-site supervision with simple returns may be generally adequate for the mFLs not mobilising savings and not availing bank loan for credit operations, and mobilising deposits upto Rs. 2 lakh and not availing bank loan. In the case of other categories of mFLs, both on-site inspection and off-site supervision may be necessary at periodic intervals of 2 to 3 years.

Competent Authority for Regulation and Supervision

Till SROs emerge, develop and are recognised by the RBI, Regional Offices of RBI or agencies designated by RBI will have to take up regulation and supervision of mFLs at the Regional level, while at the national level, overall regulation and supervision will rest with RBI. As part of the overall financial sector, the cost for regulation and supervision of mFLs will have to be borne by the RBI.

Legal Provisions - Amendment to RBI Act

The Task Force recognises the need for a separate Act covering the mF sector in the country. Considering the nascent stage of this sector and the need for the policy makers and practitioners to gain further experience, the workable alternative would be to make a beginning initially through certain amendments to various relevant Acts. Since the RBI Act is presently silent about the financial activities of NGO-mFLs, the Task Force strongly recommends enabling provisions in the RBI Act, 1934 covering definition of mF and mFLs, their functions, registration, regulation, recognition of Self Regulatory Organisations (SROs), and supervision.
Organisational Aspects Relating to mFls

While SHGs or other ground level groups could be informal for various practical and operational advantages, the intermediate structures will have to be registered bodies for avoiding operational and legal problems for the banks and financial institutions dealing with them.

mF-NBFCs

With a view to facilitating professionalisation of the mF sector, there could be a special dispensation for the NBFCs which take up mF exclusively. Such mF-NBFCs may need registration from RBI or GOI on the lines of NIDHI Companies. The Net Owned Funds (NOF) for them may be prescribed at Rs. 25 lakh and they may be granted registration under Sec.12(A) of the Income Tax Act, wherever necessary. Further, for encouraging the growth of mF-NBFCs, necessary amendments may be made in the Societies Registration Act (and other similar Acts) to allow NGOs to float specialised mF companies and hold equity in them.

Further, FIPB guidelines may be modified to allow foreign investment in the mF sector and the minimum foreign equity required may be relaxed to US $100,000. RBI may be vested with powers for approving such proposals without seeking FIPB clearance.

Registration of NGO - mFls

mF may be treated as a service for relief to the poor, incidental to the main charitable objects of the proposed societies. Accordingly, new and prospective societies with mF as one of the major objectives may be registered as non-profit organisations under the relevant Acts.

NGO-mFls and Section 45 S of the RBI Act

Many NGO-mFls are mobilising savings from their clients / borrowers with the sole objective of inculcating a habit of thrift and savings among the poor and for enabling the use of such resources for acquisition of assets or linkage with credit from mFls or banks. In the context of the amended Section 45 S of the RBI Act, the appropriateness of NGO-mFls mobilising savings is questioned. Although NGO-mFls are providing very useful financial services to the poor, including the opportunity to keep their very small savings _safe, almost at their own doorsteps, they cannot convert themselves into other modes of constitution like NBFC, bank or cooperative due to various intrinsic constraints. Hence, NGO-mFls may have to be given a special dispensation in regard to Sec. 45 S of the RBI Act. Accordingly, it is
recommended that they may be allowed to mobilise savings only from their poor clientele as part of the financial services provided to them and the same may not be treated as violation of the Section 45 S of the RBI Act.

**Amendments to Bye-laws of NGOs**

Wherever NGOs undertake mF activities, they may be allowed to secure necessary enabling amendment to their bye-laws so as to be able to borrow for onlending. Suitable instructions from MoF, GOI, may be required in this regard.

**Relaxations in the IT Act**

On the lines of infrastructure companies, a new Section 10(23-H) may be introduced in the Income Tax (IT) Act to exempt any income from dividends or capital gains from investments in the equity shares of mF companies. Amendments to Sections 10 (23-D), 10 (23-F), 36(1)(vii-a) and 36(1)(viii) of the IT Act have been proposed to provide exemptions/concessions to mFls on the lines of venture capital funds, mutual funds and banks.

**mFI - LABs**

Initiatives of mFls to set up Local Area Banks (LABs) with focus on mF may be encouraged. The possibility of commercial banks floating LABs by restructuring their rural branches to take up mF may also be explored and encouraged.

**Inter-Agency Coordination**

In order to promote inter-agency coordination, RBI may issue necessary instructions to include select mFls as regular members of SLBC and DCC. SROs, when established, may be inducted as members of SLBC. RBI may set up a national level standing committee comprising representatives from governments, NABARD, SIDBI, RMK, banks and NGOs to discuss related issues on half yearly basis.

**Capacity Building Needs**

The support mechanism for scaling up the SHG-bank linkage programme needs to cover capacity building at the levels of DFIs, banks, governments, NGOs, mFls and SHGs, infrastructure support to mFls and banks, and costs for promotion and nurturing of SHGs. As regards mFls, the support systems should include, besides financial resources for onlending, funds support for the training of the personnel of the mFls, building of database systems,
infrastructure and hardware, start-up capital, capital funds for equity, and meeting initial operational deficits.

In the absence of any institutional arrangement, capacity building support to mFls and SHGs is being provided, to some extent, by donors, governments and DFIs. In the coming years, at least a part of the cost of promotion of SHGs should be met by the banking system as an investment in human capital, while the remaining part will have to be supported through grant assistance. The Task Force recommends setting up of a microFinance Development Fund (mFDF) in NABARD for extending such assistance to mFls, SROs, banks, SHGs and others. Such a Fund could be set up with a start-up contribution of Rs. 100 crore from the GOI and annual contributions from profits by RBI and NABAAD. With a view to bringing economy of scale and synergy in action, a part of the allocations from government sponsored poverty alleviation programmes may be added to it.

**National Policy for mF**

Microfinance is a useful tool in building the capacities of the poor in management of sustainable self-employment activities besides providing them other financial services like savings, housing and consumption credit, and insurance.

There is a strong case for formal recognition of mF, just like institutional credit, as a strategic tool for poverty alleviation and rural development. The National Policy on mF should emphasise on encouraging initiatives and participation of different types of institutions in mF, bringing the microfinance activities, irrespective of the type of institutions involved, within the regulation and supervision by competent authorities, creating policy environment for closer linkages of the mF sector with the formal banking channels, and making available equity, start-up capital and capacity building funds for the existing and prospective institutions engaged in mF. The recommendations of the Task Force are intended to address the above components.

**Fund Requirement for mF**

The Task Force has worked out a road map of the levels of operations and support mechanism required in respect of growth of SHG-bank linkage and mFls. Over the next 5 years (i.e., by the year 2003-04), the aggregate flow of loan and non-loan funds is expected to increase from the present level of about Rs. 150 crore under various mF initiatives to over Rs. 2,800 crore. This micro-credit flow would cover about 75 lakh families comprising 50 lakh families through SHG-bank linkage programme, 15 lakh families through mFl-bank linkage and about 10 lakh families under assistance from higher
financial institutions. This will require the support of over 10,000 bank branches, 1,000 mFls and 2,000 SHPls (mainly NGOs).

The aggregate amount needed for capacity building and other support systems for the mFls, banks and other partners would be of the order of Rs. 257 crore upto 2003-04 which will result in ground level mF investments of about Rs. 3,500 crore.

Gradually, the mFls would be required to recover the costs of providing support services for mF like training for livelihood activities, input supply, marketing support, etc. As regards social sector interventions like health care, literacy, environmental upgradation, etc., the Task Force emphasises the need for coordination among participating institutions and bringing mF as an add-on function. Further, the focus on poor women will have to be continued as hitherto in all mF programme activities.

The National Policy for mF, envisioned by the Task Force, seeks to achieve the following mission in the medium-term:

“Five years hence, we are looking for a process change leading to empowerment of 75 lakh poor households, and more particularly of the women from these households, through strong and viable people’s structures like SHGs and mFls which draw strength and support from the banking system with the message that banking with the poor is a profitable business opportunity for both the poor and the banks.”