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Savings-led Micro-finance to Bank the Unbankables: Sharing of Global Experience

A.N. Sarkar
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Based on the 'Grameen Bank Model' evolved and developed in Bangladesh, several countries in Asia, including India, and elsewhere in the world have emulated, replicated and modified the original model of micro-finance to suit local conditions and enhance mass acceptability. In India, among various models tried and tested, the one evolved and successfully demonstrated by the National Bank for Agriculture and Rural Development (NABARD) and some leading non-governmental organizations (NGOs), is based on a 'linkage programme' linking self-help groups (SHGs) with banks and other financial institutions through the intermediation of NGOs.

This article attempts to highlight the genesis and evolution of the micro-finance system, importance of self-help groups as central to micro-finance core activities, the distinctive role of banks (viz. commercial, private and cooperative) in credit mobilization and delivery systems and the role of NGOs intermediaries and facilitators, etc. Global experiences concerning the unique positioning perspective of micro-finance in banking the unbankables—both in the developing and underdeveloped economies in the world, with a focus on Asia, have also been highlighted to provide an insight into the potential of micro-finance in alleviating rural poverty at large and in improving employment opportunities to the non-bankables on a sustainable basis.

Introduction

Micro-finance by definition refers to the entire range of financial and non-financial services, including skill upgradation and entrepreneurship development, rendered to the poor for enabling them to overcome

poverty. In the context of designing programmes for the poor, micro-finance is recognized and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor, with special emphasis on empowering women (World Bank 1990).

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The operational framework of micro-finance, therefore, essentially rests on the premises that: (a) formation of a self-employment enterprise is a viable alternate means of alleviating poverty; (b) lack of access to capital assets/credit acts as a constraint on the existing and potential micro-enterprises; and (c) the poor are capable of saving despite their poor income level. In essence, therefore, micro-finance could be referred to as an institutional mechanism of providing credit support in small amounts which is usually linked with small groups along with other complementary support such as training and other related services to people with poor resources and skills to enable them to take up economic activities.

The publication of the *World Development Report* (The World Bank 2004), based on the World Summit on Micro-Enterprises and the Consultative Group to Assist the Poorest (CGAP), brought into sharp focus the extent of poverty prevalent both in under-developed and developing countries of the world and the need for developing appropriate strategies for alleviating poverty.

Micro-finance is gathering momentum to become a major force to alleviate rural poverty in India. The self-help group (SHG) model with a bank lending to groups of (often) poor women without collateral has become an accepted part of rural finance. With traditionally loss-making rural banks shifting their portfolio away from the rural poor in the post-reform period, SHG-based micro-finance, nurtured and aided by NGOs, has become an important alternative to traditional lending in terms of reaching the poor without incurring a fortune in operating and monitoring costs. The government and the National Bank for Agriculture and Rural Development (NABARD), despite several

initial shortcomings in conceptualization and implementation, have recognized this and have emphasized on the SHG approach and working along with NGOs in its initiatives. Over half-a-million SHGs have been linked to banks over the years but a handful of states, mostly in south India, account for over three-fourth of this figure with Andhra Pradesh being the undisputed leader. However in spite of the impressive figures, micro-finance in India is still too small to create a massive impact in poverty alleviation, but if pursued with skill and opportunity development of the poor, it holds the promise to alter the socio-economic face of India's poor.

In this article, an attempt has been made to develop a comprehensive understanding of the concept and genesis of micro-finance, its linkage with self-help groups, NGOs, the government and financial institutions and sharing some of the illustrative global experiences on the imperatives and effectiveness of micro-finance in enhancing financial sustainability especially of the rural poor of the developing economies, on a long-term basis to throw fresh insights, particularly in the context of agriculture and the SME sector to promote savings-led micro-finance to bank the unbankables.

Genesis and Evolution of the Micro-finance System

Viewed purely from a historical perspective, the origin of micro-finance can be traced to the beginning of the cooperative movement in Germany, where the movement was started in 1944 in the field of cooperative-based credit system by the Raiffeisen Societies, which was followed by Rochdale Pioneers in England. Similarly, the enactment of the

Cooperative Credit Societies Act, 1904 could be considered as the beginning of micro-finance movement in India.

Concern for weaker sections of society by providing access to credit was first expressed by the All India Rural Credit Review Committee (1966) when it made a categorical pronouncement that credit must be made more accessible to small farmers. In order to make credit readily accessible to small and marginal farmers, the setting up of special agencies such as the Small Farmer Development Agency (SFDA) in each of the states in the country was recommended. Based on the recommendation of the Committee, 45 SFDAs were established in as many number of districts during the 4th Five Year Plan.

Almost a decade later (that is, 1975), the Working Group on Rural Banks recommended the setting up of state-sponsored and regionally based rural banks—namely the Regional Rural Banks (RRBs). The RRBs are mandated to develop the rural economy by providing infrastructure and other facilities to agriculture, trade, industries and other productive activities in rural areas, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Because of a special focus on the weaker sections and a low-cost credit structure the RRB is also locally called the 'Grameen Bank' according to the RRB Act, 1976 and it acts as an important rural credit delivery system.

In the past, multiplicity of development programmes in the rural area failed to focus on the core issue of poverty alleviation through the creation of sustainable income generating opportunities, as also partially due to the failure of linking micro-finance beneficiaries with formal and informal financial institutions with the active involvement

and cooperation of viable partnership institutions/agencies as facilitators at the grass-root level. On the recommendations of the Hashim Committee, the government of India therefore restructured all the poverty alleviation programmes under a one-umbrella scheme the *Swarnjayanti Gram Swarojgar Yojana* (SGSY) from April 1999. The focus of the scheme, among other things, is on a group approach and organizing the poor into self-help groups (NABARD 2001). The national programme, *inter alia*, seeks to provide and create self-employment opportunities for economically disadvantaged rural poor in agriculture and in rural industrial and cooperative sectors by providing timely and adequate credit to small and marginal farmers, lease holders, landless labourers, small artisans, craftsmen and small and tiny manufacturing enterprises, etc.

Experiences of different anti-poverty and other welfare programmes implemented throughout the world have shown that the key to their success lies in the evolution and participation of community-based organizations at the grassroots level. People's participation in credit delivery and recovery and linking of formal credit institutions to borrowers through intermediaries of self-help groups (SHGs) have been recognized as a supplementary mechanism for providing credit support to the rural poor. With traditionally loss-making rural banks shifting their portfolio away from the rural poor in the post-reforms era, SHG-based micro-finance, nurtured and aided by NGOs, has become an important alternative to traditional lending in terms of reaching the poor unbankables. Over half-a-million SHGs have been linked to banks over the years, but only a handful of states, mostly in south India, account for over three-fourth of this figure

with Andhra Pradesh taking the lead. (Chakrabarti 2006). NABARD has been the pioneer in conceptualizing and implementing the concept of SHGs through the SHG-bank linkage programme since 1992. NABARD's efforts at improving access of the rural poor to the formal banking service through SHGs has gathered momentum over the years. The programme has registered a significant growth, both in terms of coverage and outreach of credit to the poor (Jayaraman 2001).

In pursuance of the proposal contained in the Union Budget 2000–01, a Micro-Finance Development Fund (MFDF) of Rs 1,000 million was established by NABARD with an initial corpus of Rs 800 million, contributed equally by the Reserve Bank of India and the National Bank—the balance was contributed by commercial banks. The funds are to be utilized for scaling up SHG-linkage programmes and supporting other innovative credit delivery models, keeping the following broad objectives in mind:

- Support financial services to the rural poor, particularly women, who have not been able to secure the needed services from the formal financial system.
- Provide lendable and capacity building funds in respect of SHGs and various types of other grassroots level micro-finance institutions.
- Support initiatives for up-scaling of SHG-bank linking programmes.
- Build-up expertise in micro-finance activities.
- Support evolution of regulatory and supervisory mechanisms for MFIs as and when required.

In recent years, several institutional models of micro-finance have been evolved in India

and elsewhere in the world, of which the prominent ones are SHG-led micro-finance with promotional support from financial institutions. Following the Grameen Bank Model of Bangladesh, several countries in Asia like the Republic of China, Indonesia, Thailand, Philippines and Taiwan have evolved self-reliant, replicable, sustainable and bankable micro-finance models. The common objectives of these models is to promote tiny, small and medium enterprises as also to lend support to poverty alleviation and socio-economic development programmes. The discussion that follows highlights these models, along with experiences of the intermediaries to advance the knowledge of microfinance.

SHGs: As Borrowing Units

SHGs form the basic constituent unit of the micro-finance movement in India. An SHG is a group of a few individuals—usually poor and often women—who pool their saving into a fund from which they can borrow as and when necessary. Such a group is linked with a bank—a rural, cooperative or commercial bank—where they maintain a group account. Over time, the bank begins to lend money to the group as a unit, without collateral, relying on self-monitoring and peer pressure within the group for repayment of these loans.

The Role of NGOs in Micro-finance

SHGs are almost always formed with outside direct financial assistance. Development NGOs, often with considerable history of working in a particular area for projects like socio-economic programmes, literacy and

sanitation, take the tacit task of organizing SHGs, bringing together people, explaining the concept to them, attending and helping coordinate a few of the initial group meetings, helping them maintain accounts and linking them with banks. Of late, some of the rural banks are being designated as Self-Help Promoting Institutions (SHPIs) and they help in the formation and nurturing of SHGs. (For example, Andhra Bank, Saraswat Cooperative Bank, Regional Rural Bank and District Central Cooperative Banks)

Over the last quarter of a century, a few organizations outside the purview of the public sector, have succeeded in effective poverty alleviation through micro-credit. Self-Employed Women's Association (SEWA) in the western Indian state of Gujarat and the Working Women's Forum (WWF) in the southern state of Tamil Nadu are among the pioneers in this effort. The sector received a major boost in the 1990s with the entry of several NGOs. Many of these NGOs, previously functioning in different developmental roles among the poor, have now added micro-credit to the list of services that they provide. A few others, impressed by the success of micro-finance elsewhere have started off as MFIs. Self-help groups (SHGs) among the poor, mostly women, have rapidly become a common rural phenomenon in many Indian states. NGOs provide the leadership and management necessary in forming and organizing group activities in most cases. They also act as the crucial link between these groups and the formal banking system. Presently, well over 500 NGO-MFIs are actively engaged in micro-finance intermediation across the country.

Linking SHGs to the Informal Rural Banking Sector

The main advantage of self-help groups lies in their joint liability and the consequent 'peer monitoring' of member borrowers. In association with sponsoring NGOs, they serve to reduce the transaction and monitoring costs of small lendings for the banks and also help in reaching credit to the absolute poor. Several alternative models of the SHG-NGO-bank relationship have emerged in recent years. One such model is where the bank lends directly to the SHG and the latter further lends to individual members. As a variant of this model, an NGO may provide training and guidance to the SHG, still dealing directly with the bank. This has been the most popular model in the Indian context. Alternatively, the NGO itself may act as an intermediary between the bank and the SHG, borrowing from the bank and lending it to (usually multiple) SHGs. Yet another conceived model involves the bank lending directly to the individual borrower with the NGO and the SHG assuming an advisory role. Here, the NGO assists the bank in loan monitoring and recovery. Some international NGO-led programmes having linkages with bank finance include (Hari Srinivas 2005):

Anadeges, Mexico

- **Type of Organization:** National network of NGOs
- **Target Group:** Small farmers
- **Activities:** Partnership promotion activities including credit for micro-projects within the target group
- **Objective/Future plan:** Link up with the formal bank system

Congat, Togo

- **Type of Organization:** NGO
- **Target Group:** Self-help group of small farmers and craftsmen
- **Activities:** Technical consultancy; promotion of institutions; credit programmes
- **Objective/Future plan:** Work with external governmental donor organizations

Cooperative Consumer Society, Mexico

- **Type of Organization:** Cooperative self-help organization
- **Target Group:** Small farmers
- **Activities:** Integrated cooperative concept
- **Objective/Future plan:** Work with Consumer Cooperatives

Cooperative Credit Programme, Philippines

- **Type of Organization:** Cooperation project between the Philippines and German NGOs
- **Target Group:** Independent self-help organizations, cooperatives
- **Activities:** Consultancy and financing of small agricultural projects and cooperatives
- **Objective/Future plan:** Work with international donor organizations

Quedan-Guarantee Fund, Philippines

- **Type of Organization:** Government organization
- **Target Group:** Enterprises and farming cooperatives
- **Activities:** Distribution of guarantees for loans

- **Objective/Future plan:** Work with international donor organizations

Bpb-Gapi, Mozambique

- **Type of Organization:** Cooperation project between a development bank and an NGO
- **Target Group:** Small business
- **Activities:** Technical consultancy; distributions of credit; establishing political linkages with the government organizations
- **Objective/Future plan:** Work with international donor organizations

The *State of the Microcredit Summit Campaign Report* (Daley-Harris 2002) brought out the following achievement reports of some of the lead NGOs in the micro-finance sector: PACT's Women's Empowerment Programme (WEP) in Nepal operated through 6,500 groups with 130,00 women members. These groups mobilized nearly \$ 2,00,000 of assets in less than three years with 94 per cent on loan to 45,000 group members. By mid-2001, WEP had as many outstanding loans as CARD in the Philippines and Compartamos in Mexico, two very well-known 'credit-led' micro-finance institutions, while working through the three times as many groups. In addition, 65,000 group members learned to read through PACT innovative curriculum that focused exclusively on managing a group, starting a business and women's empowerment.

WEP was implemented by 240 partners (most of them local NGOs) who were responsible for recruiting the groups and monitoring their performance. Local partners were working with almost all the 6,500 groups within 60 days of start-up, showing how

quickly NGOs with their detailed knowledge of local communities can build a programme if provided good training and support.

CARE's *Mata Masu Dubara* (Women on the Move) is serving 162,128 women organized into 5,654 stand-alone groups in the rural areas of Niger, one of Africa's poorest countries. These groups managed \$ 3,000,000 of savings with virtually all of it on loan to members. Five hundred trainers selected by their communities and trained by the CARE staff monitor the groups and develop new ones. The group members themselves pay for these services. Sustainability, then, is achieved through fees paid by the groups, rather than interest charged by an MFI.

According to the *State of the Microcredit Summit Campaign Report* (Daley-Harris 2002), the *Mata Masu Dubara* (MMD) is the second largest micro-finance initiative in Africa, and very likely the only one that depends entirely on internally generated group controlled savings. Costs per client were estimated between \$ 18 to \$ 25 when training is carried out by the CARE staff, but dropped to \$ 3 per client when local facilitators do the training.

Indian NGOs have created at least one million self-help groups with 17,000,000 members since the self-help group concept was developed by MYRADA in the late 1980s. India is unique in that banks are permitted to lend directly to unregistered self-help groups and by May 2001, banks and cooperatives had financed 461,478 of these groups, with almost 200,000 new self-help groups financed between May 2000 and May 2001, indicating the accelerating process of expansion. NABARD trains the banks and refinances their loans. The key to NABARD's success is decentralization. Responsibility for group development and training is devolved to NABARD's 2,100 NGO partners and

almost 450 banks and cooperatives provide banking services to the groups. According to the *Microcredit Summit Report*, 2,663,901 of the 6,651,701 active members of the groups financed through NABARD (mostly women) were categorized as 'the poorest', making NABARD the largest micro-finance initiative in Asia, with the Grameen Bank a close second (Chakrabarti 2006).

Showing that savings-led micro-finance is not only an Asian and African phenomena, the Mexican government too has underwritten the training of 540 Community Savings Funds with 12,800 members since mid-2000 and plans to expand this number to 20,000 groups with 600,000 members over the next several years. Considering that only 4 per cent of the 8 million economically active population living in the rural areas of Mexico has access to financial services from banks, non-bank financial institutions, or government agencies, the potential to develop this market niche is great. (There is likely to be a similar demand for these services in other poor Latin American countries.)

'*Ashrai*' is getting good results with a savings-led model among the minority people in north-west Bangladesh. Group members are mostly landless and illiterate, and earn about \$ 50 per year. '*Ashrai*' began fieldwork ten years ago by replicating the Grameen Bank, but rapidly learned from its clients that they needed savings at least as much as loans, flexible repayment schedules structured around seasonal cash flow and the easing of the requirement that loans be for productive purposes. '*Ashrai*' operates through 3,100 groups with 55,000 women members, who have saved nearly \$ 1 million of their own capital base, its vulnerability to land loss, drought and moneylenders was dropped dramatically and members are investing

more in productive activities and the education of their children. They hire and oversee their own bookkeeper and manage their finances without external support. It cost *Ashrai* \$ 18 per member to support group development during the incubation period, considering all costs (Ashe 2005).

Micro-finance Initiatives: National Scenario

In terms of improving the outreach of the rural formal banking system, NABARD's major success has been through the SHG-bank linkage programme. A series of research studies conducted by NABARD during the early 1980s, showed that despite the wide network of rural bank branches and specific poverty alleviation programmes, a very large proportion of the poor, especially the women, remained outside the fold of the formal banking systems. These studies also showed that the existing banking policies, systems and procedures and deposit and loan products, were not well suited to meet the most immediate needs of the poor. The fact is that the modern banking system was perhaps not designed keeping in view the 'very poor'. The system needed some 'motivation'. Thus began a search for alternative policies, systems and procedures, savings and loan products, other complementary services and new delivery mechanisms, which would fulfil the requirements of the poorest households (NABARD 1996). It would be relevant to recall that some of the lead NGOs such as the Cooperative Development Foundation, MYRADA, SEWA, SHARE, APMAS, SADHANA and PRERANA had profusely contributed to promoting and popularizing the concept of micro-finance at the grass-root level, prior to NABARD'S initiative.

Many research studies done in-house as well as from external professional institutions and some action research projects funded by the Research and Development Fund of NABARD, led to the development of the SHG-bank linkage model. It needs to be emphasized that NABARD sees the promotion and bank linking of SHGs not as a credit programme, but an innovation, which could also lead to the overall empowerment of the members of these SHGs (Nanda 2000).

Nonetheless, the initial years of experimentation by NABARD to link banks with SHGs suffered serious setbacks in terms of expansion of a client-base on the one hand and recovery of loans as well as sustainability of micro-finance initiatives on the other. These initial shortcomings were diagnosed through carefully conducted in-depth research studies by the Department of Economic Analysis (DEAR) of NABARD. The lessons learnt and experience gained from these studies paved the way for roping in NGOs to act a bridge between the savings-led SHGs and the banks for the expansion of the micro-finance programme at a rapid pace. For instance, initially NABARD did not recognize DWARKA groups as being eligible for being a part of the SHG linkage programme. The government of Andhra Pradesh made a special drive and raised the issue at SLBC and succeeded in getting the DWARKA group included in 1998–99. Till date, 150,414 SHGs have been formed out of a total of 395,000 SHGs in Andhra Pradesh under the DWARKA programme for micro-finance development by building a total corpus of Rs 1043 billion.

NABARD'S micro-finance initiatives yielded remarkable success and the SHG-bank linkage programme has emerged as the

largest micro-finance (MF) programme in the world. The pilot project of micro-finance that started in 1992 has turned into a national movement, linking more than 1 million SHGs with bank credit and leading for the socio-economic empowerment of women. During 2003–04, as many as 3,61,731 SHGs were credit-linked with banks as against 2,55,882 during 2002–03, increasing the cumulative number of SHGs credit-linked with banks to 10,79,091. The notable features of the programme are the active participation of women (90 per cent) and timely loan repayment (95 per cent). By March 2004, this programme had enabled an estimated 16.7 million poor households in the country to gain access to micro-finance from the formal banking system.

The year 2004 witnessed all-round growth in the SHG-bank linkage programme in various states of India. The number of SHGs credit-linked with banks increased to 1,04,238 from 79,037 in Andhra Pradesh; to 51,851 from 35,701 in Tamil Nadu; to 41,688 from 25,146 in Karnataka; to 25,514 from 20,582 in Uttar Pradesh; to 19,038 from 15,504 in West Bengal; and to 12,716 from 6,253 in Kerala as

compared to the previous year. To consolidate and expand the micro-finance programme, NABARD provided active support to partner agencies for their capacity building, initiated efforts to scale-up the programme in states where incidence of poverty was high and innovated new approaches through pilot projects.

Support to Partner Agencies

NABARD has been instrumental in the formation and nurturing of quality SHGs by means of promotional grant support to NGOs, RRBs, DCCBs, Farmers' Clubs and individual volunteers and the capacity building of various partners which has brought about excellent results in the promotion and credit linkage of SHGs. An increasing number of partner institutions functioning as self-help promoting institutions (SHPIs) has over the years resulted in the expansion of the programme throughout the country. The financial support provided by NABARD to its partner institutions and their progress in SHG promotion/linkage is indicated in Table 1.

Table 1
Grant Assistance Extended to Various Partners in SHG-Bank Linkage Programme

<i>Agency</i>	<i>Sanctions During 2003–04</i>			<i>Cumulative Sanctions</i>			<i>Cumulative Progress</i>		
	<i>No.</i>	<i>Amount</i>	<i>No. of SHGs</i>	<i>No.</i>	<i>Amount</i>	<i>No. of SHGs</i>	<i>Amount Released</i>	<i>SHGs Formed</i>	<i>SHGs Linked</i>
Cooperative	28	116.03	14,750	29	124.03	15,550	10.53	3,697	946
RRBs	23	64.88	7,895	90	275.76	35,045	93.23	31,042	15,535
NGOs	221	473.88	37,268	785	1,512.18	1,15,279	696.72	75,186	38,599
Farmers' Clubs	–	–	–	–	–	–	24.95	6,994	4,281
IRVs	60	7.65	600	185	24.90	1,850	2.28	652	274
Total	332	662.44	60,513	1,089	1,936.87	1,67,724	827.71	1,17,571	59,635

Source: NABARD (2003–04).

Special Scaling-up Efforts

By March 2004, Andhra Pradesh accounted for 36 per cent, Tamil Nadu for 14 per cent, Karnataka for 10 per cent and Uttar Pradesh for 7 per cent of the credit linked, together accounting for 67 per cent of the total SHGs credit linked and 81 per cent of the total amount of bank loans disbursed. In order to balance the uneven growth of the micro-finance programme, 13 states, where the SHG-bank linkage programme has been progressing slowly and the incidence of poverty is high, have been identified as priority states. The cumulative growth position of the SHG-bank linkage programme during 2002–04 is illustrated in Table 2. The special strategies adopted to implement the scaling-up efforts in these states are:

- Widening the range of SHG promoting agencies;
- Enlisting the support of banks at the corporate level;
- Increasing the participation of co-operative banks;
- Associating village communities, people's institutions, rural volunteers and individuals to participate in the programme as SHG promoters;
- Enhancing thrust on the conduct of training and exposure programmes for various stakeholders;
- Providing large-scale assistance to partners for promotion and nurturing of SHGs;
- Spreading the concept and approach of SHG promotion among the rural masses;
- Increasing the effectiveness of existing SHGs by propagating self-rating tools.

Table 2
Cumulative Growth in SHG-Bank Linkage
(As on 31 March)

<i>State</i>	2002	2003	2004
Assam	1,024	3,477	10,706
Bihar	3,957	8,161	16,246
Chhattisgarh	3,763	6,763	9,796
Gujarat	9,496	13,875	15,974
Himachal Pradesh	5,069	8,875	13,228
Jharkhand	4,198	7,765	12,647
Maharashtra	19,619	28,065	38,535
Madhya Pradesh	7,981	15,271	27,095
Orissa	20,553	42,272	77,588
Rajasthan	12,564	22,742	33,846
Uttar Pradesh	33,114	53,696	79,210
Uttaranchal	3,323	5,853	10,908
West Bengal	17,143	32,647	51,685
Total	1,41,804	2,49,462	3,97,464

Source: NABARD (2003–04).

These efforts, over a period, have resulted in positive trends in 13 of the most backward states and have increased the number of SHGs financed from 1,41,804 as on 31 March 2002 to 3,97,464 on 31 March 2004. A significant increase in the number of SHGs was observed in the states of Assam, Bihar and Orissa. Of these 13 states, 10 account for a bulk of the rural poor. The scaling-up efforts emphasized on evolving region-specific strategies for promoting quality SHGs through a synergy of objectives among stakeholders, encouraging proper rating of SHGs by banks and building proper MIS. The overall impact of the scaling-up efforts is evident from the increase of the SHG-bank linkage in 2004–05 over the previous year by 107,351 in Andhra Pradesh, 70,437 in Tamil Nadu, 59,332 in Karnataka, 45,668 in Orissa, 41,013 in West Bengal, 40,438 in Uttar Pradesh, 32,611 in Maharashtra, 27,081 in Kerala and 2,160 in Rajasthan (NABARD 2004–05).

Innovative Pilot Projects

The micro-finance sector has been growing at a rapid pace and undergoing many changes. NABARD has initiated several steps for improving the outreach as well as sustainability of the programme. Based on the experiences gained from visits to micro-finance institutions in Bolivia to study the 'Regulatory and Supervisory Mechanism' followed by them NABARD has initiated the process of introducing branch automation and smart cards in rural banking with specific reference to SHGs. Accordingly, a pilot project for expanding the outreach and quality of services of the rural banking system, using system IT-enabled services has been launched with the *Sri Visakha Grameen Bank*.

To supplement the efforts of banks in the SHG-bank linkage programme, NABARD has collaborated with institutions such as post-offices for financing SHGs promoted by NGOs, the success of which would pave the way for the expansion of micro-finance programme in areas where the bank branch network is poor. A pilot project envisaging credit linking of 200 SHGs with rural post-offices in Tamil Nadu was launched in response to the union Finance Minister's announcement in his budget speech for 2003–04.

Resources Mobilization for Supporting Micro-finance

The following initiatives have helped resource mobilization, broad-basing and securitization of micro-finance:

- (a) **Micro-finance Development Fund:** The Micro-finance Development Fund (MFDF), which was set up in

NABARD with a start-up contribution of Rs 400 million from NABARD and RBI and Rs 20 crore from 11 commercial banks identified by RBI, became fully operational on 7 March 2003. The Fund is being utilized for scaling-up various micro-finance initiatives with special focus on capacity building under the SHG-bank linkage programme.

- (b) **Collaboration with External Agencies:** During 2004 a sum of Rs 1.63 million was utilized for micro-finance innovations from the Credit and Financial Services Fund (CFSF), set up through the assistance of the Swiss Agency for Development Cooperation (SDC). A sum of Rs 4.64 million was also utilized during 2003–04 under the NABARD-GTZ Project (which was originally initiated in the mid-1990s) for extending technical collaboration for supporting training and capacity building initiatives and undertaking specific studies. The cumulative reimbursement availed from the GTZ aggregated Rs 52 million. The financial component under the NABARD-GTZ project came to an end on 31 December, 2003.

- (c) **New Developments:** Securitization

Most of the player in the micro-finance sector see international financing mostly as a means of developing new models and products such as loan portfolio securitization and micro-insurance. ICICI Lombard, in cooperation with BASIX, for example, is currently running a pilot programme in providing weather-indexed crop insurance. ICICI bank, in partnership with SHARE (a leading MFI),

pioneered the securitization of the micro-loan portfolios of MFIs. Under this type of agreement, the bank purchases an MFI's portfolio and re-sells it as a packaged financial product to interested investors (such as other banks that can register such a security as a priority-sector investment). In a securitization deal, the MFI is still responsible for collecting the micro-loans from its clients but the risk of repayment default is not backed by any of the MFI's assets. As collateral, ICICI uses a first-loss default guarantee financed by the excess spread on the MFI portfolio (which is the difference between the rate of return expected by the bank on the micro-finance portfolio and the rate charged by the MFI to its clients) or provided by a third party, such as the Grameen Foundation funding the guarantee in the SHARE deal.

Micro-loan securitization benefits MFIs in several ways: it decreases their cost of funds and provides a new source of off-balance sheet funding thus allowing the MFI to expand lending operations. Blue Orchard Microfinance loan securitization is channeling nearly \$ 40,000 US investors to MFIs. (<http://www.Blueorchard.ch/en/home.asp>) and serving as one of the few proven lifelines out of poverty and an instrument for self-empowerment by enabling the poor—especially women to become economic agents of change. Capital constraint is an issue that impedes scaling-up of micro-finance in India. Based on an analysis of the traditional financing model and ICICI's experience in India, a 'Partnership Model' to fund MFIs has been developed by ICICI. This model combines both debt as well as mezzanine of finance (equity) to increase outreach, while unlocking large amounts of wholesale funds to support micro-finance activities. This partnership

also helps in building links with the capital market for financing micro-finance through securitization (Bindu 2005).

In recent time, 'bancassurance', combining banking and insurance products and services is gaining grounds not only to scale-up micro-finance and help in expanding the distribution network but also to provide security to those who are insured. Globally, the 'bancassurance' approach to integrate banks with insurance companies has succeeded in Uganda, Malawi, Tanzania, Kenya, India, Indonesia, Bolivia and South Korea (Hanning et. al. 2006). In India, the 'bansurance' mode to consolidate, secure and expand the micro-finance resource base has been successfully demonstrated by Allahabad Bank, Union Bank of India, State Bank of India, Bank of Baroda, Bank of Rajasthan, HDFC, Met Life and AVIVA Life SHARE Microfinance and had taken a lead in this sphere of activities (Padwal and Parchure 2004).

State Initiatives

In the past decade, the state has seen micro-finance as a tool to meet the financial service requirements of the poor. It has framed policies that enable increased access to financial services for the poor. The pronouncements made in the annual budgets have been translated through a series of follow-up measures by other institutions that are run/influenced by the state. Some significant initiatives taken by the state government in promoting micro-finance initiatives and innovations are:

- Setting up of the *Rashtriya Mahila Kosh* to re-finance micro-finance activities of NGOs
- Encouraging NABARD to set targets for the self-help group (SHG)-bank linkage programme

- Emergence of SIDBI Foundation for micro-credit as a financier of micro-finance institutions (MFIs)
- The pronouncements of the Reserve Bank of India (RBI) from the time to time such as:
 - Inclusion of lending provision to SHGs as a part of priority sector targets
 - Exempting non-profit companies doing micro-finance from registering as NBFCs
 - Permitting the establishment of local area banks (now withdrawn)
 - Routing some poverty-oriented schemes such as the *Swarnajayanti Gram Swarozgar Yojana* (SGSY) through SHGs
 - The close linkage built by DWCRA schemes
 - The initiatives of various state governments in promoting schemes such as *Swashakti* (Gujarat) and *Velugu* (Andhra Pradesh) (Sriram 2004; Vuhazhendi and Satyasai 2000)

The state governments have played a pro-active role in forging inter-institutional linkages between SHGs and banks—particularly in three prominent categories of commercial banks, RRBs and the cooperatives. The rationale for the SHG-bank linkage and support of capacity building and partnership agency such as an NGO is four-fold: (a) decentralization and empowerment; (b) accurate programme/activity-wise need assessment of SHGs; (c) uninterrupted, timely and adequate flow of credit; (d) fixation of accountability for proper utilization of credit. Relative contributions of these financial institutions in linkage programmes with micro-finance as a major initiative may be underlined as:

Commercial Banks and the Rural Poor

Public sector banks on the whole have been achieving the set target of 40 per cent of net bank credit to the priority sector in the past years which rose from 39 per cent in 1999 to 42 per cent in 2003. Public sector banks, however, have of late achieved a greater penetration compared to the private sector banks to respond to the growing credit needs of the rural poor. The achievements of the private sector banks in case advances to agriculture are 10.8 per cent (Target: 18 per cent) and for the weaker sections they are as low as 1.48 per cent (Target: 10 per cent). The new generation private sector banks have not achieved any penetration vis-à-vis the weaker sections.

Regional Rural Banks (RRBs) and the Rural Poor

RRBs were created to have targeted lending in the rural areas. The performance of RRBs over the years has not been very impressive (GOI 2002). In the past few years, RRBs have turned around from their extended state of sickness. Even so, the loans as a percentage of resources at their command (credit-deposit ratio) is falling, but for an improvement in 2003. The ratio of RRBs should be compared to commercial banks. Over the years, commercial banks had a CD ratio of 60 per cent as against the CD ratio of RRBs at 40 per cent. This means that the turnaround story of the RRBs has been at the cost of access to credit to rural areas. In the years where the deployment of credit was high (1997), the NPAs were also high at 36.8 per cent and the system as a whole was incurring losses. The NPA ratio has consistently fallen in the past years

and now it is time for RRBs to get back to their basic business of lending (NABARD 2003–04).

In the past, several measures were taken up to improve the performance of RRBs. These included a programme of re-capitalization to the extent of Rs 21,880 million, examining a merger of RRBs sponsored by the same bank and closing of non-profitable branches. In addition, they have been encouraged to issue *Kisan* Credit Cards, and use micro-finance as a mechanism to reach the poor by encouraging them to promote and lend to SHGs. The de-regulation of interest rates has gone a long way in making RRBs competitive and market savvy.

Credit Cooperatives and the Rural Poor

The cooperative structure (SCB, DCCB and PACS, etc.) has not performed very well in the last decade. There are many in the banking industry who feel that the emergence of the micro-finance movement was due to the failure of the cooperatives in providing sustained access to credit to the poor. From Table 3 it is evident that the resource availability for cooperatives has been falling in the past few years. If prudential norms applicable to banking institutions were applied to the lower tier cooperatives, most of the primary (PACs) and district cooperatives (DCCBs) would have been found wanting. From Table 3 it is also evident that a significant proportion of the re-financing is for conversion of short-term loans to the medium-term illustrating the extent of delinquency.

Twenty-three State Cooperative Banks (SCBs) are making profits as against six incurring losses. However, the recovery performance of these banks was 81 per cent

which is quite inadequate for a vibrant banking system. The greater cause for concern is that these banks stand at the top of an apex structure, having an extremely weak foundation (NABARD 2003–04).

Table 3
Re-financing of Agriculture by NABARD during
2000–2003 (*Rs Million*)

<i>Performance Parameters</i>	2000	2001	2002	2003
Re-finance for agriculture (Drawals)	68,480	72,950	82,860	50,550
Re-finance for agriculture (outstanding)	36,110	43,840	44,400	48,870
Medium-term loans	290	50		
MT Outstanding	1,060	690	400	210
SAO Conversion	51,860	119,710	307,430	18,180
SAO Conversion outstanding	350,530	297,320	442,920	355,750

Source: www.nabard.org.

Sharing of Global Experiences

Various experiments and innovations concerning the micro-finance credit delivery system have not been confined to a particular country or region in the developing or developed world, but it has increasingly been seen as a peoples' movement with a participatory approach for empowering the poor in many countries (Lanto 1998; Srinivasan 1998; UN 1998). The initiator of this movement was Bangladesh, which began the experiment with a model developed in its Chittagong district in 1976, spearheaded by the formation of a Bangladesh Rural Advancement Committee (BRAC), which later became the well-known Grameen Bank Model. The major credit activities undertaken under this model encompassed: (i) A rural development programme which

become the well-known Grameen Bank Model; (ii) Development of programme support enterprise; and (iii) Development of micro-enterprise. The non-credit activities of the Grameen Bank included: (i) Non-formal primary education programme; (ii) Health and population; and (iii) Training and resource building.

The success of the Grameen Bank may be best described in terms of credit outreach to poor, the empowerment of the poor and landless and excellent recovery which led to other countries, including India, replicating the model for implementing micro-finance related innovative programmes involving the poor. Even within Bangladesh, replicating the original Model (i.e., BRAC) an NGO-led new model, namely the *Palli Karma Sahayak Foundation* (PKSF) was developed in May 1990 with the help of an international donor agency. Its main activities include: (a) Credit; (b) Training and institutional development; and (c) Research.

In Bangladesh, though the Grameen Bank was the world pioneer in reaching the poorest on a large scale, it has stagnated since 1995 due to the heavy competition that its leading role has created and the rigidity of its credit-led methodology. While the Grameen Bank grew by 9 per cent between 1997 and 2002, three other major providers increased their outreach far more significantly (Ahmed 2004). This was particularly the case with ASA, the champion of cost efficiency and management, who more than doubled its portfolio during this period (+165 per cent) with BRAC and *Proshika* also recording growth rates between 30 and 50 per cent. In 2000, the Credit Development Forum (CDF) and PKSF reported BRAC as the leading micro-finance provider in the country, with a 28 per cent market share,

followed by Grameen, with 18 per cent, ASA with 11 per cent and *Proshika* with a 10 per cent share. Among the other emerging organizations were the *Buro Tangail*, with almost 100,000 members at the end of 2001 and the *Palli Daridro Bimochon Foundation* with 275,000 clients as of June 2002. Between 1996 and 1999, an annual average of 7.5 million new members joined MFI-NGOs in Bangladesh. To sustain this tremendous growth, PKSF, the main wholesaler in the country, became the 'world's largest state-run microcredit funding institution', providing close to US\$ 200 million to more than 200 micro-finance providers. This amount represented a quarter of the funding to MFIs in recent years. Following PKSF's success, Sonali Bank also became a major player in financing micro-finance. In addition to its own micro-finance services, in 1997 the largest state-owned commercial bank started an NGO linkage programme, providing US\$ 10 million to a large group of MFIs. CDF, an apex body for more than 500 micro-finance NGOs also made a significant impact on the development of the sector through a wide range of support services. It is estimated that 55 per cent of the population of Bangladesh now has access to micro-finance services, which is probably one of the highest rates in the world. In this context, high competition has had positive effects, providing increased choices and reducing interest rates, but also negative effects as many borrowers became clients of multiple providers and became over-indebted. Competition also encouraged innovations, such as the creation of the organization 'Safe-save' by Stuart Rutherford, which pioneered a flexible micro-finance delivery system totally adapted to the daily needs of poor people (ibid.).

In India, NABARD has had considerable success in developing its own methodology of a 'banks-self-help groups (SHG) linkages programme'. From 146,000 clients in 1997, it grew to almost 8 million people in 460,000 SHGs in 2002. This programme is particularly appealing due to its reliance on partnership and linkages between commercial banks, self-help groups, NGO promoters and the government of India through NABARD. With this successful savings-led model, NABARD intends to reach 100 million people through 8 million self-help groups by 2008. The Small Industries Development Bank of India (SIDBI) has also developed its own linkages model, choosing to work with a close network of NGO partners. India has also been a fertile ground for the growth of diverse and innovative organizations, combining the financial and developmental goals of micro-finance. Successful examples of these are BASIX with its high-tech and efficient management, the cooperative SEWA bank with micro-insurance products and MYRADA/*Sanghamithra* and PRADAN with the mobilization and financing of self-help groups. However, despite the dynamism of the sector, performance amongst MFIs is generally poor in India and there is slow dissemination of best practices.

Despite being a young and weak micro-finance sector, **Pakistan** has recently benefited from new initiatives launched by its government with the creation of the micro-finance retail bank the Khushali Bank and an apex organization the Pakistan Poverty Alleviation Fund (PPAF) set up to serve retail micro-finance organizations. Within the group of developing MFIs, the KASHF Foundation, founded in 1996 and an affiliate of ASA Bangladesh, has emerged as a leader, displaying very low risk on an increasing

loan portfolio of 23,000 clients. Using community-based organizations (CBOs) as conduits for micro-finance services, Rural Support Programmes (RSPs) have also had a major impact on the development of micro-finance in Pakistan. They represent the highest number of MFIs and have the largest coverage in Pakistan. Their methodology is used by half of the 11 micro-finance beneficiaries of the Pakistan Microfinance Network. One of the oldest and largest programmes is the Aga Khan Rural Support Programme (AKRSP) which decided in 2002 to create Micro-finance Bank, the first of its kind in the country. In the banking sector, the First Women's Bank provides micro-finance support specifically to women, while the Bank of Khyber is also involved in the micro-finance sector.

In **Nepal**, the major micro-finance related initiatives are: (i) Small Farmers Development Programme (SFDP), funded by the Agricultural Development Bank of Nepal (ADBN) and German Association for Technical Cooperation (GTZ); (ii) Micro-Credit Project for Women (NCPW) with the assistance of Asian Development Bank (ADB); and (iii) the Intensive Banking Programme (IBP).

In **Nepal**, the micro-finance sector comprises a wide spectrum of actors such as numerous NGOs, supporting organizations, government projects, the Regional Rural Development Banks (RRDBs) owned by the Nepal Central Bank, as well as savings and credit cooperatives. The Grameen Bank has had a major influence on the development of the micro-finance sector, through the creation of five RRDBs which doubled their outreach between 1997 and 2000 to reach 110,000 borrowers, and the establishment of the NGO *Nirdhan* which transformed into the

Nirdhan Uttam Bank in 1999 and reached 35,000 people as of June 2002. The sector was further developed thanks to the role played by supporting organizations such as the Rural Microfinance Development Centre (RMDC), the Rural Self Reliance Fund (RSRF) and the Centre for Microfinance (CMF).

Sri Lanka also presents a very diverse micro-finance sector with an active cooperative movement, numerous government and central bank initiatives and programmes of commercial banks and MFIs. Emerging from the *Sarvodaya* People's Movement, SEEDS is the leading MFI in the country, and one of the few sustainable NGOs. SEEDS uses a credit plus approach and reached 260,000 members at the end of 2001 and recorded a high growth (almost 60 per cent) over the period 1999–2001. In the banking sector, the Hatton National Bank has developed an innovative micro-finance programme, tailored for rural clients, that has encouraged other banks, such as the People's Bank supported by GTZ, to enter the sector. The cooperative movement comprises around 50 per cent of all micro-finance loans, through 1,500 cooperative rural banks and 8,000 thrift and credit cooperative societies (TCCS). The government and the Central Bank also have a strong presence in micro-finance through six licensed Regional Development Banks, the Samurdhi Banking Society and the National Development Trust Fund (NTDF) acting as a wholesaler. The intense competition and extensive outreach of micro-finance in Sri Lanka might increase the risk of market saturation.

In **Philippines**, the Peoples' Credit and Finance Corporation (PCFC)-led micro-finance programme aiming to develop micro-enterprises is the most important programme

catering to the needs of the poor and for providing investment credit to accredited NGOs, financial institutions and cooperatives, which are made responsible for implementing credit assistance programmes for the poor. In addition to PCFC, two other agencies are also playing an active role in technology development, capacity building and income generation programmes. These are (i) Centre for Agriculture and Rural Development (CARD) Inc. and (ii) Tulaya Pag-Unlad Inc. (TSPI).

In **Thailand**, the Bank for Development and Agricultural Cooperatives (BDAC); which along with Cooperative Credit Unions and Thrift Societies support rural credit for micro-enterprise development. Of late, the Population and Community Development Association (PCDA) as well as Business Initiative and Rural Development (BIRD), have carved a new niche in arranging micro-finance activities for skill upgradation and income generation for rural poor. On similar lines, Indonesia has also developed two major micro-finance projects aiming at poverty alleviation for rural poor viz. (i) income-generating project for marginal farmers and landless and (ii) Project for linking banks and SHGs as in the Asian countries. Some of the Latin American countries have also taken the lead and made significant strides in developing micro-finance and linking development-cum-rehabilitation programmes which are basically pro-poor, pro-women and pro-landless, following certain major geo-political and economic crisis in past 15–20 years in the subcontinent. Prominent among these countries are Argentina, Columbia, Chile and Bolivia (Chen 1999; Lusting and Wattan 1998).

These cross-country experiences clearly bring out the fact that there is no unique model that can be replicated across countries

for the success of micro-finance programmes in alleviating poverty. The paradigm of micro-finance has varied from country to country depending upon the prevalent social, cultural, economic and political milieu. In some countries like India, Indonesia, Nepal and Thailand the government has taken the initiative in alleviating poverty through micro-finance programmes; while in some others like in Bangladesh, the initiative was taken by non-governmental organizations. In the case of countries such as Latin America, it was the initiative of a group of individuals that facilitated the promotion of micro-finance programmes (Jayaraman 2001).

Global Experience of Informal Micro-finance to Unbankables

Over the past several years, much has been learnt in the way of extending credit to the poorest micro-entrepreneurs. Many of these lessons have been based on concepts long employed by traditional informal finance activities, which are remarkably resilient and flexible to the needs of the clients. For example, rotating savings and credit associations (ROSCAs) have long been in existence in Asia, Africa and Latin America. These groups typically pool members' deposits, then extend loans to members after a given period. Funds can also be disbursed in cases of emergencies or for funeral expenses.

Some of these practices have even made their way to other countries. Acquaintances from immigrant communities form savings groups and accumulate funds which are used to start individual small businesses for each of the members in the new country. These informal sector financial services have

supported the entrepreneurial success of many new arrivals in the industrialized world.

Another pervasive feature of the informal sector is pawning, one of the oldest forms of providing money to people who fall outside the reach of formal banks. Pawn shops provide instant small loans for short periods of time, assuring repayment by requiring physical collateral. Village moneylenders also provide small loans for short periods of time, unsecured by collateral to people they know well. Their interest rates are much higher than other sources of credit, but they address the specific needs of their clients.

The UNDP and China International Center for Economic and Technical Exchanges (CICETE) initiated a Poverty Alleviation (PA) and Sustainable Development Program in China (UNDP 2006). The common development objective of the programme is to demonstrate participatory, integrated and sustainable development approaches for poverty alleviation in China. The general strategy of the programme is to support the implementation of a National Poverty Alleviation Programme through: (a) country-based demonstration project that are intended to demonstrate innovative ways of PA; (b) capacity-building at national and local levels that include training, study tours and workshops for PA officials, managers, community workers and the farmers groups; and (c) policy support to help improve the Government's PA policy and programme. The main components of the programme are: (a) Community participation; (b) Micro-finance; (c) Sustainable agriculture and resource management; (d) Social services; (e) Capacity building. The programme was started in Yunnan, Sichuan and Tibet since 1994. In 1996, based on the successful

experiments of those pilot projects, the programme was extended on a larger scale in 48 countries of 16 provinces and autonomous regions as well as four districts in Tianjin City.

In order to strengthen the capacity of CICETE in implementing the PA programme, UNDP provides a project: 'Support to the UNDP Poverty Alleviation (PA) Programme in China' aiming at: (a) to improve the implementation of the ongoing and future UNDP-funded PA projects in China through a unified and coordinated approach; (b) to strengthen the national and local capacity in managing and implementing sustainable PA programme through national level training and cross project exchanges; and (c) to promote the replication of the UNDP-PA approach elsewhere in the country within the framework of the National Poverty Alleviation Programme. Under this project, an Advisory Board is established to provide policy guidance to the project, and a Support and Coordination Office (SCO) is set up as the secretariat of the Advisory Board. The SCO is based in CICETE but functional independently.

The overall budget of UNDP assistance to the programme is US\$ 19,316,000 in which US\$ 8,205,000 is provided as micro-finance loan fund. The targeted beneficiaries are 88,000 poorest households in rural areas and female workers who have been laid-off in the urban areas. Some of the lessons learned from the programme that could be of use to other developing countries of Asia include the following:

- Work directly in the community
- Simplify application procedures
- Extend credit quickly
- Do not require records and complex business plans

- Do not require guarantees eliminating most potential candidates
- Work with existing economic activities, no matter how small, or work with start-ups appropriate to the community
- Focus initially on the local market
- Extend small, short-term loans primarily for working capital on simplified terms
- Provide larger loans based on successful repayment
- Charge a higher rate of interest than the market
- Assume clients, with their network of friendship and their relationship within the community, will take a major role in promoting the project
- Develop large-scale, self-sufficient, profitable projects working in close coordination with local banks
- Address the needs of poor clients (UNDP 2006)

The Panos Institute, London, mandated to promoting sustainable development aiming at the poor, conducted 11 case studies (De Silva and Naella 1992) covering as many developing countries to assess what informal credit institutions can do to bring new hope to the desperately poor people in the third world. The report has been published in the form of a book titled *Banking the Unbankables*. The countries included in the study are Pakistan, Columbia, Kenya, Senegal, Sri Lanka, Tanzania, Bangladesh, Zambia, Chile, Indonesia and India. The major finding of the studies relating to funds-flow from the informal micro-credit agencies vis-à-vis accessibility to grass-root level rural communities, including cooperatives, are:

The findings of the study have generally focused on the human element, whose deep

concern for the crippling effects of poverty has led them to initiate programmes to provide the poor with resources they need to better their livelihood support systems with special emphasis on the men and women for whom credit has provided new opportunities for sustained income, building self-confidence and achieving self-reliance.

- 1) Credit schemes, like all serious development programmes are fundamentally about people: the improvement of their working and living conditions, the enhancement of their sense of personal worth and dignity. Unless development benefits the most destitute and vulnerable, it fails to achieve one of its most important primary goals.
- 2) The study demonstrates that credit for the poorest is financially viable and that the poor are not high credit risks as was assured by traditional wisdom. In short the poor are bankable. And it is also demonstrated that even modest loans can make major differences in the physical and psychological welfare of the poor.
- 3) No simple credit scheme is 'the best' to reach the poor in all situations. Local needs, aspirations, skills, cultural mores and social, economic and political systems differ. Credit programmes must be designed to take them into account.
- 4) Without this active participation, credit schemes run the risk of becoming mechanical, rigid, de-humanizing operations which fail to meet the needs of the poor and fail to galvanize the talents and spirit so essential for self-sustaining development.
- 5) Women's repayment records were found to be superior to men's, indicating that women successfully use their loans to generate income. Frequently, the income earned by women is also more likely to directly benefit the family in the form of more food, clothing, medical care and schooling for children. It presents case studies of how small-scale credit schemes—most of them initiated and managed by women—are changing the lives of the neediest among the poor and introducing many of them for the first time to the cash economy.
- 6) The poor find it difficult to comply with loan formalities. Bank loans have to be supported by numerous supporting documents—each requiring costly official stamps. Restricted banking hours and days of formal banking institutions are a great inconvenience to rural people in terms of mobility.
- 7) The record of credit for rural and urban poor women in the third world is dismal. The reasons are many: blatant discrimination; the failure of many planners to recognize the vital role that women play in development; the assumption that women do not need or cannot effectively use credit; and the failure of credit programmes to take into account the particular conditions under which women live and work.
- 8) Many bankers and economists in the third world feel that the poor are unable to save and do not have the capacity to manage their finances adequately. Contrary to these beliefs, the report shows that the propensity

to save among the poor is very high when they can do so. Accustomed to catastrophic events in their lives, they are well aware of the need for reserves. When credit-promoted activities bring in income, they are motivated to save more. Confidence is the basis of any financial agreement. This is vital in the case of the poor, who are cautious about consigning their hard-earned money to strangers. Safety and continuity are key factors in inspiring confidence.

- 9) A majority of the borrowers interviewed had little difficulty in repaying the loans. Repayment rates are flexible so that borrowers can repay money in small amounts. Women appear to have a better record of repayment and use of credit for generating income than men. The report further brings out the desirability of careful handling of defaults vis-à-vis built-in flexibility in genuine cases and strict enforcement of rules in cases of wilful defaults. In the Indian report, village groups maintained credit discipline.
- 10) Most of the credit schemes are founded on the principle of solidarity. Loans are given to individuals—but each individual is in a group of between 10 to 30 others, who are also borrowers. Together they act as co-guarantors for loans, as in the case of cooperatives some NGOs facilitate the creation of groups. Group effort has been the key for generating people's participation in all projects. For the poor, groups provide an opportunity for participation and also a sense of security.

The examples presented in the article are not a panacea for all the pain and suffering of poverty or for the third world's economic problems. But, 'Banking the Unbankable' presents an alternative way of development—development which really addresses the daily needs of the poor, not merely those of the national economy. It proves that development programmes can, if they are properly designed and sensitively implemented, become a vital key to unlocking the creative and productive potential of the world's poor.

Future Strategies

To put it comprehensively, micro-finance comprises small savings, savings-based credit (group loan mostly for consumption) and bank credit for income generating activities, payment services, money transfer, insurance, linkage between credit and non-credit and tied lending (tie-up with marketing for repayment), taking cognizance of the genuine needs of non-bankable millions, the focus of micro-areas where the target groups are concentrated. Group formation, group lending, collateral substitute, peer pressure, high level of repayments, proper end use with asset creation linkage banking with NGO and SHG are all common features associated with the micro-financial initiatives. Financing through cooperatives, associations and clubs for the poorest and for women as the ultimate borrowers may also be termed as micro-finance. However, this description of micro-finance is only an indicative one with room for further refinement so long as the focus is confined to the poorest and on women and matches the financial needs of the poor.

In the context of the imperative need for accelerating micro-financial activities for

covering the poorest and women, policy direction should focus on the development of savings-driven and demand-oriented financial products and services in rural areas. Past experiments in linkage banking involving semi-formal institutions have yielded a good response for reaching the target group. Further, the whole gamut of micro-financial activities such as a group approach, savings, saving-based credit, blocked savings, peer pressure, joint appraisal and joint recovery could be effectively activated through micro-level institutions. In rural areas, we have commercial banks, regional rural banks and cooperatives in the formal sector on the one hand and NGOs/voluntary organizations, farmer clubs, women's groups, self-help groups and the like in the semi-formal sector on the other for undertaking micro-financial activities (MF). In the process of involving formal players in micro-financial activities, collaboration with semi-formal institutions have become an imperative necessitating an institutional adjustment at the grass-roots level in the Indian context—a fact that has been grossly neglected in the banking sector reform measures undertaken so far. It is therefore suggested that a few strategies on the following lines be followed for effectively reaching the unreached in the new millennium:

Institutional adaptation:

By adapting a bank's products and services to match the financial needs of the poor.

Institutional enhancement:

Strengthening micro-financial institutions at the grass-roots level.

Institutional linkages:

Linkages between formal and semi-formal institutions.

As its strategic policy, NABARD has pioneered the formulation and development of programmes together with appropriate guidelines in the areas of micro-finance. This has been possible through continuous innovations based on programme approach, linking support organizations with credit institutions through their essential support mechanisms such as training, orientation and capacity building of client institutions, and non-governmental organizations for strengthening micro-finance activities in the country (Dev and Ranade 1999).

Among the various initiatives and innovations that have taken place in fostering the growth of micro-finance sector with the active involvement of NABARD are Bank credit to self-help groups, creation of the Credit and Financial Services Fund, grant support to NGOs, support to RRBs, support to Farmers' Clubs, revolving fund assistance to NGOs, development initiative for the north-eastern region and the KBK region of Orissa, capacity building for partner institutions, creation of the Micro-finance Development Fund, establishing collaborations with external donor agencies (viz. KFW/GTZ, IFAD) in the area of the SHG-bank linkage programme (NABARD 2000).

The salient achievements in micro-finance innovations made so far along with future for development as spelt out by NABARD states:

The SHG-Bank linkage programme has gained wide acceptance among the partners including banks, NGOs and the poor and is poised for sustained expansion, with target of providing micro-finance services of savings and credit to an additional one lakh SHGs during 2001-02. While the

commercial aspects of the linkage programme have started showing discernible results in areas where sizeable number of SHGs have been credit-linked, the future challenge lies in internalizing banking with the poor through financing of SHGs and the lessons learnt by the banking system. For giving boost to the micro-finance initiatives, region-specific strategies, designed in consultation with the stakeholders, need to be evolved. Such strategies will have to focus on building sustained demand for micro-finance services and simultaneously equip its providers to deliver sustainable micro-finance services (NABARD Annual Report 2000–2001).

The broad contours of such a strategy for stimulating future initiative in micro-finance would be: (i) accelerating awareness building and training of new partners in areas not yet reached; (ii) encouraging banks to build partnerships with all possible SHGs; and (iii) encouraging and facilitating building SHGs through social sector interventions like literacy and health care. The possibilities of associating Panchayat Raj Institutions (PRIs) also needs to be explored. In addition, some of the NGOs promoting SHGs have facilitated the emergence of federations of SHGs for providing umbrella support to member SHGs. While some of these federations undertake financial intermediation, others provide only non-financial support and leadership. The National Bank has been selectively supporting financial intermediation of such federations through its Revolving Fund Assistance (RFA) and has also been encouraging banks, through it re-finance support, to finance SHGs through such federations. Based on the experiences

gained, efforts need be undertaken for mainstreaming linkages of such federations with banks. Proper appraisal mechanisms and developing standards for rating the performance of other micro-finance institutions also need to be developed. Other promotional support to be provided is: (i) need-based training and exposure for bank personnel; (ii) generating best practices and disseminating them; (iii) building case studies highlighting the commercial aspects of banking with the poor through SHGs; and (iv) encouraging the cooperative banking system to expand its participation. Further, there is a clear need for evolving cost-effective and sustainable insurance products for the clients of micro-finance programmes.

Micro-finance being a useful tool in building the capacity of the poor in the management of sustainable self-employment opportunities, besides providing other financial services like savings, housing, consumption credit and insurance cover the task force on supportive policy and regulatory framework of microfinance *inter alia* recommended the formulation of a National Policy on Micro-Finance. Under such a policy there is a strong case for the formal recognition of micro-finance, more like institutional credit, as a strategic tool for poverty alleviation and rural development. The national policy on micro-finance should emphasize encouraging initiatives and participation of different types of institutions in micro-finance, bringing micro-finance activities, irrespective of the type of institutions involved, within regulation and supervision by competent authorities, creating a policy environment for closer linkages of the micro-finance sector with formal banking channels and making available equity, start-up capital and capacity

building funds for the existing and prospective institutions engaged in micro-finance.

The strategy for micro-finance must also be matched by a strategy for raising agricultural productivity through the creation of appropriate infrastructure in critical areas such as irrigation, soil and water conservation, plant protection, agro-processing and post-harvest management, rural roads and agriculture marketing (CGAP 1999). Such an integrated strategy will also place a heavy demand on credit for productive purposes in a sustainable manner, safeguarding the interests of the rural poor. Simultaneous with the strategy aiming to augment productivity in the farm sector, it is necessary to promote an accelerated growth of the rural non-farm sector, on which a large number of rural poor are heavily dependent for livelihood support based on the creation of gainful employment opportunities through micro-finance innovations. In this context, there is also the need to link micro-finance with insurance. To this

extent, recent initiatives taken in the shape of bancassurance and securitization by several public and, private sector banks as well as international insurance players are a most welcome proposition. This will help expand and scale-up micro-finance together with insuring greater security and minimum risk of quality assets both for bankers as well as investors. In any future micro-financing activity/project, efforts should be directed towards ensuring both economic empowerment as well as social empowerment by the concerned institutions simultaneously for ushering in sustainable development for the poorest women and socio-economically weaker sections. It is social and economic empowerment which will hold the key to solving many social and economic problems in an effective and efficient manner and help to bring in all-round development of the rural areas and rural poor. Besides the bankers this approach requires well-coordinated efforts by all the players concerned.

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