# MICRO-FINANCE AND POVERTY ALLEVIATION ISSUES RELATING TO NGO PROGRAMMES IN SOUTH INDIA

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## *Abstract*

This paper examines the contribution of NGO micro-finance programmes to poverty alleviation with the help of evidence on group formation and savings and credit operations. The paper suggests that the micro-finance programmes often benefit the non-poor, savings amounts are not high enough to reduce vulnerability within member households and loan amounts are not large enough to make a dent on poverty. Many member households do not have significant access to credit. The claim that micro-finance programmes are answer to poverty alleviation is not, therefore, empirically substantiated. This suggests that in addition to micro-finance other interventions such as public expenditure, credit plus activities etc., have to be made.

## Introduction

Poverty is often related to inadequate incomes. Recent studies, however, emphasise that five clusters of disadvantages (lack of assets, physical weakness, isolation, vulnerability and powerlessness) characterise the poor in rural areas. The studies also arrive at broader conceptualisation of poverty by including these disadvantages. A distinction between poverty alleviation and reduction is often made in this regard. The former is a short-term improvement in the material position of the poor, while the latter is long-term reduction in the dependency of the poor on those aspects of the structure which perpetuate poverty, and of vulnerability with respect to changes in their environment.

Four dimensions of poverty can be identified: lack of assets, resources, knowledge and rights. Assets cover material possessions, while resources cover access to credit, extension, education, health or drinking water. Knowledge is essentially information that shapes the cognitive world, ranging from technology to political ideas. Finally, rights embrace the social, economic and political spheres falling in the legal and traditional domain. Poverty alleviation covers providing material possessions and opportunities to obtain income to meet basic needs.

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Poverty reduction implies sustainable alleviation of poverty, by covering all the four dimensions.

Development agencies assign importance to micro-finance in poverty reduction. Micro-finance implies providing the poor with savings, credit and insurance facilities to set up or expand income generating activities (IGAs) relating to agriculture, allied activities and non-farm sectors, and thereby, to increase household income security. It is believed that micro-finance enables the poor to save to improve their confidence and household security (Rajasekhar 2000, 2002a and 2004). Access to consumption credit leads to a reduced dependence on moneylenders, food security and enhanced access to health and education. Production credit enables the poor to undertake income-generation activities through which poverty could be reduced. However, the precise contribution of micro-finance programme to poverty alleviation is a debatable issue.

The main objective of this paper is to discuss a few aspects of micro-finance programmes such as group formation, savings mobilisation and credit operations for the purpose of raising some issues relating to the contribution of these programmes to poverty alleviation. Since the main purpose of the paper is raise issues relating to the contribution of micro-finance programmes on poverty alleviation, the paper highlights weaker aspects of the programme, though there have been several positive features. This has been done in the context of 19 NGO programmes in South India. In this context, a few clarifications relating to the micro-finance scene in South India are provided below.

A group[1] of about 15 members, formed by the government, banks and NGOs, provides micro-finance services. The members periodically contribute savings, which are used to build a savings fund that can be revolved among the members. The members are encouraged to borrow from the savings fund thus created, to meet their consumption and short-term production needs. Since this fund, built entirely on savings of members, is normally insufficient to finance IGAs involving larger amounts of start-up capital, micro-finance groups are linked to formal banks to obtain bulk loans for on-lending to group members.

It needs to be clarified that this is not the only form of micro-finance in the region. A few organisations have promoted micro-credit programmes, which, theoretically, provide only credit facility to the rural and urban poor. Such programmes do not provide savings facilities. A few NGOs have also promoted groups by adapting the model of The

Gramin Bank in Bangladesh. National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India and Rashtriya Mahila Kosh provide financial assistance to micro-finance and micro-credit groups with the help of different types of lending programmes. Often, it is claimed that these different lending programmes represent different models of micro-finance or credit. Further, commercial banks, regional rural banks and co-operatives have formed micro-finance and micro-credit groups.

The paper concentrates mainly on NGO programmes because these appeared much earlier than the programmes of the government and banks. In fact, it was the work of the NGOs that positively influenced the banks, government and other promotional agencies to form and support micro-finance groups to improve the access of the poor to credit. Second, NGO micro-finance programmes are supposed to be better than the other similar programmes of the government and banks, in so far as the coverage of the poor (Satish 2001; 415) and quality of the groups is concerned.

## Micro-Finance and Poverty Alleviation

This paper uses the information collected from 19 NGOs located in several districts in three South Indian states, Andhra Pradesh, Karnataka and Kerala (Table 1). Though the coverage (in terms of total number of villages) of NGOs varied across the organisations, it was less than 50 villages in most of the programmes[2]. The number of members covered in most of the programmes ranged between 1,000 and 4,000 borrowers. Between 90 and 100% of the members were women.

Some of these NGOs introduced micro-finance into their existing programmes. In such cases, they had already formed Sanghas (large groups of men and women belonging to either a particular caste or class) and introduced savings and credit into these groups. In the 1980s, the groups formed were large, having around 50 members in each group (Rajasekhar 1996; 100). However, with the advantages of small size frequently emphasised in the training programmes and literature[3] (and some of the promotional agencies such as NABARD insisting that the group size be small), the size of the group declined to around 15 members by the 1990s[4].

**Table 1: Basic Details of the NGOs**

| Sl. No. | Name of the NGO | Location in terms of district | Reference year | Total number of villages | Total number of groups | Total number of members |
|---|---|---|---|---|---|---|
| **NGOs from Andhra Pradesh** | | | | | | |
| 1 | ACTION | West Godavari | Jun-97 | 28 | 55 | 1,200 |
| 2 | Action for Community Service Society (ACTS) | Chittoor | Mar-96 | 73 | 95 | 3,886 |
| 3 | Bhagavathula Charitable Trust (BCT) | Visakhapatnam | Jun-97 | 38 | 151 | 3,046 |
| 4 | Chittoor Rural Development Society (CRDS) | Chittoor | 1995 | 40 | 78 | 1,988 |
| 5 | Deccan Development Society (DDS) | Medak | 1997 | 74 | 82 | 3,389 |
| 6 | Gram Vikas Samstha (GVS) | Chittoor | 1995 | 44 | 44 | 1,726 |
| 7 | Mass Education Movement (MEM) | Chittoor | Mar-96 | 64 | 70 | 1,836 |
| 8 | Modern Archtects for Rural India (MARI) | Warangal | 1995 | 15 | 20 | 450 |
| 9 | Outreach | Chittoor | 1995 | 17 | 18 | 278 |
| 10 | People Oriented Organisation for Reconstruction (POOR) | Chittoor | 1995 | 44 | 45 | 1,014 |
| 11 | Praja Abyudaya Samstha (PAS) | Chittoor | 1995 | 43 | 43 | 1,338 |
| 12 | Sanghamitra Service Society (SSS) | Krishna | 1999 | 14 | 138 | 1,863 |
| **NGOs from Kerala** | | | | | | |
| 13 | Dale View | Trivandrum | 1996 | 20 | 65 | 4,000 |
| 14 | Malnad Development Society (MDS) | Kottayam | 1996 | 83 | 83 | 40,000 |
| 15 | Shreyas | Waynad | 1996 | 169 | 409 | 29,000 |
| 16 | Women Welfare Association (WWA) | Waynad | 1995 | 24 | 24 | 636 |
| 17 | RASTA | Waynad | 1995 | 27 | 40 | 1,614 |
| **NGOs from Karnataka** | | | | | | |
| 18 | GRAMA | Chitradurga | 2002 | 178* | 964 | 15,411 |
| 19 | Grama Vikas | Kolar | 1998 | 112 | 172 | 3,790 |

* Refers to the number of villages covered only in Chitradurga – the organisation is also working in Tumkur, Hassan and Uttara Kannada.

There have been changes in the organisation of groups. In the past, the groups were headed by three leaders who were selected either by NGO staff[5] or nominated by the elite in the group or village. Very often, the same persons continued in leadership positions for a long time. With capacity building inputs and NGOs getting to learn the best practices, the following changes were effected in the programmes. First, the terminology changed from 'leaders' to 'representatives' (Fernandez 1993). Second,

the method of election by members is emphasised now in the appointment of representatives. Third, mandatory rotation of representatives once in a year or two is recommended and practised in several cases. The practice of monthly meetings either at house of one of the members or place of worship is changed to weekly meetings at neutral places like school building, gram panchayat building or community hall.

## Composition of the Group

Lending to the poor is considered to be expensive and risky because of their low savings propensities and inability to provide collateral. Micro-finance groups, however, can target the poor better as the joint liability compels these groups to be small and homogeneous[6] so that members have incentives to participate in selection, monitoring and ensuring the repayment of loans (Stiglitz 1990). This implies that groups can be formed for the poorest as the households with similar characteristics (savings capacity, credit needs, etc.) actually contribute to their success. In order to help the NGOs to form groups for these sections, the donors provide training on poverty concepts, and methodology (such as participatory learning and action) to assess the situation of the poor.

Yet micro-finance groups often consisted of a few poorest and some poor (Murthy and Nitya Rao 1997; Rogaly 1996; Kabeer and Murthy 1996; Rajasekhar 2002a). This point is often overlooked in the literature[7]. Although some of the Kerala NGOs claimed that micro-finance groups existed for the poorest, the data from 1,381 members from 14 credit unions showed that about 10 per cent of them were better off. Similarly, of 578 members in 17 groups in Andhra Pradesh, around 40 per cent of the members were small, middle and large farmer households (Rajasekhar 1998).

Heterogeneity within the groups arises as the formation process was not based on socio-economic criteria. The methodology (such as including the members selected for the earlier watershed programmes and self-selection) followed in the case of NGOs from Andhra Pradesh resulted in group formation around a couple of well off and/or articulate members. Satish (2001; 414-5) also notes that the NGO animators formed the groups by undertaking 3-4 visits to the locality to encourage the interested members to join the groups. He also notes that the visibly poorest were generally not members of any SHG. In some villages, they were not even aware of the efforts made by NGOs in forming groups in their villages. According to the data provided by him, between 21 and 44 per cent of the members in study SHGs in Uttar Pradesh, Maharashtra and Karnataka were well off. Another study conducted in Andhra Pradesh

shows the heterogeneity among the members (Datta and Raman 2001; 390).

The discussion, thus, suggests that micro-finance programmes often do not consist of the poor, and there is heterogeneity within a group. The latter has significant consequences such as 'elite capture'.

## Savings Operations

Micro-finance programmes enable the poor to save. Until about the late 1980s, savings mobilisation had not been given emphasis on the assumption that the poor cannot save. The studies, however, argue that if the institutions are appropriately structured and provided demand-oriented (conveniently located facilities and flexible accounts) savings products, the poor will contribute savings (Vogel 1994; Fiebig et al 1999; Rutherford 1999). Savings mobilisation (focusing on voluntary savings as well) has been emphasised in micro-finance programmes (Morduch 1999). The growing amount of savings improves the confidence among members in investing and expanding the existing IGAs, and household income security.

As the amount of members' savings at the disposal of the group increases, the member households can withdraw savings or take credit for consumption, which leads to reduced dependence on moneylenders, increase in food security, and enhanced access to health and education. This helps the poor to gain confidence in investing on IGAs as the access to consumption credit frees them from uncertainties of how to meet consumption emergencies. The savings, thus, not only reduce vulnerability but also provide an opportunity for the poor to borrow from the programme.

In the NGO programmes in South India, savings contributions by members have been emphasised. These programmes almost invariably began with training and awareness on the importance of savings contribution by members. In each of the programmes, minimum (and maximum) amount of savings to be contributed in each month was fixed (Table 2), which varied on the basis of economic condition of the target group and conditions of the target area. The amounts fixed were lower in the project area of ACTION (which consisted almost entirely of tribals with insecure livelihood) and were higher in developed regions (Shreyas, WWA in Kerala and SSS in Krishna District of Andhra Pradesh). One of the programmes (MARI) introduced flexibility of contributing savings amounts as per the seasons in a year. Another programme (MEM) introduced the facility to withdraw savings to enable the members to use the same for consumption and short-term production credit needs.

**Table 2: Savings Programme of the NGOs**

| Sl. No. | Name of the NGO | When micro-finance programme started | Reference year | Per member savings (Rs) mobilised in a month | Total amount of savings (Rs) |
|---|---|---|---|---|---|
| **NGOs from Andhra Pradesh** | | | | | |
| 1 | ACTION | 1990 | 1997 | 10 to 15 | 145,608 |
| 2 | ACTS | 1992 | Mar-96 | 10 to 20 | 472,265 |
| 3 | BCT | 1981 | 1997 | 13 | 1,774,444 |
| 4 | CRDS | 1987 | Mar-96 | 10 to 30 | 117,560 |
| 5 | DDS | Early 1990s | 1997 | 20 to 40 | 469,101 |
| 6 | GVS | 1985 | 1995 | 40 | 395,625 |
| 7 | MARI | 1991 | 1995 | 25 | 135,000 |
| 8 | MEM | 1993 | Mar-96 | 10 to 20 | 500,714 |
| 9 | Outreach | 1994 | 1995 | 20 | 54,336 |
| 10 | PAS | 1989 | Mar-96 | 10 to 30 | 490,318 |
| 11 | POOR | 1992 | 1995 | 10 to 30 | 186,674 |
| 12 | SSS | 1989 | 1999 | 20 to 50 | 670,68 |
| **NGOs from Kerala** | | | | | |
| 13 | Dale View | 1991 | 1996 | 10 to 30 | 1,189,464 |
| 14 | MDS | 1985 | 1996 | 30 to 40 | 1,590,000 |
| 15 | Shreyas | 1988 | 1996 | 50 | 19,274,000 |
| 16 | WWA | 1981 | 1996 | 25 to 60 | 807,152 |
| 17 | RASTA | 1993 | 1995 | 10 | 99,840 |
| **NGOs from Karnataka** | | | | | |
| 18 | GRAMA | 1993 | 2002 | 20 to 40 | 12,818,258 |
| 19 | Grama Vikas | 1992 | 1999 | 40 | 5,272,835 |

The positive and negative incentives would influence the amount of savings contributed by a member, which in turn would have a bearing on the vulnerability of a household. The positive incentives are interest on savings and ensuring regularity in savings contribution, while deciding who is to be given a group loan and linking savings amount with loan amount. The negative incentives are not allowing members to withdraw savings[8] and imposing fines if savings are not contributed in any month. The savings amount by a member would have a bearing on poverty alleviation as savings linked to loan (the savings amount in a group should be in certain ratio of the loan amount requested from the group) would influence the size of a loan.

Of 1,381 members belonging to five NGOs in Kerala, more than half of the members saved less than Rs. 500 and only 12 per cent had saved more than Rs. 1,000. Similarly, of 578 members from Andhra Pradesh, more than 79 per cent saved less than Rs. 500, and the proportion of members with savings greater than Rs. 1,000 was less than 5 per cent.

In general, the amounts contributed by members were small, around Rs. 500. The total amount of savings by an individual member in a group, of course, depends on the total duration of the stay and the amount of savings fixed by each of the groups. Hence, the actual and expected amount of savings is arrived at by using the following method. The expected amount of savings is the amount that a member should have saved in a given time considering her/ his period of stay in the group. Thus, based on the minimum amount of savings fixed by the group and the period of stay by a member, the amount that each member should have saved is obtained. The actual amount of savings is nothing but the total amount of savings by a member as on date of survey. Cases, where the difference between these two figures is zero or less than 50 per cent, are treated as those having no difference. Cases where the difference is very huge are treated as those having 'very big difference' between the actual and estimated amounts of savings.

Tables 3 and 4 show that in the case of 37 to 41 per cent of members in NGO programmes in Kerala and Andhra Pradesh, the difference was big or very big. This is also confirmed by more recent studies. In one of micro-finance programmes in Andhra Pradesh, the actual amount of savings in a month ranged between Rs.11 and Rs.17 as against the prescribed amount of Rs.20 to 30 during the period 1997-99 in the case of 1,783 members (Rajasekhar 2001). The information, thus, reveals that the savings mobilisation was irregular.

**Table 3: Distribution (%) of Members by Actual and Estimated Amount of Savings in the Project Areas of Five NGOs in Kerala**

| Size of landholding (cents) | Difference between actual and estimated amount of savings (%) | | | | | Number of members |
|---|---|---|---|---|---|---|
| | None | Marginal | Small | Big | Very big | |
| < 25 | 44.0 | 7.3 | 10.8 | 25.8 | 12.1 | 520 (37.7) |
| 26 – 100 | 34.0 | 9.2 | 15.1 | 27.9 | 13.9 | 538 (39.0) |
| 101 – 200 | 33.3 | 18.1 | 18.6 | 20.5 | 9.5 | 210 (15.2) |
| 201 > | 42.5 | 16.8 | 17.7 | 17.7 | 5.4 | 113 (8.2) |
| All classes | 38.4 | 10.4 | 14.2 | 25.1 | 11.9 | 1,381 (100) |

**Table 4: Distribution (%) of Members by Actual and Estimated Amount of Savings in the Project Areas of Six NGOs in Andhra Pradesh**

| Size of landholding (cents) | Difference between actual and estimated amount of savings (%) | | | | | Number of members |
|---|---|---|---|---|---|---|
| | None | Marginal | Small | Big | Very big | |
| Landless | 40.2 | 8.5 | 15.6 | 11.6 | 24.1 | 199 (34.4) |
| 0.0 – 1.0 | 32.4 | 8.5 | 7.7 | 14.8 | 36.6 | 142 (24.6) |
| 1.0 – 2.5 | 42.5 | 8.2 | 13.7 | 16.4 | 19.2 | 146 (25.3) |
| 2.5 – 5.0 | 51.9 | 8.6 | 14.8 | 13.6 | 11.1 | 81 (14.0) |
| 5.0 and above | 60.0 | 10.0 | 20.0 | 10.0 | 0.0 | 10 (1.7) |
| All classes | 40.8 | 8.5 | 13.1 | 13.8 | 23.7 | 578 (100) |

The NGOs attributed irregular savings contribution to the following factors.

- The low level of profits from IGAs, undertaken by members, did not enable them to contribute regular savings.
- As the loans given by groups were small, the members were forced to borrow from outside informal sources. With high interest applied to such loans, the profitability was eroded, and thus, their ability to save was reduced further.
- Members with tiny landholdings and uncertain employment, found it difficult to make regular savings.

Thus, according to NGOs, the problem of irregular savings contribution was more due to adverse economic conditions of the member households. This is also supported by Tables 3 and 4 which indicate that the proportion of members in whose case the difference was big or very big was around 38 in the case of poor as against 10 to 23 per cent in the case of the better-off. An attempt to correlate the actual amount of savings with size of land holding did not, however, provide statistically significant results. This suggests that poverty alone was not an important reason for irregular savings mobilisation, and that there were other contributing factors.

1. Savings were linked to expectations. The amount of members' savings depended on their expectations of whether they would be able to get credit or not. In Andhra Pradesh, while facilitating savings mobilisation, it was not continuously emphasised that contributing savings would be to the members' advantage. However, often the NGO staff, in their eagerness to form groups and induce members to start savings, promised several benefits (such as housing, bank loan for livestock animals etc) once the members commenced savings. This had an adverse impact on savings mobilisation. According to members in these groups, they were promised benefits if they contributed savings for a given period. When these were not provided, they stopped saving.

2. Members gradually lost interest in contributing savings in programmes where interest rates were not paid or were low.

3. Women members were unable to make independent savings. Women members from several groups stated that they depended upon their men-folk to save as they had to wait until their husbands gave them money.

4. Members depended heavily on rapport with NGO staff to contribute their savings. One of the groups which had stopped making savings for a long period attributed this to a high turnover of the staff.

5. There was lack of reciprocity. In the absence of an effective consumption credit source at the village level, and delays in obtaining loans from groups, members did not develop the confidence to contribute all their savings.

## Credit Operations

Micro-finance groups improve access of the poor to credit. Lending to a group member is less risky because of peer selection, which, in turn, takes care of problems posed by adverse selection. Ghatak (1999) shows that the group-lending contract provides a way to charge different effective fees to risky and safe types, and such differential charges make risky types come together in one group, while the safe types join together in another group.

Access to production credit enables them to undertake IGAs through which poverty could be reduced (Rajasekhar 2000 and 2002a). Credit to poor households in a group is considered to be less risky because of peer monitoring. Borrowers in each group have the ability to enforce contracts between one another, and they jointly decide which types of activities to undertake. By fixing higher joint-liability payment for risky types, the group influences the members to choose the safe activity (Stiglitz 1990). Through exploiting the ability of neighbours to enforce contracts and monitor one another, the micro-finance groups can offer low interest rates on loans and raise repayment rates.

Repayment rates are expected to be high in micro-finance groups having dynamic incentives such as each successful repayment leads to larger future loan amounts (Besley 1995). This improves the information between the group and members (thus screening out the worst borrowers before the loan size is increased), and contributes larger loan amounts and higher repayment. Repayment is also expected to be higher because group-lending programmes influence the members to commit weekly or monthly repayment immediately after a loan is disbursed. Regular repayments give early warnings on emerging problems, to screen out undisciplined borrowers, and allow the group to get hold of cash flows before they are consumed or otherwise diverted. Repayment rates are known to be high despite the fact that no explicit collateral exists in the group. These groups go for collateral substitutes such as savings linked to credit and group assurance on repayment. High repayment in micro-finance groups implies higher potential for financial sustainability and ability to serve the poor in the long run.

It is believed that the micro-finance programmes help the rural poor to address their problems in undertaking IGAs such as inadequate access to skills, raw-materials and marketing. Since these groups consist of people with similar characteristics, they realise the need to pressurise the system for changes in policies and delivery mechanisms through

lobbying and advocacy (Olson 1994). Federations of micro-finance groups (at gram panchayat, taluk and project levels) help the poor not only in negotiating with the market and other suppliers of critical inputs but also in accessing them at reduced costs. Through appropriate inputs aimed at building capacity, such groups can access services (extension, subsidised inputs, etc.) from other development actors such as line departments. The rural poor also learn how to select viable and feasible IGAs, and acquire skills in business operations.

With this theoretical background, let us now turn to the selected NGO programmes. In the initial stages, only members' savings were used to meet the credit needs of members. As the amount of the revolving fund consisting of only members' savings was small, the programmes could mainly meet only consumption credit needs. The NGO programmes, in varying degrees, have accessed funds from donors and banks through agencies such as NABARD and RMK. The total amount of credit fund available varied from as low as Rs. 0.72 lakhs in RASTA to as high as Rs. 188 lakhs in Grama Vikas (Table 5).

Decision making on loans differed on the basis of which of the sources of the revolving credit fund was used. A member wanting to take a loan would submit an application to the group leader. The group considered the application on the basis of criteria such as ability to repay, savings contribution and attendance at meetings. The group itself would make the decision of whether the loan was to be sanctioned out of members' savings. Otherwise, it made recommendations to the NGO or federation of SHGs. Every loan was to be guaranteed by two other group members. In some programmes, the guarantors could take a loan before some part of the loan was repaid, while in others they had to wait until the first member repaid the entire loan. In most of the programmes, a member could take a second loan only after the first loan was repaid. In some cases, a second loan was given for emergencies relating to health, etc.

Across the project areas, the minimum loan amount varied from as low as Rs. 50 to Rs. 1,000. The maximum loan amount was not more than Rs. 10,000. The maximum loan amount of Rs. 5,000 to Rs. 10,000 was more of an exception rather than the general rule. The average loan amount for all types of loans was around Rs. 1,500 in the case of most of the NGOs. The annual lending rates varied from as low as 12 per cent to as high as 24 per cent. The interest rates, which were decided by the NGOs in most of the cases, were close to market rates (Table 5).

**Table 5: Credit Operations of the NGOs**

| Sl. No. | NGO | Reference period | Total amount Total of credit fund (Rs) | Rate of interest per annum | Minimum amount of loan | Maximum amount of loan | Credit (%) going to | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Con- tion | Agri- sump- ture | Live- cul- | Non- stock acti- vities | Others farm | |
| **NGOs from Andhra Pradesh** | | | | | | | | | | | | |
| 1 | ACTION | 1993-97 | 842,801 | 24 | 800 | 800 | 5.3 | 41.7 | 27.8 | 24.6 | 0.6 | 100 |
| 2 | ACTS | 1992-95 | 1,335,589 | 24 | 500 | 2,500 | 0 | 51.8 | 27.7 | 20.5 | 0 | 100 |
| 3 | BCT | | | 24 | 300 | 5,000 | | | | | | 0 |
| 4 | CRDS | 1992-95 | 1,321,100 | 24 | 300 | 3,500 | 54 | 32.4 | 4.6 | 7.9 | 1.1 | 100 |
| 5 | DDS | 1992-97 | 2,444,176 | 12 to 24 | 500 | 7,000 | | | | | | 0 |
| 6 | GVS | 1992-95 | 1,108,100 | 18 | 1,000 | 5,000 | 0 | 19.9 | 61.3 | 18.8 | 0 | 100 |
| 7 | MARI | 1992-95 | | 24 | 300 | 3,000 | 45 | 40 | 7 | 8 | | 100 |
| 8 | MEM | | | 15 | 500 | 5,000 | | | | | | 0 |
| 9 | Outreach | 1994-96 | 1,179,000 | 24 to 36 | 100 | 1,600 | 57.9 | 21.7 | 11.5 | 0 | 8.9 | 100 |
| 10 | PAS | 1992-96 | 713,377 | 24 | 300 | 6,000 | 14.2 | 32.7 | 29.9 | 18.7 | 4.5 | 100 |
| 11 | POOR | | | 24 | 100 | 4,000 | | | | | | 0 |
| 12 | SSS | 1996-99 | 3,155,568 | 24 | 500 | 5,000 | 16.8 | 12.6 | 45.0 | 16.8 | 8.8 | 100 |
| **NGOs from Kerala** | | | | | | | | | | | | |
| 13 | Dale View | 1993-96 | 5,400,000 | 12 to 24 | 1,000 | 5,000 | | | | | | 0 |
| 14 | MDS | | | 12 to 15 | 500 | 10,000 | | | | | | 0 |
| 15 | Shreyas | 1992-95 | 13,927,000 | 12 | | | 38.3 | 25 | 7.7 | 29 | | 100 |
| 16 | WWA | 1994-95 | 106,987 | 12 | 50 | 3,000 | 24.3 | 27.1 | 5.2 | 0.6 | 42.8 | 100 |
| 17 | RASTA | 1994-95 | 71,780 | 24 | 100 | 3,000 | 30.4 | 35.1 | 14.8 | | 19.7 | 100 |
| **NGOs from Karnataka** | | | | | | | | | | | | |
| 18 | GRAMA | 1993-2000 | 45,959,340 | 24 | N.A | N.A | N.A | N.A | N.A | N.A | N.A | N.A |
| 19 | Gram Vikas | 1994-2000 | 18,850,798 | 24 | 1,000 | 6,000 | 7.6 | 23.8 | 55.8 | 3.7 | 9.1 | 100 |

### *Purpose-wise Distribution of Credit*

The proportion of credit provided for consumption purposes was nil in a few programmes. In others, it varied from as low as 5.3 per cent in ACTION to as high as 57.9 per cent in Outreach (Table 5). Very frequently, these loans related to purchase of foodgrains, and meeting the expenditure on health, education and social functions. Typically the loan amounts were small, around Rs. 450 in Kerala and Rs. 560 in Andhra Pradesh. The proportion of credit to consumption varied on the basis of age of the programme. In relatively new programmes, the credit given for consumption was high, while it was generally low in the older and larger programmes. Though there was considerable demand for consumption credit, the older programmes were unable to meet the demand because of the following reasons. First, the members would have borrowed larger sums for income generation, the repayment of which naturally takes a long time. Since these programmes had the rule that a member with an outstanding loan on her name could not take a fresh loan, the consumption credit needs were not met. Second, there was mistaken notion that micro-finance programmes should not support consumption loans, which were considered to be unproductive.

Credit for agriculture accounted for the bulk of the total amount lent in a few programmes where the members happen to be farmer households. The proportion varied from as low as 19.9 per cent in GVS to as high as 51.8 per cent in ACTS. The average amount of loans was Rs. 1,200 in Kerala NGOs and Rs. 1,439 in NGO project areas from Andhra Pradesh.

Credit for livestock accounted for a significant proportion of the total loan amount in most of the NGO programmes. The proportion varied from as low as 4.6 per cent in CRDS to as high as 55.8 per cent in Grama Vikas. Even in the largest programme such as Grama Vikas, the livestock sector accounted for 55.8 per cent of the total loan account disbursed during the period 1994-2000. The importance of livestock in this programme can be attributed to the developed infrastructure for dairying activity in Kolar District and support provided by NABARD in the linkage programme (Rajasekhar 2002b).

In comparison to credit to agriculture and livestock, the credit to non-agricultural activities (petty business, small trade and services) was less. The proportion was nil in the case of one NGO, less than 10 per cent in the case of three NGOs, between 10 and 25 per cent in the case

of five NGOs, and 29 per cent in the case of one NGO. This information, thus, reveals that only a small proportion of credit was given for non-farm activities.

## *Spread and Reach of Credit*

The NGOs in Kerala that we studies had not succeeded in providing credit to a majority of their members. Out of 1,381 borrowers in the selected groups, over 62 per cent had not taken loans even once (Table 6). Out of 578 members in 17 groups in Andhra Pradesh, as many as 36.5 per cent had not taken even one loan and one-third of the members had only received one loan. Only 9 per cent of members had taken more than four loans since joining a group. Across the State, over 40 per cent of the landless had not borrowed at all from the groups.

**Table 6: Spread and Reach of Credit Programmes in Kerala and Andhra Pradesh**

| Number of loans taken from the group since inception | Members (%) from Kerala NGOs | Members (%) from NGOs in Andhra Pradesh |
|---|---|---|
| None | 62.2 | 36.5 |
| One | 28.2 | 33.9 |
| Two | 7.9 | 12.6 |
| Three | 1.4 | 8.5 |
| Four or more | 0.4 | 8.5 |
| All | 1,381 (100.0) | 578 (100.0) |

## *Repayment of Loans*

The Kerala NGOs incorporated certain mechanisms, such as linking savings to credit, to encourage prompt repayment. The ratio of saving to credit varied from 1:0.9 to 1:5. The NGO that had the lowest proportion of overdue payments followed the practice of a high ratio of savings to credit. Second, the leaders or NGO staff were made responsible for the number of repayments. They were supposed to keep regular contact, hold meetings with borrowers and provide awareness of the importance of prompt repayment. One NGO made the Executive Committee provide a repayment guarantee and obtained assurance for prompt repayment and correct loan utilisation. The committee utilised non-financial meetings to raise awareness of the need to repay on time so that other people

could receive credit, and this was found to be effective. Another NGO stated that repayment was ensured through house visits by the office bearers, community organisers and ward leaders. Another approach was to obtain collateral from two other members and promissory notes from borrowers.

Information collected from the sample micro-finance groups was used for an analysis of repayments. Table 7 shows that the proportion of overdue accounts ranged from as high as 44.74 per cent, in one area, to as low as 2.01 per cent in another area. So, the proportion of repaid loans ranged from as high as 97.99 per cent to as low as 55.26 per cent. Of the total overdue accounts, bad loans (i.e., loans due for six months) ranged from 40 per cent in one area to 100 per cent in another.

Of the total of repaid loans, over 91 per cent were repaid on time (Table 7). However, in a couple of areas, the loans were repaid very late. The fact that the repayment was high in the area where the ratio of savings to credit was very low (1:0.9) suggests that the savings linked to credit principle was a successful instrument in ensuring repayment. It was because of the conservative savings to credit ratio that even irregular repayment of loans was tolerated here. The chief of this NGO stated that 'we are not worried about repayment; in extreme cases, we adjust savings amount to defaults'.

**Table 7: The Proportion of Overdue Accounts, in NGOs from Kerala, December 1995**

| NGO | Total loans | Loans overdue (%) | Distribution of bad debts (%) | | Distribution of repaid loans (%) | | |
|---|---|---|---|---|---|---|---|
| | | | 6 months or less | More than 6 months | Repaid on time | 30 days after due date | More than 30 days after due date |
| NGO 1 | 196 | 24.49 | 60.41 | 39.59 | 100.0 | 00.00 | 0.00 |
| NGO 3 | 19 | 21.05 | 0.00 | 100.00 | 100.00 | 0.00 | 0.00 |
| NGO 4 | 149 | 2.01 | 66.67 | 84.93 | 84.93 | 2.74 | 12.32 |
| NGO 5 | 38 | 44.74 | 100.00 | 66.67 | 66.67 | 9.52 | 23.81 |
| All | 402 | 17.91 | 66.66 | 91.21 | 91.21 | 1.82 | 6.96 |

*Note:* Figures for NGO 2 were not available.

The NGOs from Andhra Pradesh had built in certain repayment mechanisms into the programmes. The principles of savings linked to credit and collateral security were supposed to build social control

mechanisms in the groups, and enable prompt loan repayment. A larger proportion of loans were given for crop production and petty business with the logic that the repayment period was shorter, and monthly repayments were possible. Another repayment mechanism was the insistence on repayment capacity when selecting borrowers. In addition, staff members were held responsible for loan utilisation and repayment.

These mechanisms did not have much of an impact on repayments. Across the project areas, over 46 per cent of loan accounts were overdue (the proportion varying from 14 to 79.71 per cent). Of these overdue accounts, the proportion of bad debts (i.e., over six months old) was more than 76.23 per cent (Table 8).

Even those loans that were repaid were not done so on time. Across the project areas, over 32 per cent of loans were repaid 30 days after the due date and in one programme the proportion was as high as 78.47 per cent. One of the NGO leaders attributed this to a lack of members' participation in the decision-making process and was aiming to make positive changes in order that the groups took responsibility in repayment. Another NGO leader wanted to initiate measures to increase the role of group leaders in collection of savings and repayments. Another NGO leader attributed low repayments to poor follow-up by staff due to a lack of adequate staff and transport for them to visit the villages regularly.

**Table 8: Proportion of Overdue Accounts in Sample Villages across NGOs from Andhra Pradesh**

| NGO | Total loans | Loans overdue (%) | Distribution of bad debts (%) | | Distribution of repaid loans (%) | | |
|---|---|---|---|---|---|---|---|
| | | | 6 months or less | More than 6 months | Repaid on time | 30 days after due date | More than 30 days after due date |
| NGO 1 | 41 | 31.71 | 0.00 | 100.00 | 50.00 | 39.29 | 10.71 |
| NGO 2 | 36 | 13.89 | 100.00 | 0.00 | 77.42 | 22.58 | 0.00 |
| NGO 3 | 67 | 55.22 | 37.24 | 62.16 | 73.33 | 3.33 | 23.33 |
| NGO 4 | 32 | 25.00 | 100.00 | 0.00 | 79.17 | 0.00 | 20.83 |
| NGO 5 | 20 | 20.00 | 0.00 | 100.00 | 100.00 | 0.00 | 0.00 |
| NGO 6 | 69 | 79.71 | 1.82 | 98.18 | 21.43 | 0.00 | 78.47 |
| All | 265 | 46.04 | 23.77 | 76.23 | 68.53 | 13.29 | 18.18 |

# Micro-Finance and Poverty Alleviation: Some Issues

## Group Formation Process

Ideally, groups should be formed after assessing the situation and needs of the target group. This will enable the intervening agency (government, banks and NGOs) to determine the needs of the poor and facilitate activities accordingly. This will also help the intervening agencies to form groups for the poorest and the poor, and undertake activities which are most needed for these sections. However, this is often not done for the following reasons.

In order to assess the situation of the target group members and the needs that they have, costs in terms of time and resources (funds, capacity, etc) are normally high. The trends suggest that the donors and the government do not support the intervening agencies in this regard. For instance, the World Bank stipulated that Rs. 10,000 would be provided for a period of five years to form and nurture a micro finance group in one of the micro-finance programmes implemented in six states in India. This includes salaries, training, transport, stationery etc. The NGOs complain that this amount is insufficient to assess the situation, needs of the target group, provide training etc., and make the groups strong, especially in those tribal and inaccessible regions where transport facilities are not developed and it is expensive to reach the target group. On the other hand, the government agencies suggest that only Rs. 4,000 is sufficient for formation and consolidation. Second, there is also an attempt to fix the time needed to form and consolidate the group (such as six months for formation, one year for development and another six months for consolidation and withdrawal). Fixing such time schedules, without taking regional specificities into consideration, has had an adverse impact on the quality of the groups formed as the intervening agencies normally fixed targets for the staff to form and strengthen the groups. This is much worse in the case of groups formed by the government where target chasing, inadequate human resources and lack of capacity have resulted in the formation of a large number of groups (Rajakutty 1997; Dasgupta 2001: 384), but where quality in terms of homogeneity, shared understanding among members and incentive structure has suffered.

Target chasing and fixing of time-frame have also influenced the intervening agencies to target the non-poor who normally have better capacity to save, obtain and utilise credit, and bear the costs of the programme, in the event of withdrawal. It is not, therefore, surprising

that the evidence presented in the paper shows that the micro-finance programmes consist of a few poorest and some poor. The proportion of non-poor in these groups range from a few to a very significant number. Given that the micro-finance programmes are meant for the poor and the development funds are diverted to these programmes at the expense of those on direct poverty alleviation (especially so in the case of government programmes), the issue of who has access to these development funds becomes important.

## Savings and Credit

The small amounts of savings contributed by members had the following impact on poverty. First, as the amount of savings only consisted of less than 10 per cent of the annual household income, they did not provide any security for the members. Second, due to the rigid application of the savings linked to credit principle, the maximum amount that could be received ranged only from Rs.450 to Rs. 2,500 for half of the members in Kerala. These amounts did not provide the opportunity to undertake an activity which would bring the household out of poverty[9].

Savings amounts also did not grow because of tensions between financial and institutional sustainability. One NGO fixed savings amounts without assessing the saving capacity of its members. Soon it was obvious that it was difficult for these amounts to be contributed. The NGO could not reduce these amounts as it required large amounts of savings to provide the credit facility, and there were better-off members in the groups who could contribute the amount required. The NGO, therefore, decided instead to introduce the facility of withdrawing savings for consumption. This resulted in about 50 per cent of the members having savings of less than Rs.200. So, although the programme was able to provide savings for consumption, it was not able to provide larger loans to its poorest members. Nearly 60 per cent of the programme's members had not borrowed even once since the inception. The better-off members who could contribute savings without needing to withdraw them mainly used the loan facility. This NGO even deposited the donor's grant in a bank on the grounds that there was insufficient demand for loans.

The field reality is somewhat different. A study on savings needs among 121 households, having membership in micro-finance groups for a period of 3-10 years, in five districts in Karnataka and Orissa comes up with interesting results on the extent to which the members' credit needs have been met. As far as the expenditure on marriages in the last five years was concerned, only 6 per cent of total expenditure was met from

SHGs, while around 47 per cent was met through borrowing from moneylenders, chit funds and others. Between 9 and 16 per cent of the expenditure was met by way of selling assets. The situation was even worse in the case of health and other emergencies. SHGs met between 5.5 and 10.8 per cent of expenditure on emergencies in the last three years. Moneylenders and others met between 28.8 and 71.6 per cent of the expenditure. A similar picture is obtained with regard to other needs such as education and house construction repairs. These results are interesting given that these households have had SHG membership for a long period. The results suggest that the micro-finance programmes have limitations in meeting the credit needs of the member households, and that they continue to depend on moneylenders and resort to extreme situations like selling of assets when it comes to important life cycle needs (Rajasekhar 2002b).

## Access to Production Credit

The vast majority of income generation loans were small. In one programme, 29 women were given credit to buy poultry with an average loan of Rs.308. With this amount, each women obtained and reared 5-6 chicks. One woman stated that she would like to expand to 50 chicks, but that in order to do so she would need a larger loan. The micro-finance group turned down her request because of her low savings amount. Six women in another project area each obtained approximately Rs.945 for goat rearing. One woman had brought two small goats and reared them for six months. According to her, the main benefit was the ability to keep one goat after repaying the loan and also having the proceeds of the sale of the other goat. However, in these cases, the incomes or profits from these activities only formed a small proportion of the total household income. Furthermore, these activities were undertaken as supplementary or additional livelihood strategies. The discussion also suggests that the loans were only used for one of several livelihood strategies and that they could not alleviate poverty in a sustainable manner.

In Andhra Pradesh also, the average loans for income generation were very low (the average loan for cultivation being Rs.1439). With this amount, a member's family could only purchase a couple of fertiliser bags and seeds for cultivation. Petty business loans (the average of which was Rs.1,519) were mostly given for working capital expenses. This was not necessarily an insignificant contribution; the loans enabled the members to depend less on moneylenders, helped them to stabilise their business and to alleviate their poverty. However, this may not be sustainable.

The repayment capacity criteria in borrower selection resulted in providing nearly 60 per cent of loans for cultivation and livestock. This meant that only those members who had landed assets would come forward to receive loans. Thus, these savings and credit programmes were only able to meet the credit needs of better-off members or those who took part in some non-agricultural activity. Landless members who did take loans did so predominantly for consumption and to a lesser extent for livestock and petty business.

Even if some of the poor want to undertake IGA, there do not seem to be opportunities. Women's income earning opportunities were constrained in most of the villages covered by NGOs. Most of the villages are small and depend on large villages and towns for marketing their produce and purchasing of essentials. The possibility of starting small business, trade and services in such villages is, therefore, limited. Faced with this kind of situation, some of the NGOs even manoeuvre to include non-target group and non-target areas to meet the donor expectations (Box 1). As there were few opportunities other than agriculture, members, especially women, found it difficult to formulate viable proposals on non-farm activities.

**Box 1: Difficulties faced by an NGO in finding viable non-farm activities**

One NGO, which has been working for the uplift of tribals in a district in Andhra Pradesh, obtained revolving credit fund specifically for promoting non-farm activities in 18 tribal villages from a donor. In these tribal villages, the households are familiar with only adda-leaf making; but, the marketing potential was poor with the villages dispersed, cut off from the nearby town (especially during the monsoon) and tribal co-operatives not functioning in these areas. Hence, it provided training in small business and trades, and dispersed credit to the first batch of 800 members for these and livestock the revolving credit fund. Hence, it included a small town in its project area, and provided credit to the already well-established business enterprises (with the help of banks etc.) in this town. The donor took objection to this and withheld the last instalment of the revolving credit fund, on the grounds that the NGO should have worked towards removing marketing bottlenecks for adda-leaf making in co-operation with the government agencies rather than going to the town which was not ncluded in the original proposal.

Some of the NGOs encouraged the target group to undertake IGAs, but met with disastrous results in so far as marketing of the products and income to the households was concerned (Box 2). Namerta's (1995) study reveals that most of the NGOs could only facilitate the undertaking of subsistence activities, and income from such activities was either equal to or less than the existing wage income. These activities made a difference to the people in so far as they could be undertaken during the lean season and that the problem of seasonal unemployment could, to some extent, be solved. Income from the economic activities promoted by the NGOs formed only a small proportion of the total income of the member families[10] .

**Box 2: Marketing problems of non-farm activities**

One NGO from Kerala encouraged a large proportion of the members in one of the villages to undertake basket making with the hope that the local co-operative would satisfy the needs relating to raw material supply and marketing of the finished produce. The members took up basket-making with the credit provided by the NGO. Soon, they started to face problems relating to both raw material supply and marketing of finished produce. Consequently, the incomes obtained were lower than the prevailing wage rates in the village, and this forced them to resort to this activity only as seasonal or supplementary work as they were doing for several years. Due to weak monitoring, the NGO did not come to know about these problems. When repayment became difficult for a large number of members, they realised the problem, but did not know what to do with raw material supply and marketing problems.

Since these programmes concentrate almost entirely on women, social conditions come in the way of women undertaking non-farm activities in general and income generating activities in particular (Box 3). A majority of the women noted that they do not have skills to undertake non-farm activities. The opportunities are also low as the non-farm sector is segmented along caste and gender lines.

**Box 3: Constraints for women to undertake IGAs**

A Muslim woman from one of the NGO project areas has been a SHG member for over 2 years. Although eligible to take a group loan, she has not availed of it because: (i) livestock rearing activity is not feasible as the household does not own a place to keep livestock; (ii) opening a petty shop is not possible as she does not have any male support. Her husband, an alcoholic, cannot be trusted to bring provisions from the wholesale market, or to run the business; (iii) she cannot run the business because societal sanctions come in the way of her going to market on her own or sitting in the petty shop.

Some of the NGOs are conscious of the fact that there are several factors which constrain women and the poor from undertaking non-farm activities. Some of the NGOs managed to obtain funds for building the capacity of members to enable them to undertake feasible and viable non-farm activities, develop business plans, and prepare them to face problems related to raw materials and marketing. Notwithstanding these, the experience at the ground level is somewhat different. First, there is paucity of funds for undertaking 'credit plus' activities such as training in skills, marketing etc., as the donors do not often provide funds for these activities. Second, NABARD and SIDBI only provide funds for on-lending to the target group, and their support does not often include a capacity-building component. As a result, most of the micro-finance programmes provide credit for consumption and short-term production activities like financing crop production etc.

These factors resulted in a high proportion of non-borrowing members, most of whom happened to be women. These women stated that rules relating to the link between savings and credit, collateral requirements and rigid repayment schedules constrained them from borrowing from groups. Women felt that borrowing resulted in "sleepless nights" as the burden of repayment fell on them. In other households, with non-borrowing women, that borrowed from outside chit funds and finance corporations, the loan repayment responsibility fell on male household members.

## Notes

[1] In India, these groups are called Self-Help Groups (SHGs) although the concept is wider, and SHG is not the same as a micro-finance group.

[2] Given that the number of villages covered under the service area approach of the banks is around 15, one could suggest that these NGO programmes are two times larger than that of a normal bank branch in terms of area coverage.

[3] For instance, see Stiglitz (1990) and Rajasekhar (1996).

[4] This is also supported by several papers in the special issue of The Indian Journal of Agricultural Economics on Working and Impact of Rural Self-Help Groups and Other Forms of Micro Finance (Vol. 56. No.3, July-September, 2001).

[5] On the grounds that the leaders should be articulate, command respect and lead the group, and persons with these attributes do not get appointed if the process is left to the group members.

[6] Important requirements to ensure that the group members undertake collective action to further the interest of members as a whole (Olson 1994). However, larger and heterogeneous groups can do well if the incentive system is not distorted (Rajasekhar 1996).

[7] For instance, Namboodri and Shiyani (2001; 407) note, without presenting any empirical evidence, that the members in groups formed by banks and NGOs 'were the poorest of the poor'

[8] A member is allowed to withdraw savings and go out of the group in genuine cases such as migration. Otherwise, so long a person remains in the group, the savings will be within the group. If a member wants to withdraw and leave the group, she/he is not given interest amount on savings.

[9] In contrast, IRDP loan amounts were more than Rs.5,000 in most cases.

[10] Riddel and Robinson (1992) argue further that such an impact would be a barrier to the most fundamental structural changes in the ownership of principal productive assets, which are essential if significant economic and political changes are to occur.

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# MICRO-FINANCE AND POVERTY ALLEVIATION ISSUES REATING TO NGO PROGRAMMES IN SOUTH INDIA

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