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Improving Economic Position of Women through Microfinance: Case of a Backward Area, Mayurbhanj-Orissa, India

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ABSTRACT

This paper aims at assessing the potential of microfinance in extending credit facility to the rural poor in general, and women in particular, and examining how far such a programme has succeeded in ameliorating poverty in Orissa, the poorest state in the Indian Union. It is an attempt to arrest two individual but mutually dependent issues as regards the role of microfinance: has it succeeded in extending financial services to the poor women and has it influenced their economic condition and welfare significantly? Despite various targeted policy measures little success has been achieved in reducing the poverty level in the backward state of Orissa. The other alternative, microfinance, with its oft-repeated success story, has not made much headway in the state. The borrowers are not able to utilize the funds properly so as to help themselves out of the poverty level. The study makes some suggestions in this aspect and calls for a holistic approach encompassing financial assistance, entrepreneurial guidance and stage-wise supervision along with extensive awareness about benefits of joining a group.

JEL. Classification: D31; I31; 132; 138; J16

Keywords: Economic Position of Women; Microfinance through SHGs; Models of SHGs

1. INTRODUCTION

Shining India, even after 58 years of independence, has attracted world's attention for its poverty stricken Koraput, Bolangir and Kalahandi (KBK Districts) in Orissa. The poor in the country live in severe deprivation, malnutrition, disease-prone, without minimum access to basic resources to pull themselves up above the poverty line.

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Several aid programmes have failed to reach the target group. Yet, another rural employment programme has been being implemented recently. With the introduction of the National Rural Employment Guarantee Bill in the Parliament, on 18th August 2005, the poor once again get another promise of uplift. The Bill, with a word of providing 100 days of employment to one member of a family in rural India, with a minimum wage of Rs. 60 per day, sounds promising.

Similar such schemes have already been implemented with much fanfare, countywide in general, for KBK districts in particular. Assessing success of such programmes across some of the states in India, Jean Dreze has underlined that misappropriation of funds has been a permanent feature of such programmes (Loot for Work Programme, Times of India, Mumbai, 02/07/2005). A survey carried out by this author in 2002, to assess the impact of other income driven and subsidy driven programmes like: Jawahar Rojgar Yojana (JRY), Employment Assurance Scheme (EAS), Million Wells Scheme (MWS) and Indira Awas Yojana (IAY), observes authentication of such facts in the KBK districts. Most of such programmes have targeted women and their participation was given a major importance. Rural poverty is more visible among women and proportion of tribal women under realm of poverty is still larger. As such, policy implementation has stressed on female participation. But, without proper accountability and transparency these schemes were liable to failure. Most other programmes have also moved in the same path. It has been found out by the Planning Commission that 58% of the subsidized food grains distributed through the Targeted Public Distribution System; do not reach the target group. Moreover it has also been observed that cost of handling food grains by the public agencies is so high that to transfer Re 1[1] to the poor the center has to spend nearly Rs. 3.65, which means Re 1 of budget subsidy is worth 27 paisa for the poor (Economic Times, 24/08/04). The outcome budget has observed underperformance of various rural employment schemes. Sampurna Grameen Rozgar Yojana was to generate employment of 17.22 crore man-day[2]. The achievement, according to the statistics of the Ministry of Rural Development, has been only 9.41 crore man-day. Identical is the story of National Food for Work Programme. The target for the first quarter was 15 crore man-day of work, while the achievement is less than half, 7.31 crore (Economic Times, 9/08/05). With such a success story there is little point in implementing more such schemes.

Such observations reveal that poverty alleviation programmes, be it subsidy driven or income driven have made little headway towards the goalpost. Steps taken to provide other basics like education and health-care has met with similar situation. Dysfunctional state institutions have entrapped the poor and have pushed them towards privatization, resulting in further exclusion of this vulnerable group in the process. And to avail the bare minimum the poor are entangled in the debt trap. Of late, a way out has been oft-prescribed. The aim is to nurture the ability of the poor with a well-groomed support system and conducive environment. The approach is to build confidence that the poor, mainly women, given the opportunity, will not be dependent on doles. Planners have a realization that women bear the largest part of

1 . Re 1 is nearly US$ 1/46

2 . Man-day approximately 8 hours for which a person can work in a day

the burden of poverty as they are often deprived of the scope of earning as they have to take care of the house and look after the kids and elderly. But it has also been observed that women are the most passionate and reliable agents of development if they are supported by capital and opportunities. This is the assumption which underpins the Grameen Bank, which started with extension of small loans to groups of women, too poor to qualify for bank loans. Rightly remarked the President of the World Bank, James D. Walfensohn, "Micro-credit programmes have brought the vibrancy of the market economy to the poorest villages and the people of the World. This business approach to alleviation of poverty has allowed millions of individuals to work their way out of poverty with dignity" (Microcredit Summit, 'Declaration and Plan of Action', Feb 1997). M. Yunus, founder of Grameen Bank, remarked, "Micro-credit helps to create self-employment and put the poor, particularly women in the drivers' seat." But has the programme succeeded everywhere? What about the people in abject poverty? It has often been experienced that micro-credit programme is not useful for the poorest in India. Why it is so? When such a scheme has succeeded in Bangladesh, to the extent that it has extended credit support even to the beggars, then which factors are to be considered so that similar result could be expected from the poor in India.

As Orissa, is the poorest state in the Indian Union, therefore we have selected it for the present study. This exercise aims at assessing the potential of microfinance in extending credit facility to the rural poor in general and women in particular, and examining how far such a programme has succeeded in ameliorating poverty in the state.

It is an attempt to arrest two individual but mutually dependent issues as regards the role of microfinance: has it succeeded in extending financial services to the poor women and has it influenced their economic condition and welfare significantly? Such an attempt seems imperative at this juncture as 2005 has been declared by the UN as the international year of micro-credit. Studies examining both the issues simultaneously are few and far between, more so in the context of Orissa. The present one therefore tries to arrest two issues, reach as well as impact of microfinance in the state.

After the introductory note the second section examines achievements and constraints of microfinance with particular emphasis on SHG bank linkage by reviewing the existing database. The third section is examining some of the earlier studies and the fourth analyses the methodology and the fifth looks into functioning of SHGs in Mayurbhanj, a tribal district of Orissa. Sixth section details the problems of the SHGs and suggests some improvements. The last one is the concluding observation.

2. MICROFINANCE THROUGH SHGS: ACHIEVEMENTS AND CONSTRAINTS

Microfinance as distinct from normal finance aims at extending financial services at a low transaction cost to the rural poor. These services generally encompass savings, credit and insurance but credit gets precedence over the rest two. The essence of Micro-credit is to extend credit of small amount to the poor clientele. Unlike normal credit, these are provided with collateral substitutes and are often backed by non-financial support services for increasing productivity of credit. The prime objective is to alleviate poverty through extended access to finance. Micro-savings and insurance are yet to gain prominence in the Indian context. Micro-savings have come to the forefront, of late, with the help of Self Help Group (SHG) movement and works as a proxy for micro-insurance. Therefore, detailed data on microfinance in India are yet to be compiled. Most of the available information concentrates on credit aspect alone. National Bank for Agriculture and Rural Development (NABARD) provides information on SHGs linked to it through refinance schemes and therefore excludes a large number of SHGs, which do not operate under such schemes.

Three different models of SHG bank linkage have been evolved over time.

Model-I –SHGs formed and financed by the banks- the banks themselves take up the work of forming and nurturing the groups, opening their saving account and providing them with bank loans. Up to March 2006, there were 67,227 SHGs (38 per cent of the total) in this category operating with a bank loan of Rs. 1,796.87 million.

Model-II- SHGs formed by NGOs and other formal agencies but directly financed by the banks. This model constitutes the major proportion as 52 per cent of the total SHGs financed up to March 2006 fall under this category. Here the NGOs or formal agencies like Farmers' Club, Mahila Samiti etc facilitate organizing, forming and nurturing of groups and train them in thrift and credit management. Banks extend credit to these SHGs directly. By the end of March 2006, a total of 93,232 SHGs (51 per cent) were functioning with a bank credit of Rs. 2,598.48 million.

Model-III- SHGs are financed by banks, using NGOs and other agencies as financial intermediaries. Only 10 per cent of the total SHGs financed up to 2002 is in this model. Here the NGOs take up the additional role of financial intermediation. In the areas where the formal banking system faces constraints, NGOs approach a suitable bank for bulk loan assistance. The amount, in turn, is used by the NGOs for lending to the SHGs. Till March, 2006, number and amount of loan received by the SHGs in this category were 20,437 and Rs. 359.30 million, respectively. Other Non-Banking Financial Companies and group of SHGs forming federation of SHGs also work as intermediaries between bank branches and member SHGs. Most of the SHGs, around 90 per cent comprise women membership.

Through microfinance programme, NABARD is committed to provide banking services to hundred million poor through one million SHGs by 2008. The success story is largely apparent from the records of the Bank. Many state Governments, Banks and other agencies have accorded high priority to the linkage programme increasing thereby the absolute number of SHGs receiving bank credit. Specific strategies have been formulated by NABARD for widening the network and deepening the impact of the programme in states which required special attention. By initiating various promotional efforts NABARD has broadened its partnership beyond the NGO sector to encompass Regional Rural Banks, government organizations and development departments. In an attempt to reduce regional imbalance, region specific strategies have been devised. In the process North-Eastern region of the country and the extreme backward areas like KBK districts of Orissa were given prime attention and collaboration with a large number of small NGOs and microfinance agencies were promoted. Such promotional efforts launched in the last two years have resulted in positive growth trends in many states where the programme has not grown significantly in earlier years. To cite an instance, in the lowly developed KBK region, 18,574 were provided with bank loans during 2005-06, bringing the cumulative number of groups credit linked to 64,550.

Table –1
SHG - Bank Linkage: Cumulative Progress (1992-2006)

Up to end March	SHGs Financed	Bank Loan (Rs. Million)
1992-99	32,995	571
1999-2000	1,14,775	1,930
2000-01	2,63,825	4,809
2001-02	4,61,478	10,263
2002-03	7,17,360	20,487
2003-04	10,79,091	39,042
2004-05	16,18,456	68,985
2005-06	22,38,565	1,13,975

Source: National Bank for Agriculture and Rural Development (www.nabard.org/pdf/introduction06-06pdf) retrieved on 28-feb.2008.

The picture is optimistic. SHGs in general and the linkage programme in particular, have done a commendable job. A study by NABARD covering 560 SHG member households from 223 SHGs spreading over 11 states have underlined perceptible and wholesome change in the living standard of the SHG members in terms of ownership of assets, increase in the savings and borrowing capacity, income levels and income generating activities. The members have become more confident after realization of self-worth. They have also become more assertive in confronting social evils and problem situations, which has resulted in a fall in the incidence of family violence.

3. SOME EARLIER STUDIES

Studies have underlined that microfinance programme through SHGs has reduced the inadequate access of banking services to the poor (Rajasekhar 2002). Khandker (2000) has observed that extension of Micro-credit support through SHGs will enable rural households to take up larger productive activities. Such a financial support, while reducing dependence on exploitative moneylenders has inculcated saving habits and empowered women. Varman (2005) has observed that microfinance SHGs have succeed in prompting banking habit among the rural communities, women in particular, and have increased the number of accounts in the formal banking sector. Moreover he has stressed that leadership experience improves banking habit much more than simple membership and has advocated for rotational leadership over appropriate time. Sinha (2005), in a survey carried out in Andhra Pradesh, Tamil Nadu, Karnataka, Kerala, Uttar Pradesh, Rajasthan, Assam and Manipur has recorded that loan use is more prominent in the SHGs in the Grameen model. Despite insistence by the microfinance institutes there are evidences of loan diversion. Chen (1992) has reviewed 11 studies of the Grameen Bank in Bangladesh. Sebstad and Chen (1996) reviewed 32 research and evaluation reports. Most of these studies reported positive benefits from microfinance but subsequently criticized for their method and inherent biases which indicated all likely overestimated impact. Coleman (2001) has assessed the impact of microfinance on subgroup of borrowers. This study revealed that "participants are significantly wealthier than non-participants and the wealthiest villagers are almost twice as likely to participate as the poorer villagers. Moreover, the wealthiest are often programme committee members and borrow substantially more than rank-and-file participants. Impact estimates demonstrate that the programmes positively affect household welfare for wealthy committee members (in terms of wealth, income and expenditure) but the impact is largely insignificant for the poorer rank-and-file participants. Essentially by overcoming the low borrowing limits set by the programme, the wealthiest and the most powerful members of the village were able to benefit significantly from the finance programmes."

Basu and Srivastav (2005) have observed that in Andhra Pradesh, where the SHG movement has gained momentum, the poorest still remain in outreach. "Despite the proliferation of SHGs across the state in AP, the statistical analysis suggests no strong relationship between village level poverty indicators and the number of SHGs, though more remote are likely to have fewer SHGs".

Existing literature underline that growth of SHG-bank linkage in the last four to five years has been remarkably uneven. Microfinance continues to play a modest role in India. At the all-India level less than 5 per cent of the rural poor households have access to microfinance as compared to 65 per cent in Bangladesh. The better-off states, mainly in the south, have made remarkable progress in the linkage programme, while the less developed ones in the north and east India, where it is essential in the struggle against poverty, have lagged far behind. The southern region accounts for 65 per cent of the SHG linked and over 75 per cent of the amount distributed while densely populated and poverty stricken east accounts for 12.60 per cent of SHGs linked and 5.9 per cent of the amount. Story of the north-eastern region is still worse as they go with only 0.6 per cent of the SHGs and 0.3 per cent of the amount (NABARD 2002).

It has been observed that demand for Micro-credit in India is Rs. 500 billion, while only 18 billion has been supplied so far. Nearly 7.5 million poor households in the country desperately need some access to financial services to get a help for meeting their immediate needs. A World Bank research covering 6,000 families in Andhra Pradesh and Uttar Pradesh, two large states in the Indian Union and in the former, SHG programme has been a success, reveals that 87 per cent of the respondents had no access to credit, 85 per cent, no access to insurance and 56 per cent depend on money lenders. Such an observation reveals that still there is a long way to go. Women have taken the lead in this front. The biggest poor women's bank in the world, SEWA Bank was started on the request of women, who needed safety for their savings and required loan at the time of stringency. And now, major financial institutions like Industrial Credit and Investment Corporation of India (ICICI) have come up with schemes to suit individualized need of women.

4. METHODOLOGY

The study has deployed a multitude of research methodologies, such as desktop research, key informant interviews, a survey of rural inhabitants comprising a tribal and a non-tribal segment, and a survey of a stratified random sample of SHGs. The fieldwork was carried out in five villages of one of the less developed, tribal dominated districts of Orissa, Mayurbhanj, deliberately chosen to represent various levels of economic development within the tribal and rural areas of the state.

The desktop research involved a comprehensive review of national and international literature, as well as the collection and processing of secondary data. Specific datasets used in the work included annual economic surveys of the state, annual records of NABARD, District Statistical Handbooks, official records of the SHGs about their detail functioning and performance.

Key informant interviews were conducted to examine how far the existing institutional and social environment encourages and facilitates awareness of the women to participate in SHGs. NGOs, microfinance institutions and members of the Self Help Groups active in the area under study were considered as key informants. A well structured questionnaire was used for the purpose during the December, 2006. A sample of 320 members of the 25 SHGs was interviewed for the study. Related NGOs and officials of the microfinance institutions were consulted with for their views.

Drawing upon the findings of the survey, a few case studies are conducted in each area. These will analyse in great detail the particular characteristics of each SHG, their grievance and nature of help sought to redress the same.

5. DETAILS Of The SAMPLE

Success of microfinance institutions have been recorded in many instances, more so when they operate in the SHG way, in helping the poor. Still the reach is yet to be broad-based. Even educated people of a tribal dominated district of Mayurbhanj have not heard of SHGs or microfinance. Some SHGs do operate, but with minimum success towards the prime goal of poverty alleviation. The very poor continue to remain in the outreach. Some factors which act as stumbling block need highlight in this direction.

Formation of SHGs in Mayurbhanj is not widespread. Still some groups are operating with profit. Our aim is to assess how far these groups can become role models for others so that their success stories could be emulated accentuating gain in general welfare.

For the purpose working of 25 SHGs were analyzed. They are mostly located in Baripada, the District Headquarters, a small urban center, and in its suburbs. This town is well connected with business centers like Kolkata and Bhubaneswar and the distance of the town from both these places are within 300 kms. People of Mayurbhanj are mainly dependent on agriculture. During the off-season, January to April, they remain idle or work as wage laborers. Another employment prospect in this area is cultivation of Sabai grass. People prepare rope from these and sell it in the local market. These ropes could also be used to prepare various household commodities, like door-mats. But due to low access to market they prefer to sell the ropes. This retards their economic progress.

Women of the district are mostly unemployed or work as wage earners. The former category, mainly wives of office-goers, has plenty of leisure time after the household chores. They are desirous to join SHGs and do some productive work in their free time but are often in a fix about what to do and how to proceed. They have attempted, but succeeded to a limited extent. This study has tried to look into the reasons behind and suggest measures to overcome such obstacles.

Membership of the 25 SHGs, each with 15 members on an average, was surveyed. The sample comprised women mainly from the families of small and marginal farmers (48%); housewives (42%) and the rest are from the families of daily wage earners, assistants in shops and those working as domestic help. The members are from the general caste with a monthly income ranging between Rs. 3, 000 to Rs. 5, 000. This speaks of non-coverage of the poorest in formation of groups. Minorities like scheduled caste and scheduled tribes are also observed to be largely marginalized.

Assessing functioning of the SHGs it was observed that after joining the group saving habit of the members has improved. They are contributing Rs. 50 on an average per month, which is being deposited in the group account. When enquired about their saving position most of them replied that they are inspired by the group spirit to save. Moreover, they had no other interest earning saving opportunity as they had to depend on their husbands for going to a bank. Many of them were even not able to go to a bank as they were unaware of the banking formalities and regulations. At times, the extra money was spent by them on sarees,[3] cosmetics or toys for the kids. SHGs have made them aware of their ability to save and also to make use the same for productive purposes. All of them have also availed the benefit of improved access to credit. They are able to obtain a loan of Rs. 6, 000 if they need. The interest proceeds are collected by the officials of the lending agency at the end of every week. Yet, financial position

3 . Sarees: conventional Indian dress of a woman

of the members could not improve much. The reasons there of are encompassed in the broad findings of the survey.

Table-2

Mean Values for Demographic and Economic Characteristics of the Sample

Sl No	Variables	Sample Households
1	Household income (Rs. per month)	5,500
2.	Occupation of majority of the Heads of the Household	Cultivation (48%)
3.	Dependent-earner ratio (rounded up to the next number)	4
4.	Educational Qualification of the Group Members (years of schooling)	10
5.	Operational holdings (acres)	0.65
6.	Per cent with other supplementary source of income	46.25
7.	Percentage of Scheduled caste or Scheduled tribe members in a Group	15
8.	Saving contribution of each member (Rs)	50
9.	Loan amount obtained by a member (Rs)	6,000
10.	Cost of borrowing (interest + transaction cost) (in %)	35

Source: Collected Information by author

6. PERFORMANCE OF SHGS AND SUGGESTIONS FOR IMPROVEMENT

It was observed from the survey that there are some areas of concern in the performance of the SHGs. Some suggestions for improvement are enlisted.

6.1 Reduced Debt Burden

All the members of the SHGs surveyed admitted that they are knowledgeable of the fact that the loans are to be utilized for productive purposes. Yet they were constrained to use the same to repay earlier loans from the moneylenders. When asked they revealed that there is no way out to be free form the high cost informal borrowing. Nearly 85 per cent of the borrowers adopted such a practice and as such they could not use the credit productively to increase their income. This is not uncommon. In one Thai village studied by Coleman (1999), 20 out of 30 clients regularly borrowed from a moneylender to repay their programme loans. Thus the village had a cent percent repayment rate but the clients were trapped in a vicious circle of poverty. Copestake et al (2001) found that repayment obligations made many borrowers worse off in a Zambian microfinance programme. Sinha (2005) has observed that even though micro-credit programmes have extended grater avenues of borrowing to the poor, these have not reduced their dependence on informal moneylenders. “In terms of accessibility, capacity to provide loans to meet borrowers’ demand willingness to lend without security and flexibility of repayment schedules, they (informal moneylenders) are still considered valuable even by microfinance clients.”

Most of the microfinance institutions extend credit support only for productive purposes. They have an eye on the returns and in the process boost the income level of the borrowers. Loans are mainly provided for trade, traditional production, animal husbandry, agriculture and services. Little consideration gets consumption loans where moneylenders step in. These institutions do not provide finance for health care and other contingencies, least to speak of social functions and household purchases. Micro-credit continues to remain low in outreach relative to the credit needs of the poor (Sinha 2005). As estimated by the Indian Retirement Earnings and Savings Data (2004), compiled by the Delhi based Invest India Economic Foundation (IIEF), an independent policy think-tank, which has worked for the Ministry of Finance, moneylenders hold Rs. 67,000 crore of the total projected credit outstanding from the earning population. To put it otherwise, they hold 70% of the total outstanding credit of their customers when compared to the Public Sector banks. State owned banks hold only 9.76% of the outstanding credit for the population, followed by co-operative banks at 5.76% (Economic Times, 29/08/05). Moreover, the interest charged by the money-lenders skyrockets depending on the urgency and need of the borrower. Micro-credit programme should consider this neglected area. It has remained protective since long but its promotional role has not become effective. If the needy are obtaining high cost credit from the moneylenders why at all will they hesitate to pay the price to these institutions, which can extend timely help?

6.2. Productive use of Loans

It was observed that the borrowers find it difficult to utilize the credit productively. When these women are engaged in producing local products in village and cottage industries do not earn much due to absence of successful marketing. Rural people of Mayurbhanj prepare doormats, wall-hangings and other useful commodities of sabai grass, but could not find proper market for the product. Microfinance institutions should take necessary steps in this direction. By opening up shops in urban areas where rural artifacts are in great demand they can bring the local skill to limelight and in the process generate a livelihood. Display of these commodities in various exhibitions in Bhubaneswar and Kolkata can give the product wide avenues of marketing.

It was observed that some of the SHGs in the survey engaged in food processing encounter similar problems. They were unaware of the scope of broadening their markets. They were scared of competing with the existing products. Therefore they sold their product to the local people and remain content with whatever minimum profit they earn. Guidance by loan sanctioning authorities or active NGOs is highly essential in this aspect. Sinha (2005) has underlined practical absence of non-financial support services, an essence of microfinance plus services. A combination of microfinance with micro enterprise should be promoted. Success story of China in this aspect is worth emulating.

6.3. Guidance for Use of Funds

At times the women lack necessary idea of productive utilization of the funds. Microfinance institutions should chalk out a roadmap for the same. Without proper guidance the ignorant customers fail to utilize credit productively even if they want to. Maa Ambika Sahayogi Sahayata is one of the SHGs surveyed. With a bank balance of Rs. 24, 000 it is not applying for loan as it is not sure of marketing prospects of its sabai products. Story of another group, Mangala Mahila Samiti is still more deplorable. They obtained the loan but could not use it productively. The financiers could not guide them in this aspect. When we asked them about pig or goat rearing they expressed their reluctance as others in the village already have them. Moreover, they cannot afford the expensive fodder. Ultimately the group was liquidated. Maharani Takhat Kumari Mahila Samiti is also encountering identical situation-how to utilize credit productively, how to survive in the existing competitive market situation and earn profit. Rani Mahila Udyog is not even able to get a loan. It is recycling its profit and the members are earning very little. A study on the working of Mission Shakti, a SHG in Orissa reveals that in the tribal dominated district of Keonjhar, 60% of the women members of the group have lent out the money received under the scheme (Times of India, 03/09/05).

The microfinance institutions can also make the borrowers aware of new avenues of employment generation and thus act as a bridge between the poor and the large industrial houses that look up for local resources and local producers. SHGs in Tamil Nadu have undertaken a contract for farming of seaweeds for PepsiCo, which has been practicing contract farming in India since last 15 years. This is exemplary.

6.4. New Initiatives

Apart from credit and saving facilities, members of the SHGs were not offered any other facility like insurance. This still remains an area of concern. Moreover, they could be made aware of other developments in their area and take active interest in various targeted programmes to check misuse of funds and ensure appropriate functioning.

6.4.1. Supervision of Government Schemes

SHGs could also be motivated to take up supervisory work of any subsidy or income delivery scheme. These groups may undertake the job of identifying the poorest families, checking the authenticity of muster rolls and ensuring that laborers are paid the specified minimum wage rate with employment for prescribed number of days. This will ensure transparency in the system and the benefits will reach the target group. Such a practice was adopted in the Vegulu Project of Andhra Pradesh Government. Vegulu functions as an independent unit. SHGs, existing as well as new ones are used as the main unit of implementation at the grass-root level. But the state ultimately yielded to the pressure of the elected representatives to be involved in it. This could be avoided by making SHGs more concerned for proper utilization of funds.

6.4.2. Sustainable Development

Microfinance institutions should be given area specific autonomy of operation as regards innovating new products and marketing the same with innovative strategies so as to achieve the twin objective of outreach and sustainability. State subsidy should be linked with balance sheet performance. They should provide three basics of finance, i.e., savings, credit and insurance under one roof with appropriate technology to reduce transaction cost and risk cost. The poor are reluctant to approach the banks for opening an account or obtaining a loan. They are averse to the procedural delay. A single window system will be of a great favour. Banks are also skeptical of lending to the microfinance sector mainly because of two apprehensions: first high transaction cost and high default rate leading to escalation of Non-Performing Assets (NPAs). But studies have observed, “NPAs is a non-issue in the sector as high repayment rates are evident in all the models of microfinance-SHGs, Grameen replication and the individual banking model. The SHGs have been able to creatively built social collateral and peer pressure to ensure that the repayments come on time. The Grameen model, which uses peer pressure to the maximum, has also a zero tolerance for default. The individual banking model has built a combination of peer pressure through formation of joint liability groups and high level of customer contact” (Sriram 2005). A collaborative approach can not only reduce transaction cost but ensure repayment as well. It was observed that over all credit availability in an area where Sanghamitra Rural Financial Services (SRFS), a company promoted by MYRADA, an NGO based in Karnataka, operates has gone up. Banks are aggressively lending to groups formed and serviced by SRFS (Srinivasan 2003). Oriental Bank of Commerce (OBC) has observed that microfinance is a profitable source of lending. ICICI Bank has also followed a systematic approach towards building collaboration in the microfinance market. Sriram (2005) has chalked out a packaged programme for the direct delivery models like SGSY, in which a partnership between banks and NGOs/NGO- microfinance institutions could extend the reach as well as recovery.

7. CONCLUSION

Microfinance programmes are premised on the belief that access to financial services will improve the ability of the poor to harness their inherent capacity. In the process of capacity building they can uplift themselves above the poverty line.

Literature has underlined that microfinance has made significant headway in extending low cost credit to the rural poor. Success of these programmes have been assessed in terms of repayment rates and cost recovery. But the primary goal of microfinance programmes is to improve client welfare. Credit delivery should be sustainable and should lead to increase in efficiency and equity by increasing their income and productivity boosting expenditure like those on health and education.

Rutherford (2000) has observed that efficiency of financial services is contingent upon " products that suit the Poor's capacity to save and their needs for lump sum so that they can save (or repay) in small sums, of varied value, as frequently as possible: access the lump sum (through withdrawals or through loans) when they need them: in short term for some consumption and emergency needs, in the medium terms for investment opportunities and some recurrent life-cycle needs, and for longer term for other life cycle and insurance needs like marriage, education and old age".

Leading members of the "Ohio State School" of development finance have gone so far as to state bluntly in response to the mushrooming of microfinance programme that "debt is not an effective tool for helping most poor people enhance their economic conditions - be they operators of small firms or entrepreneurs or poor women" (Adams and von Pischke, 1992). They argue that access to credit is not a significant problem faced by the poor rural households and that factor and product price distortions; land tenure, technology and risk are the factors limiting small farmer development. Coleman (2001) underlined the unobservable characteristics, for example, unobservable entrepreneurship, risk preference etc and not to access to microfinance were the key determinants of small business income. Poor are generally at a disadvantage in all these aspects. So microfinance programme will succeed only when it is wholesome, extending credit support backed by motivational inputs along with a clear road map of productive utilization of the same. The approach should never be diverted from confidence building and nurturing the ability of the poor in a well-groomed support system and conducive environment. Microfinance is at cross roads. Unless the financial services are productively utilized it will benefit neither the poor nor the banks. Experience of SHGs in Orissa reveals that most of the groups are not able to do so purposively or compulsively. This aspect of the linkage programme has received little attention. Mere access to the funds is not enough. Utilization with an earning is essential not only to ensure sustainability of the SHG-bank linkage, not only to ensure timely repayment and cost recovery but also to proceed towards the goal post of poverty alleviation.

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