MICROFINANCE A STRATEGIC DESIGN

Dr Sumita Chadha

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Microfinance:
A Strategic Design

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Microfinance:
A Strategic Design

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Microfinance: A Strategic Design

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PREFACE

Since independence, the priority agenda before the government officials and ministries has been to initiate programmes of poverty alleviation and rural development. The focus is always in the bottom of pyramid section of the society which has been neglected by the formal institutions for providing loans and credit. In this context an important solution to the problem is the provision of rural credit. Though many programmes have been instigated for providing the access to credit starting from establishment of cooperatives, RRB's (Regional Rural Banks) followed by the nationalization of Banks but the endeavors was futile in bridging the gap between the rich and poor. Many studies reveal that even after liberalization the poor depend more on the informal sources rather than approaching the formal institutions. For defeating poverty and build self sufficiency at bottom of pyramid, Microfinance can be seen as an important instrument.

For combating poverty and to bridge the gap between the demand and supply factors Microfinance emerged as a ray of light. Microfinance as the name suggests means extending small loans to poor people and that too without any collateral. Under the Microfinance umbrella the approach that has gained momentum in recent years is the self help groups (SHG)-bank linkage programme. SHG (Self Help Group) is group of rural poor who have volunteered to organize themselves into a group for enhancing incomes of the members. However in the changing scenario the practitioners of Microfinance have realized that the answer to poverty is not only the provision of credit but also to make the poor sections self sufficient.

Thus Microfinance acts as a tool to overcome the hurdles of bottom of pyramid members to overcome their poverty and also to the corporate sector by increasing the purchasing power of a weaker section of the society.

This book is dedicated to my father Late Shri JAIBHAGWAN and my Younger Brother Late Shri JAGBIR SINGH.

I want to do the special thanks to our family members and my children who sport me to finish this kind act.

I am thankful to publishers for their encouragement and cooperation in bringing out this edition.

I sincerely request comments and inputs from readers to improve the content of this book further in its future editions.

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Dr. Sumita Chadha

Dr. Jasbir Singh

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List of Abbreviations

ABBREVIATION	MEANING
RRB	REGIONAL RURAL BANKS
SHG	SELF HELP GROUP
BOP	BOTTOM OF PYRAMID
NABARD	NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT
NGO	NON-GOVERNMENT ORGANISATION
NCR	NATIONAL CAPITAL REGION
AIDIS	ALL INDIA DEBT AND INVESTMENT SURVEY
IRDP	INTEGRATED RURAL DEVELOPMENT PROGRAMME
ILO	INTERNATIONAL LABOR ORGANISATION
ADB	ASIAN DEVELOPMENT BANK
RBI	RESERVE BANK OF INDIA
MFIs	MICRO FINANCE INSTITUTIONS
SIDBI	SMALL INDUSTRIAL DEVELOPMENT BANK OF INDIA
PACS	PRIMARY AGRICULTURE CREDIT SOCITIES
GDP	GROSS DOMESTIC PRODUCT
ICICI	INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA
RFAS	RURAL FINANCE ACCESS SURVEY
SEWA	SELF EMPLOYED WOMEN ASSOCIATION
MDG	MILLENNIUM DEVELPOMENT GOAL
BPR	BANK PERKREDITAN RAKYAT
MACS	MUTUALLY AIDED CREDIT SOCITIES
MCID	MICROCREDIT INNOVATIONS DEPARTMENT
SHPI	SELF HELP PROMOTION INSTITUTION
SAF	SYNDICATE AGRICULTURAL FOUNDATION
SME	SMALL AND MEDIUM ENTERPRISES

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Chapter - 1

Introduction

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INTRODUCTION

"Once poverty is gone, we'll need to build museums to display its horrors to future generations. They'll wonder why poverty continued so long in human society - how a few people could live in luxury while billions dwelt in misery, deprivation and despair."

Muhammad Yunus

(Founder Grameen Bank)

The World Bank mission is carved in stone at Washington Headquarters that "Our Dream is a World Free of Poverty". The mission covers the 145 client countries. When we streamline the vision of the World Bank to our South Asian country we also see that since independence, the priority agenda before the government officials and ministries has been to initiate programmes of poverty alleviation and rural development. The focus is always on the bottom of pyramid section of the society which has been neglected by the formal institutions for providing loans and credit. In this context an important solution to the problem is the provision of rural credit. Though many programmes have been instigated for providing the access to credit starting from establishment of cooperatives, RRB's (Regional Rural Banks) followed by the nationalization of Banks and other schemes but all the endeavors was futile in bridging the gap between the rich and poor. For defeating poverty and build self sufficiency at bottom of pyramid, Microfinance can be seen as an important instrument.

Many studies reveal that even after liberalization the bottom of pyramid members especially women depend more on the informal sources rather than approaching the formal institutions. The raison d'être for the reliance of the weaker section more on informal sources can be contributed to both demand and supply side obstacles. The grounds provided by formal institutions are (a) risk factor because of default (b) high transaction cost (c) need of collateral. The arguments from the borrower's side are (a) lack of flexible products and services (b) transaction cost (c) provision of collateral (d) segmentation hurdle etc. In the above context Keynes expresses that there are two types of risks that affect the volume of investment. The borrowers risk

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arises because they are unsure whether their business venture will provide the expected yield. They would require low rate of interest, especially if their venture is a risky one. But the same situation creates the "lender's risk" of default by the borrower. This necessitates that the lender charge a rate of interest high enough to induce him to lend. Keynes expresses the resulting social dilemma somewhat poetically: "the hope of a very favorable outcome, which may balance the risk in the mind of the borrower, is not available to solace the lender" (Shah, Rao and Shanker, 2007).Thus at this juncture there is a requirement of a novel tactic which can mitigate the reliance of weaker section on informal lenders and can provide easy access to credit.

For combating poverty and to bridge the gap between the demand and supply factors Microfinance emerged as a ray of light. Microfinance as the name suggests means extending small loans to poor people and that too without any collateral. It has evolved as a powerful mechanism to deliver financial services particularly credit to the bottom of pyramid section of the community that has been excluded from the services of the main stream institutions. However in the changing scenario the practitioners of Microfinance have realized that the answer to poverty is not only the provision of credit but also to make the poor sections self sufficient. In this context Prahalad (2005) quoted that instead of using the term poverty alleviation and the poor we should use the term underserved consumers in market. According to him the development process must start with respect for bottom of pyramid consumers as individuals. The challenge here is to convert poverty into opportunity.

For converting poverty into an opportunity we need to make bottom of pyramid members self sufficient which can be done by increasing their income, for increasing the income either we provide them with job opportunities or to provide them credit for starting their own ventures or shops. In the similar context, the success of the Microfinance can be seen worldwide as United Nation declared the year 2005 as the international year of credit and also the success of many Microfinance models like Grameen Bank in Bangladesh and Bank Rakyat in Indonesia etc. The efforts of the father of the Grameen Bank Muhammad Yunus has

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also been appreciated as he was awarded with Nobel prize in 2006.These activities have created the interest of many private sectors and players towards the Microfinance.

Under the Microfinance umbrella the approach that has gained momentum in recent years is the self help groups (SHG)-bank linkage programme. SHG (Self Help Group) is group of rural poor who have volunteered to organize themselves into a group for enhancing incomes of the members. They agree to save regularly and convert their savings into a Common Fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management. SHG is a small, homogeneous affinity group of rural poor agricultural laborers, marginal and small farmers and micro enterprises which is voluntarily formed.

The basic philosophy of the "SHG-Bank Linkage Model" promoted by NABARD (National Bank for Agricultural and Rural Development) is to establish synergy between the banks, who have the financial strength and the NGOs, who have the ability to mobilize the poor and build-up their capacity, to avail loans from the banks. For India's bottom of pyramid sections, the SHG system is more economical, and thus more sustainable, inspite of the fact that the members usually pay a lower price for their loans than the members of Grameen groups. The SHG system reflects the independence and diversity (of Indian people).It allows people to save and borrow according to their own timetable, and not as the bank requires (Satish, 2005). Many companies focusing their attention over the bottom of pyramid members following the blue ocean strategy since there is a lot of untapped market in the bottom of pyramid section. The company can focus on volume of consumers and also it is increasing since there are very few competitors.

Thus we can say that Microfinance as a tool help the bottom of pyramid section to overcome their poverty and also to the corporates since by increasing the purchasing power of a weaker section. They are indirectly helping the corporates in making fortunes at bottom of pyramid. No doubt that Microfinance have made its presence felt through its positive impacts on rural development but still there is far road

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ahead and many milestones need to be achieved. It cannot be considered as a panacea, a magic stick for the overall development of the rural sector, it has to be supported with the other initiatives. In what follows, we present the objectives, research design and methodology used and lastly the limitations of the present study.

OBJECTIVES OF THE STUDY

The study will focus on studying the impact of micro finance as a strategic tool for building the fortune at the bottom of Pyramid with following objectives:

1. To study the conceptual framework of Microfinance as an instrument for building the fortunes at the bottom of pyramid.
2. To measure the impact of Microfinance on the rural segment, whether the notion of Microfinance has achieved its ultimate goals of improving the income and savings of the rural poor and brought about empowerment of rural villagers etc.
3. Another objective is to analyze from the company point of view whether their success lies in the bottom of pyramid with the support of microfinance.
4. The impact of Microfinance on key economic and social parameters on bottom of pyramid group members and the companies who treat it as a fortune. The empirical analysis will be based on the field survey of various Microfinance Institutions, SHG members and others areas of NCR (National Capital Region).

RESEARCH DESIGN AND METHODOLOGY

For the purpose of the study, both the primary and secondary sources have been tapped. Secondary sources consist of relevant books, journals, articles, magazines, newspaper reports etc. The existing literature on the subject has been reviewed. Primary data has been collected through a sample survey of bottom of pyramid SHG (Self Help Groups) members, belonging to five Districts which are Gurgaon, Jhajjar, Rewari, Bahadurgarh and Mahendragarh. To minimize the errors in the research work a pilot study was also conducted in the Badshahpur and Teekli villages of Gurgaon district covering a sample size of fifty respondents. After the pilot study

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the questionnaire used in the pilot study was revised by taking into consideration the views of respondents in light of the objectives of the study.

For the final collection of primary data the Non Probability Quota Sampling technique was used, to carry out a field study of various bottom of pyramid SHG (Self Help Groups)

Embers of five Districts which are Gurgaon, Jhajjar, Rewari, Bahadurgarh and Mahendragarh, covering the respective thirteen villages : 1) Teekli 2) Aklimpur 3) Dhamdhoj

4) Bhondsi 5) Badshahpur 6) Fatehpuri 7) Durina 8) Dahina 9) Nahar 10) Badli 11) Khairpur

12) Bihali and 13) Bargaon, during the months of November'2014 to March'2015.For the purpose of collecting the required data, a structured non disguised questionnaire was used, five hundred and thirty six respondents were contacted personally from these villages to get their viewpoint on the concept of Microfinance and especially to know about the impact of SHG (Self Help Group) on their economic and social status. And also for getting the feedback from the shop owners whether the company provides them incentives for creating demand at bottom of pyramid, a questionnaire was used, forty one shop owners were approached personally for getting the feedback regarding the consumption patterns and the company incentives impact on creating demands at the bottom of pyramid section.

LIMITATIONS

This section enumerates the limitations of the present study. Limitations are inherent in all research investigation and it is important for a researcher to report these limitations. The findings and limitations of any study may be the starting point for another research. Some of the limitations are inherent to social and behavioral science research and, therefore, part of a larger debate. Inspite of these limitations, the present study provides some insights on the impact of Microfinance and SHGs on the economic and social status of bottom of pyramid people. Some of the limitations of the study are as follows:

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5. The sample of the SHG members taken for the study are relatively small and to a certain extent confined to national capital region (NCR) that may pose difficulties in generalization of results.
6. During the field visit the majority of the respondents are female therefore the results may have a gender bias.
7. Since the sample is of rural villagers some of them are even illiterate some limitations arise in making them understand the questions.
8. Some elements of inaccuracy might have crept in because of mis-interpretations of questions on the part of respondents.
9. The study only focuses on the participants of SHG (Self Help Group) and does not carry out the comparison of participants with non participants and the reasons for non participation etc.
10. Statistical tools used in the study too have their inherent limitations. The major descriptive statistics used are means, correlation, Analysis of Variance and factor analysis also have their limitations.

ORGANIZATION OF THE STUDY

Various aspects that the present study covers have been organized into eight Chapters. Chapter 2 discusses the conceptual framework of Microfinance programme. It discusses the role of credit in poverty alleviation, various Government initiatives for the same and discusses in length the history, the users and providers of microfinance. Chapter 3 focuses on the SHG (Self Help Group) Bank linkage scheme of the Microfinance and the bottom of pyramid concept. The chapter studies various Models of SHG, financial requirements of SHG and impact of SHG scheme on vulnerability of poor households. The chapter also focuses on the evolution of bottom of pyramid, its role and its significance in Microfinance sector etc.

A review of the literature is presented in Chapter 4. The chapter has been divided into many sections viz., need of microfinance, women empowerment and microfinance, SHG's and microfinance and constraints of the same. Chapter 5

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presents the research design and methodology used to pursue, the present study. Primary data has been collected through structured and non-disguised questionnaire targeted towards SHG members in the five districts which are Gurgaon, Jhajjar, Rewari, Bahadurgarh and Mahendragarh. The chapter focuses on sample design, development of questionnaire and the statistical techniques used for analysis of data.

Chapter 6 concentrates on analysis of the questionnaire and presents the main findings of the field survey. It discusses the descriptive statistics of the respondents, analysis based on impact of SHG. Chapter 7 further analyses the hypotheses for measuring the group cohesiveness of Self Help Groups and the economic and social impact of SHGs and also to analyze the consumption pattern of the bottom of pyramid members.

Finally the main conclusions of the study undertaken are given in Chapter 8.It provides a summary of the main findings and the conclusions based on research work. Lastly recommendations are also provided to the government and banks linked with SHGs, for strengthening this programme.

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Chapter - 2

Microfinance: A Conceptual Framework

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The present chapter aims at studying the concept of Microfinance starting with the need of credit for poverty alleviation, geographical spread of Microfinance, composition of borrowers and the initiatives taken by the formal institutions and government in this regard. After the liberalization how the concept of Microcredit has gained importance and how it has expanded to Microfinance, discussing about the demand and supply factors of Microfinance and constraints in providing finance to the weaker section of the society. The chapter also focus on the history of Microfinance in India and internationally and lastly it focus on the most prominent scheme of Microfinance i.e. SHG (Self Help Group).

For individuals and group-based lender serving poorer clients is associated with facing higher average costs. The finding follows from the observation that small loans are costlier to serve (per unit lent) relative to larger loans. (Cull Robert, Demirguc-Kunt Asli, Morduch Jonathan – The World Bank Report 2009)

The principal goal of the microfinance sector is to improve access to financial services for those who have been left out of the formal financial sector. While this is the main goal, the second most important goal of microfinance is indeed poverty reduction. (Satish2015)

ROLE OF CREDIT IN POVERTY ALLEVIATION

To understand why access to finance is so important for poverty reduction, we have to begin with an understanding of the importance of credit. As Amartya Sen has pointed out, availability and access to finance can be a crucial influence on the economic entitlements of economic agents. In today’s scenario credit plays an important role in everybody’s life. Many economic activities require credit such as adoption of new technology, or a new crop or human capital formation, which requires investment today with the pay offs coming in later. All the ongoing productive activity requires inputs in advances with the revenues being realized later on, which makes credit so important. Finally this is especially true in case of casual labor or self-employed persons in rural areas where their income streams fluctuate (because of seasonality or demand conditions) and such fluctuations can be smoothed through some form of credit. Thus credit plays a vital role which initiates the concept of Microfinance.

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The catalytic role played by credit for accelerating the economic development has been well recognized all over the world. An essential element for the rural development and poverty alleviation is the provision of credit and generation of savings. Credit plays an important role in rural development and poverty alleviation (Pitt and Khandker 1998). The Multiplier effect of investment can be seen in case of rural poor by availing them with funds for investment which will result in increase in their Income. The vicious circle of low Income/low savings/low investment/low Income can be broken by injection of credit in the cycle i.e. More Credit/more investment/more income/more savings/more investment/more income is the outcome of credit interference.

PROVIDING ACCESS TO CREDIT: GOVERNMENT INITIATIVES

Since the inception of Central Economic Planning in 1950, the government identified the credit needs of the rural sector and framed policies conducive for the flow of institutional credit. Finance is one of the most fundamental inputs for economic activity, extension and development of any economy. Provision of financial services to the poor and underprivileged section of the society has always been in the focus of various programmes, which are run by the government since independence.

The initiatives of the government can be studied in the different era's which are as follows:-

THE POST INDEPENDENCE PERIOD: 1947 TO 1960

After independence in 1947, the first survey of rural indebtedness (All India Rural Credit Survey, or All India Debt and Investment Survey AIDIS) prepared by RBI documented that moneylenders and other informal lenders met more than 90% of rural credit needs. The share of banks in particular was only about 1% in total rural household debt (Basu and Srivastava, 2005).

THE PRE REFORMS 1990 PERIOD: 1960-1990

In the beginning of the 1960's the focus was on delivering the agricultural credit through cooperatives. The participation of the banking sector in the endeavor of alleviating poverty had also improved tremendously with the nationalization of bank's in the year 1969.

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The share of Banks in rural credit market remained low until 1971 when it was 2.4%, although the share of formal sources of credit in rural areas increased steadily to 29% due to the rising share of cooperatives. Following bank nationalization, the share of banks in rural household debt increased to about 29% in the 80's. Later in 1984, a network of RRB's (Regional Rural Banks) was established, leading to a rapid expansion of bank branches in rural areas.

The IRDP (Integrated Rural Development Programme), the largest state supported small loan programme in the world covered over 50 million households during this phase. Though institutional sources made significant contribution in the share of indebtedness of rural households, but it stepped marginally in the 1980's.

It should be pointed out that the focus of attention of institutional credit has been more on agriculture rather than in providing financial access to rural people for starting up their own business ventures etc.For decades, financial service provision to the underserved was regarded as synonymous with credit delivery to the rural areas, predominantly for the purpose of agriculture. Very few programmes focused on micro enterprises, or encouraged diversification away from agriculture. This led to a focus on merely geographical expansion to rural areas, where bank branches offered credit in sizes, which were too large to be made use of by the very poor, rather than a suite of products designed to cater to the needs of this segment. These practises in turn led to high default.

THE REFORMS PERIOD: 1991 TO 2006 GLOBALIZATION

In the early reforms period, in 1991 the share of formal or institutional sources in total debt reached 61.2% correspondingly, the share of moneylenders declined steadily over the previous four decades which can be seen from the following table:

Table 2.1: Share of rural household debt by source of credit, All India, 1951-91 (percentages)

	Institutional				Non-Institutional		
Year	**Banks**	**Cooperatives**	**Government**	**Total Instnl.**	**Relative/ Friend**	**Money lenders**	**Others***
1951	1.1	4.6	3.1	8.8	14.4	68.6	8.2

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1961	0.3	10.4	6.6	17.3	5.8	60.9	16
1971	2.4	20.1	6.7	29.2	13.8	36.9	20.1
1981	28.6	28.6	4	61.2	9	16.9	12.9
1991	29	18.6	5.7	53.3	6.7	15.7	24.3

* "Others includes non-institutional sources other than friends and relatives and moneylenders, e.g., traders, agricultural moneylender, landlord, etc.

Source: All India Rural Credit Survey and All India Debt and Investment Survey (AIDIS), 1991- 92.

INITIATION OF MICROCREDIT

The concept of Microcredit has emerged in India as a new mechanism of lending over the past few years. Microcredit has evolved as a powerful mechanism to deliver financial services particularly credit to the section of the community that has been excluded from the services of the main stream institutions. It has been recognized and accepted as one of the new development paradigm for alleviating poverty through social and economic empowerment of the poor.

MEANING OF MICROCREDIT

As per the declaration of the Microcredit summit held in Washington DC in 1997 Microcredit (mI-[*]Kro'kre-dit); noun; means "extending small loans to poor people for self-employment projects that generate income, allowing them to care for themselves and their families". Microcredit was coined initially to refer institutions like the Grameen Bank that were focusing on getting loans to the very poor. The focus was explicitly on poverty reduction and social change, and the key players were NGOs (Armendariz and Morduch 2007).

KEY FEATURES OF MICROCREDIT

D Lack of collateral: Microcredit involves loans without collateral. The absence of specific policy intervention, landless and asset-poor households are deemed to be not creditworthy by formal sector lending institutions since they cannot provide collateral that is deemed to be appropriate.

D Joint Liability of group members: NGO-controlled Microcredit loans are generally advanced to individuals who are members of groups.

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D Microcredit is viewed as a way of promoting marketed growth or in the words of Mohammed Yunus, of “privatizing the economy” (Yunus 1997). “ Microcredit programmes have brought the vibrancy of the market economy to the poorest villages and peoples of the world” (Microcredit Summit 1997)

D The main target groups of microcredit projects constitute a fraction of those in need of credit; this target group is generally only at below a line of absolute poverty as determined by national estimates.

D While all definitions concur on Microcredit as the provision of “small loans”, the scale of “smallness” of loans varies and has to be defined empirically.

A PATH FROM MICROCREDIT TO MICROFINANCE

The concept which started as Microcredit in most of the developing countries has mushroomed as an umbrella of microfinance. Most of the times the word Microcredit and Microfinance are often used interchangeably but both the words have different connotations. The former is a subset of the latter focusing on the small loans provided to the rural poor. Whereas, Microfinance not only includes the loan but also the financial services such as savings, remittances, provision of risk mitigation products like insurance and of financial counseling services etc, so the focus of microfinance is savings and not just the availability of credit.

The concept of microfinance today has become a major credit disbursement mechanism in many parts of the world. Today, the term microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low- income clients.

Over three decades, microfinance which has evolved as a simple idea-to provide loans to poor entrepreneurs- but today it is a far-ranging and dynamic sector, including institutions that provide savings and remittance services, sell insurance, and offer loans for a wide range of purposes. (Cull Robert, Demirguc-Kunt Asli, Morduch Jonathan – The World Bank Report 2009)

Micro financing generally cover the following activities:

Micro-Credit: - It is a small amount of money loaned to a client by a bank or other institution. Micro-credit can be offered, often without collateral, to an individual or through group lending.

Micro-Savings: - These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order to meet unexpected expenses and plan for future investments.

Micro- Insurance: - It is a system by which people, businesses and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their business while mitigating other risks affecting property, health or the ability to work.

Remittances: - These are transfers of funds from people in one place to people in another, usually across borders to family and friends. Compared with other sources of capital that can fluctuate depending on the political or economic climate, remittances and a relatively steady source of funds

Micro financing programmes, thus, are also serving as a tool for “social re-engineering” for policymakers across the world, especially the least developed and developing countries.

UNDERSTANDING MICROFINANCE

Microfinance has, in recent times come to be recognized and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor, especially women. It is a novel way to extend credit to the rural poor.

The word Microfinance is the combination of two words ‘micro’ and ‘finance’ of which the former means small and tiny in size where as the latter alludes money. Micro-finance is a financial service of small quantity provided to entrepreneurs, particularly women, from low income households. These loans are generally offered without any collateral. The micro-finance approach or tool has emerged as an important

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development in banking for channelising credit to rural people for poverty alleviation directly and effectively. The RBI has issued comprehensive guidelines to banks in February 2000 for promoting the system of micro credit and enhancing the outreach of the suppliers of micro credit. The micro credit extended by banks to individual borrowers directly or through any agency is regarded as a part of bank's priority sector loans.

MEANING OF MICROFINANCE

In India, microfinance has been defined as "provision for thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards".(RBI 1999,NABARD 2000).

As per the International Labour Organization (ILO), microfinance is an economic development approach that involves providing financial services through institutions to low income clients.

Asian Development Bank (ADB 2000) defines "Microfinance as the provision of a broad range of services such as deposits, money transfers, and insurance to the poor and low income households and their micro enterprises".

As per the World development report (2000-2001) Microfinance is a "market-based formal mechanism" to mitigate the risk faced by poor people as against the "informal group-based mechanisms" like savings and credit associations.

Microfinance is the supply of loans, savings, and other basic financial services to the poor. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, and savings, pensions, insurance, and money transfer services

Microfinance is being practiced as a tool to attack poverty the world over. Microfinance Institutions (MFIs) are those, which provide thrift, credit and other financial services and products of very small amounts mainly to the poor in rural, semi-urban or urban areas for enabling them to raise their income level and improve living standards. Lately,

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the potential of MFIs as promising institutions to meet the consumption and micro-enterprise demands of the poor has been realized.

Microfinance promises improvements in both the efficiency and fairness of capital markets. It promises to correct market failures by improving the allocation of capital and by expanding opportunities for the poor (World Bank 2008).

NABARD had been providing financial assistance to MFIs by way of capital/equity support to help them to extend their outreach to the poor households and to enable them to leverage commercial borrowings from banks. As we can see from the table 2.2 loans to MFIs by Banks and Institutions have increased considerably. Thus Microfinance has stated its impact and still is creating its own markets.

Table-2.2 : Loans to MFIs by Banks/Financial Institutions **(Rs. crore)**

		Loans disbursed to MFIs during the year		**Loan outstanding against MFIs as on 31 March**	
Financing Agency	**Period**	**No. of MFIs**	**Amount**	**No. of MFIs**	**Amount**
All Commercial Banks	2010-11	460	7601.02	2153	10646.84
	2011-12	336	4950.98	1684	9810.98
	2012-13	368	7422.66	1769	12467.72
	2013-14	484	9468.83	2197	14307.57
Regional Rural Banks	2010-11	9	4.16	23	42.01
	2011-12	113	13.28	128	37.51
	2012-13	14	4.58	153	70.66
	2013-14	16	163.18	124	222.00
Cooperative Banks	2010-11	NA	NA	NA	NA
	2011-12	4	1.61	19	4.75
	2012-13	3	4.00	18	6.83
	2013-14	4	4.48	17	7.97
	2010-11	2	843.78	139	3041.77

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SIDBI	2011-12	12	239.42	129	1597.11
	2012-13	41	408.27	102	1880.63
	2013-14	41	646.01	84	1979.90
Total by all agencies	2010-11	471	8448.96	2315	13730.62
	2011-12	465	5205.29	1960	11450.35
	2012-13	426	7839.51	2042	14425.84
	2013-14	545	10282.49	2422	16517.43
Source: NABARD Annual Report2013-14					

DEMAND FOR MICROFINANCE

Research shows that poor people value financial services, want these to be reliable, convenient, continuous and flexible (Stuart Rutherford and Jonathan Morduch's). They understand that financial services help them to spend, at one time, income earned in other times, and because those incomes tend to be small, irregular and unreliable, they need the full armory of intermediating modes-saving up for future spending, taking advances against future savings, and building cash reserves that can be called on at any time.

The poor need a wide range of financial services, from small advances to tide over consumption needs to loans for investment purposes and long term savings that help them manage life cycle needs (Morduch 1999).

The demand for microfinance can be divided into the following parts:

First, there is the capital required for new startups or a substantial expansion of existing production lines. The Microfinance market that services these needs is called the market for **fixed capital:** capital factories, production processes, machines, or warehouses for small enterprises.

Secondly, there is the credit required for ongoing production activity, which occurs because of a substantial lag between the outlays required for normal production and sales receipts. Thus, merchants who buy handicrafts from poor producers advance or "put out" sums of money that are used to purchase various materials. When the product

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is finally produced, these credit advances are deducted from the price that the merchant pays for his wares. This market is called the market for **working capital.**

Third factor that the rural poor demand Microfinance is the **lack of collateral** i.e. they don't have to provide collateral for arranging short term loans while earlier they are otherwise excluded from rural credit market since Banks consider rural people as unbankable.They consider it a risky option to lend to rural poor because of default in repayment.

Finally**,** there is **consumption credit**, which typically is demanded by poor individuals who are strapped for cash, either because of a sudden downturn in their production, or a sudden fall in the price of what they sell, or perhaps because of an increase in their consumption needs caused by illness, death, or festivities such as a wedding.

SUPPLIERS OF MICROFINANCE

India has a range of rural financial service providers, including the formal sector financial institutions at one end of the spectrum, informal providers (mostly moneylenders) at the other end of the spectrum, and between these two extremes, a number of semi- formal/Microfinance providers.

Formal providers. In terms of sheer size and spread of operations, the formal sector financial institutions dominate the rural landscape:

D Commercial banks, mostly public sector banks (but also some private sector banks) and Regional Rural Banks (RRBs) together have more than 32,000 rural branches.'

D India also has a vast network of rural cooperative banks, with a three-tiered structure at the state, district and village level. There are some 14,000 branches of rural cooperative banks and more that 98,000 grass roots level retail outlets of primary agricultural credit societies (PACS), which are used by the cooperative system as channels for funds flow.

D The post office system adds to the physical service point network of the country with more than 154,000 post office branches handling more than 110 million money orders and administering 114 million savings accounts.

D Insurance companies have a moderate reach in rural areas, though this is gradually increasing.

These formal rural finance institutions account for almost all institutional loans to rural areas; the loan exposure of commercial banks is Rs 533,000 million (2.6% of GDP); the rural deposit base is Rs 1,400,000 million (6.6% of GDP). The formal rural finance institutions are largely deposit funded 65%-80% (Basu, 2004).

The following chart represents the supply side structure of Credit Market in India:

Formal	**Semi-Formal/Microfinance**	**Informal**
	Microfinance Institutions (MFIs)	Moneylenders
Commercial banks	SHG-bank-linkage program	Trade creditors
Regional Rural Banks (RRBs)		Local shopkeepers
Cooperative Banks		
Insurance companies		
Post office network		
Reserve Bank of India		

The formal financial institutions are regulated by the Reserve Bank of India, although it has delegated to the National Bank for Agriculture and Rural Development (NABARD) the task of supervising rural cooperative banks and RRBs. Development banks such as NABARD and the Small Industries Development Bank of India (SIDBI) provide support to both formal and semi formal segments through funding/refinancing arrangements. NABARD provides refinancing to banks lending in rural areas, and SIDBI funds and supports Microfinance institutions (MFIs).

Semi-formal/Microfinance sector. While home to many microfinance innovations, in terms of people reached and the scale of financing, microfinance in India is still a drop in the ocean. It reaches less than 5% of the rural poor.

Dominant among the Microfinance models is the Self Help Group (SHG) bank linkage model, whereby mainly women's SHG are linked to the rural branches of Commercial Banks, RRB's or Cooperative Banks. The SHG bank linkage program has reached out to 12 million families. Credit outstanding remains low; disbursements in FY2002-03 accounted for only 2%of the formal sector credit outstanding in rural areas.

The other Model is MFI's (Microfinance Institutions), which reach around 1 million clients. The loans outstanding of MFI's are around 0.5% of the total rural loans of the formal sector banks. The total branches of MFIs are estimated to be in the range of a few thousand compared to the vast numbers of bank branches.

Recent development have led to other inter-linkages between the formal, both public and private sector banks, and semi- formal sector initiatives, particularly the SHG- bank linkage program (led by NABARD), as well as lending by SIDBI (which has been a pioneer and takes credit for developing this financial institutional space) and commercial banks to MFIs. Moreover, a few private sector commercial banks such as ICICI Bank, have tried innovative ways to incorporate the lessons from microfinance into their operations and have made inroads in using microfinance methodologies to deliver rural financial services.

Informal providers. Informal financiers include a range of actors: landlords, local shopkeepers, traders, professional moneylenders, etc. While there are no definite estimates of the number of informal sector providers, these are spread very widely across the country. Survey data indicate that poor rural households rely heavily on informal finance to meet a range of financing needs: from consumption and emergency financing to investment loans. Around 44% of the households surveyed by RFAS 2003 report having borrowed informally at least once in the preceding 12 months; the interest charged on informal loans averages 48% per annum. Not surprisingly, informal borrowing is very important for the poorest (marginal and commercial categories), who are the most deprived of formal finance (RFAS, 2003).

With a few notable exceptions (such as West Bengal, where land reforms are the most advanced in the country), village moneylenders and other types of informal financiers have been around for as long as villages have existed. Informal financiers have the advantage of knowing their client better than most formal institutions such as banks, they have a better ability to enforce contracts, and provide flexible products.

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PROBLEMS IN PROVIDING CREDIT TO POOR PEOPLE

From the perspective of rural banks problems faced by them are as follows:

1. **Uncertainty and default risk:** First is the problem of uncertainty about the repayment capacity of the poor and there is a problem of default which can be of two types:

a) **Involuntary Defaults** i.e. is the inability to repay. A loan may be taken ostensibly for productive reason but may be squandered on consumption on activities such as wedding etc.

b) **Voluntary Defaults** or strategic defaults where the borrower can repay the loan in principle but simply does not find it in his interest to do so. Such a state of affairs is especially pertinent in context where the legal system of loan enforcement is weak.

Lending to some segments, especially to the very poor, is surrounded by uncertainty about repayment. The rural poor tend to have irregular/volatile income streams and expenditure patterns, and they also tend to be highly exposed to systemic risks such as crop failures or a fall in commodity prices, and therefore, may face real difficulties servicing loans. So banks have legitimate concerns while dealing with the rural poor, and tend to perceive such loans as risky.

2. **Informational Constraints**: The fundamental feature that creates imperfections in credit market is informational constraints. First, there is lack of information regarding the use to which a loan will be put. Second, there is lack of information regarding the repayment decision. This deficiency includes limited knowledge of the innate characteristics of the borrower that may be relevant in such a decision, as well as limited knowledge of the defaulter’s subsequent needs and activities, which place limits on his incentive to default. For individuals and group-based lender serving poorer clients is associated with facing higher average costs. The finding follows from the observation that small loans are costlier to serve (per unit lent) relative to larger loans.

3. **Transaction Cost:** The transaction costs of rural lending in India are high, mainly due to the small loan size, high frequency of transactions in rural finance, large

geographical spread and heterogeneity of borrowers, and widespread illiteracy. For private sector banks- their lack of a rural branch network is an additional problem.

4. **Government policy:** Government policy has created a “financial climate” that is not conductive to lending in general, and to rural banking, in particular. High fiscal deficits, the government’s domination of rural finance institutions, persisting weakness in the regulatory and legal framework, and a set of policies towards the sector that have been designed to gain political patronage, have resulted in the distortion of risk/return signals and inefficiencies in the delivery of rural finance services. An outcome of these realities has been a dilution of the credit creating role of rural finance.

5. **Collateral:** One way in which a financer can reduce the risk of losing his money to uncertainty is by requiring collateral-valuable assets that the financer can keep in case the borrower defaults. The problem in this is that the rural poor do not have collateral. Most of India’s rural poor, for instance, have no fixed collateral or only small plots of land that most often cannot be mortgaged. Identification of alternative collateral is costly and cumbersome. So only those with assets can borrow.

6. **Competition:** Armendariz and Morduch (2010) says that customers are less willing to repay loans if they know that other reliable loan sources are available.

From the perspective of borrowers**:** Rural borrowers find rural banks unattractive for the following reasons:

1. **Absence of flexible products and services**: Rural banks do not provide flexible products and services to meet the income and expenditure patterns of small rural borrowers. As noted above, small rural borrowers have irregular/volatile income streams and expenditure needs, and therefore, prefer to borrow frequently, and repay in small installments, but most banks do not offer such products. Also, while small rural borrowers seek savings and lending products, they also seek insurance (life, health, crop), which banks do not generally offer.

2. **Transactions costs:** The transaction costs of dealing with the formal banks are high. In part, high transactions costs stem from distance to the nearest financial

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institutions. According to the(Rural Finance Access Survey) RFAS, 2003, the median distance to the nearest financial institutions ranges from 2 kms (post office branches) to 5 kms (commercial banks, cooperative banks); the median time taken to travel to the nearest commercial bank, cooperative or RRB is 30 minutes (post offices are available at closer proximity). Procedures for opening an account or seeking a loan are cumbersome and costly (with high rejection rates).

Government policy dictates that rural borrowers currently need to acquire a "no dues certificate" from every other lender in the village (as defined by local lenders) that they do not have a loan outstanding.

Furthermore, clients have to pay hefty bribes (ranging from 10%-20% of the loan amount) to access loans, so that the ultimate cost to borrowers is very high (despite interest "caps"). On average, some 27% (and 48% in UP) of sample households in survey conducted by RFAS , loan borrowed from an RRB report having to pay a bribe to get the loan, a little under 27% of households who borrowed from a commercial banks paid a bribe, and 10% of households who borrowed from a credit cooperative paid a bribe.

The bribe amounts appear to vary from anywhere between 10% of the loan amount (in the case of banks) to 20% (in the case of cooperatives).Moreover, longer processing times for loans, together with bribes, could result in higher effective costs to borrowers and consequent credit rationing. It takes, on average, 33 weeks for a loan to be approved by a commercial bank (RFAS, 2003).

Table 2.3 : Rural Finance Access Survey

	Bank	**RRB**	**Coops**	**Schemes**	**Others**
Interest rate(median) %pa	12.5	11	11	14	14
Loan amount received as % amount applied	91.8	88.2	83.5	86.6	98.9
Percentage household reporting bribes	-	-	-	-	-
Bribe % of amount approved	10.1	18.2	19.9	42.3	8.3
Time taken to process a loan application(weeks)	33	28.5	24	8.9	14.3

Source: -RFAS-2003(Rural Finance Access Survey)

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3. **Collateral:** A third feature that makes formal banks unattractive for rural borrowers is that demand collateral, which poor rural borrowers lack. Indeed, the majority of loans extended by commercial banks, RRBs and cooperatives are collateralized, with 89% of households who borrowed from RRBs, and 87% of households who borrowed from commercial banks, reporting that they had to provide collateral (RFAS-2003). Land remains by far the most predominant form of collateral. But since this collateral is seldom executed, it is just another cost, with little benefit in practice.

4. **Segmentation:** Typically, a rural moneylender serves a fixed clientele, whose members he lends to on a repeated basis; he is extremely reluctant to lend outside this circle. Most often, a moneylender's clients are from within his village or from close by, so that the moneylender has close contact with them and is well informed about their activities and whereabouts. Repeat lending- a phenomenon in which a moneylender lends funds to individuals to whom he has lent before (or has otherwise close interactions with) is very common. This kind of market segmentation creates problems for borrowers.

HISTORY OF MICROFINANCE

The concept of Microfinance is not new. Formal credit and saving institutions for the poor have been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. For studying the history of Microfinance we will divide the topic in two parts:

1. MicroFinance in the International Arena

2. Microfinance in India

MICROFINANCE IN THE INTERNATIONAL ARENA

About one billion people globally live in households with per capita incomes of under one dollar per day. From the past the policymakers and practitioners were in the hope that poverty can be alleviated and the economic and social structures can be build by providing financial services to the low income households.

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The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world (global envision,2006).

Growths of credit and microfinance sector in different centuries are as follows:

- **In the early 1700**

Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived Microcredit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift.

- **In 1800**

In 1800's various types of larger and more Formal Savings and credit institutions began to emerge in Europe. These institutions were known as people Banks, Credit union and saving and credit cooperatives. Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually.

The concept of the credit union was developed by Friedrich Wilhelm Raiffeisen and his supporters. Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. The cooperative movement quickly spread to other countries in Europe and

North America, and eventually, supported by the cooperative movement in developed countries and donors, also to developing countries.

In Indonesia, the Indonesian People's Credit Banks (BPR) or The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units.

- **In 1900**

In the early 1900s, various adaptations of previous century's models began to appear in parts of rural Latin America. While the goal of such rural finance interventions was usually defined in terms of modernizing the agricultural sector, they usually had two specific objectives: increased commercialization of the rural sector, by mobilizing "idle" savings and increasing investment through credit, and reducing oppressive feudal relations that were enforced through indebtedness. In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks.

The global microfinance movement emerged in the mid-1970s with a series of lending experiments in poor villages throughout Asia and Latin America.

- **From 1950's – 1990's**

Between the 1950s and 1970s, governments and donors focused on providing agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. These efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of targeted credit through state-owned development finance institutions, or farmers' cooperatives in some cases, that received concessional loans and on-lent to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline and the funds did not always reach the poor, often ending up concentrated in the hands of better-off farmers.

Meanwhile, starting in the **1970s**, experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses. This type of micro enterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These "micro enterprise lending" programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers.

Through the **1980s,** the policy of targeted, subsidized rural credit came under a slow but increasing attack as evidence mounted of the disappointing performance of directed credit programs, especially poor loan recovery, high administrative costs, agricultural development bank insolvency, and accrual of a disproportionate share of the benefits of subsidized credit to larger farmers. The basic tenets underlying the traditional directed credit approach were debunked and supplanted by a new school of thought called the "financial systems approach", which viewed credit not as a productive input necessary for agricultural development but as just one type of financial service that should be freely priced to guarantee its permanent supply and eliminate rationing.

The **1990s** saw growing enthusiasm for promoting microfinance as a strategy for poverty alleviation. The microfinance sector blossomed in many countries, leading to multiple financial services firms serving the needs of micro entrepreneurs and poor households. These gains, however, tended to concentrate in urban and densely populated rural areas. In 1990s the two features - high repayment and cost-recovery interest rates - permitted some MFIs to achieve long-term sustainability and reach large numbers of clients.

It was not until the **mid-1990s** that the term "Microcredit" began to be replaced by a new term that included not only credit, but also savings and other financial services. **"Microfinance" emerged** as the term of choice to refer to a range of financial services to the poor, that included not only credit, but also savings and other services such as insurance and money transfers.

Milestones Achieved are as follows within this era:-

- **ACCION International**, founded in 1961 an early pioneer, was founded by a law student, Joseph Blatchford, to address poverty in Latin America's cities. Begun as a student-run volunteer effort in the shantytowns of Caracas with $90,000 raised from private companies, ACCION today is one of the premier microfinance organizations in the world, with a network of lending partners that spans Latin America, the United States and Africa.

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- **SEWA Bank**. In 1972 the Self Employed Women's Association (SEWA) was registered as a trade union in Gujarat (India), with the main objective of "strengthening its members' bargaining power to improve income, employment and access to social security." In 1973, to address their lack of access to financial services, the members of SEWA decided to found "a bank of their own". Four thousand women contributed share capital to establish the Mahila SEWA Co-operative Bank. Since then it has been providing banking services to poor, illiterate, self- employed women and has become a viable financial venture with today around 30,000 active clients.

- **Grameen Bank**. In Bangladesh, Professor Muhammad Yunus addressed the banking problem faced by the poor through a programme of action-research. With his graduate students in Chittagong University in 1976, he designed an experimental credit programme to serve them. It spread rapidly to hundreds of villages. Through a special relationship with rural banks, he disbursed and recovered thousands of loans, but the bankers refused to take over the project at the end of the pilot phase. They feared it was too expensive and risky in spite of his success. Eventually, through the support of donors, the Grameen Bank was founded in 1983 and now serves more than 4 million borrowers. Grameen's Group lending model has been replicated in Bolivia, Chile, China, Ethiopia, Honduras, India, Mali, Philippines, Sri Lanka, Tanzania, Thailand, United States and Vietnam.

- Another flagship of the microfinance movement is the village banking unit system of the Bank Rakyat Indonesia (BRI), the largest microfinance institution in developing countries. This state-owned bank serves about 22 million micro savers with autonomously managed micro banks. The micro banks of BRI are the product of a successful transformation by the state of a state-owned agricultural bank during the mid- 1980s.

- ACCION helped found BancoSol in Bolivia in 1992, the first commercial bank in the world dedicated solely to microfinance. Today, BancoSol offers its more than 70,000 clients an impressive range of financial services including savings accounts, credit cards and housing loans - products that just five years ago were only accessible to Bolivia's upper classes. BancoSol is no longer unique: more than 15 ACCION-affiliated organizations are now regulated financial institutions.

Today, practitioners and donors are increasingly focusing on expanded financial services to the poor in frontier markets and on the integration of microfinance in financial systems development. The recent introduction by some donors of the financial systems approach in microfinance - which emphasizes favorable policy environment and institution-building - has improved the overall effectiveness of microfinance interventions. But numerous challenges remain, especially in rural and agricultural finance and other frontier markets. Today, the microfinance industry and the greater development community share the view that permanent poverty reduction requires addressing the multiple dimensions of poverty. For the international community, this means reaching specific Millennium Development Goals (MDGs) in education, women's empowerment, and health, among others. For microfinance, this means viewing microfinance as an essential element in any country's financial system.

The following table shows the characteristics of the selected leading International Microfinance Programmes:-

Table 2.4 : Characteristics Of Selected Leading Microfinance Programs

	Grameen Bank, Bangladesh	**Banco-Sol, Bolivia**	**Bank Rakyat Indonesia Unit Desa**	**Badan Kredit Desa, Indonesia**	**FINCA Village Banks**
Membership	2.4 million	81,503	16 million depositors	765,586	89,986
Average loan balance	$134	$909	$1007	$71	$191
Typical loan term	1 year	4-12 months	3-24 months	3 months	4 months
Percent female members	95%	61%	23%	-	95%

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Mostly rural? Urban?	Rural	Urban	Mostly rural	Rural	Mostly rural
Group-lending contracts?	Yes	Yes	No	No	No
Collateral required?	No	No	Yes	No	No
Voluntary savings emphasized?	No	Yes	Yes	No	Yes
Progressive lending	Yes	Yes	Yes	Yes	Yes
Regular Repayment schedules	Weekly	Flexible	Flexible	Flexible	Weekly
Target clients for lending	Poor	Largely non-poor	Non-poor	Poor	Poor
Currently financial sustainable?	No	Yes	Yes	Yes	No
Nominal interest rate on loans (per year)	20%	47.5% - 50.5%	32-43%	55%	36-48%
Annual consumer price inflation, 1996	2.7%	12.4%	8.0%	8.0%	-

Source: Morduch 1999, "The Microfinance promise"pp-1574

MICROFINANCE IN INDIA

In the context of poverty in India, the World Bank claims that, Microcredit programmes have brought the vibrancy of the market economy to the poorest villages and people of the world. This business approach to the alleviation of poverty has allowed million of

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individuals to work their way out of poverty with dignity. To study the initiation of Microfinance in India, I have divided the section into two parts;-

1. Prior to Independence the initiation of credit
2. After Independence ,the launch of Microfinance Scheme

PRIOR TO INDEPENDENCE THE EVOLUTION OF CREDIT

When we look at the historical details of India prior to Independence there are at least three strands of indigenous finance available in India at that time. These are moneylenders, chit funds or rotating savings and credit associations (ROSCAs), and merchant bankers. This is all the more important as India, over a period of three thousand years, has spread its culture, trade and banking through vast parts of south and south-east Asia and may continue to do so as far as its latest rural finance innovation is concerned.

- Money lending became an organized and subsequently regulated profession in India around 1700-2200 years ago **.**Moneylenders are those who provide loans from their own resources as their only financial service are the oldest of these professions, dating back to prehistoric times. There was probably a long period of transition from gift- exchange, reciprocal lending and trading-cum-lending to specialized lending, and from lending-in-kind to lending-in-money before the first millennium B.C.
- **Chit funds** or ROSCAs are widespread institutions of ancient origin in India. A number of people, usually under an organizer, join together to regularly (e.g. daily, weekly, monthly) contribute equal amounts of money (or kind) allocated to one member at a time; a cycle ends when each participant had his turn. It appears that historically they were relatively small and unregulated. There are two types: the conventional type, found all over the world, in which the full amount contributed (apart from minor deductions) is allocated to one member at a time, either by lot, demonstrated need or in an agreed-upon sequence; and an advanced type found in a number of Asian countries including China, Vietnam and Nepal where the amount collected is allocated by auction to the lowest bidder and the balance returned to the members, or by tender. In response to increasing business opportunities, the bidding type has been gradually replacing the conventional type. Starting with the

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Travancore Chit Act of 1945 followed by other state-level laws, they were increasingly included in the formal financial sector. Chit funds attained such importance that in 1982, after ten years of deliberations, a federal Chit Funds Act was passed, providing legal status to chits as non-banking financial intermediaries. The act regulates minimum capital, ceilings on aggregate chit amounts, procedures of dispute settlement, etc. This has greatly contributed to the growth of licensed chit funds, which are found all over India in large numbers.

- **Merchant Banking** It was evolved in India during the first millennium B.C.It Includes financial intermediation comprising lending, deposit taking and other financial services. India and beyond as early as the third century B.C. Merchant guilds, which dealt in goods and money, appeared already in the Vedic scripts, the oldest parts of which date back beyond the first millennium B.C. Between 200 B.C. and 300 A.D. a differentiation took place between the guild of moneylenders and the guild of traders, followed by the emergence of a guild of merchant bankers. The guilds eventually turned into strictly hereditary castes, and banking became a sub-caste of the traders' caste (Vaisya). Regulation evolved during the first two centuries A.D. when a law code, dharmashastras, was written regulating loan deeds, law courts and debt procedures in detail. Money lending and banking became licensed and tax-paying professions. Usury initially was a major issue of religious disputation. This was eventually resolved by agreements over "reasonable" interest rates, e.g., 15% p.a. on secured loans and higher rates on unsecured loans. The latter ranged from 2% p.m. on loans to a priest (Brahman) to 5% p.m. to a cultivator (shudra), supposedly reflecting different assessments of risk by caste Interest payments could also be made in kind, but at a substantially higher rate. Unrecovered loans were written off after 10 years.

Medieval India, the period from the mid-thirteenth century to the beginning of British rule during the eighteenth century, with its highly monetized economy was the heyday of indigenous banking. With domestic and international long-distance trade, merchant banking grew enormously, held by individual firms, joint family firms and partnership firms – all within the same baniya caste, but differentiated into numerous sub-castes.

Their customers included European private merchants and trading companies. They also advanced working capital to weavers and other artisans to produce goods on order for Indian or European merchants – an Indian (monetized!) version of the putting-out system. Some secured commercial interest rates during the 17th century were reported between 0.5 and 1.25% p.m.; risky commercial credit fetched a flat rate of 40-60% per trade venture. The basic principles of merchant banking were mutual trust and mutual benefit: very much in contrast to what emerged at the same time in rural finance.

In 1901 the Government of India accepted the proposal and in 1904 enacted the Co-operative Credit Societies Act, followed by the more comprehensive Co-operative Societies Act in 1912. This was to serve as a framework for promoting self-help among farmers and artisans. Under the Government of India Act of 1919, authority over cooperatives was transferred to the provinces, which were authorized to enact their own co-operative laws.

Rural finance, mostly in the form of abusive moneylending, spread under the Delhi sultanate with the introduction of a system of land revenue, housing tax and cattle tax to be paid in cash. Land was abundant; but the payment of taxes in cash was difficult, forcing the peasants to produce for the market. This resulted in the overall commercialization and monetization of the rural economy and the expansion of trade. At the same time it created a new market for the financial professions: rural moneylenders advanced land revenue payments to the peasantry; merchant bankers financed trade. Indigenous banking in Mughal India, i.e., during the period from the sixteenth to the eighteenth century. The urban population paid a mere 5% of their income in taxes, while land assessments in rural areas varied from one third to one half of the produce. Assessments of actual production were soon replaced by average pre-assessments, which caused severe hardship during bad years. This created a large class of rent-seekers, comprising tax collectors, moneylenders and a ruling class of landlords and officials without a salary but with rights to collect revenues; they kept about one quarter and transferred between one quarter and one third of the revenue to the government. Moneylending became part of everyday life

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Financial services provided by the merchant bankers included lending, deposit-taking, discounting bills and promissory notes, providing guarantees, issuing drafts, letters of credit and circular notes, hundi (written drafts), money-changing and safekeeping of valuables. Some top bankers also provided state financial functions: treasury, minting, revenue collection, and the financing of wars.

These figures are based on the Manu, one of the ancient texts of the time. The older Kautalya reports interest rates of 5% p.m. on ordinary monetary loans irrespective of caste and rates of 10% and 20% p.m. on loans to high-risk borrowers such as sea-faring merchants and forest explorers, respectively. The regulation thus led to a substantial lowering of interest rates.

As rural indebtedness and the loss of land to moneylenders surged, microfinance turned into usurious moneylending of the worst kind. Peasants became serfs; they could not be displaced as long as the revenue was paid, but, if not, were punished by expropriation, bonded labor, enslavement and even death for what was considered an act of rebellion against the government. This led to a land revolution-in-reverse: dispossessing the peasants and converting their rights of occupancy into rights of tax collection (zamindari): inheritable, alienable and mortgage able.

In British India microfinance and banking changed substantially, starting in 1757 (Battle of Plassey). The imposition of trade restrictions and the exclusion of Indian merchants from long- distance maritime trade led to a decline of indigenous trading and merchant banking. Interventionist policies such as the preferential importation of cloth from England dealt a death- blow to Indian textile manufacturing and the ancient commercial structure. However, this was followed by a rise in domestic trade and a shift to Bombay as the main centre of indigenous industry and banking. European finance limited itself largely to European enterprise. In rural areas, new legislation on land revenue collection, private property and land mortgaging and the transformation of subsistence agriculture into cash-crop production created new opportunities for moneylender, who could now enforce their claims in court. During the first half of the 20th century, rural indebtedness first increased, then was reigned in by moneylender, usury and tenancy legislation, but finally led to the rise of new types of lenders with an

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interest in acquiring the land of their borrowers. Cooperatives, introduced top-down, At the same time, the bankers' castes rose to new heights. In the sphere of big business they adopted Western banking by pooling their capital, establishing joint-stock companies or buying shares of banks; in the small and medium business sphere indigenous-style banking continued.

AFTER INDEPENDENCE

After independence India faced an underdeveloped rural economy, high levels of indebtedness and a lack of efficient financial services.

A) From 1950's-1970's

Since the 1950s the lack of rural development has been attributed to a lack of access to credit to finance production assets. Private Banks that should have provided such credit were absent from rural areas; and informal finance, through moneylenders, friends, relatives and rotating chit funds, was inadequate. 80% of the population lived in rural areas; 40% of GDP was contributed by agriculture; but only 2.2% of total credit went to agriculture – almost exclusively to medium and big farmers. No attempts were made to build on indigenous informal finance, despite the fact that, according to Reserve Bank of India findings, informal credit accounted in 1951 for 90% and in 1971 for 70% of rural indebtedness; there was no mentioning of savings. Instead, to remedy the situation, the Union Government took three related measures in 1969: the nationalization of 14 private banks (followed by another six in 1980); the requirement to open two rural branches for every urban branch; and a mandatory system of priority sector lending.

B) From 1970's-1980's

A stocktaking in 1975 revealed that as a result of the institutional expansion policy, 10,882 rural and semi-urban branches had been opened; yet the poor still lacked access to credit. It was concluded that rural branches of large commercial banks, be they private or public, are thus not the right answer. Hence, the government introduced a new network of government-owned Regional Rural Banks (RRBs), regulated and supervised banking institutions with a low capital base of around $250,000, each covering with its branches a designated service area of 1-3 districts.

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C) From 1980's-1990

In 1981 RBI carried out the All-India Debt and Investment Survey, published in 1983. After years of massive branch expansion, policies of directing credit to the rural areas, massive self- employment programs, and large numbers of donor credit lines – among them over $1 billion from the World Bank with the requirement that at least 60% went to small farmers –, a total of 14 million small loans had been provided by banks, yet some 250 million of the rural poor had no access to formal finance, and 39% of rural indebtedness stemmed from informal sources (though a huge reduction compared to 1951 and 1971).

In 1982 RBI transformed its agricultural credit department into a new apex bank: the National Bank for Agriculture and Rural Development (NABARD), with responsibility eventually for some 160,000 rural financial outlets, among them around 100,000 credit cooperatives (PACS- Primary Agriculture Cooperative Socities). On the basis of the 1981 survey NABARD concluded that, while India had one of the most complex rural financial infrastructures of any developing country, that system had failed to attain its objective of reaching the rural poor. Among the reasons identified were a sole emphasis on production loans, prohibitive transaction costs for lenders and borrowers, failure to mobilize savings, and overly complicated procedures.

Reviewing the situation of rural finance in India in 1989, it was observed that most of the 196 Regional Rural Banks (RRBs) were loss-making and thus did not present a viable solution. This led to a discussion in parliament about the feasibility of a Grameen Bank, following the model of Bangladesh, as a new national banking structure.

D) 1990's Onwards

Between 1989 and 1991, NABARD (1991) entered into a policy dialogue with RBI to make preparations for a pilot project linking informal groups to banks. On 24July,1991 RBI issued a circular to commercial banks (RPCD.No.Plan.BC.13/PL-09-22/90-91) advising them to actively participate in the pilot project, refinanced by NABARD, for linking SHGs with banks. The groups may be registered or unregistered, have 10-25 members, should have been in existence for at least six months, and should have actively promoted the savings habit.

The pilot phase covered the period 1992-96. The banks noted a contradiction between a directive of the RBI of 27 December 1985, which restricted the opening of savings accounts, and the circulars of RBI and NABARD authorizing bank linkages of informal groups: did the SHG banking circulars allow for savings accounts or just credit? This was finally decided in a circular (DBOD.No.BC.63/13:01:08/92-93) by RBI on 4 January 1993: “such Self-Help Groups, registered or unregistered, may be allowed to open Savings Bank Accounts with banks.” At mid- term, March 1994, 637 SHGs (80% women’s groups) with 11,000 members, most of them women, had been credit-linked to 28 banks, comprising 16 commercial and 12 regional rural banks. 34 NGOs were involved as facilitators. Large numbers of officers of NABARD were sent to MYRADA and other NGOs for exposure training. By March 1996, 4,757 SHGs with 80,000 members had been mobilized by 127 NGOs and credit-linked to 95 bank branches. During the pilot phase mainly SHGs were linked to banks that had previously been established by NGOs.

NABARD evaluated the project and found that the program was highly suitable for poor and very poor women particularly in marginal, resource-poor areas; membership has come mostly from the poorest section of the society; women frequently need credit, but at irregular intervals; they use the loans for productive and non-productive purposes, with a trend towards productive investments; incomes have gone up; even the poorest of the poor do save, and their savings increase with the income; transaction costs of banks and SHG Members go down; the repayment rate is close to 100%, in contrast to the usual rate of 50-60% in agricultural credit. In comparison to the Grameen Bank model, NABARD found that “the SHG linkage model appears more sustainable and appropriate in the Indian conditions where (India has) in place a vast network of rural bank branches.

Nationwide mainstreaming started in 1996 after clarifying two issues by circular:

(i) SHG members who had earlier defaulted on bank loans and were therefore not bankable could obtain loans from the groups’ own internal funds if so decided;

(ii) Informal groups were limited to 20 members, beyond which they would be required to legally register.

To implement mainstreaming, NABARD did the following:

(i) it provided refinancing to participating banks;

(ii) it declared SHG banking the dominant, but non-mandatory approach of lending to the poor, replacing bank retail lending;

(iii) it propagated its **grand vision of one million SHGs,** representing a population of 100 million of the rural poor, to be credit-linked by the year 2008 endorsed by NABARD's regional directors and subsequently articulated by union government in all its budget speeches;

(iv) it created a Microcredit Innovations Department (MCID) as the program steering unit, with representations in all states through Microcredit Innovations Cells;

(v) it set up a special fund to finance massive capacity-building measures15 as the motor of expansion;

(vi) it supported the establishment and maintenance of SHGs through numerous NGOs and GOs;

(vii) it subsequently allowed for initiatives to organize SHGs in self-sustained federations (Nair 2005) under a new legal form as Mutually Aided Cooperative Societies (MACS).

Backed by the joint political will of the Union Government, state governments, the Reserve Bank of India and NABARD, program dissemination and capacity building expanded rapidly in the following years.

The number of SHGs credit-linked to banks grew to 33,000 in 1999 and 115,000 in 2000. By the turn of the year 2003/04 it had reached the goal of one million credit-linked SHGs: now the largest and fastest-growing microfinance program in the developing world. As of March 2005 it has reached 1.6 million savings-based groups credit-linked to 35,294 bank branches and primary cooperatives, with 23.96 million members covering a population of over 120 million people predominantly from the lowest social strata. The majority of members (90%) are women: by choice, not program design (Seibel & Dave 2002). As transaction costs are low and repayment rates

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near 100%, SHG banking is highly profitable to the banks, despite lending rates, which are deregulated, from banks to SHGs between 10% and 13%.

Microfinance helps in meeting the need of the poor people by combining the flexibility, sensitivity and responsiveness of the informal credit system with strength of technical and administrative capabilities and financial resources of the formal credit institutions. It also helps in encouraging the banking activities, both on the thrift as well as credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover. Apart from it, MF builds mutual trust and confidence between bankers and the rural poor people. Microfinance is appreciated by poor people because they don't have any need to pledge something to lenders. It is the very nature of microfinance that no collateral is required to be put off with the lender in the avege of getting monetary assistance. Moreover, this facility is quite convenient to unreached poor who are not having access to financial services in desired manner.

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Chapter - 3

SHGs And Bottom of Pyramid

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The present chapter studies the SHGs (Self Help Group) framework working in bottom of pyramid discussing about the meaning, evolution of the SHG bank linkage program, its objectives and characterstics.The chapter also focus on bottom of pyramid, nature of BOP, competitive advantages and challenges for companies. Also chapter studies the SHGs Bank linkage scheme of NABARD, its initiatives and its benefits. Lastly the chapter covers the impact of SHG scheme on vulnerability of poor households and the major constraints in the functioning of SHG bank linkage programme.

MEANING OF SHG

One approach to microfinance that has gained prominence in recent years is the self help groups (SHG)-bank linkage program, pioneered by a few NGOs such as MYRADA in Karnataka and PRADAN in Rajasthan (and later in Tamil Nadu and Jharkhand), with strong support from NABARD, which has been instrumental in promoting this growth.

Self Help Groups (SHG’s) form the basic constituent unit of microfinance movement in India. A SHG is group of a few individuals-usually poor and often women-who pool their savings into a fund from which they can borrow as and when necessary. Such a group is linked with a bank, a rural, co-operative or commercial bank, where they maintain a group account. Over time the bank begins to lend to the group as a unit, without collateral, relying on self monitoring and peer pressure within group for repayment of these loans.

An SHG consists of five to maximum twenty persons, usually from homogenous background. Often a group like this is given a name. Each such group has a president or office bearer, elected by the group members. The members decide among themselves the amount of deposit they have to make individually to the group account. The starting monthly individual deposit is usually low, Rs 10 or Rs 20 per month. For a group of size 10, this translates to Rs100 to Rs 200 of group savings per month. On the basis of resolutions adopted and signed by all members of the group, the manager of a local rural or commercial bank open a saving bank account, the savings are collected by a certain date from individual members by the president and are deposited in the bank account.

Loans are then given out to individual members from out of these funds upon application and unanimous resolution drawn at a group meeting. The bank permits withdrawal from the group account on the basis of such resolutions. Such loans, fully funded out of savings generated by the group members themselves, are called “inter-loans”. The repayment periods of loans are usually short, three to six months. After regular loan issuance and repayment for six months, the bank considers making a bank loan to SHG.The maximum loan amount is a multiple (usually 4:1) of the total funds in the group account (Chakrabarti, 2006).

NEED FOR SHG FORMATION:

Individually a poor person tends to be rather tentative, uncertain in his behaviour but group membership smooth the rough edges of his behaviour pattern, making him more reliable as a borrower.

The approach towards poverty alleviation should be self-help. It is felt that individual effort is too inadequate to improve their fate. This brings about the group by which they can get the benefit of collective perception, collective decision- making and collective implementation of programmes for common benefits.

EVOLUTION OF SHG-BANK LINKAGE PROGRAMME

NABARD’s involvement in promoting micro-finance through the concept of SHGs started in 1987, with a sanction of Rs. 10 lakh as grant assistance from its R&D Fund to MYRADA for providing seed money to the Credit Management Groups (CMGs) promoted by it. The success of this experiment was precursor to the launching of the Pilot project in 1992 for linking 500 SHGs with banks (NABARD, 1995). In February 1992, the project was made operational throughout the country through a set of well defined guidelines with special reference to the objectives, criteria for selection of SHGs, size of group, assessment of credit, rate of interest, repayment period, security, etc. The basic philosophy of the “SHG-Bank Linkage Model” promoted by NABARD is to establish synergy between the banks, who have the financial strength and the

NGOs, who have the ability to mobilize the poor and build-up their capacity, to avail loans from the banks (Karmakar, 1999) SHG Bank Linkage programme, changes the SHG scenario from “development as charity” model as “development as business”. In

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India Microfinance sector is dominated by Self Help Group SHGs-Bank Linkage Programme, aimed at providing a cost- effective mechanism for providing financial services to the "unreached poor". The SHG movement is successful in not only in meeting needs of the rural poor, but also in nurturing self- help-groups at the local level, leading to their empowerment. (Thiyanayaki 2014).

OBJECTIVES OF SHG LINKAGE

1) To evolve supplementary credit strategies for meeting the needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the technical/ administrative capabilities and financial resources of formal financial institutions.
2) To build mutual trust and confidence between bankers and the rural poor.
3) To encourage banking activity in both the thrift and credit aspects in a segment of the population that formal financial institutions usually find difficult to reach.

SHG FUNCTIONS AND CHARACTERISTICS

SHGs are mostly informal groups where members pool savings and relend in the group on a rotational basis. The groups have a common perception of need and improvise towards collection action. Many such groups formed around specific production activities, promote savings among members and use the pooled resources to meet various credit needs of members (especially consumption needs). Where funds generation is low in the initial phases due to low saving capacities, this is supplemented by external resources loaned/donated by NGOs. Thus, SHGs have been able to provide primitive banking services to its members that are cost-effective, flexible and without defaults. Based on local requirements, SHGs have evolved their own characteristics of functioning.

- Group members usually create a common fund by contributing their small savings on a regular basis.
- Groups evolve flexible systems of working (sometimes with the help of NGOs) and manage pooled resources in a democratic way.

- Loan requests are considered by groups in periodic meetings and competing claims on limited resources are settled by consensus.
- Loans are given mainly on trust with minimum documentation and without any security.
- The loan amounts are small, frequent, for short duration and are mainly for unconventional purposes.
- The rates of interest vary from group to group and the purpose of loan. It is higher than that of banks but lower than that of moneylenders.
- At periodic meetings, besides collecting money, social and economic issues are also discussed.
- Defaults are rare due to group pressure and intimate knowledge of the end use of credit.

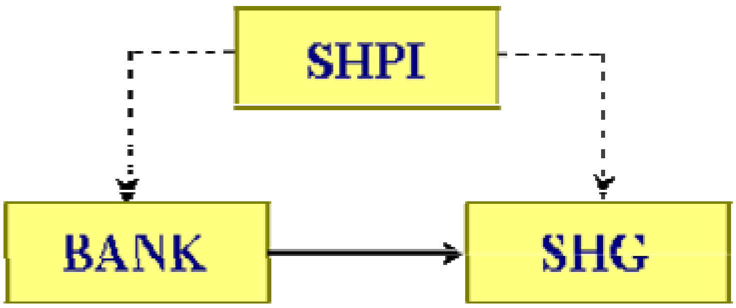
DIFFERENT MODELS OF SHGS

Models of Linkage between Banks and Self-Help Groups

- BANK = Commercial Bank
- NABARD = National Bank for Agriculture and Rural Development
- SHG = Self Help Group (or community groups, people's organizations)
- SHPI = Self Help Promotion Institution (or NGOs)

Three distinct models can be observed in linkage programmes between banks and low-income groups.

Figure 3.1 : MODEL I: Bank-SHG with active support of SHPI



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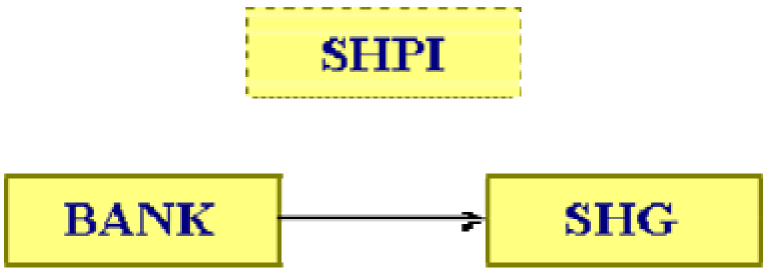
The most common linkage model in India is where the banks deal directly with individual SHGs. In case of most of these SHGs, the SHPI had provided the initial training, guidance to rural poor in organizing themselves into thrift and credit groups. In many cases, the SHPI had also provided some initial support to these SHGs to augment their resources.

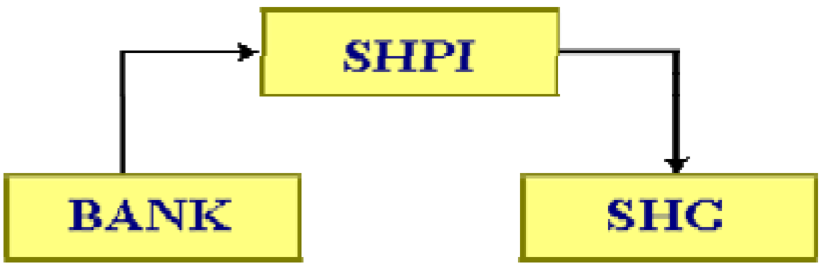
In case of an NGO, MYRADA, it became possible for it to provide such financial assistance to SHGs from an initial support of Rs. 1 million by NABARD before the Pilot Project was started. The SHPI also keeps a watch and ensures satisfactory functioning of the SHGs even after the linkage. While linkage of the banks is direct with the SHGs, the SHPI has an important role in pre- as well as post-linkage stages.

Figure 3.2 : MODEL II: Bank-SHG



A slight variant to Model 1 is where Banks have provided financial support to SHGs, which had grown almost spontaneously without any intervention of any SHPI. The SHGs were initially on the basis of a common activity, problem and took up thrift and credit activities. The cases of such linkages are of course not very common.

Figure 3.3: MODEL III: BANK-SHPI-SHG



In this model, the SHPI have taken the role of a financial intermediary between the banks and a number of SHGs. Again, the SHPIs take up such responsibilities only in respect of the groups promoted/nurtured by them and not for other groups. The SHPI

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accepts the contractual responsibility for repayment of the loan to the bank. In this respect it is indirect linkage support to the SHGs. This model is quite common.

Another model that has emerged is a combination of SHG linkage concept and credit programmes where loan assistance is given to the individual members of the group and not to the group. It is also not directly connected to the savings of the group. The loans in these cases were given only for income generating investment credit activities. The SHG and SHPI help the bank in identification, preparation of loan application, monitoring, supervision and recovery of loans (Nanda 1994).

ASPECTS OF SHG FORMATION

Given an opportunity to rural people to keep their small thrift amounts safe during normal periods, their tiny economies would perhaps manage their emergent needs themselves- individually, or perhaps, collectively. It is this understanding, which prompted many voluntary agencies to promote SHGs among the rural poor with the aim of helping them save, collect and manage their funds, and help one another by way of credit from their own funds. Even in cases where the SHGs have come up primarily for taking up economic activity, savings mobilization has become important.

SHGs not only provide the members with an opportunity to carry out economic activities but also discuss and analyze their social and economic situation to arrive at the root causes of their problems, and strive to find and implement solutions. SHGs, therefore, become a forum for the collective voice of the poor against common oppression and exploitation, to understand individual and common problems and improve their skills and capacities to manage resources.

SHGs work on the same principles as cooperatives, but have the chances of becoming much more successful than the formal cooperative structure as far as the poor are concerned. This is because SHGs are highly cohesive entities; for example, they may be of women only, the members may have the same occupation, they may belong to the same caste or sub-caste, they may be living in the same village, and so on. Admittedly, different situations require different forces to bind the people together and there can be no generalizations. But the common feature of the SHGs, irrespective of their organizational character, is their participatory nature as they are often small in size (their membership varying from 20 to 60). In face, large SHGs often break into smaller ones as members, due to their caste, occupation etc. get 'ignored' and lack 'participation' or 'voice'. Advantages of individualistic needs and group cooperation balance each other so as to lead to a functional size and character of the group. A voluntary agency also helps enhance 'participation' by assigning responsibilities to passive members; no one is encouraged to 'become a leader'.

It is these very factors which are found missing in formal cooperative structures, which are too large and dominated by the non-poor. At times these are even, exploitative. The interests of the non-poor clash with those of the poor and the poor are generally not allowed any say in the working of the cooperative.

Besides, the formalities and interference by officers work as deterrents. Thus, the poor, even in a successful cooperative perhaps get loans or deposit savings, sell products and get raw materials, but would never learn to analyze their own situation, take decisions, manage larger resources and become a collective force. They would become 'members' but not 'cooperators' and would continue to live on the decisions made by others- something that the SHGs help them break away from.

These are three types of situations in which the poor members of SHGs may take up economic activities.

- They may take up individual activities like farming, animal husbandry, artisan work, petty trade and wage labour.
- They may also come together to own common investments, for example, a common well or a common agro-services centre, by sharing the capital and operating costs. In such an event, however, their principal activity (farming in, this case) is individual-based.
- They may take up joint activities like social forestry etc. which are run by the entire group with various responsibilities divided between the members.

FINANCIAL REQUIREMENTS OF SHGS

Although small groups help enhancement of managerial skills through active participation of members in all the activities of the group, it also results in the disadvantage of a very small resource or capital base as the members are all poor with capacities to save very small amounts. Often, the concerned voluntary agencies supplement the resources of the SHG by providing some seed capital, in the form of grant or interest free loan, to be used as a revolving fund by the SHG. This enhances the SHG's capacity for providing small loans, both for production and consumption, as formal institutions do not play any significant role. In the process, they successfully eliminate exploitative sources like money-lenders. Voluntary agencies, however, survive on donor assistance which is always limited and uncertain. In providing seed capital to SHGs, their funds also get locked up for a long time. Their capacity to support SHGs on a large scale is, therefore, limited.

Normally, financial institutions find it difficult to provide credit to the very poor due to reasons which are as varied as the target group members lacking legal status as land owners or tenants, or not having no-dues certificates, being victims of benami transactions, their requirements not matching the 'approved' unit costs, sizes and norms for viability, and so on. Even if these procedural constraints are overcome, the bank staff available in a typical rural branch would be too insufficient to identify, appraise and service such tiny loans for a large number of people.

Provisions of more staff would render the entire operation non-viable for the bank. Similarly even if the poor overcome the long distances separating them and the bank branches, the banks would find virtually impossible to service the high volume of any savings / loan account. Thus, even if banks realize the importance of mobilizing tiny thrift amounts, the cost of mobilizing them through the normal banking system would be prohibitive enough to keep them away.

Cost-effective innovations, both for linking thrift and small savings as well as consumption and production credit needs of the poor with banks are, therefore, imperative. Some formal institutions did come up with innovations in saving mobilization. for example, 'savings stamps' for tiny amounts like 10 to 25 paisa could be bought from the village post offices (who also manage savings) and passed on a special pass book till it became a 'respectable' figure of atleast two rupees when it would be entered in the regular pass book. This is a highly simplified version of the savings

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stamps scheme of the post office. But one was required to go to a post office every time one wanted a savings stamp. For example the Syndicate Bank introduced the 'Pygmy Deposit' scheme with a 'part time banker'-a person the villagers could trust, say the village priest or school teacher-going door to door and collected tiny savings keeping their accounts etc. This, however, had the limitation of the thrift collector visiting only on specific days. The necessity of having an easy access to a safe deposit, therefore, still remained.

SHGs fulfill this role of the omnipresent savings collector without the bank being required to pay even the meager honorarium to the part-time collector. The groups pool the savings and deposit the pooled sum with the bank. No doubt, individual members are denied the benefit of interest in this process. Considering, however that the funds with the SHGs are generally lent to the members at substantial rates of interest, the return to the members, whenever distributed would far overweigh the interest earnings foregone from the bank.

Similarly, in order to reduce the cost of servicing a large number of borrowers' accounts, banks have come out with innovations that have externalized some of the functions and thereby, cost. For example, Syndicate Bank floated a farmers-based subsidiary named Syndicate Agricultural Foundation (SAF). SAF promotes 'farm clinics' which are small attachments to rural branches and are manned by carefully selected local youths who act as a bridge between the bank and the villagers by making them aware of credit possibilities and helping them with the formalities.

Some other banks have associated themselves with voluntary agencies which identify prospective borrowers, appraise their requests and forward viable proposals to the bank. After the loan is sanctioned, voluntary agencies (sometimes through SHGs promoted by it) also help in providing necessary training to the borrowers, in maintaining assets, in monitoring loans and recoveries. Some voluntary agencies also help farmers by accepting recovery in kind.

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The banks, therefore, successfully cater to the requirements while saying their costs on three counts:

- They save on appraisal costs of totally non-viable cases which are not forwarded to them.
- The appraisal by the voluntary agency provides them with adequate material for their own appraisal.
- The voluntary agencies help in monitoring and recovering.

These experiments are, however, limited to loans under existing banking norms. And, a relationship of dependency continues between the voluntary agency and the borrowers. The borrowers do not mature into analyzers of their problems or enhance their managerial capacities, not to speak of the absence of adequate group pressure and support of SHGs. The positive feature is that the resources of the voluntary agency are not locked up in the form of seed capital to the SHG. Moreover, transaction costs of NGOs are high in setting up and maintaining SHGs.

BANK LINKAGE SCHEME OF NABARD

India has over 150,000 credit outlets including cooperatives in the rural institutional sector. In 1993 outstanding bank loans for agricultural purposes amounted to Rs. 340 billion. In spite of this, rural people still depend on money-lenders for consumption purposes. Such dependence is pronounced in resource-poor areas and in the case of marginal farmers, landless labourers, petty traders and artisans belonging to the socially and backward classes, and the tribal population.

The core problem of rural finance is the high transaction costs of a large number of small but frequent borrowers for consumption/[production needs. Transaction costs for IRDP loans have been assessed at 24.6 per cent. Transaction cost of operating a saving account with a bank was as high as 10 per cent of the savings (assuming on transaction per month). (NABARD Report1997). To develop a supplementary credit delivery system to reach the poor in a cost effective and suitable manner, NABARD introduced a pilot project for linking up SHGs in 1992. The targets/achievements for this project for the last 3 years are given in Table 3.1 which actually indicates that the SHG bank

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linkage scheme is the most prominent scheme of Microfinance to the bottom of pyramid member and also the contribution of women in making the scheme as success is much more than the men. The credit of success of SHG bank linkage programme goes to both the bank as well as the SHG members since they repay their loan on time and the banks provide them with credit as and when need.

Targets and achievements in NABARD's Pilot Project on Bank-SHG Linkage

Table 3.1 : Overall Progress under SHG-Bank Linkage for last 3 years

(Amount ₹ in crore/ Numbers in lakhs)

Particulars		2011-12		2012-13		2013-14	
		No. of SHGs (lakh)	Amount	No. of SHGs (lakh)	Amount	No. of SHGs (lakh)	Amount
SHG Savings with Banks as on 31st March	Total SHGs	79.60 (6.7%)	6551.41 (-6.7%)	73.18 (-8.1%)	8217.25 (25.4%)	74.30 (1.53%)	9897.42 (20.45%)
	Of which NRLM/ SGSY/ Other Govt. spons. programmes	21.23 (5.0%)	1395.25 (-23.2%)	20.47 (-3.6%)	1821.65 (30.6%)	22.62 (10.46%)	2477.58 (36.01%)
	% of NRLM/SGSY/ Other Govt. spons. programme Groups to Total	26.7	21.3	28.0	22.2	30.45	25.03
	All women SHGs	62.99 (3.3%)	5104.33 (-3.7%)	59.38 (-5.7%)	6514.86 (27.6%)	62.52 (5.27%)	8012.89 (22.99%)
	Percentage of Women Groups	79.1	77.9	81.1	79.3	84.15	80.96
Loans Disbursed to SHGs during the year	Total SHGs	11.48 (-4%)	16534.77 (13.7%)	12.20 (6.3%)	20585.36 (24.5%)	13.66 (12.02%)	24017.36 (16.67%)
	Of which NRLM/ SGSY/ Other Govt. spons. programmes	2.10 (-12.9%)	2643.56 (6.6%)	1.81 (-13.8%)	2207.47 (-16.5%)	2.26 (24.56%)	3480.60 (57.67%)
	% of NRLM/SGSY/ Other Govt. spons. prorgramme Groups to Total	18.3	16.0	14.8	10.7	16.52	14.49
	All Women SHGs	9.23 (-9.2%)	14132.02 (12.0%)	10.37 (12.4%)	17854.31 (26.3%)	11.52 (11.02%)	21037.97 (17.83%)
	Percentage of Women Groups	80.4	85.5	85.1	86.7	84.3	87.6
Loans Outstanding against SHGs as on 31st March	Total SHGs	43.54 (-9.0%)	36340.00 (16.4%)	44.51 (2.2%)	39375.30 (8.4%)	41.97 (-5.71%)	42927.52 (9.02%)
	Of which NRLM/ SGSY/ Other Govt. spons. programmes	12.16 (-5.4%)	8054.83 (2.9%)	11.93 (-1.9%)	8597.09 (6.7%)	13.07 (9.55%)	10177.42 (18.38%)
	% of NRLM/SGSY/ Other Govt.spons. programme Groups to Total	27.9	22.2	26.8	21.8	31.1	23.7
	All Women SHGs	36.49 (-8.4%)	30465.28 (16.6%)	37.57 (2.9%)	32840.04 (7.8%)	34.06 (-9.34%)	36151.58 (10.08%)
	Percentage of Women SHGs	83.8	83.8	84.4	83.3	81.2	84.2

(figures in the parenthesis indicates growth/decline over the previous year)

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REACH OF SHGS

Over the last 10 years, the SHG-linkage model has become the dominant mode of Microfinance in India, and the model has been successful in encouraging significant savings and high repayment rates. The number of SHGs linked to banks has increased from just 500 in the early 1990s, to over 800,000 by 2003. The SHG-bank linkage program today reaches some 12 million women and their households, cumulatively providing over Rs 2049 Crore (US$ 445 million) as credit between 1992 to march 2003(Basu and Srivastava, 2005).

Table-3.2 : Number of SHG's Linked to Banks

By March 31	Number of SHGs linked to banks, cumulative nos.	Cumulative bank loans(Rs. Million)
1999	32,995	571
2000	114,775	1,930
2001	263,825	4,809
2002	461,478	10,263
2003	717,306	20,487

Source: World Bank-2003

PRINCIPLES OF LINKAGE SCHEME

The broad principles were followed under the Linkage Scheme were:

D Savings first, no credit without savings.

D Savings as partial collateral.

D Bank loans to the SHG for on-lending to members.

D Credit decisions for on-lending to SHG members.

D Interest rates and other terms and conditions for loans to members to be decided by the group.

D Joint liability as a substitute for physical collateral.

D Ratio between savings and credit contingent upon credit worthiness and could increase over a period due to good repayment record, if needed.

D Small loans to begin with and different credit cycles clearly defined.

FINDINGS OF NABARD

To review the linkage process, various studies were carried out by NABARD. The findings confirmed the following:

- Large participation in the project by women, particularly in resource-poor regions.
- Membership in SHGs mostly came from the poorest sections of society.
- Demand for credit is frequent, for small amounts, at unpredictable times and not necessarily for purchasing income-generating assets.
- Even the very poor are able to save and savings increased with addition to their incomes. D SHG intermediation led to reduction in the time spent by the bank staff on identification of borrowers, documentation, follow-up and recoveries. This resulted in 40 percent reduction in transaction cost which could increase further with increase in loan sizes.
- SHG intermediation significantly reduced transaction costs of the borrower due to elimination of cumbersome documentation procedures, time spent and costs incurred on repeated visits to banks etc. The reduction was estimated to be 85 per cent.

Seeing the success of the linkage scheme, NABARD decided to intensify the programme so as to improve the outreach of the formal banking system in a cost-effective manner. The aim being to enhance the quality of credit in rural areas and promote people's participation in self- help and grassroots institution.

INITIATIVES OF NABARD

The initiatives taken by NABARD for SHG formation are:

1. Providing policy inputs in coordination with RBI.
2. Coordination with banks.
3. 100 per cent refinance facility at 6.5 percent interest per annum to banks.
4. Training programmes for bank/NGO officials at CAB, NIBM, XIM.
5. Exposure programmes at district level for bank/NGOs.

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BENEFITS OF SHG LINKAGE PROGRAMME

There appears to be widespread enthusiasm in India about the benefits of the SHG-linkage approach, notably because:

1. It helps reduce transactions costs for the banks (their costs related to credit evaluation, loan monitoring and decisions are reduced, since banks can rely on the SHPI to identify and promote groups and pass-on the loan appropriation decisions to the group) as well as the borrowers (as the group itself provides constant watch and follow-up).
2. By using "peer-pressure", the approach increases the likelihood that individual group members will repay as well as that the group as a whole will not default (other group members effectively proxy for collateral).
3. Loan default rates are very low, on average less than 1%.
4. It empowers rural women.
5. SHG-bank Linkage and 'Missing Middle':- Microfinance markets have been plagued by what is commonly referred to in literature as Missing Middle, i.e., the lack of a system that takes care of the micro-enterprises after they graduate to a level where higher levels of credit and other financial services are required by them. In this situation the micro entrepreneurs receive microcredit from MFIs; on their graduation to higher level of operations as small entrepreneurs they encounter problems with regard to the meeting of their financial service needs. Most MFIs work in an environment without linkages with the formal banking sector.

IMPACT OF SHG SCHEME ON VULNERABILITY OF POOR HOUSEHOLDS

Recent analyses indicate that access to loans under SHG Bank Linkage has contributed to the reduction in vulnerability of poor households. This reduction in vulnerability takes the form of:

(1) Improvement in asset position: the program significantly improved the asset position (comprising livestock and consumer durables) of sample households. The average increase in assets was about 72%, from Rs 6,843 to Rs11,793 in real terms (in one to three years). About 59% of households saw assets increase after groups were formed. Before the groups were formed, one in three households had no assets; after the groups were formed that changed to one in six;

(2) **Increase in savings:** the average savings per member more than tripled, from Rs460 before the group to Rs1, 444 after;

(3) **Changes in borrowing patterns and activities financed:** average borrowing per household increased from Rs 4,282 to Rs 8,341. A shift was observed in the activities of the self-help groups, with a lower share of consumption and cultivation loans after the groups formed and a larger share of allied agricultural activities and small businesses;

(4) **Increase in employment:** employment per household went from an average of 318 days a year to 375 days. The proportion of employment generated through nonfarm and off-farm activities increased;

(5) **Increase in consumption expenditure:** consumption expenditure per household per month increased from Rs799 to Rs993. Per capita consumption increased from Rs197 per month to Rs249;

(6) **Impact on income:** the average net income per household increased from Rs 20,177 to Rs26, 889. About 43% of the incremental income generated was from nonfarm activities;

(7) **Impact on poverty:** about 234 households were below the poverty line before groups were formed, compared with 122 after;

(8) **Social impact:** 89% of members reported that, as a result of the group's activities, they could meet officials from the government or from banks, while about 77% had never had that opportunity before. Changes were also reported regarding attitudes toward women. Further work should be conducted on the performance of the program from the point of view of the financial institutions that provide the linkage. This would provide lessons on the costs and benefits associated with the self-help group model, including which entity in the linkage covers what costs, what financial benefits banks get from the self-help group program, potential adjustments and innovations banks have made to the self-help group model, and incentives that motivate them to be involved in the program and in microfinance in general. It will be particularly important to analyze private banks to draw on their experiences and assess their potential to play a larger role in microfinance in India.

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MAJOR CONSTRAINTS IN THE SHG LINKAGE PROGRAMME

1. Problem of Promoting and Maintaining Group Quality:

Many of the recent groups have been promoted by institutions that either lack the required skills and local knowledge or ones that are driven by short term monetary incentives. Many groups have come together on adhoc basis, only because they want a loan. Inadequate attention to group quality could threaten the longer term credibility and viability of the entire program. Indeed, recent evidence suggests that the quality of groups is already beginning to suffer. A recent APMAS Survey in 2002 indicated that only17 percent of all groups were of adequate quality for bank linkage and this was in a state which is considered the leader in the movement. Thus, lack of good quality SHG promoters-with increasing use of non-traditional promoters of SHGs, affects the quality of group formation by such entities. Thus, while scale objectives may be attained in the short term through using non-traditional SHPIs (SHG promoting Institutions, SHPIs), long term sustainability and quality remain as issues to be tackled.

2. Problems related to group formation**,** and the time taken. Promotion of good quality groups requires an investment of both time and money. Someone has to incur the cost of promoting groups (organizing meetings, training the members). Moreover, even after a group has been promoted, continuous efforts are needed to monitor these groups and strengthen their internal capacity to undertake administrative tasks (accounting, meeting minutes, correspondence, and negotiations with bankers) and commercial activities (business start-ups, marketing, and reinvestment).

Efforts are also needed to ensure the groups remain financially sustainable and have the ability to weather personal losses (accidents, sickness, death), and natural disasters. Leading NGOs that have been engaged in this activity indicate that it takes a minimum of three years of nurturing before a group is ready to be linked to a bank.

3. Problem of financial sustainability in the face of pressures on banks to lend to SHGs at subsidized interest rates could constrain the further growth of SHG Bank Linkage. In a study of five RRB branches, (Sinha 2003) shows that the all inclusive costs of lending to SHGs(taking into account the relatively high transactions costs of dealing with SHG's as well the costs of group formation, which bank are increasing

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beginning to bear) would translate into interest rates of anywhere between 22% and 28% per year, and in one case, where the RRB was located in a low density, forested district, the costs translated into interest rates as high as 48% per annum.

4. Problem of Target Driven Approach since the SHG program has caught the attention of government officials and politicians, quantitative targets on the number of groups to be promoted each year are overriding concerns about the quality of groups promoted, and this could discredit the entire model. Many of the groups are being promoted by SHPI's that are driven by short term monetary incentives (such as those under the govt self employment program) and/or lack adequate skills in group promotion. Many groups have come together on adhoc basis, only because they want a loan.

Now we will discuss the bottom of pyramid section from which the SHGs (Self Help Groups) were formed.

INTRODUCTION TO BOTTOM OF PYRAMID

Majority of the countries considers the poverty as a hindrance in the economy growth of the nation. The perspective of considering the poverty as an opportunity was first introduced by Stuart L. Hart and Late C.K. Prahalad in 2002 in his much admired article that the future lies in bottom of pyramid. The phrase Bottom of Pyramid has been defined many a times by many academicians, strategists, management gurus and many corporate leaders that it is a socio- economic concept wherein the underserved rural population can be converted into a market for benefiting both the sides, the rural as well as the corporates.

The chapter will focus on the meaning of Bottom of Pyramid, the nature of Bottom of Pyramid, the advantages and challenges in front of BOP market and how the microfinance is a strategic design for the Bottom of Pyramid section.

MEANING OF BOTTOM OF PYRAMID

The bottom of the pyramid has a three dimensional approach. The term has its independence to expand only in the last few years and every researcher is trying to use the opportunity to spot the different ways in which they could correlate the basic term with the growing trends across the globe.

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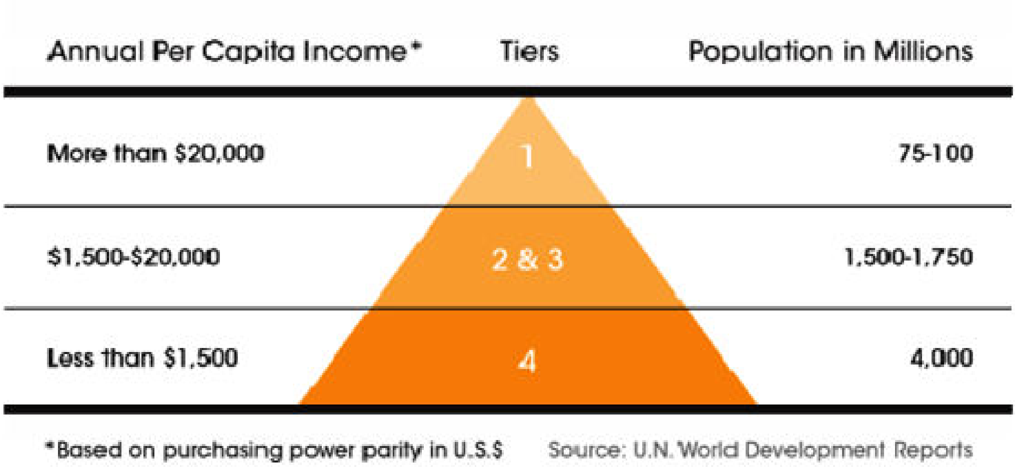
The global BOP market is the 72% of world's population of developing countries of Africa, Asia, Eastern Europe, Latin America. The bottom of pyramid refers to the weaker starta of society i.e the world's poorest people roughlye 4 billion people who live on less than 2$ per day and if we collectively count them it makes them $5 trillion consumer market. The concept of BOP was first introduced by Hart & Prahalad (2002) in their article "The Fortune at the bottom of the pyramid". Prahalad (2005) states that government and corporate should adopt an innovative approach to help the poor, rather than considering them as burden on the economy one should involve them in some economic gain activity. The focus should be to convert the poverty into opportunity. In the following world economic pyramid as per United Nation World Development Report the Tier 4 represents the bottom of pyramid section:

Figure 3.4 : The World Economic Pyramid



As we can see from the above picture that in Tier 4 the 4 billion people have their annual per capita income less than $1500 based on the purchasing power parity U.S dollars which roughly states that one-sixth of humanity per capita income is less than 1$ per day(Prahlad and Hart 2002). Whereas in Tier 1 we have people whose annual per capita income is more than

$20,000.Thus the gap between the rich and poor is getting wider instead of getting low even after the world wide initiatives of eradicating poverty,the reason can be the companies worldwide viewpoint that the poor will not be able to participate in the global world economy because they are cash less consumers.

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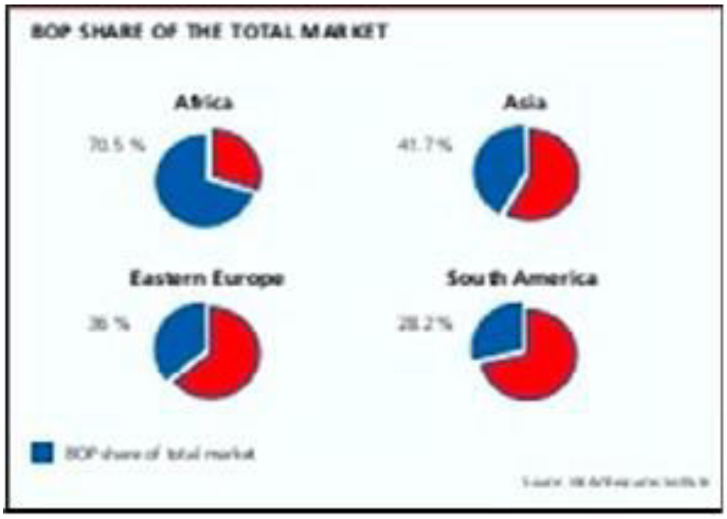
In the following figure we can see the BOP population as per region wise, income and as per market share:

Figure 3.5 : BOP Population, Income and Market Size

BOP POPULATION, INCOME, AND MARKET SIZE

Region	BOP Population (millions)	BOP Population (share of total population)	BOP income (billion $)	BOP share of total market
Africa	486	95%	429	70.5%
Asia	2,858	83%	3,470	41.7%
Eastern Europe	254	64%	458	36.0%
Latin America	360	70%	509	28.2%
Global BOP	**4,000**	**72%**	**5,000**	

Source: World Resources Institute



In the context of Asia, we can see it from the above table and figures the BOP population is on the second rank i.e 83% but their share in the total market is very less i.e 41.7% as per the World Resource Institute Information.

The 4 billion BOP consumers spending patterns differ in the various BOP regions as per country wise culture. In general BOP segment spend more on food and as income rises they spend more on communication and transportation rather than on a housing and energy sector.

The following table as per World Resource Institute represents the spending of BOP members sector wise:

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Table 3.3 : The BOP Sector Markets

Sector	Market Size ($ billion)
Food	2894
Energy	433
Housing	332
Transportation	179
Health	158
ICT	51
Water	20
Source: World Resource Institute	

Thus from the above table it is clear that the food market is the largest BOP market and it includes the largest share of households consumption expenditure i.e $2.89 trillion. Another surprising factor we can relate to is the spending on ICT i.e $51 billion especially mobile, telephone, internet services etc. Supporting the statement Prahalad and Hammond (2002) state don't hesitate to deploy advanced technologies at the bottom of the pyramid while, or even before, deploying them in advanced countries.

NATURE OF BOP MARKET

The nature of the BOP market can be studied from the companies point of view:

1. **The BOP Model is Not a Philanthropic Model: -** Companies are not looking towards weaker section as poor or as providing charity rather it is an untapped market.
2. **The BOP Section Follows the Blue Ocean Strategy:-** The BOP consumer market is a section where the competition is very less and the number of consumer is more. Thus instead of capturing share in the already developed market and making ocean red the company can look at the bottom of pyramid section.
3. **Win-Win Situation:-** It is a win-win situation for both the poor and the companies. As the companies can make profit by selling their products to a large number of consumers though at a small margin but the volume is there and on the other hand if the market grows the poor will get the opportunity in terms of employment or entrepreneurship.

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4. **Innovation:-** The companies can always innovate in these kind of markets by providing products as per the requirement of the customers without compromising on quality which in itself is a great challenge for the companies.
5. The BOP section prefers quality products

COMMERCIAL ADVANTAGES OF BOP

The commercial advantages for the BOP section are as follows:

1. **Untapped Market in Terms of Size:-** The BOP market includes no less than 4 billion consumers and combinedly their purchasing power will become $5 trillion. Thus there ia large untapped huge market when the number of consumers is so huge that then the low profit margin will not hurt the expectation of the consumers as they can make chunk by selling to a large number of people.
2. **Blue Ocean:-** In the Bottom of Pyramid company have the advantages of blue ocean i.e the number of competitors is so less since it is a new market the company can enjoy the advantages of blue ocean.
3. **Innovation:-** The BOP market represents huge potential for companies to come up with innovative products which can satisfy their needs as well as match with their purchasing power. Prahalad and Hammond (2002) don't hesitate to deploy advanced technologies at the bottom of the pyramid while, or even before, deploying them in advanced countries.
4. **Opportunity for Cost Saving:-** If the company produce locally and distribute the products using local suppliers and distributors, can hire employees from local area which help in lowering the overall cost of product.
5. **Growth Rate:-** Developing countries focusing on financial inclusion which ultimately increasing the functioning power or the demand by BOP members . Thus the growth of the company is sure if they offer their product to the BOP section.

CHALLENGES BEFORE COMPANIES

The major challenges in front of the company regarding the BOP segment and it is explained by 4 A's.

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1. **Affordability:** Pricing is the main concern while selling the product to the rural consumer because they are highly price sensitive and also they look for quality products. Thus it is difficult for a company sometimes to reduce the margin and also to provide the quality products.

2. **Availability:** India is a land of diversity where 72.2% of the population lived in about 638,000 villages and reaching these villages is not easy. The weak physical and institutional infrastructure may cost hindrance to reach so many people with a low cost.

3. **Acceptability:** It is very tough for the company to get their product acceptable for the bottom of pyramid section of society if that product is not fulfilling their needs or the product is not acceptable as per their requirements.

4. **Awareness:** In BOP markets the cultural diversity makes it a challenge for the marketing department to create awareness among the BOP consumers.

APART FROM THESE 4 A'S COMPANIES ALSO PHASE THE FOLLOWING CHALLENGES:

1. Consumers with limited cash: Customers in the BOP markets often have less cash to spend on the products so they often demand small and single serve packages of goods like shampoo sachet, cooking oil and other household staples. These small serve packages are also known as economy packages. So it is a biggest challenge for the companies to price these packages without affecting the quality.

2. Selecting the correct target market where people have different economic, cultural and geographical background is also a major challenge in front of companies.

3. Educating the customers regarding the advantages of products for example many people are unaware of the connection between drinking unsafe water and various diseases and therefore do not realize that they have a need for safe drinking water. Suppliers to BOP markets consequently not only have to market their goods, they also have to educate their potential consumers.

4. Companies targeting these markets need to work with a longer timeframe for profitability than they would normally do in developed markets. This is because it

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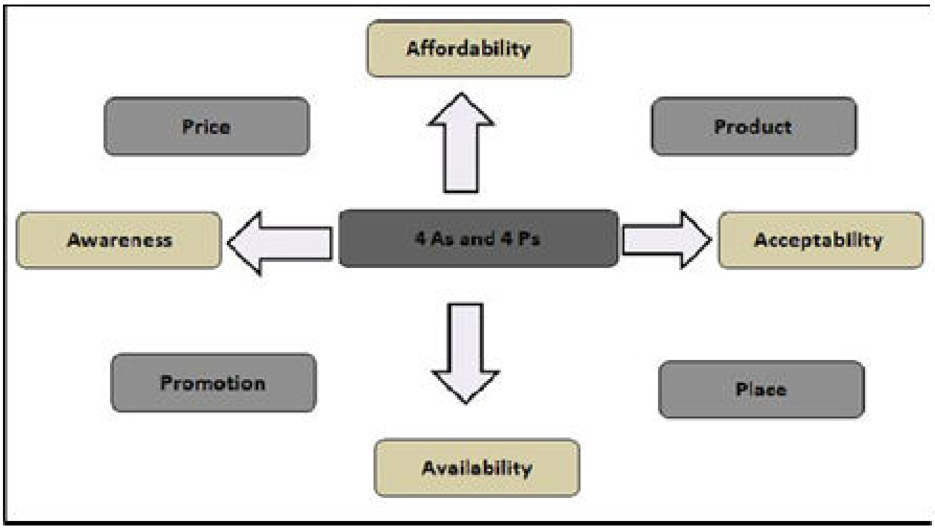
can take some time to reach enough customers for this business model to be profitable, and because it is necessary to adjust the model continuously in the early phases.

Figure 3.6: Relationship between 4 P's and Marketing Challenges



Source: Evalueserve Analysis

The relationship between the 4 P's of marketing- Product, Price, Place and Promotion – and the four marketing challenges Affordability, Availability, Awareness and Acceptability. For the affording factor the company should focus on access to credit to the BOP members rather than focusing on the price of the product. For making the product acceptable the company can look for innovation in the product so that there should be no mental blocks to accept the product. For the awareness the companies can use the alternative channels to promote their product depending on the village and the distributors can be choosen from the local village itself as they are more aware about the nooks and corners of the village where they can find the consumers.

THE COMMERCIAL ADVANTAGES TO THE COMPANY

1. Vast untapped market : BOP markets includes not less the purchasing power of 5 trillion and also a large no of products are not available because few companies have paid attention to the market so far so that the companies make profit by focusing on volumes rather than focusing on price margins.

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2. Savings in terms of cost structure like producing products like producing local products using local suppliers and distributors which helps in lowering the production costs.
3. The Blue Ocean strategies can be adopted since there are few entrants in the market.
4. High growth rate : The BOP section is a loyal section and the companies can expect a high growth rate for the future.

ADVANTAGES TO THE POOR PEOPLE

1. Access to credit: For providing the access to credit many microfinance institutions have cropped up either funded by govt. or by NGOs to help the poor to give them the purchasing power so that they can either use that income for becoming entrepreneurs or for meeting their consumption needs.
2. Job Creation: Since microfinance is helping many BOP members to start up their own micro enterprises that provide most of the jobs and create new employment in the economy.
3. Self sustainable: Microfinance schemes provides opportunities to the weaker section society to become the producers rather than the consumers through which they will become self sustainable.
4. Create efficient markets: Since majority of the companies looking for this sector therefore many markets have been developed which leads to the overall development of the area.

EXAMPLE:

ITC- E-Choupals

ITC Limited has provided computers and Internet access in rural areas across several agricultural regions of the country, where the farmers can directly negotiate the sale of their produce with ITC Limited. Online access enables farmers to obtain information on mandi prices, and good farming practices, and to place orders for agricultural inputs like seeds and fertilizers. This helps farmers improve the quality of their products, and helps in obtaining a better price.

This technique adopted by ITC provides farmers with the following advantages:

1. Framers need not sell their produce to middlemen at below the minimum market price.
2. And prevent being exploited.
3. Access to the internet, education being made available to farmers
4. Promoting rural e-literacy.

ADVANTAGES TO THE COMPANY

1. Can purchase its raw materials directly from the farmers and can negotiate prices.
2. Provides seeds which can stress on the quality of output that the company seeks.
3. Goodwill for the company
4. It promotes sustainable development and capture the BoP market at the very basic stage.

TAILOR LOCAL SOLUTIONS

Reorienting the efforts in which the R&D need to be implemented and making use of what is locally available to cater to the needs of the people in a certain locality. It can also incorporate the local know-how to its advantage

EXAMPLE

COCA-COLA

When Coca-Cola wanted to establish its network in the rural areas it wasn't easy to ask the vendors in those localities to sell chilled cool drinks. Problem being no availability of electricity which means even if the company sponsors refrigerators it would be of no use. Hence the company hired localities owning motorcycles and fixed an ice box in each of those vehicles which served chilled coca-colas to people during a stipulated time of the day. Thereby reaching it new target customer effectively.

IMPROVE ACCESS

It's necessary that people get to have an access to the products and services that the company offers and this can be possible by designing solutions that can be applicable on a large scale. Secondly scalability is the key to profitability. BoP are driven by profits and efficiency.

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EXAMPLE

TATA SKY

TATA sky was the first of its kind to have launched the dish services for television sets in rural India. It reached out to the nook and corners of the country even to those places where transportation was a problem. For example its advertisements on Tv showed that their connections where available in places like Ladhak as well where there is a sparse population and extreme climatic conditions. Inspite of that it had captured a wide market that was wealthy enough to pay even the premium charged by the company.

CREATE BUYING POWER

One of the major questions posed was from where will people be able to raise money for making purchases. Hence there was a requirement for financial aids, creating an access to credit through MFI's and NGO's; also through income generation in the form of loans by banks or other financial institutions.

EXAMPLE MAHINDRA FINANCE

Mahindra launched a new arm of its existing company called the Mahindra finance. This wing of the company focused on providing easy loan options with flexible repayment options in rural parts of the country which were dependent on agriculture through the no-collateral loan schemes etc that were given for the purpose of buying vehicles produced by Mahindra motors.

This way the company not only made finance available to its target customers but also pushed to the sales of its vehicles from tractors to cars. With loans ranging from Personal loans to SME loans that aid the small and medium enterprises in the country.

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Chapter - 4

Microfinance - A Review of Literature

The present chapter explores the existing literature on microfinance. The study focuses on exploring the meaning and concept of microfinance in detail. Various authors have quoted variety of reasons for the need of microfinance institutions. Many of them consider Microfinance as a powerful tool for alleviating poverty, gender inequality, an instrument for social transformation etc. This chapter studies the research work till date. The studies have quite few things in common like importance of Microfinance and its role in women empowerment etc. First we look at the need of Microfinance, and then we examine Women empowerment and Microfinance. Next we review the role of SHGs and Microfinance and finally we try to identify some of the constraints of Microfinance.

NEED OF MICROFINANCE

This particular section focuses on the studies conducted so far by academicians and researchers discussing about the essentiality of Microfinance. Some of the papers express their views on how the endeavor of formal institutions were futile in serving the weaker section and to reduce their reliance on informal money lenders which led to the initiation of Microfinance. Many of them consider Microfinance as a powerful tool for alleviating poverty and gender inequality and bringing about social transformation etc. This section is divided into different subparts discussing about the limited role of Formal Institutions, need for Microfinance, Relation between saving and credit and the future of Microfinance in India.

LIMITED ROLE OF FORMAL FINANCIAL INSTITUTION

In the context of restricted role played by Formal Financial Institutions Morduch (1999), explained that it remains far more costly to lend small amounts of money to many people than to lend large amounts to a few. Supporting the view SU (2007), says that the poor households were excluded from the formal credit network because mainstream lending institutions have a different set of attitudes while dealing with them.

According to R. Gandhi, Deputy Governor, Reserve Bank of India (RBI) (2014) says that it is the shortcomings in the credit appraisal, disbursal and recovery mechanism of the banks, besides the economic slowdown that can in large part be

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held responsible for their high levels of NPAs. Lack of robust verification and screening of application, absence of super vision following credit disbursal and shortfalls in the recovery mechanism have led to the deterioration of asset quality of these banks.

The inability of the credit institutions to deal with the credit requirements of the poor effectively has led to the emergence of micro-finance or micro-credit system as an alternative credit system for the poor. In this situation, micro financing or group lending is being looked upon as the instrument that can be considered as the golden stick for poverty alleviation vis- à-vis rural development as suggested by Das (2003).

Fisher and Sriram (2002), Smita (2006), explains the substantial job performed by moneylender in most of the villages to fill the gaps between financial inflows and outflows of the poor section. They found that the loan product available in the formal sector do not address the needs of the poor. Therefore there is still a gap in the needs of the poor and the available options. The study reveals that the frequently used borrowings sources were not moneylenders but, familiar and reciprocal contracts such as friends, relatives and shopkeepers who provided small and frequent sums interest free or concessional rate loans.

Even the study of Basu and Srivastava (2006), elucidate that the reliance of the poorer sections is more on informal finance in comparison to formal financial institutions. Major source of informal borrowing is money lenders (56% households) followed by friends and relatives (21% households) and the largest uses of informal loans are for meeting “family emergencies”(29%) and “social expenditures”(19%) arising from events such as births,marriages,deaths.Some 13% of borrowers report using informal loans for investment related purposes.(RFAS 2003).

Shankar, Rao, Shah (2007), discovers that the rural credit is one of the cushions against the seasonal, unforeseen shocks. They argued that since rural incomes were seasonal in nature, credit is needed to smoothen out the asymmetry between the flow of earnings and cyclicity of expenditure. Even 60 years after independence, rural

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Indians have no guarantee of state provided education and health. The public distribution and social security systems have been wrecked by inefficiency and corruption.

As indicated by the Shankar, Rao, Shah (2007) rural credit fits very precisely into Tobin's proposal for "limiting the domain of inequality", for lack of access to rural credit has certainly been one of the factors depressing growth in agriculture in the 1990s, which is today regarded as the main drag on the Indian economy. More importantly, it has snowballed into a variable agrarian crisis, with thousands of farmers taking their own lives, and many others (in over 25 per cent of India's districts) taking to the gun.

The initiatives taken by formal financial institutions has been very well elaborated by Fisher and Sriram (2002),which are summed up in different phases such as the first phase extended up to the 1960's when the focus was on delivering of agricultural credit through cooperatives. Frustrated with the outcomes of this experience, in the second phase, the focus shifted to commercial banks , with the nationalism of banks in 1969 and (later in 1984) a network of RRB (Regional Rural Banks), was established, leading to a rapid expansion of bank branches in rural areas. The IRDP (Integrated Rural Development Programme), the largest state supported small loan programme in the world covered over 50 million households during 1980-99. The third phase of economic liberalization and financial crisis of the early 1990's with 27 public sector banks, 30 private banks, 36 foreign banks, 196 RRB's, 5 local area banks and over 66,000 cooperative banking institutions, India has got extensive banking infrastructure but still the outcomes were not so satisfactory, therefore they suggested that the Indian Financial Sector should transform from the supply oriented approach to a demand oriented one to be a successful programme.

Dev (2006), recommends that the formal banking institutions should look at financial inclusion both as business opportunity and social responsibility. Formal inclusion means the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups and apart from banking

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institutions, the role of self help groups and MFI's(Microfinance Institutions) is significant to improve the financial inclusion of people.

NEED OF MICROFINANCE AND POVERTY ALLEVIATION

Many of the studies reveal that there is a positive link between the access to credit through the Microfinance Institutions and the poverty mitigation, though it is not the only aspect and still there is far road ahead to move on. Following paragraphs illustrate the linkage between the Microfinance and poverty alleviation.

Prahalad and Hammond (2002) states that by stimulating commerce and development at the bottom of economic pyramid, the MNCs could radically improves the lives of billions of people and help them to live in a more stable and less dangerous world. Supporting the view Prahalad and Hart (2002) views low income market as a prodigious opportunity for the world's wealthiest companies where they can seek their fortunes and also bring prosperity to the aspiring poor. For making the bottom of pyramid people as suppliers Microfinance has played a significant role by bridging the gap between the demand and supply of credit among the bottom of pyramid members.

Copestake (2010), has considered Microfinance as one component of India's envolving well being regime. Guha and Ghosh (2015) states the empirical study that micro entrepreneurs accrue more economic games if they borrow from Microfinance institutions rather than informal money lenders.

Abed Shameran (2015) also states that the credit remains an extremely empowering tool for millions of poor people in Bangladesh. Financial inclusion is a critical component for defeating the poverty.

The study of Khandelwal (2007), termed Microfinance as "banking for the poor" and claimed it as a powerful tool which can be used effectively to address poverty, empower the socially marginalized poor and strengthen the social fabric. It also refers Microfinance as an instrument for social re-engineering in the context of upliftment of the status of poor women. In the similar perspective Morduch (1999), express the hope is that much poverty can be alleviated and the economic and social structures can be transformed fundamentally by providing financial services to low income households. The institutions are united under the banner of Microfinance and they share the commitment to serve the clients that have been excluded from the formal Banking sector. Supporting the view Sarkar (2001), convey that

Micro- finance is a useful tool in building the capacity of the poor in management of sustainable self employment opportunities, besides providing other financial services like savings, housing consumption credit, and insurance cover. Again the research of Ghate (2005), states a different service aspect of Microfinance for the migrants that it provides remittance service along with saving and insurance to the migrants once the number of migrants reaches a critical minimum in a particular destination.

Swaminathan (2007), examined how the gap in the formal rural credit sector in rural India can be filled by providing Microcredit to the “poorest of the poor”. It explores that the transfer of the task of serving the credit needs of rural borrowers from the banking system to NGO- controlled Microcredit projects does not reduce transactions costs but in effect, transfers transactions costs – higher transactions costs- to donors as well as borrowers.

Rama (2007), says that Microfinance initiatives have shown that banking with the poor is a viable proposition and it has been hailed as the best method of creating additional employment and for removing poverty. Credits sanctioned by the micro financial institutions have vast market in the rural as well as in the urban areas. In India, Microfinance has fueled the efforts at rural development, women empowerment and wealth generation by providing small scale savings, credit, insurance and any other financial services to poor and low income households.

The findings of Basu (2006), indicates that Microfinance is definitely a good way to benefit the poor relating to the success story of Grameen Bank in Bangladesh .The study exclaims that it was not the classic Trickle down approach i.e. “economic theory which advocates letting businesses flourish, since their profits will ultimately trickle down to lower income individuals and the rest of economy” but it should be Trickle up approach that means that the benefit should be directly provided to the poor so that they can invest accordingly for their own development and would try to

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improve their living standards and the Microfinance is doing the same. Sharma (2006), expresses that the Microfinance is the only tool which promises to provide opportunity for the poorer sections to grow and improve their living standards at their terms and without resorting to transferring of large sums of finances from the Centre to the states as has been done for so many years to many regions.

Bandhan Bank has been working as a Microfinance institution from many years and even though it has a lasrge number of borrowers some of whom are very poor but since its NPAs are negligible in comparison to public sector banks.(Basu.etal, 2015).

Dasgupta (2006), investigated the Demand and Supply factors to be considered while providing the access to credit to the poor people explains that the MFI's (Microfinance Institutions) were set up with the motive to increase the access of the poorer people to financial services and for the fulfillment of same, the following Demand and Supply factors have to be considered.

DEMAND SIDE INCLUDES THE ABILITY TO:-

- Avail the services
- Respect the service
- Utilize the resource efficiently.

SUPPLY SIDE FACTOR INCLUDE: -

- Capital
- Regulation
- Supervision
- Delivery models
- Sustainability
- Adjustment to ability level of the demand side and then improving the ability level.

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MICROFINANCE AND SAVINGS

There are several debates over the issue that whether the poorest are best served by loans or by better ways to save. As per Morduch (1999), he put forward that one way to address the borrowing constraints faced by poor households may be to address the saving constraints instead of addressing just the credit side. It explains that both savings and credit are complementary and being able to save and borrow is, in itself, an important way to self- insure against uninsurable events.

DN (2005) paper also quotes that one of the cornerstones of high performing Asian economies has been their high rate of Saving and Investment. This macro economic factor is facilitated by the promotion of household savings, even among poorer households, that MFI's (Microfinance Institutions) have facilitated. Thus the macro economic factor of savings as a proportion of GNP improves with the promotion of savings by MFI's (Microfinance Institutions).

Varman (2005), assert that deposits are the foundation upon which banks thrive and grow so to increase the deposits the banks should inculcate the habit of saving among the customers.

Thus, Microfinance scheme can provide an avenue for the poor people to save, through which they can come out of the crutches of informal money lender.

METHODOLOGIES OF MICROFINANCE

In India, there is no unique legal framework for MFIs. There are four forms of institutionalised MFIs: NGO- MFIs are registered under the Indian Trust Act 1882 and Societies Registration Act 1860, community based MFIs are registered under the Cooperative Societies Act 1912 and the Mutually Aided Cooperative Societies Act 1995, NBFC-MFIs are registered under Section 25 of companies Act 1956, the RBI Act and the Formal Sector Bank under RBI Act (Guha,2004).

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Satish (2005), provides the methodologies of Microfinance by classifying them into five groups which are as follows:

1) **Grameen and Solidarity Model**

People form groups of three o eight persons on the condition that each of them would be assuming responsibility for the lending and other financial operations for the other members of the group. Lending as well as repayment is directly to and from the individuals but with the guarantee of the other group members.Grameen Bank in Bangladesh has perfected this technology and it has been adopted in many countries with modifications to suit local conditions and cultures. The programmes of Bancosol in Bolivia and most of the solidarity group models in Latin America follow this methodology.

2) **The Group Approach**

The Group Approach delegates the entire financial process to the group rather than the financial institutions. Savings, Loans, Loan repayments are taken care at the group level.

These groups are in turn linked to a financial or a microfinance institution for sourcing of additional funds as well as depositing their savings. Best examples of this type of technology are the Self-Help Groups-Bank linkage programme in India, the PHBK project in Indonesia and the Chikola groups of K-REP in Kenya.

3) **Individual Credit**

Credit given directly to the individuals also forms a part of the micro-finance technology. Many institutions have adopted the individual credit route for microfinance where loan appraisal, loan disbursements and loan payments as well as saving collections are all done on individual basis. These technologies are predominant in the BRI-Unit Desa in Indonesia as well as priority sector lending by banks in India especially the regional rural Banks and Cooperative Banks.

4) **Community Banking**

Microfinance is the supply of loans, savings, and other basic financial services to the poor. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and

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shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, and savings, pensions, insurance, and money transfer services This Model is to an extent an expansion of the group approach where the basic financial necessities of the poor especially the women are met through the community banking system. The community or village banks are organized with 30-50 members. These banks in turn borrow from the programme implementing institution and on lend to the members. A prominent example of this type of microfinance institution is the village Bank of FINCA (Foundation for International Community Assistance) in Latin America, which had been replicated in and central Asia.

5) Credit Unions and Cooperatives

Credit Unions and Cooperatives are member owned organizations providing credit and other financial services to their members. The apex bodies provide technical and financial support to the federating units.

Rajkumar (2006), says that the NABARD has played a vital role in developing and strengthening agriculture and rural areas through its refinance assistance. At the same time in the context of the changed global economic scenario, it is time for NABARD to review its strategies and policies in order to shift generate more rural employment from basic agricultural activities.

STRATEGIC POLICY INITIATIVES

Govt and regulatory bodies in India had taken some of the strategic policy initiatives in the area of Microfinance which is explained by Khandelwal (2007), are as follows:-

1. Working group on Credit to the poor through SHGs, NGO's, NABARD, 1995.
2. The National Microfinance Taskforce ,1999
3. Working Group on Financial flows to the Informal sector,2002
4. Microfinance Development and Equity Fund,NABARD 2005
5. Working Group on Financing NBFC's by Banks-RBI.

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London Ted (2007) says that in the BOP perspective, profits and the associated ability to generate self-financed growth are the prime drivers of poverty alleviation, and the societal returns for any capital invested are subject to the economic performance generated by the business. Rather than worrying about the perceived limitations of the informal economy, the BOP perspective emphasizes bridging the formal and informal by leveraging the strengths of the BOP and combining that with expertise developed at the top of the pyramid.

MICROFINANCE AND GRAMEEN BANK

Kalpana (2006), discuss about the global development of the Microfinance Programmes such as declaration of the year 2005 as the International Year of Microcredit, the award of Nobel Peace Prize to Muhammad Yunus, the father of Grameen Bank. It also explains how the successful model of Grameen bank in Bangladesh has been replicated in India with the starting of SHG (Self Help Groups). Abed Shameran (2015) state that Bangladeshi MFIs grew because they believe deeply in the power of microfinance to make a positive, lasting impact on the lives of the poor, especially women.

In the context of Microfinance the most successful model is the Grameen Model initiated in the year by Muhammad Yunus 1976 as explained by Yunus (2006). According to Yunus credit can create self employment and with the help of credit the poor class has create a niche for themselves in the economy. The results can be seen that as of May 2006, the grameen had provided loans worth Tk 290.03 billion to 6.67 million borrowers (97 per cent) female through 2247 bank branches in over 72,000 villages, accounting for 86% of villages in Bangladesh.

Similar viewpoint is being shared by Mukherjee (2007), which states that the success of Grameen Bank had ripple effects in many developing countries, including India and has brought Microcredit to the forefront of discussion on the future role of development finance.

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FUTURE OF MICROFINANCE IN INDIA

Sriram (2012) discusses that the market based solutions can be looked upon for financial inclusion which states that the company's can tap these bottom of pyramid section for building their fortunes.

Sane and Thomas (2013) explains that there is a requirement of financial regulatory architecture of handling Microfinance in India so the focus can be shifted towards the consumers protection and strategies need to be adopted for dealing with financial distribution that focuses on poor.

Nair (2012) studied the trend in bank financing of Microfinance schemes indicating a rise in the share of MFIs in outstanding bank credit and the banking system had steadily shifted its patronage to big MFIs since the mid 2000.

The study also explains the reasons for the limited scale and scope of Indian MFI's relative to the MFI giants in Indonesia and Bangladesh which are as follows:

- MFI's suffer from the lack of a sufficient pool of managerial and technical skills.
- Indian MFI's today find it difficult to mobilize commercial funding.
- Absence of an enabling policy, legal and regulatory framework.

Nair (2005), reviewed the future of Microfinance in India stating that there should be convergence between formal and informal systems, the former deriving its strength from adequate financial resources and a robust system of regulation and governance, and the latter from its capacity to streamline the grassroots delivery of services, appears to be the microfinance model that would eventually evolve in the country.

Madhogaria and Chaudhari (2006), indicates that Microcredit is viable business option in developing countries and the private players can also make profit through Microcredit by reducing cost through prevention of wastage at each step of the loan process, coupled with innovative technologies and an efficient management system etc.The study quotes the example of Vikram Akula's successful venture SKS Microfinance.

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Nair (2001), states that the history of poverty alleviation programmes in India is replete with rollbacks,abrupts withdrawls and rechristening of programmes to suit the political and administrative ends and it has to be seen that the MFI's also belong to the same category or not. It indicates that still there is no far any formalized institutional mechanism, which is responsible for overseeing and regulating the MF business being carried out in the non- financial sector. The result of the study states that there is an urgent need for streamlining the norms and institutions to govern MF initiatives in the country.

Leach and Arora (2005),study is based on the lessons to be learned for India from South Africa which is dependent predominantly on private sector, Indian policy makers need to recognize the importance of improving the outreach of both credit and savings to rural households.

Fisher and Sriram (2002), Smita (2006) It also state that the overall asset-savings-income profile of the poor in the village give a comfort while compared to the indebtness. However, most of the assets and savings are illiquid, forcing the poor to borrow at high cost and services such loans.

Monitoring is no longer an issue as the borrower is far more worried about losing the collateral than the lender is. And there is great incentive for charging usurious rates of interest because default will only mean that the lender grabs the asset offered as collateral. The moneylender could even be said to prefer default to repayment. This is an extraordinarily ingenious but utterly itself over centuries in India.

WOMEN EMPOWERMENT AND MICROFINANCE

Many studies have elaborated on the linkages between Microfinance and women empowerment. Majority of them states that it is not the magic stick through which women will be empowered but it is one of the effective means to help women from a self development standpoint. The following paragraphs illustrate the linkages between the Microfinance and women empowerment:-

Kabeer (2005), agreed that while access to financial services can and does make important contributions to the economic productivity and social well-being of poor

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women and their households, it does not "automatically" empower women –any more than do education, political quotas or any other interventions that feature in the literature of women's empowerment.

Prahalad and Hammond (2002) indicates that contrary to popular opinion, women play a significant role in the economic development of these regions. MNCs, therefore, should pay particular attention to women entrepreneurs.

The linkage between this aspect of empowerment and microfinance was explored by Sanyal (2009) in her study of 59 microfinance groups in West Bengal. She found that economic ties produced through access to microcredit led to improvements in women's social capital and their ability to influence social norms. This fostered women's capacity to undertake collective action and facilitated their collective empowerment.

As per ITC Report, commencing the year 2000, the programme currently supports 2,057 operational SHGs with over 23,000 members. A major thrust was given to financial inclusion of women members by opening accounts for 1,335 of them in 2014-15. Cumulatively, over 40,000 women were gainfully employed either through micro-enterprises or assisted with loans to pursue income generating activities.

Firstly, microfinance practices do not always produce automatic empowerment benefits for women; therefore, empowerment must be strategically planned for in MFIs.

Secondly, empowerment approaches allow microfinance institutions to realize their full potential in contributing to a number of critical dimensions of women's empowerment. Finally, empowerment approaches are often compatible with other approaches to microfinance (e.g. financial sustainability), and can actually enhance the aims of these other approaches in many cases. – Mayoux (2006)

Kumar Lakshmi (2013) discusses that Microfinance has brought an economic independence instead of empowerment of women. They argued that still after becoming economic independent the women has got no name for asset purchasing or

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property on their name. They still meet the consumption expenditures like bringing more food to the family, educating their children etc.

There are no magic bullets, no panaceas, no blueprints, no readymade formulas which bring about the radical structural transformation that empowerment of the poor, and of poor women implies. Again the study of Kannabiran (2005), says that the increasing participation of women in Microcredit and formation of women's self-help groups have provide a short term relief to ease their immediate needs. They referred Women as preferred clients because they can be persuaded to operate on gendered notions of shame, decency and discipline.

Even the studies of Rahman (1998) and Morduch (1999), have the similar viewpoint that the advantage to lend to the women is the lower mobility of women and there is no ex post moral hazard (i.e. where there is fear that clients will "take the money and run") In particular the movement has shown that, despite high transactions cost and no collateral, in some cases it is possible to lend to low income households.

Kabeer (2001), and Kelkar, Nathan and Jahan (2004), analyses the women's empowerment through MFIs in Bangladesh assert that Micro- Finance Institutions (MFIs) are now ubiquitous in developing countries. They have promoted women's entry into income earning occupations and have had an impact on women's empowerment.

In Bangladesh, women often used the phrase 'garam taka', meaning 'hot money' as the reason for their new role and respect in the household. The more appropriate rendering of the term 'garam' in English would be 'weighty', it is money that has a weight, and women's earning money gives them a weight within the household.

Some of the studies have also recognized the positive impact of the SHG (Self Help Groups) on women empowerment. Supporting the statement Mahendra(2005),envisage that microfinance SHG's(Self Help Groups) in India has helped the formal banks by increasing the number of accounts by inculcating banking habits in rural people, especially the women.In our case study we also attempt to see how SHG membership has affected social and economic position of group members.

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SHGS AND MICROFINANCE

This segment concentrates on the most leading scheme of Microfinance i.e. SHGs (Self Help Groups) its impact on the development of the rural sector etc.Though majority of the studies consented on one point that the growth of the SHGs (Self Help Groups) has been outstanding but still there is far road ahead a lot need to be achieved in terms of its outreach.

Kalpana (2008), discussed that the main mode of accessing microcredit especially for poor women, is through neighbourhood based poor groups or SHG's, which are user-managed and member-controlled.

Nair (2005), paper quotes that the SHGs (Self Help Groups) are the major form of microfinance in India and there are very less chances of delinquencies on the loans provided to these groups. It suggests that federations could help SHGs to become institutionally and financial sustainable because they provide economies of scale that reduce transaction costs and make the provision of these services viable. Bansal (2005) found the positive impact of linkage between banks and NGOs under the Self Help Group (SHG)- Bank Linkage Programme (SBLP) of the National Bank for Agriculture and Rural Development (NABARD) in terms of access to the formal financial sector. Supporting the channel of providing the credit through group formation Ghosal (2005), indicates that Microcredit should be provided through organization of users i.e. most of the farmers and artisans in rural areas do not possess necessary skills and drive to become independent entrepreneur since they lack knowledge and skills therefore it is necessary that they should get support from within by grouping themselves and also by joining with others who have necessary expertise.

ROLE OF SHGS

Sharma and Bharatish (2006), discusses that SHGs has played a pivotal role in the upliftment of the poor by providing credit to the weaker sections of the society, supporting the fact that by increasing the financial capabilities of the poor and extremely poorer sections of the country population will only encourage the economies performance. Mangathai (2001), explains that the national economic

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growth alone cannot prevent the growth of mass poverty. Over the years, one-sided emphasis on economic achievements by national policy-makers has set in motion a process of alarming socio-economic polarization and the deepening of social cleavages in both rural and urban areas. Past technocratic approaches to poverty eradication have failed to produce desired results. Since the poor have become too numerous to be helped from outside, self- help promotion has emerged as a new paradigm for combating poverty.

A recent study by Padala and Shanmukha (2007), sought to find out that the delivery of microfinance to the poor is productive, effective and less costly, if they are organized into SHGs. The SHGs movement in India in general and Andhra Pradesh in particular has let to rural economic development through the women entrepreneurship with the help of SHGs which provide them opportunities of self employment on a sustained basis in India.

Sharing the similar opinion Prasad and Mehla (2007), says that the SHGs have resulted in empowerment of women, reduced dependency on money lenders, easy access to credit to their members, and savings and moderate economic benefits.

Tripathy (2004), consented on the SHGs formed under various programmes provide a great scope for convergence of the programmes activities of various Ministries, Department and organizations which would ultimately would help in improving the quality of life in rural areas. Naidu, Nagaraja and Gangaiah (2006), examined that the number of SHGs is substantially increasing. These groups are mobilizing thrift deposits and receiving timely matching and revolving funds to generate employment activities to their livelihood. Change of leadership is a must for sharing the responsibilities by all members and generates leadership qualities in each member.

Harikumar, Pillai (2006), extended that the very existence of SHGs is highly relevant to make the people of below poverty line hopeful and self reliant. SHGs enable them to increase their income, improve their standard of living and status in society. It acts as a catalyst for bringing this section of the society to the mainstream.

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Another different feature covered by the Kanagaraj and Lalrinliana (2006), the performance of SHGs in tribal development i.e. improvement in social and economic conditions of the tribal people depend largely on the members participation and cohesion.

Self Help Groups play a vital role in tribal development of the rural areas. The members perceived it had positive impact on their social status in the community, neighborhood, and church and even at home. They have reported benefits through SHG by ways of increased income, saving and decreased debt. But the problem found was that of duration of membership or group cohesion.

SHG- AREAS OF IMPROVEMENT

Certain studies have suggested their outlook that though the SHG's have played a leading role in the development of the weaker section but still there are areas of upgrading Following paragraphs covers the studies offering their suggestion on the areas to be looked upon for the improvement of the working of SHG's:-

Kalpana (2008), reveal the friction and asymmetrical power relations between SHGs and banks. SHGs are frequently distrusted by bank staff and have been subjected to discriminatory treatment suggestive of caste-profiling.

Basu and Srivastava (2006), recommend that, if SHG Bank Linkage is to be scaled –up to offer mass access to finance for the rural poor, then much more attention will need to be paid towards: the promotion of High quality SHG's that are sustainable, clear targeting of clients, and ensuring that banks linked to SHGs price loans at cost covering levels. A result of the study conducted in AP and UP state indicates that the majority of the beneficiaries of SHG Bank Linkage are from the poorer groups.

The concept and practice of SHG-based microfinance has developed deep roots in many parts of the country but still the impact assessment of the programme is limited so far, as quoted by Chakrabarti (2006) , indicating that, a lot needs to be accomplished in terms of outreach to male a serious dent on poverty.However,the logic and rationale of SHG-based microfinance have been established firmly enough that Microcredit has effectively graduated from an "experiment" to a widely-accepted paradigm of rural and developmental financing in India.

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Mahendra (2005), revealed that the leadership experience in SHG's greatly influences the bank account holding.Soundarapandian (2006), says that though there is a positive growth rate of SHGs in states but in terms of the growth of SHGs there is a wide variation among states.

Devprakash (2005), suggest that the focus should be shifted from increasing the quantity i.e. the numbers of SHGs to the Quality aspect i.e. the maintenance of existing one's .The study states that the quest for promoting SHGs cannot be merely a number driven agenda, it should gradually evolve into setting up of new bench marks on the quality and standards of SHG's. Discussing the similar issue Asokan and Loganathan (2006), reveal that as discussed by many academicians SHG programmes have provided access to credit to the members; helped to promote savings and yielded moderate economic benefits; reduced the dependence on moneylenders; and resulted in empowerment benefits to women. But the field reports of the study suggest that contrary to the vision for SHG development, SHGs are generally not composed of mainly the poorest families; there is greater evidence of social empowerment rather than significant and consistent economic impact; and financial skills of group members have not developed as planned. Again the research of Hanuman, Mehla (2007), states that the SHG's are generally not composed of the poorest families.

Even the report of NABARD (1998), also talks about the role of credit in the rural development and states the importance of the SHG Bank Linkage programme but concluding on the same grounds that there is still a road ahead and there are shortcomings in the SHG programmes also which needs to be improve upon.

Yadav (2006), clarify that the SHG functioning can be improved by Standard Accounting Practice, Rating Norms and Data maintenance and MIS.Also the recent study of SU, (2007), disclose that the major handicap of the informal structure of SHG is the absence of a good auditing and maintenance mechanism.

Many of the studies have also discussed about the limited role of the govt in the up gradation of the SHG progrmme.As depicted by Ramakrishna, Berkhof and Harper

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(2005), that agricultural credit societies and cooperative Banks have played a limited role in the programme of linking SHGs to formal financial institutions.

Also Chidambaranatham and Premchander (2007), criticized about the proposed amendment of the National Bank for Agriculture and Rural Development Act, 1981 whereby the committee is proposing to set up a new organization that will administer all the savings and deposits of Women SHG.As per the study it will lead to disempowerment of women and they suggest instead of focusing on gender or empowerment perspective the organization should focus on supply avenues of Microfinance.

CONSTRAINTS OF MICROFINANCE

This particular section discusses about the limited scope of Microfinance. Some of the studies have agreed that Microfinance is neither a magic bullet nor a panacea which will alone bring positive outcomes within a fraction of seconds there is still a far road ahead which demands a combination of Microfinance with other schemes.

Schicks Jessica (2010), views that over-indebtedness is currently one of the most serious risks of microfinance, endangering both social impact and industry stability. It has the potential to push customers further into poverty, accompanied by the material, psychological and sociological consequences of debt.

In the same context Swaminathan (2007), expose that Microcredit is neither a successful anti- poverty strategy nor it is an adequate response to the huge unmet credit needs of the rural population. This is not to deny that Microcredit loans to rural working households can serve as a kind of palliative reform in the countryside. Morduch (1999), suggest that the greatest promise of microfinance is so far unmet. Satish (2015) argues that describing Microfinance as a silver bullet for poverty reduction is more of creating a journalistic hype. It is not a magic van which will eradicate poverty immediately.

Wisse David (2011) state that the problem in the Microfinance approach is the premise that in every women there hides an entrepreneur. Therefore providing investment credit to poor people who are not entrepreneurs is not a solution to poverty.

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Karnani Aneel (2009) argues that the view of the poor as “resilient and creative entrepreneurs and value-conscious consumers” is empirically false. Because firstly it results in too little emphasis on legal, regulatory, and social mechanisms to protect the poor who are vulnerable consumers. Second, it results in over emphasis on micro credit and under emphasis on fostering modern enterprises that will provide employment opportunities for the poor.

Kannabiran (2005), suggests that credit can never be the single case solution for all problems the poor face. To call it a self-help movement that is successfully eradicating poverty and emancipating women would be misleading. The study also point toward certain allegations against the MFIs (Microfinance Institutions) that they exploit the poor by charging exorbitant rates of interest, they lack transparency with respect to interest rates and adopting unethical means of loan recovery, “MFIs were turning out to be worse than moneylenders by charging interest rates in excess of 20 percent”.

The study conducted by Lensink and Hermes (2007), reveals certain critical aspects of Microfinance which is being ignored by many of the other studies. The critics of Microfinance states that though it may help to solve the poverty problem but it does not reaches to the “core poor” rather the “better off poor” reap the benefit of the scheme. Also the group loans lead to high transactional costs and finally it states that due to the entry of commercial banks into microfinance it has increased the competition for traditional microfinance institutions and further reduces the lending to the core poor.

SU, (2007) also point out that there is the all- important question of cost of credit. The argument that availability, not cost of credit, is the issue is only partially true. Widespread acceptance of this belief has resulted in a situation in which credit availability has been substantially improved through SHGs but little effort has been made to tackle the issue of interest rates taken by the final user.

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Seenivasan (2015) discusses that MFIs are forgetting their poverty reduction goal. The problem is the high interest rate charged by these MFIs. The Reserve Bank of India (2011) has certain concerns affecting the Microfinance sector such as :

1. Unjustified high rate of interest
2. Lack of transperancy in interest rates
3. Multiple lending
4. Over borrowing
5. Ghost borrowers
6. Cohesive methods of recovery

Dasgupta (2006) discusses about four axioms of Microfinance:-

1. Mainstream financial institutions are not genuinely interested in MF services because of (i) higher transaction cost, (ii) greater risk, (iii) lower return, (iv) political interference, and (v) unsophisticated clients.
2. The central monetary authority is more comfortable by aligning itself to the wavelength of government.
3. The government makes pro-poor policies with more of political concern and less of economic and welfare concerns. It is attracted more towards "Haves" rather than the "Have-nots".
4. Whenever the deterioration level reaches a nadir, society awakens, a leadership emerges, experiments are conducted and pressure is put on the "rulers" to change the working of the system.

Khandelwal (2007), found out that Microfinance is not a panacea but it is one of the effective tools to help poor from a self development perspective.Extremly poor people like people suffering from malnourishment, illness, lack of skills etc can not be a target for Microfinance since Microfinance will not be a efficient solution for them. The problems of such people have to be tackled by the govt through an appropriate mix of welfare scheme. For these people, as Robinson (2000) has said-

"Microfinance is the next step-after they are able to work". Also Zulfiqar Ghazal (2014) supported the statement that Microfinance sector has experienced mission drift and is no longer surving the poorest. Those which are being targeted by Microfinance are either just below or over the poverty line.

The failure of institutions to penetrate the savings and loan market is indicated by the Fisher and Sriram (2002) and Parhi (2006). The institutions (including microfinance mechanisms like SHGs) were unable to make inroads into financing non-emergency planned needs such as asset purchase and house construction. There is a need for an appropriately designed savings product- a major attribute of the product be safety. Liquidity and return does not seem to be a concern as most savings is in a "pot" stashed away. The study re-confirms that findings of earlier studies- the most killing expense is health related. This leads the poor into further indebtness. The borrowings for health expenses form one of the most significant chunks of borrowing.

The findings of Kabeer (2005), clarify that in the absence of broader policies to promote pro- poor economic growth, equitable social development and democratic participation in collective forums of decision making, Microfinance may at most provide a safety net for the poor rather than a ladder out of poverty.

Kalpana (2005), examined that microfinance programmes did not reach destitute sections, that the extreme poor sections who participated were not a majority and that the majority of the clients belonged to moderate poor and vulnerable non poor households. Satish (2005), concludes that Microfinance is a means or an instrument for development, not an end in itself. The growth of microfinance has to necessarily accompany by the overall growth in mainstream rural finance.

Chakrabarty (2005), states that banks have major role to play in the development of micro enterprise and the development of microfinance and he suggests that microfinance is n emerging solution to the problem of entrepreneurial development in the rural sector. Banks, besides playing the major role as credit provider will also have to act as a change agent, facilitator for providing necessary infrastructure and hedging mechanism to mitigate risk.Devprakash (2006), concludes that though there is geometric growth in Microfinance expansion, Microfinance remains more a supply led initiative than a demand based approach. Microfinance still struggles to fit into hilly, remote, tribal, dry and inaccessible pockets of many states like Mizoram.

Again the study of Panda (2003), exclaims that though Microfinance has led to increase in income of the beneficiaries but still it may not be taken as a panacea for poverty alleviation. It has been found that impact of microfinance has not been uniform in all the states. While the so called developing states like Andhra Pradesh, Mahrashtra, Karnataka, Tamil Nadu, and Gujarat have responded very well other states like Bihar, Orissa are yet to respond.Tripathy (2006), articulate that Banks are now considering Microcredit as one of their important marketing avenues thereby facilitating to create a new market on Microcredit. Thus it has now become a global initiative and is considered as an important agenda of MDG

(Millennium Development Goals) set by United Nations.SHGs formed under various programmes provide a great scope for convergence of the programmes/activities of various Ministries, Departments and Organisations targeting for improving the quality of life in rural India.

Mahajan (2005), proclaim that the Microcredit cannot by itself promote economic growth and states the limitations of Microcredit in terms of five fatal assumptions, such as 1) Assumption that Credit is the main financial service needed by the poor.2) Assumption that credit can automatically translate into successful micro-enterprises.3) Assumption that the poorest all wish to be self employed and can be helped by Microcredit.4) Assumption that those slightly above the poverty line do not need Microcredit,and giving it to them is mistargeting 5) Assumption that Microcredit institutions can all become financially self sustaining.

The study deduces that to serve the purpose of economic growth, there is a need of new paradigm of Livelihood finance with much larger levels of resource allocation, both from public resources as well as from the capital markets. Supporting the statement Sinha (2004), says that the exaggerated focus on Microcredit as a solution

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for the poor has led to neglect by the state and public institutions in addressing employment and livelihood needs of the poor.

Hulme and Maitrot (2014) paper argue that Microfinance has lost its moral compass. They argue that the Microfinance main objective has been drifted towards meeting the short term financial performance of the credit officers employed by the banks and NGOs. They also quote certain examples of bad behaviuor of credit office with the clients especially women.

Kalpana (2006), concludes that whatever the model by which Microfinance is extended to the poor(whether SHG's or the Grameen), the fundamental issues are the same and pertain to incorporation and retention of very poor sections, to the challenges of offering a variety of financial services that are fine tuned to the borrowers needs keeping the low affordable cost, enhancing the participation of poor in decision making with regard to the terms and cost of credit and it is to be recognized by the policy makers that Microcredit can be no more than a small part of a comprehensive strategy for poverty reduction.

The literature points out many limitations of microcredit as a strategy to alleviate rural poverty. Nevertheless it is also true that this is a fast growing sector that is filling in an important lacuna in the rural credit market. The present study has similar instances as shown by other research work like microfinance focuses on better off poor rather than the core poor. It has shown similar results like positive impacts of SHG on income and savings.

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Chapter - 5

Research Design and Methodology

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The present chapter aims at providing research design and methodology used in the study, consisting of sections dealing with the study's sample design and questionnaire used. The last section of the chapter explains the statistical techniques used for data analysis.

SAMPLE DESIGN

Using the Non Probability Quota Sampling technique, a sample survey of various bottom of pyramid SHG members of five Districts which are Gurgaon, Jhajjar, Rewari, Bahadurgarh and Mahendragarh was conducted for this study during the months from November'2014 to March'2015. Within the district the survey was carried out in the following thirteen villages: 1) Teekli 2) Aklimpur 3) Dhamdhoj 4) Bhondsi 5) Badshahpur 6) Fatehpuri 7) Durina 8) Dahina 9) Nahar 10) Badli 11) Khairpur 12) Bihali 13) Bargaon. The ease of accessibility of these villages played a significant role in selecting these villages. Five hundred and thirty six respondents were contacted personally from these villages to get their viewpoint on the usefulness of Micro Finance and especially their attitude towards and the nature of involvement with the SHG (Self Help Group).

The SHG (Self Help Groups) is defined as a group of rural poor who have volunteered to organize themselves into a group for improving the income situation of the members. They agree to save regularly and convert their savings into a Common Fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management.

To understand from the company's point of view whether the bottom of pyramid i.e the Self Help Groups are actually the place where they can make fortunes. The questionnaire look upon the whether the company's incentives do play a significant role in increasing the demand for their products by these SHG members. For the purpose of same we have sampled 41 shop owners like confectionary shops from all these villages to get their feedback regarding the company's incentives provided to these people for marketing their products.

Firstly we will discuss the first questionnaire focusing on the Self Help Group members. The following Table 5.1 presents the profile of the selected respondents. It can be

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observed from the table that 55.4% were females and 76% of them belongs to the young age group. As we can see that the number of dependents in 71% of families is more than 2 and as far as the education is concerned 35% of them are illiterate and just can sign only while rest of them are primary passed. The occupational pattern states that 30% of them have primary occupation as dairy farming and 26% of them have started their own local shops like confectioners and parlours and 17% of them are factory workers. As we can analyze from our descriptive data that our study sample consists more of females who belongs to young age group and have more than two dependents in their family. The respondents are not very educated even some of them are illiterate also and as far as the occupational pattern is concerned the main source of livelihood is dairy farming followed by local shops like confectioners and parlours.

Table 5.1 : Sample Characteristics ***(N=536)***

S. No	Variables	Frequency	Percentage	Cumulative Percentage
Gender				
1.	Male	185	29.2	34.5
2.	Female	351	55.4	100.0
Age Group				
1.	Below 20	131	20.7	24.4
2.	20-30	186	29.3	59.1
3.	30-40	93	14.7	76.5
4.	40-50	88	13.9	92.9
5.	50 above	38	6.0	100.0
No. of Dependents				
1.	0-2	185	29.2	34.5
2.	2-5	200	31.5	71.8
3.	5 above	151	23.8	100.0
Education				
1.	Illiterate	65	10.3	12.1
2.	Can Sign	121	19.1	34.7
3.	Primary	182	28.7	68.7
4.	Secondary	124	19.6	91.8
5.	High Secondary and above	44	6.9	100.0

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Occupational Pattern				
1.	**Agricultural Activity (Farm)**	**27**	**4.3**	**5.0**
2.	**Dairy Farming**	**177**	**27.9**	**38.1**
3.	**Factory workers**	**108**	**17.0**	**58.2**
4.	**Auto/Rickshaw driver**	**44**	**6.9**	**66.4**
5.	**Local shops/ confection-naries/parlour/retailers**	**162**	**25.6**	**96.6**
6.	**Others (please specify)**	**18**	**2.8**	**100.0**

DEVELOPMENT OF QUESTIONNAIRE

For the purpose of the study, Primary data was collected through a structured non-diguised questionnaire.

PILOT STUDY

The pilot study of the research instrument (questionnaire) was conducted during the month of March to May 2014. It was facilitated to 536 respondents (Bottom of pyramid SHG members). It was observed that the time taken to complete the questionnaire ranges between 8-10 minutes and the feedback on clarity of words and instructions were positive with minimal changes required. The respondents could understand all questions with little difficulty. Also, the reliability coefficient (Cronbach's Alpha) of the pilot test came out to be 0.80 which is considered a good reliable score.

In order to further the research, the collected questionnaires during the real period of the study has been tested on its reliability scale. The reliability of the items is assessed by computing the coefficient alpha (Cronbach, 1951), which measures the internal consistency of the items of the scale, that is, how closely related a set of items are as a group. For a acceptable, coefficient alpha of the scale should be above 0.7 but above 0.6 for new scales is also acceptable (Nunnally, 1978). Due to multi-dimensionality of the behavioral turnover intention construct, coefficient alpha is calculated separately for all the factors (dimensions) of the scale. For the present study, all alpha coefficients ranged from 0.601 to 0.963, indicating a good consistency amongst items within each factor (dimension). The overall scale reliability came out to be 0.80 which also shows that the

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scale exhibits fairly good level of consistency and reliability. Hence, our data is internally consistent and reliable.

REVISION OF QUESTIONNAIRE

The questionnaire used in the pilot study was revised since many of the questions were open ended, for which tabulation could not be used. In the open ended questions there is risk that the answers provided by the respondent's may involve subjectivity and biases making it difficult to draw objective conclusions from such responses. Another limitation of the questionnaire used for the pilot study was that it did not adequately focus on the impact factor i.e. impact on economic status, social status etc. Therefore it was modified accordingly in light of the views expressed by the respondents and the overall objective of the study.

FINAL QUESTIONNAIRE

The final questionnaire used for the study comprises of the following four sections. Section I focuses on respondent's profile based on demographics, educational background and the occupational category. Section II concentrates on the working pattern and cohesiveness of the SHG (Self Help Groups). Section III attempt to assess the impact of SHG on certain key indicators that is how and whether the membership of SHG has brought a change in the lives of the villagers and Section IV focuses on the changes in the consumption pattern of the bottom of pyramid members after being associated with SHGs i.e whether their purchasing power has increased after becoming the member of SHG.

Section I

It deals with the respondent profile. The section is further subdivided into the following parts: Part I is about the demographic profile of the respondent including the gender, age group and the number of dependents in the family.

Part II is about the education level of the respondent and their family (e.g. number of families sending their children to school).

Part III studies the occupational pattern of the respondents talking about their principle source of livelihood, their land holding pattern, and their level of annual income before joining the SHG (Self Help Groups).

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Section II

The section studies the working and the cohesiveness of the SHG (Self Help Groups) concentrating on the reasons for joining SHG, the group composition, position of the group members in the group, how the respondent's came to know about the particular SHG (Self Help Group), the meeting pattern of SHGs, the level of unity within he group, the role of president in group decisions and so on.

This section also covers the communication process within the group, how the group decides about the disbursement of loan among the group members and tries to identify some of the major constraints in the functioning of the SHG (Self Help Groups).

Section III

The section focuses upon the impact of SHG formation on certain key indicators such as income, savings, credit, social status etc. To study he impact again this section has been classified into 3 subparts which are as follows:-

Part A focuses on Savings i.e. how much the respondent's saved annually before joining the group and how this has improved after being associated with SHG.

Part B focuses on Income i.e how their income level has changed after being associated with SHG.

Part C tries to identify the credit availability for the SHG. It tries to identify alternate (other than microfinance/ credit) sources of credit available to the villagers, and it also looks upon whether the loan has been spent on investment related expenditure or it has been spent on social expenditure.

Part D tries to highlight the impact of SHG membership on the social status of the villagers i.e. after being associated with SHG whether infrastructural facilities like water supply, Sanitation facilities, Medical facilities, School Facilities and other Market facilities has improved. It also tries to scrutinize the impact on confidence level, status in the village and changes if any in the incidence of domestic violence, especially for women, after being associated with SHG.

The questionnaire which we got filled by the local shop owners discusses the for how long they had been in this business in that particular area, whether they are selling

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branded products. The questionnaire also discusses whether company provides any incentives for selling their product and is there any change in demand of products after the incentives provided by the company.

These were the stages of development of the questionnaire which was used in the study. The copy of the questionnaire is attached in appendix, after the questionnaire was filled the data was tabulated and certain statistical techniques were used for analysis.

STATISTICAL TECHNIQUES USED

For analyzing the data, SPSS 16.0 (Stastical Package for Social Sciences) software was used. For the same purpose various statistical techniques have been used such as:-

1) **Measures of Central Tendency**: - Principal measures of central tendency which were used are arithmetic Mean, Median and the Mode.

i. **Mean: -** The arithmetic mean is calculated to get a single value that indicated the characteristics of the entire data and it also facilitates comparisons.

ii. **Median: -** Median is defined as the value of the middle term (or the mean of the values of the two middle items) when the data are arranged in an ascending or descending order of magnitude. Thus, in an ungrouped frequency distribution if the n values are arranged in ascending or descending order of magnitude, the median is the middle value if n is odd. When n is even, the median is the mean of the two middle values.

iii. **Mode: -** The mode is another measure of central tendency. It is the value at the point around which the items are most heavily concentrated.

2) **Correlation Analysis: -** It is a statistical tool used for measuring the relationship or association between two variables. The problem of analyzing the association between two variables can be divide into three steps. The first step is to know whether the two variables are related or independent of each other. Second step studies the nature and strength of relationship; this means whether theses variables have a positive or a negative relationship and how close that relationship is. The final step reviews whether there is a casual relationship between the variables between the variables i.e. the variation in one variable will cause the variation in another.

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3) ANOVA: ANALYSIS OF VARIANCE

When two or more means of independent samples are involved, analysis of variance (ANOVA) technique is used to test differences among such means. It is a powerful statistical tool that is frequently used in research. For the present study ANOVA is two-way classified i.e. one on the basis of various impact variables of SHGs and the other on the basis of income how various parameters have improved.

4) FACTOR ANALYSIS

It is multivariate analysis technique of indirect measurement. It simplifies the data by reducing a large number of variables to a set of a small number of variables. It analysis the inter-dependence of inter relationships among a total set of variables.

These statistical techniques were used in the present study for analyzing the questionnaire results.

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Chapter - 6

Analysis of Main Findings

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The present chapter explores the results of the survey and its implications both quantitatively and qualitatively in a detailed manner. After scoring the questionnaire, the raw data was analyzed in different stages in order to study the formulated objectives as mentioned in the earlier chapters. The results of different statistical techniques, used according to the objectives of the study, are depicted in the present chapter along with the discussions and findings.

The analysis in this chapter was carried out by using the following statistical tools:

1) Descriptive Statistics

a. Means

b. Standard Deviation

c. Ranking of Means

2) Factor Analysis

3) Analysis of variance (ANOVA)

4) Correlation Analysis

5) Chi-Square Test

6) Mc-Nemar Test

For the purpose of analyzing the findings the questionnaire for SHG group members has been divided into four major segments. The First section presents the profile of respondents of BOP members, focusing on demographics, to which socio-economic segment they belong, what is the number of dependents in family, what is the main source of principal livelihood etc.

The second section is about the functioning of SHG's group cohesiveness and the reasons for joining the SHG groups, constraints in its functioning etc.

The third section discusses the implications of SHG membership covering four major aspects a) impact on savings b) impact on income c) impact on credit availability d) impact on social position of the members.

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The forth section discusses the consumption pattern of the BOP members discussing the preference of local or branded products by them, the impact of SHG on their purchasing power for basic consumption requirements and the last seeking their preferences for loose/local or branded kitchen and staple items, personal care and grooming products, the miscellaneous products.

DESCRIPTIVE STATISTICS

Descriptive statistics is the simplest tool used to describe the basic feature of the data in a study. It also involves the use of simple graphic analysis, and forms the basis of virtually every quantitative analysis of data. It is used to simply describe what the data shows. It can be observed from the Table 6.1 that 55.4% were females and 76% of them belongs to the young age group. As we can see that the number of dependents in 71% of families is more than 2 and as far as the education is concerned 35% of them are illiterate and just can sign only while rest of them are primary passed. The occupational pattern states that 30% of them have primary occupation as dairy farming and 26% of them have started their own local shops like confectioners and parlours and 17% of them are factory workers.

For the present study, the following table summarizes the frequencies of the variables of the data surveyed and their cumulative percentages:

Table-6.1: Demographics of Sample ***(N=536)***

S. No	Variables	Frequency	Percentage	Cumulative Percentage
Gender				
1.	Male	185	29.2	34.5
2.	Female	351	55.4	100.0
Age Group				
1.	Below 20	131	20.7	24.4
2.	20-30	186	29.3	59.1
3.	30-40	93	14.7	76.5
4.	40-50	88	13.9	92.9
5.	50 above	38	6.0	100.0
No. of Dependents				
1.	0-2	185	29.2	34.5
2.	2-5	200	31.5	71.8
3.	5 above	151	23.8	100.0

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Education				
1.	**Illiterate**	**65**	**10.3**	**12.1**
2.	**Can Sign**	**121**	**19.1**	**34.7**
3.	**Primary**	**182**	**28.7**	**68.7**
4.	**Secondary**	**124**	**19.6**	**91.8**
5.	**High Secondary and above**	**44**	**6.9**	**100.0**
Occupational Pattern				
1.	**Agricultural Activity (Farm)**	**27**	**4.3**	**5.0**
2.	**Dairy Farming**	**177**	**27.9**	**38.1**
3.	**Factory workers**	**108**	**17.0**	**58.2**
4.	**Auto/Rickshaw driver**	**44**	**6.9**	**66.4**
5.	**Local shops/confectionaries/parlour/retailers**	**162**	**25.6**	**96.6**
6.	**Others (please specify)**	**18**	**2.8**	**100.0**

Composition of Respondents: - In the survey of the total number of respondent's of bottom of pyramid section 55.4% were female. The study shows that the Microfinance SHG programme is more popular among women. One reason for this could be that as far as the lower strata women are concerned the schemes like SHG are very helpful in providing them the meager income to fulfill their basic requirements. It provides them with an additional source of Income and provides with a source from where they can borrow low cost loans without providing collateral.

Age composition of respondents:-As is clear, from Table6.1, the 76% of the members in the group are in the age group of below 20-40 years. The concept of microfinance is more popular in the young and middle age group since the SHG Bank linkage has come fully into picture mainly after a year of liberalization i.e. 1992. The concept of SHG Bank linkage programme has gained momentum and this age group is the major beneficiary. It can also be observed from the table that in the 71% of the families the number of dependents are more than two or more than three which indicates that the burden of feeding everyone is more on the principal bread earner of the family. As per the incidental findings we found that out of total respondents some of the women were only bread earners of the family since their husbands were involved in social evils like gambling, drinking etc. In such cases especially the SHG (Self Help Group) can be seen as a blessing in disguised for these womens providing a major source of support for their families.

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It can be concluded that the SHG group so formed are homogeneous i.e. belonging to the same age group or same village. The study has in-fact focused on a few of such homogeneous groups in the districts of Gurgaon, Jhajjar, Rewari, Bahadurgarh and Mahendragarh.

Educational Attainment of Respondents:- The majority of the respondents were Literate up to Primary level .The president of the group is known as office bearer has to maintain the register and a book with the Bank for which he has to be at least literate. But, the benefit of scheme is also equally enjoyed by illiterate people, though they cannot be active members in the working of the group. The Table above reflects the said trend. The form which the villagers have to fill to become the SHG members has been attached in the annexures.Going through the form it can be stated that since the village members are not very educated and some of them are even illiterate the form is bit complicated therefore the form should be simplified and procedural simplicity can be incorporated.

Occupational Pattern:-The Tables above clearly signify that the main source of principal livelihood of the families is dairy farming followed by local shops/confectioners/parlors etc. A significant number of beneficiaries of the SHG scheme are the ones who do not own land in their own name and work in a factory or as a auto rickshaw driver etc. Since the large chunk of the respondents are females therefore whatever is their husband works that is the main source of principal livelihood.

The implication can be that the beneficiaries of the Micro Finance schemes are those who are at least near the poverty line though not below it. Since the problem with majority of them is that all of them are ready to work but they don't have the opportunities since they are landless and they work in somebody else factory, running their own small enterprise in the house like parlour, or embroidery business or bangle shop, confectionaries, working as auto rickshaw driver etc. All have agreed that for sustaining their shop to meet the social expenditures like marriage ceremony or death or illness of family members all of them require credit from time to time. Thus Self Help Groups has provided them with an avenue where they can easily arrange credit for

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meeting their social obligations or for other purposes and that too without providing collateral.

FUNCTIONING OF SHGS-AN ANALYSIS

The discussion in this section focuses on the actual functioning of the SHG (Self Help Groups) which concentrates on important issues like ,the reasons villagers join SHGs, the group composition, gender composition of the group, position of the members within the group, the process of decision making within the group etc.It also studies the factors that have helped the respondents to join the particular SHG (Self Help Group), their meeting pattern, the level of unity in the group, the decision making role of president in the group.

First we will examine the reasons that influenced the respondent's decision to join SHGs, given that other alternatives were also available to them. We explore what these alternatives are and also study who helped them join the SHGs. The table 6.2 below shows the ranking of various reasons for joining SHGs by the sample.

Table-6.2 : Ranking of the various reasons for joining SHGs ***(N=536)***

Ranking of various reasons	**Various variables (reasons)for joining SHGs**			
	Low Income	**Low Cost Loan**	**Others**	**Unemployment**
Frequency	249	233	23	31
Percent	39.3	36.8	3.6	4.9
Ranks	I	II	III	IV

As per the survey it has been noticed that Low income is the prime factor for the respondents to join the SHG (Self Help Group) programme followed by the Low cost loans as that they do not have access to the other sources of loan. The second last rank is occupied by the "Other" reasons such as that they want to have financial independence or for the sake of society. The reason of unemployment is that these young man and women was not able to get the job so they think of starting their own shops for which SHG provides them with loan that too without collateral that acts as a main incentive for them.

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The following discussion and table 6.3 concentrates on the factors that helped the respondents in joining the SHG.

Table-6.3 : Ranking of factors that helped respondents in joining the SHG ***(N=536)***

Ranking of various factors	**Various variables who helps in joining SHG**			
	Other members of group	**NGO worker/bank official**	**Family Members**	**Self**
Frequency	286	148	84	18
Percent	45.1	23.3	13.2	2.8
Ranks	I	II	III	IV

The findings of the study show that in some villages it is the existing members of the Self Help Group who motivate other villagers to join the group and in other villages it is the bank official who helps them to join the group. The reasons for the same as per the villagers are:-

- The other villagers got attracted towards joining the Group by seeing the improvement of other group member's income/ status/ home (pucca makan).
- The villages where the bank officials or NGO's worker's are active they encourage the villagers to from such group by telling them the benefit of the same.
- Also in SHG scheme one member can be a member of more than one group also therefore the one who has already seen some benefit of scheme as members got motivated to form a new group by encouraging other members and to become the office bearer.

Sometimes the family members also helps the respondents to join the group after seeing the benefit gained by the women, they make their husband to join the other mixed groups or to their fellow sisters etc. Sometimes as per the result the individual himself/herself join the group after attending the training programme of NGO or after discussing with other members of village.

Now we look at the communication process within the group, how the group decides about the disbursement of loan among the group members i.e. factors affecting the intra

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group functioning and constraints in the functioning of the SHG (Self Help Groups), as perceived by group members. We also examine the impact of SHGs on infrastructural amenities. It is worth noting at this juncture that this is an aspect regarding actual functioning of SHGs on which not much information is available in the secondary literature.

Based on analysis of the questionnaire and interaction with the respondents it was found that communication level within the group plays a significant role in the smooth functioning of the group. Also the SHG has provided a platform to the women to discuss their issues or problem within the group. Since majority of the respondents are women they agreed that they are more comfortable in talking within the group is united and the members know each other well prior to the joining of the group.

The following table will discuss the constraints in the functioning of the group:-

Table-6.4 : Frequency Distribution and Normal Distribution Curve for Constraints in the functioning of the Group *(N=536)*

S. No	Constraints	Frequency	Percent	Cumulative Percent
1	High Interest Payment	36	5.7	6.7
2	Conflicts within group	223	35.2	48.3
3	Lack of awareness	79	12.5	63.1
4	Repayment of loan	9	1.4	64.7
5	Lack of attention from bank officials	189	29.8	100.0

There are various reasons for and constraints in the functioning of the group which leads to the disintegration of the group. These are high interest payment being charged by the group members, conflicts within the group due to any reason and lack of awareness regarding the functioning of the groups which can lead to its break up. Other reason may be the lack of attention from the bank officials and other formal institutions for the effective functioning of the group.

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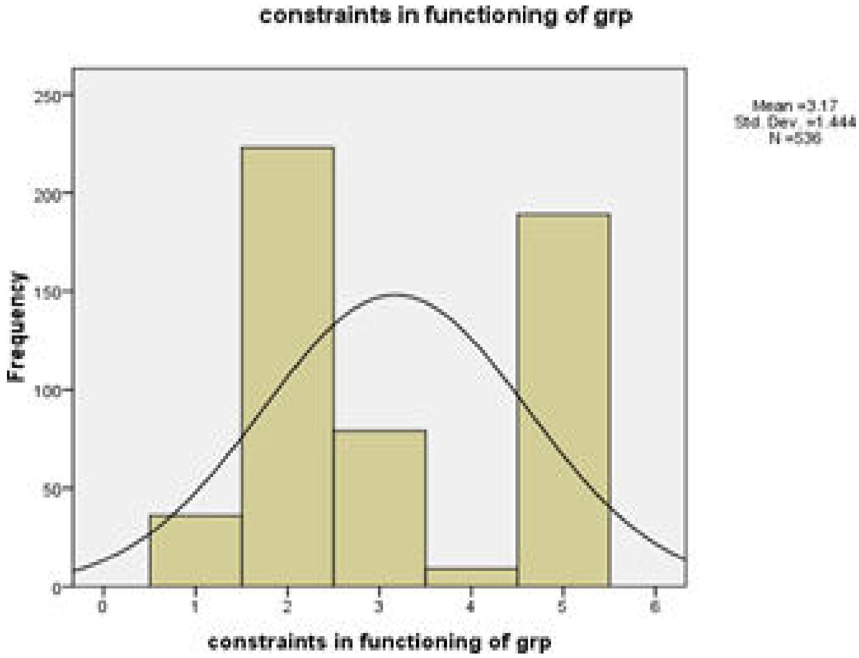
Figure-6.1 : Constraints in functioning of group



Out of 13 villages studied the outcome from the majority (8 villages) of the respondents is that it is the conflict within the group which acts as a biggest constraint in the functioning of the group. Many of the group respondents agreed that though the groups are being formed and it also works for few months and when some member defaults in the repayment nobody is there to check upon their activity and after some time the group dissolves. The redressal mechanism is not there if the group is not functioning properly. Some respondents say that they have become members but some of the more cunning group members have defaulted, as a result of which they have lost their entire savings. Since they are not very educated or some are even illiterate they do not know how to approach the bank for complaining about their problem.

While some respondents especially those who are educated or active, feel that the best way to ensure repayment is that they call upon the bank official who will sometimes insult the members who defaults or make them understand the repercussions, so they are induced not to default.

While in other five villages the problem is somewhat different, as here the problem is with the bank officials. According to them that NGO member or the bank official does

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not take interest in the formation of the group or for the formality sake once they have formed the group they are least bothered to check about the functioning of the group.

The study indicates that the prime reason for majority of the respondents to join the SHG is that they do not have to provide collateral for arranging short term loans for meeting their emergency needs. One reason for this could be that in our study majority of the respondents were women and normally the women do not have something to provide for collateral. Being the less privileged gender typically they do not own property in their name (it is invariably in the name of their husband or the male member of the family), neither can they mortgage their jewelry freely since in that case the in-laws may create problems, so the SHG loans without collateral acts as a blessing in disguise for these rural women.

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Chapter - 7

Economic and Social Implications of SHG

Hypotheses is a proposition which the researcher wants to verify. In order to verify the impact of SHGs on the socio-economic lives of the poor people at the BOP. The economic parameters which we have selected for the purpose of study is impact on income followed by impact on savings and the impact of SHGs on the credit availability pattern. Prior to analyzing these three we have also studied the factors which play a role in the cohesiveness of group since if the works properly for a long duration then only they can leave any impact. To test the above four statements we made the following four hypotheses:-

H_1: All individual factors play a significant role in determining the cohesiveness of group. H_2 : Is there a significant change in income after joining SHG.

H_3: Is there a significant change in savings after joining SHG.

H_4: Is there a significant change in credit availability after joining SHG.

For studying the social impact, the social parameters like confidence level of group members, status in the village, change in domestic violence and change in access to amenities the following hypotheses were tested:

H_5: There is a significant change in confidence level of members after being associated with SHG.

H_6: There is a significant change in social status of members after being associated with SHG. **H_7:** There is a significant change in domestic violence of members after being associated with SHG.

H_8: There is a significant change in family members behaviour after being associated with SHG. **H_9:** There is a significant change in access to amenities after being associated with SHG.

For studying the impact of SHG on the consumption patterns and to study whether the companies incentives do play a significant role in changing the trends of consumption or demand the following hypotheses were tested.

H_{10}: There is a significant change in consumption pattern of BOP members utility items after being associated with SHG.

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H_{11}: Company incentives do play a significant role in changing the trends of consumption or demand.

COHESIVENESS OF SHGS

For any Self Help Group to be successful, its success depends upon the cohesiveness within the group. If the group is united well they work together for the betterment of each other as well as it will run for a long time. Cohesiveness depends upon many factors which has been studied like Reasons for joining SHG, How many members are in your group?, Gender Composition of SHG, Position in group, duration of membership, change in group size and many others.

In order to study the cohesiveness of the Self Help Groups and the role of various factors in determining the cohesiveness we test the following hypotheses :-

H_0: All individual factors do not play a significant role in determining the cohesiveness of the group.

H_1: All individual factors play a significant role in determining the cohesiveness of the group.

In order to test the degree of significance of each factor, factor analysis was done in SPSS.

The below table 7.1 indicates the communalities that is the individual contribution of each factor for determining the cohesiveness of group.

Table-7.1 : Communalities

	Initial	**Extraction**
Reasons for joining SHG	1.000	.548
How many members are in your group?	1.000	.554
Gender Composition of SHG	1.000	.609
Position in group	1.000	.582
duration of membership	1.000	.612
change in group size	1.000	.939
who help to join the group	1.000	.557

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did the group conduct meeting	1.000	.939
how did you communicate in grp	1.000	.266
How did you rate the level of unity in your group	1.000	.601
Does the President plays dominant role in group decisions	1.000	.158
grp decision basis for loan giving	1.000	.526
constraints in functioning of grp	1.000	.548

Extraction Method: Principal Component Analysis.

Communalities represent the individual contribution under study. The above table gives the initial and extracted communalities. Small value indicates variables that do not fit well with the factor solution i.e these factors do not have significant impact on cohesiveness of groups should possibly be dropped.

The table 7.2 gives eigenvalues, variance explained and cumulative variance explained for our factor solution.

Table-7.2 : Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% Variance	Cumulative %
1	2.044	15.722	15.722	2.044	15.722	15.722	1.987	15.282	15.282
2	1.647	12.672	28.394	1.647	12.672	28.394	1.418	10.911	26.193
3	1.376	10.581	38.975	1.376	10.581	38.975	1.413	10.867	37.060
4	1.243	9.564	48.539	1.243	9.564	48.539	1.365	10.502	47.562
5	1.129	8.686	57.225	1.129	8.686	57.225	1.256	9.663	57.225
6	1.000	7.695	64.920						
7	.969	7.457	72.377						
8	.806	6.203	78.580						
9	.797	6.135	84.715						
10	.708	5.447	90.161						
11	.647	4.977	95.138						
12	.554	4.260	99.398						
13	.078	.602	100.000						

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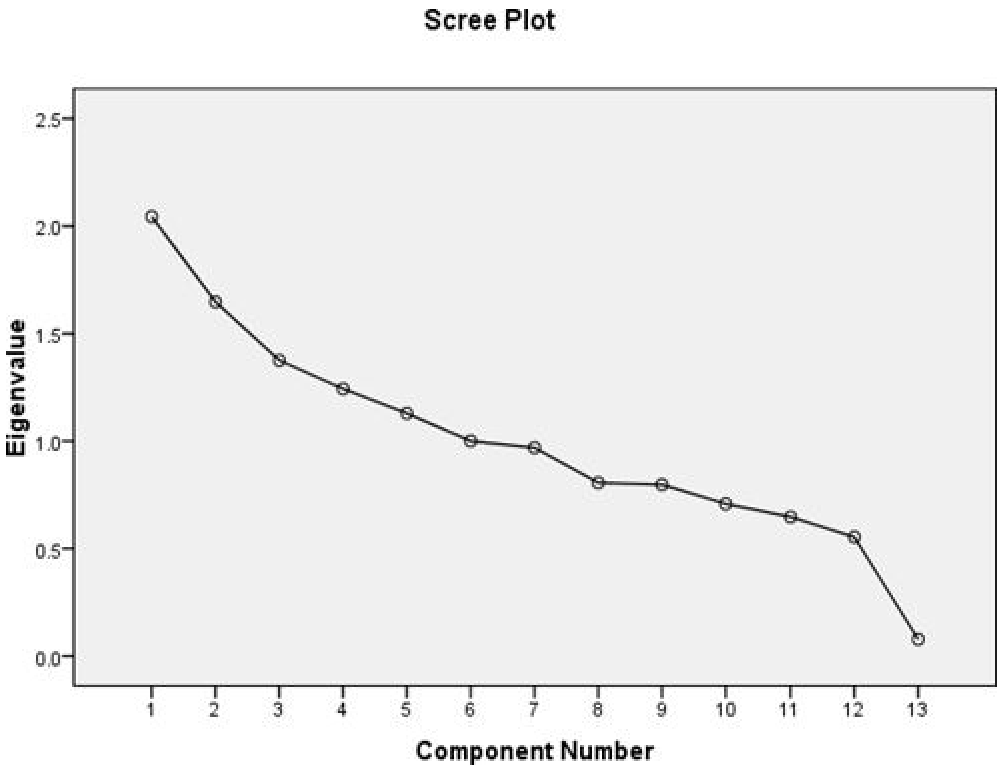
Extraction Method: Principal Compon

As we can see from the above table there are few factors which explain a lot of variance for which we plot the Scree Plot. The following Scree Plot explains the change in variation of each factor.

Figure-7.1 : Scree Plot of Factors affecting cohesivess of group



In Figure 7.1, the Scree Plot suggests that 5 factor solution contributes to the larger part of data that means these 5 factors majorly explain the cohesiveness of group.

Table-7.3 : Rotated Component Matrix[a]

	Component				
	1	**2**	**3**	**4**	**5**
Change in group size	**.968**	.037	.004	-.004	.028
Did the group conduct meeting	.967	.017	.033	-.035	.028
Duration of membership					
Grp decision basis for loan giving	.025	**.756**	-.129	-.009	.153

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Position in group	.057	.691	.144	.159	-.011
Who help to join the group	.185	.126	**.683**	.046	-.250
How many members are in your group?	.041	-.123	.571	.449	.111
How did you communicate in grp	-.035	.425	.538	-.237	.163
Reasons for joining SHG	.110	.130	-.432	.016	-.225
How did you rate the level of unity in your group	-.051	.017	.154	**.722**	.002
Does the President plays dominant role in group decisions	-.010	.210	-.274	.693	-.038
Gender Composition of SHG	-.043	.232	-.076	-.260	-.172
Constraints in functioning of grp	-.138	.201	.029	-.044	**.739**
	.194	-.032	.030	.084	.708

Extraction Method: Principal Component Analysis.

Rotation Method: Equamax with Kaiser Normalization.

a. Rotation Converged in 6 Iterations.

In the above table 7.3, the component matrix reports the factor loading for each variable on the components or factors after rotation. Each number represents the partial corelation between the item and rotated factor.

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Table-7.4 : Component Transformation Matrix

Component	1	2	3	4	5
1	.931	.214	.262	.062	.126
2	-.352	.554	.510	.354	.429
3	-.021	.550	-.332	-.720	.262
4	.085	.352	-.720	.592	-.018
5	-.047	.470	.208	-.046	-.855

Extraction Method: Principal Component Analysis. Rotation Method: Equamax with Kaiser Normalization.

As we can see from table 7.4, the Component 1 is highly loaded on change in group size, the Component 2 is highly loaded on duration of membership, the Component 3 is highly loaded on position in group and who help to join the group, the Component 4 is highly loaded on reasons for joining SHG and the Component 5 is highly loaded on the gender composition of group.

Factor analysis clearly indicates that approximately 60% of the variance can be explained with the help of just five components and the rest of the eight factors will explain the remaining 40% of variance. Hence in order to increase the cohesiveness of group we should focus on the five factors i.e change in group size, duration of membership, position in group, reasons for joining SHG and gender composition of group. Therefore the Null hypotheses is rejected and alternative hypotheses is accepted.

Based on analysis of the questionnaire and interaction with the respondents it was found that if the group size remains same, the group members are more comfortable in talking to each other since they become familiar with each other behaviour. The second factor i.e the duration of membership also affects the cohesiveness, the larger the number of duration of membership the greater will be the cohesiveness. The other factor i.e the position of the members in the group as the office bearer also affect the cohesiveness since if they become the office bearer it makes them more responsible and loyal towards the group. The other factor like the reason of low income makes them to have a longer association with SHG and at the last the gender composition also affect the cohesiveness of the group. Also the SHG has provided a platform to the women to discuss their issues or problem within the group. Since majority of the respondents are women they agreed that they are more comfortable in talking within the group is united and the members know each other well prior to the joining of the group.

Thus the upcoming SHG focus on these factors they can increase the group cohesiveness which ultimately affect the proper functioning of the group. If the group is functioning properly both the bottom of pyramid members as well as the suppliers of credit will gain advantage out of it.

The economic impact can be studied with the help of whether there is a significant change in income of group members after joining SHG. For measuring the impact on income we will test the following hypotheses:-

Ho: - There is no significant change in income after joining SHG. H_2:- Is there a significant change in income after joining SHG.

For testing the validity we have applied the Chi-square test for checking that if there is any significant change in income after joining SHG. The following table 7.5 represents the Chi- square results:

Table-7.5 : Chi-Square Tests

	Value	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	26.542[a]	4	.000
Likelihood Ratio	27.578	4	.000
Linear-by-Linear Association	.678	1	.410
N of Valid Cases	536		

a. 1 cells (11.1%) have expected count less than 5. The minimum expected count is 4.96.

As we can see the critical value of χ^2 with 4 degree of freedom at 1% is 13.227 and at 5% level of significance it is 9.488. Since the calculated value of χ^2 is 26.542 is much greater than the critical value of χ^2, the null hypotheses that there is no significant

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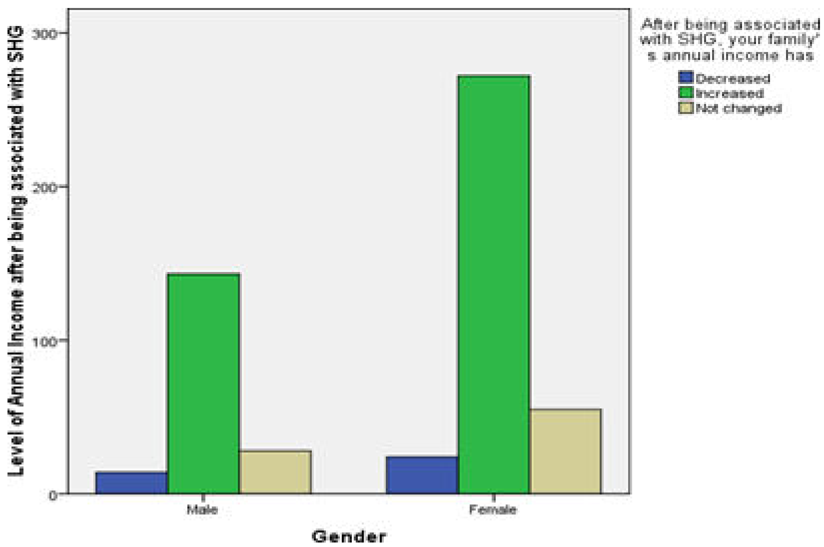
change in income before and after joining SHG is rejected. Thus we accept our alternate hypotheses that there is a significant change in income after joining SHG which we have also indicated through the following crosstab table and bar graph.

The cross tabulation can be seen from the table 7.6. The primary emphasis is given on the annual income and the secondary emphasis is on the gender of the member.

Table-7.6: Crosstabulation

	Level of Annual Income before joining SHG			Total
	Less than Rs. 10000	Rs. 10000-Rs. 25000	Rs. 25000-Rs. 50000	
Male	122	17	46	185
% within Gender	65.9%	9.2%	24.9%	100.0%
% within Level of Annual Income before joining SHG	34.9%	24.3%	39.7%	34.5%
Female	228	53	70	351
% within Gender	65.0%	15.1%	19.9%	100.0%
% within Level of Annual Income before joining SHG	65.1%	75.7%	60.3%	65.5%
	350	70	116	536
% within Gender	65.3%	13.1%	21.6%	100.0%
% within Level of Annual Income before joining SHG	100.0%	100.0%	100.0%	100.0%

Figure-7.2: Level of Annual Income



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As we can see from the above table 7.6, we have crosstab the gender and their level of annual income after joining the SHG and we have plotted the result in figure 7.2 also. The results are clearly stating that their annual income has increased after being associated with SHG although there is a certain percentage saying that there is decrease in icome, these are the cases where there is default of laons or the group has been disolved without providing any benefit to the group members. Thus we can state that 77.4% strata of group saying that there is increase in income after being asssociated with SHG which is a major percentage to reject our null hypotheses which is saying that there is no significant change in income before and after joining SHG and we accept our alternate hypotheses saying that there is a significant change in income after joining SHG. Thus the result indicates that there is rise in income after being associated with SHG which has led to the positive economic impact. Now they spent their income earned from SHG's for investment purposes like purchase of plot, livestock rearing, selling up a new shop etc. The results seems to indicate the economic position of the respondents have improved after the initiation of SHG programme and since the majority of the respondents are female therefore the improvement in the economic position of the women will ultimately results in their empowerment.

For analyzing the impact on savings on the bottom of pyramid members of the Self Help Group after being associated with SHG we have studied the savings of members before joining SHG and the savings after becoming the member of SHG. The table 7.7 indicates the impact on savings before and after joining SHG. We have conducted the McNemar Test. When the research design involves a before and after situation, McNemar Test is applicable. The following is the hypotheses for seeing the impact on savings:

H_0:- There is no significant change in savings after joining SHG. H_3:- Is there a significant change in savings after joining SHG.

Table-7.7 : Impact on savings before joining SHG * Impact on saving after joining SHG

Before Joining SHG	After joining SHG		Total
	Less than	More than	

	5000	5000	
Less than 5000	63 (A)	196 (B)	259
More than 5000	122(C)	155 (D)	277
Total	185	351	536

The McNemar test involves the calculation of chi-square according to following formula:

$$\chi^2 = \frac{(|b-c|-1)^2}{b+c}.$$

$= [(196-122)-1]^2 / 196+122$ χ^2

$= 16.75$

The calculated value of χ^2 turns out to be 16.75 approx. The critical value of χ^2 for $\alpha = 0.05$ and (r-1) (c-1) = 1 degree of freedom is 3.84. As calculated χ^2 exceeds the critical value the null hypotheses is rejected. Thus we can conclude that Microfinance Self Help Group scheme for bottom of pyramid section has resulted in a positive outcome i.e it increase the savings of group members.

The SHG programme tends to inculcate the habit of thrift among the members first, and then it provides loans on the basis of the savings. The results seems to indicate that if the respondents have alternative source of occupation then the probability of increase in savings is high. The reason can be that majority of the respondents surveyed are women and their secondary source of occupation is the economic activity in which they are involved with the help of SHG e.g. like some of the have opened a tailoring shop, beauty parlour, embroidery shop, confectionery etc. Thus if the secondary source of occupation is there then the chances of increase in saving level improves.

In order to study the impact of credit availability to the bottom of pyramid Self Help Group Members that after being associated with SHG's we will test the following hypotheses:-

H_0:- There is no significant change in credit availability after joining SHG. H_4:- Is there a significant change in credit availability after joining SHG.

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For testing the validity we have applied the Chi-square test as given below in table 7.8. For checking that if there is any significant change in credit availability after joining SHG. The following table represents the Chi-square results:

Table-7.8 : Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.609[a]	2	.165
Likelihood Ratio	3.554	2	.169
Linear-by-Linear Association	3.407	1	.065
N of Valid Cases	536		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 14.50.

As we can see the critical value of χ^2 with 2 degree of freedom is 0.103. Since the calculated value of χ^2 is 3.609 is much greater than the critical value of χ^2, the null hypotheses that there is no significant change in credit availability after joining SHG is rejected. Thus we accept our alternate hypotheses that there is a significant change in credit availability after joining SHG which we have also indicated through the following table 7.9 and figure 7.3.

Table-7.9 : Credit availability for SHG members

S.No.	Variables	Frequency	Percentage	Cumulative Percentage
Have you ever taken loan from SHG				
1	Yes	357	56.3	66.6
2	No	179	28.2	100.0
If SHG is not there then from where you will arrange money				
1	From Bank	18	2.8	3.4
2	From Friends	179	28.2	36.8
3	From Relatives	321	50.6	96.6
4	From Money lender	18	2.8	100.0
What you have done with money borrowed through SHG				
1	Spent on income generating activity	280	44.2	52.2
2	Spent otherwise on consumption loan	256	40.4	100.0

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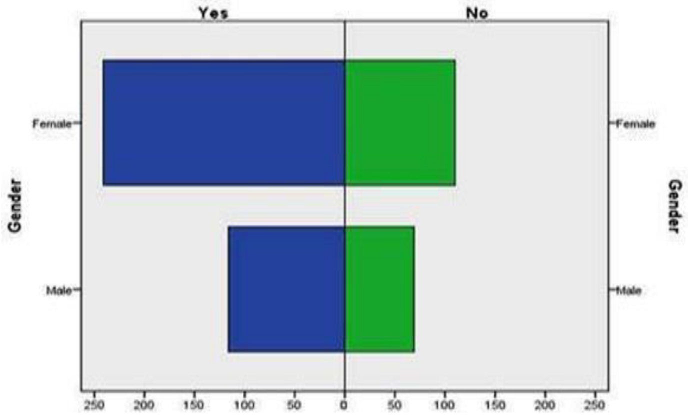
It is clear from the above table that majority of them i.e 66.6% members have taken loan from SHG's. The results prove that credit is easily available within the group from where they take loan and fulfill their demand.

As per the findings of the survey, before joining the SHG the major source of loan available to villagers is their relatives followed by the friends, money lender and bank. They find their relatives as the best source of loan available to them for arranging the funds at the time of contingencies or for any other requirement. The friends are the next best alternative available to them for the arrangement of credit. It can be stated that the arrangement of credit is not the major problem but the cost of such alternatives, the need for mortgaging or organizing some collateral and the repercussions associated with them is the problem. We can also see that the SHG members have spent their loan money more on income generating activities in comparison to the consumption loan like majority of them have opened their own shops like confectionary, parlours etc. Therefore the launch of SHG programme can be taken as a positive sign towards improving the accessibility of bank credit for the poor.

The following graph indicates that the female members on an average have taken more loan in comparison to male members. The reason could be the group which we have studies consists more of female members and other reason could be that women's are always forced to arrange money even for the consumption.

Figure-7.3 : Loan from SHG



As we can see from the below picture, before joining the SHG the major source of loan available to villagers is their relatives followed by the friends, money lender and bank.

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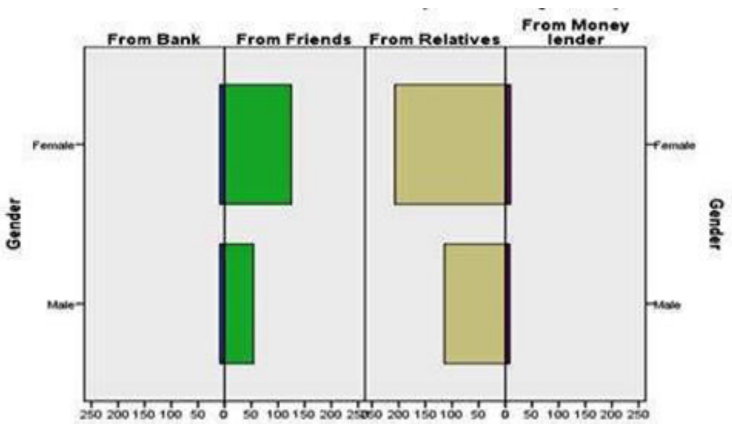
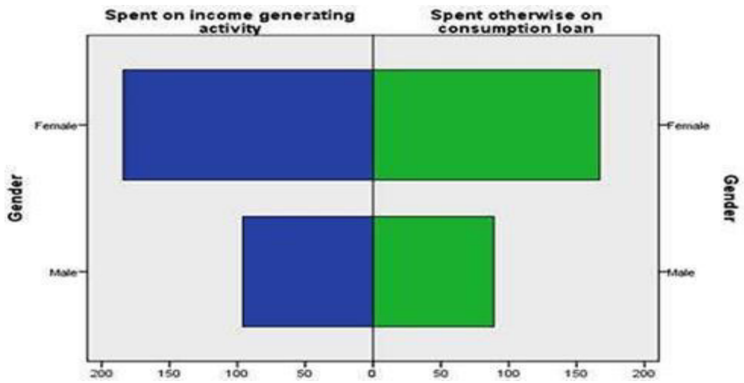
The picture clearly indicates if there are male or females they normally approach to their close friends or relatives instead of approaching the banks. The reason could be the documentation work involved in getting the loans from the banks which is far more complex in comparison to arrange funds from friends and relatives. They find their relatives as the best source of loan available to them for arranging the funds at the time of contingencies or for any other requirement. We can also see that the SHG members have spent their loan money more on income generating activities in comparison to the consumption loan like majority of them have opened their own shops like confectionary, parlours etc. Therefore the launch of SHG programme can be taken as a positive sign towards improving the accessibility of bank credit for the poor.

Figure-7.4 : Other sources of loan apart from SHG



The figure 7.4 indicates that females are the ones who spent the loan on income generating activities and as well as to meet their short term consumption to the male members.

Figure-7.5 : Use of money borrowed through SHG



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The figure 7.5 indicates the usage of money borrowed through SHGs. Thus after seeing all the results and graphs and the percentage of 66.6% of members taking loan after being associated with SHG, we can reject our null hypotheses that here is no significant change in credit availability pattern after being associated with SHG and accept our alternative hypotheses that there is a significant change in credit availability pattern after being associated with SHG.

Social Impact of SHG on Bottom of Pyramid

To analyze the overall social impact of Microfinance scheme of Self Help Groups on bottom of pyramid members we have made the following three hypotheses :-.

H_0:- There is no significant change in confidence level of members after being associated with SHG.

H_5:- There is a significant change in confidence level of members after being associated with SHG.

H_0:- There is no significant change in social status of members after being associated with SHG. **H_6:-** There is a significant change in social status of members after being associated with SHG.

H_0:- There is no significant change in domestic violence of members after being associated with SHG.

H_7:- There is a significant change in domestic violence of members after being associated with SHG.

H_0:- There is no significant change in access to amenities after being associated with SHG. H_8:- There is a significant change in access to amenities after being associated with SHG.

For analyzing the above hypotheses H_5, H_6, H_7 and H_8 we have analyzed through One-Way ANOVA.

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Table-7.10 : Social Impact of SHG

		Sum of Squares	df	Mean Square	F	Sig.
After being associated with SHG have you felt any change in your confidence level	Between Groups	25.306	2	12.653	27.199	.000
	Within Groups	247.948	533	.465		
	Total	273.254	535			
Have you felt any change in family members behavior/treatment towards you after being associated with SHG	Between Groups	16.287	2	8.143	19.791	.000
	Within Groups	219.309	533	.411		
	Total	235.595	535			
Is there any change in domestic violence after being associated with SHG	Between Groups	1.457	2	.728	1.532	.217
	Within Groups	253.498	533	.476		
	Total	254.955	535			
Is there any change in your status in the village after being associated with SHG	Between Groups	22.539	2	11.270	35.653	.000
	Within Groups	168.476	533	.316		
	Total	191.015	535			

The above table 7.10 indicates that at 99% level of significance and at (2,533) degrees of freedom the tabulated value of F.99(2,533) 3.00 which is being compared by the calculated value of "F" of different factors of social position of the respondents. The above table indicates that the impact of SHG membership is more on status in village, followed by increase in the confidence level and the treatment from the family members which have changed. In each case the calculated values are less than the tabulated "F"values.

Thus we can reject our null hypotheses that there is no significant change in confidence level of members since the calculated value of F.99(2,533) 27.199 is more than the

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tabulated value which is 3.00. And accept our alternate hypotheses that there is significant change in confidence level of members.

Thus we can reject our null hypotheses that there is no significant change in social status of members since the calculated value of $F_{.99}(2,533)$ 35.653 is more than the tabulated value which is 3.00. And accept our alternate hypotheses that there is a significant change in social status of members.

We cannot reject the null hypotheses that there is no significant change in domestic violence of members after being associated with SHG since the calculated value of $F_{.99}(1,534)$ 1.532 is less than the tabulated value which is 3.00. And accept our null hypotheses that there is no significant change in domestic violence of members after being associated with SHG.

Also we can reject our null hypotheses that there is no significant change in family members behaviour since the calculated value of $F_{.99}(2,533)$ 19.791 is more than the tabulated value which is 3.00. And accept our alternate hypotheses that there is a significant change in family members behaviour.

Our study indicates that Self Help Groups has still not made any perceptible impact on the incidence of domestic violence. Infact our study also reports that there is no change in the incidence of domestic violence even though the Income and Savings has increased. This underscores the important point that improvement in the economic condition of women alone is not sufficient to solve this problem. True empowerment can only come through more education of both men and women and through grater social awareness and consciousness via this process.

In order to study the impact of SHGs on access to amenities like water supply, school, market, medical facilities for bottom of pyramid members we will test the following hypotheses :-

H_0:- There is no significant change in access to amenities after being associated with SHG. H_9:- There is a significant change in access to amenities after being associated with SHG.

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Table-7.11 : Change in access to amenities

		Sum of Squares	df	Mean Square	F	Sig.
Water Supply and Sanitation	Between Groups	.691	2	.346	.666	.514
	Within Groups	276.740	533	.519		
	Total	277.431	535			
Medical Facilities and School	Between Groups	11.519	2	5.759	12.976	.000
	Within Groups	236.571	533	.444		
	Total	248.090	535			
Market Facilities	Between Groups	1.296	2	.648	3.518	.030
	Within Groups	98.196	533	.184		
	Total	99.493	535			

The above table 7.11 indicates that at 99% level of significance and at (2,533) degrees of freedom the tabulated value of F.99(2,533) 3.00 which is being compared with the calculated value of "F" for the different facilities availed of by respondents. Thus by seeing the table above, we can state that the impact of income from SHG is on Sanitation, Medical, market facilities, school for children since the calculated value of F is less than the tabulated value, in comparison to water supply. This shows that a consumption loan available through SHGs has helped households undertake improvements on their existing living conditions e.g. install improved sanitation facilities, helped in meeting unforeseen health related expenditures and medical emergencies. It helps them to send the children to school and also the market facilities have improved but it has got no impact on the water supply since water is still a function of public expenditure on infrastructure like roads, power etc which individuals cannot undertake on their own. Thus we can reject our null hypotheses i.e there is no significant change in access to amenities after being associated with SHG and accept alternate hypotheses i.e there is a significant change in access to amenities after being associated with SHG.

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IMPACT OF SHG ON CONSUMPTION PATTERN

For studying the impact on consumption pattern of BOP members because of microfinance the following hypotheses will be tested:-

Ho:- There is no significant change in consumption pattern of BOP members utility items after being associated with SHG.

H_{10}:- There is a significant change in consumption pattern of BOP members utility items after being associated with SHG.

Table 7.12: Do you feel there is quality difference between the local open products and packaged of brands available in market * Has SHG resulted in increase in your purchasing power for basic consumption requirements

	Has SHG resulted in increase in your purchasing power for basic consumption requirements			Total
	Yes	No	Can't Say	
Do you feel there is quality difference between the local open products and packaged of brands available in market	173	104	89	366
	66	25	35	126
	26	9	9	44
	265	138	133	536

As we can see in the above table 7.12, there are 277 bottom of pyramid members who feel that there is quality difference between the local open products and packaged of brands available in market and 239 members state that SHG has resulted in increase in their purchasing power for basic consumption requirements and out of these category of people 173 of the members agree that there is a difference in quality of loose products and packaged products and now it is affordable for them, After being associated with SHG majority of them were saying that quality products are preferable as it is coming in their purchasing power. So we can reject our null hypotheses that there is no significant change in consumption pattern of BOP members utility items after being associated

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with SHG and accept the alternate hypotheses that there is no significant change in consumption pattern of BOP members utility items after being associated with SHG.

The second questionnaire which we have circulated to the suppliers/shop keepers among the bottom of pyramid members the following is the descriptive statistics related to the shop owners.

Table-7.13 : Years in Business

		Frequency	Percent	Cumulative Percent
Valid	**Less than a year**	4	.6	10.0
	2-5	20	3.2	60.0
	5-10	10	1.6	85.0
	More than 10	6	.9	100.0
	Total	40	6.3	

As we can see from the above table 7.13 that the majority of the shop owners are having an experience of more than 2-5 years followed by more 5 years which indicates that they must be making profits by selling to the bottom of pyramid members.

Table-7.14 : Selling Quality Products

	Frequency	Percent	Cumulative Percent
Valid Local loose items	7	1.1	17.5
Branded/packged product	14	2.2	52.5
both	19	3.0	100.0
Total	40	6.3	

As we can see from the above table 7.14 that the majority of the sellers at the village sell both the branded products and local loose items which indicates that poor people do prefer quality product in comparison to local loose items.

Table-7.15 : Types of Products

	Frequency	Percent	Cumulative Percent
Kitchen and staple	13	2.1	32.5

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Personal care and grooming	21	3.3	85.0
miscellaneous	6	.9	100.0
Total	40	6.3	

The above table 7.15 indicates that the highest percentage of change in demand for quality products is in the category of personal care and grooming like soaps, shampoos, hair oil, cream and lotions followed by kitchen and staple items like iodised salt, packed spices, packed noodles etc.

Table-7.16 : Incentives Role

	Frequency	**Percent**	**Cumulative Percent**
Yes	29	4.6	72.5
No	11	1.7	100.0
Total	40	6.3	

The above table 7.16 clearly indicates that incentives do play a significant role in creating demand for quality products by the bottom of pyramid members.

For analyzing our objective of that do companies incentives play a significant role in increasing the demand for branded products for bottom of pyramid members we undertake the following hypotheses:-

H_0:- Company incentives do not play a significant role in changing the trends of consumption or demand.

H_{11}:- Company incentives do play a significant role in changing the trends of consumption or demand.

Below table 7.17 indicates that at 95% and 99% level of significance at (2,40) degrees of freedom the tabulated value of F is 3.23 and 5.18 respectively which is being compared with the calculated value of 'F' of different factors affecting the demand or the consumption patterns. The above table indicates that the impact of incentives by company is more on selling branded products followed by Years in business and it also impacts to change the demand. In each case the calculated value is less than the

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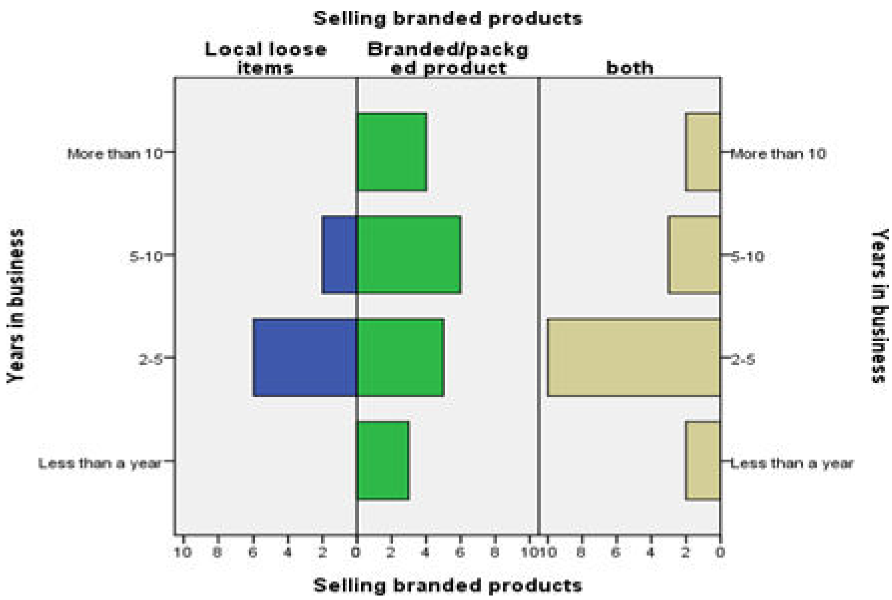
tabulated 'F' value. So we can reject the null hypotheses that company incentives do not play a significant role in changing the trends of consumption or demand and accept our alternate hypotheses that company incentives do play a significant role in changing the trends of consumption or demand.

Table-7.17 ANOVA

		Sumof Squares	df	Mean Square	F	Sig.
Years in business	Between Groups	1.150	2	.575	1.710	.194
	Within Groups	13.455	40	.336		
Selling branded products	Between Groups	2.976	2	1.488	3.832	.030
	Within Groups	15.535	40	.388		
change in demand	Between Groups	2.683	2	1.342	3.591	.037
	Within Groups	14.944	40	.374		

Figure-7.6: Relationship of number of years in business and sales of branded products



As per the above figure 7.6 population pyramid graph we can observe that the vendors who are in business more than a year prefer to sell branded or packaged products in comparison to local loose items. The reason could be the incentives provided by the company for selling the branded products and also the preference of bottom of pyramid

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section is now converting to quality/branded products in comparison to local loose items.

We have also undertaken factor analysis for the factors affecting the consumption pattern of bottom of pyramid members.

Table-7.18

Communalities

	Initial	Extraction
Years in business	1.000	.857
Selling branded products	1.000	.582
incentives by company	1.000	.663
incentives role	1.000	.813
change in demand	1.000	.949

Extraction Method: Principal Component Analysis.

The above table 7.18 gives the initial and extracted communalities. Small value indicates variables that do not fit well with the factor solution i.e these factors do not have significant impact on cohesiveness of groups should possibly be dropped.

The table 7.19 gives eigenvalues, variance explained and cumulative variance explained for our factor solution.

Table-7.19

Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.719	34.381	34.381	1.719	34.381	34.381	1.535	30.696	30.696
2	1.291	25.819	60.200	1.291	25.819	60.200	1.266	25.325	56.022
3	.854	17.072	77.272	.854	17.072	77.272	1.063	21.250	77.272
4	.770	15.406	92.678						
5	.366	7.322	100.000						

Extraction Method: Principal Component Analysis.

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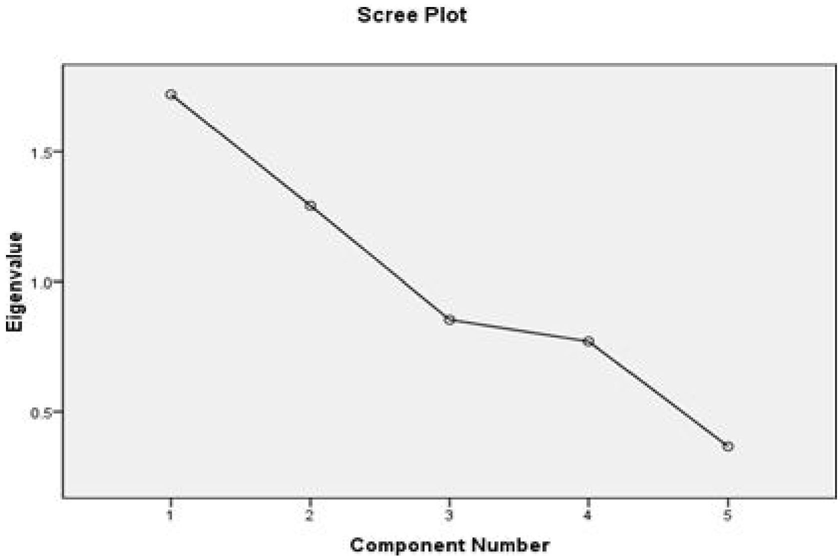
As we can see from the above table there are few factors which explain a lot of variance for which we plot the Scree Plot in figure 7.7. The following Scree Plot explains the change in variation of each factor.

Figure-7.7: Scree plot of change in consumption pattern



The Scree Plot suggests that 3 factor solution contributes to the larger part of data.

Table-7.20 : Component Matrix[a]

	Component		
	1	2	3
Years in business	.766	-.302	.423
incentives role	-.739	.496	.140
Selling branded products	-.198	-.723	-.140
incentives by company	.474	.568	.340
change in demand	.567	.328	-.721

Extraction Method: Principal Component Analysis.

b. 3 Components Extracted.

In the above table 7.20, the component matrix reports the factor loading for each variable on the components or factors after rotation. Each number represents the partial corelation between the item and rotated factor.

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Table-7.21 : Rotated Component Matrix[a]

	Component		
	1	2	3
Years in business	.900	.200	-.080
incentives role	-.807	.210	-.343
incentives by company	.204	.786	.064
Selling branded products	.158	-.732	-.144
change in demand	.081	.169	.956

Extraction Method: Principal Component Analysis. Rotation

Method: Equamax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Table-7.22 : Component Transformation Matrix

Component	1	2	3
1	.813	.355	.461
2	-.499	.833	.239
3	.299	.424	-.855

Extraction Method: Principal Component Analysis.

Rotation Method: Equamax with Kaiser Normalization.

As we can see the table 7.21 & table 7.22, the component 1 is highly loaded on Years in business and the incentives provided by the company.The Component 2 is highly loaded on incentives by the company and incentives role. The Component 3 is highly loaded on Years in business and the incentives by the company. Thus at 77% factor role is explained so we can reject our null hypotheses which states that company incentives do not play a significant role in changing the trends of consumption or demand. On the basis that 77% of the factors do play a significant role in the consumption pattern of group members and accept alternate hypotheses that company incentives do play a significant role in changing the trends of consumption or demand.

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Chapter - 8

Summary, Conclusions and Recommendations

The present chapter summarizes the main findings of this study, provides conclusion based on the field work analysis and suggested the recommendations based on the study conducted. In the context of poverty in India, the World Bank claims that, Micro Credit Programmes have brought the vibrancy of the market economy to the poorest villages and people of the World. As Prahalad (2010) says that the fortune lies in the bottom of pyramid that is eradicating poverty through profits. The challenge is to convert poverty into opportunity. This business approach to the alleviation of poverty has allowed millions of individuals, to work their way out of poverty with dignity

SUMMARY

The major obstacle in the economic upliftment of bottom of pyramid members is perpetual poverty and the lack of adequate credit. To overcome this hurdle Microfinance has evolved as a powerful mechanism to deliver financial services particularly credit to the section of the community that has been excluded from the services of the main stream institutions. It has been recognized and accepted as one of the new development paradigm for alleviating poverty through social and economic empowerment of the poor.

Bottom of pyramid members demand Finance mainly for two broad purposes i.e. for investment purposes such as new start ups or expansion of existing production and for Consumption Credit i.e. for consumption purposes for marriage ceremony, death or illness of any family member etc. The answer to poverty is Microfinance as Morduch (1998) encapsulates that Microfinance has captured the imaginations of many people working to reduce poverty. The premise is simple, Rather than giving handouts to poor households, microfinance programs offer small loans to foster small-scale entrepreneurial activities.

The problem is with the availability of credit in this context the suppliers of Finance can be classified into three groups such as (1) Formal Providers such as Banks, RRB's (Regional Rural

Banks), Cooperative Banks etc.(2) Semi formal Source or Micro Finance such as MFI's(Micro Finance Institutions) or SHG (Self Help Groups.(3) Informal Providers such as money lenders, relatives and trade creditors etc.

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However the formal suppliers are not interested to bestow finance to the rural segment because of the following raison d'être such as: Problem of default on the part of borrower, Lack of Collateral, High Transaction Cost etc.On the other hand the borrowers are also not attracted towards the formal sources of finance because of following reasons: Lack of flexible products and services, Collateral, Transaction Cost, Segmentation etc.

Microfinance is the “provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas enabling them to raise their income levels and improve living standards (RBI 1999, NABARD 2000).

For many observers, microfinance is a collection of banking practices built around providing small loans (typically without collateral) and accepting tiny deposits, is nothing short of a revolution or a paradigm shift. (Robinson 2001).

The concept of microfinance today has become a major credit disbursement mechanism in many parts of the world. Today, the term microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low- income clients. It has been a successful concept in India and Internationally also such as the Grameen Model in Bangladesh, Bancosol in Bolivia etc.

One approach to microfinance that has gained prominence in recent years is the self help groups (SHG). Self Help Groups form the basic constituent unit of micro finance movement in India. SHG-bank linkage program, pioneered by a few NGOs such as MYRADA in Karnataka and Professional Assistance for DevelopmentAction(PRADAN) in Rajasthan (and later in Tamil Nadu and Jharkhand), with strong support from NABARD, which has been instrumental in promoting this growth.

SHG is group of rural poor who have volunteered to organize themselves into a group for eradication of poverty of the members. They agree to save regularly and convert their savings into a Common Fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management. SHG is a small, homogeneous affinity group of

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rural poor agricultural labourers, marginal and small farmers and micro enterprises which is voluntarily formed.

There are different agencies that played a pivotal role in the formation of SHGs are as follows: SHGs formed and financed by banks where, banks themselves take up the work of forming and nurturing the groups opening their Savings Bank accounts and providing them Bank loan. Another agency's are the formal agencies other than banks, NGO's but directly financed by banks, in this model, NGOs and formal agencies in the field of micro finance act only as facilitator. They facilitate organizing, forming and nurturing of groups and train them in thrift and credit management. Banks gave loans directly to these SHGs. The other SHGs which are formed by NGOs and financed by banks through NGOs: In this model, the NGOs take on the additional role of financial intermediation. In the area where the formal banking system faces constraints, the NGOs are encouraged to approach a suitable bank for bulk loan assistance. This in turn is used by the NGO for on lending to the SHGs.The main advantage of Self Help Groups lies in their joint liability and consequent "peer monitoring" of member borrowers. The SHG bank linkage model where the banks lends directly to the SHG and the latter further lends it to individual members has been the most popular model in the Indian context. The objectives of the study is to empirically analyze the conceptual framework of Microfinance as an instrument for building the fortunes at the bottom of pyramid. Another objective is to measure the impact of Microfinance on the rural segment, whether the notion of Microfinance has achieved its ultimate goals of improving the income and savings of the rural poor and brought about empowerment of rural villagers etc. Another objective is to analyze from the company point of view whether their success lies in the bottom of pyramid with the support of microfinance. The impact of Microfinance on key economic and social parameters on bottom of pyramid group members and the companies who treat it as a fortune. The empirical analysis will be based on the field survey of various Microfinance Institutions, SHG members and other areas of NCR (National Capital Region). For the purpose of conducting the research work, Primary data was collected through a structured non–disguised questionnaire. The bottom of pyramid SHG members were interviewed within the five Districts which are Gurgaon, Jhajjar, Rewari, Bahadurgarh and Mahendragarh

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covering the respective thirteen villages: - 1) Teekli 2) Aklimpur 3) Dhamdhoj 4) Bhondsi 5)

Badshahpur 6) Fatehpuri 7) Durina 8) Dahina 9) Nahar 10) Badli 11) Khairpur 12) Bihali 13) Bargaon.

MAIN FINDINGS AND CONCLUSIONS

The conclusion part of the study has been segregated into different sections covering aspects such as (1) To scrutinize the cohesiveness of SHG (Self Help Groups) (2) Economic Impact of SHGs (3) Social Impact of SHGs (Self Help Groups) (4) To study whether the company's success lies in the bottom of pyramid section with the support of Microfinance and (5) To analyze is there any change in the consumption patterns of bottom of pyramid members after being associated with SHGs (Self Help Groups).

COHESIVENESS OF SHGS

- The research findings indicate that the prominent rationale for joining SHG (Self Help Group) is to get an increase in income followed by the reason that it is the low cost loan available in comparison to informal sources. All the respondents have agreed that they want an extra income through which they can meet their consumption needs and short term requirements of credit for which earlier they approach the informal money lender who charges the usurious interest rates as per his wishes.

- As per our findings in order to increase the cohesiveness of group one should focus on the five factors i.e change in group size, duration of membership, position in group, reasons for joining SHG and gender composition of group.

- The majority of the respondents have joined the particular group by seeing the existing members of the group or in some of the villages it is the Bank officials or the NGO workers who have initiated the concept of forming the groups.

- The loan amount disbursal among the group members is done on the basis of the individual need of the members as there is the concept of inter loaning among the group members therefore the person who does not require money at particular time may give it to the other group member at a low interest rate.

- Majority of the respondents conveyed their aptitude towards free communication within the group meetings which is a positive impact of SHGs formation. The SHGs provides a platform where they can discuss their family matters as well as group work.
- As far as the constraints in the working of SHG is concerned there are two major factors one relating to the conflict within the group and the other is the lack of interest shown by the Bank officials. These two factors vary from village to village. In some villages where the Bank officials are quiet active in forming the group there is divergence within the group members and on the other hand where the villagers are immensely interested in forming the group there is no Bank officials or NGO members to assist them to form the SHG.

ECONOMIC IMPACT

Impact on Income

There was a positive shift towards the high income slabs of the members who are being associated with SHG's.Though the impact is less on income in comparison to savings since the SHG's make the people to save first and then lend later on depending on the size of savings. In this context, Harikumar and Pillai (2006) extended that the very existence of SHGs is highly relevant to make the people of below poverty line hopeful and self reliant. SHGs enable them to increase their income, improve their standard of living and status in society. It acts as a catalyst for bringing this section of the society to the mainstream.

Increase in Savings

The comparison of the pre group savings with the post group savings undoubtedly hint at that there is increase in savings after being associated with SHG.The SHG has inculcated the habit of thrift among the group members as the findings of Morduch (1999), also shows that one way to address the borrowing constraints faced by poor households may be to address the saving constraints instead of addressing just the credit side. DN (2005) also quotes that one of the cornerstones of high performing Asian economies has been their high rate of Saving and Investment. This macro economic factor is facilitated by the promotion of household savings, even among poorer

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households, that MFI's (Micro Finance Institutions) have facilitated. Thus the macro economic factor of savings as a proportion of GNP improves with the promotion of savings by MFI's (Micro Finance Institutions).

Impact on Credit Availability

The study shows that prior to Micro Finance schemes the villager's chief source of finance is their own relatives from whom they get their funds arranged but at a cost though after being a member of SHG their reliance on these informal sources have reduced. The study of Basu and Srivastava (2006), elucidate that the major source of informal borrowing is money lenders (56% households) followed by friends and relatives (21% households) and the largest uses of informal loans are for meeting "family emergencies"(29%) and "social expenditures"(19%) arising from events such as births,marriages,deaths.And the study of Fisher and Sriram (2002), reveals that the frequently used borrowings sources were not moneylenders but, familiar and reciprocal contracts such as friends, relatives and shopkeepers who provided small and frequent sums interest free or concessional rate loans.

Impact on Poverty

The study confirms that after being associated with the SHG's the economic position of the households has been improved as implied by the increase in asset level, increasing ownership of livestock and their consumption pattern. The study of Khandelwal (2007), termed Micro Finance as "banking for the poor" and claimed it as a powerful tool which can be used effectively to address poverty, empower the socially marginalized poor and strengthen the social fabric.

Impact on Interest Rate

SU (2007), points out that there is the all- important question of cost of credit. The argument that availability, not cost of credit, is the issue is only partially true. Widespread acceptance of this belief has resulted in a situation in which credit availability has been substantially improved through SHGs but little effort has been made to tackle the issue of interest rates taken by the final user but as per our field survey all the respondents have agreed that the interest amount which earlier they use to

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pay to the informal money lender is more than the interest amount now which they have to pay as a part of SHG member.

Impact on Investment

The study clearly points toward that the incomes earned by the villagers through SHG are being spent more on investment related programme in comparison to consumption expenditure. Sinha(2005) concludes that Micro Finance is making a significant contribution to both the savings and borrowings of the poor in the country.The main use of micro credit is for direct investment. Also the results of the study reveal that the respondents have spent their income on investment related programmes such as purchase of plot, investment in livestock or other micro investments etc.

SOCIAL IMPACT

- **Self Confidence and Treatment from Family Members**

The self confidence of the SHG (Self Help Groups) members especially women have enhanced significantly and their status within the family has also upgraded after being associated with SHG (Self Help Groups).They experienced better treatment within the family during the post group situation as Kabeer (2001), and Kelkar, Nathan and Jahan (2004), analyses the women's empowerment through MFIs in Bangladesh assert that Microfinance Institutions (MFIs) are now ubiquitous in developing countries. They have promoted women's entry into income earning occupations and have had an impact on women's empowerment.

In Bangladesh, women often used the phrase 'garam taka', meaning 'hot money' as the reason for their new role and respect in the household. The more appropriate rendering of the term 'garam' in English would be 'weighty', it is money that has a weight, and women's earning money gives them a weight within the household.

- **Status in Village**

The study reveals that the members overall status in the village has also got better after being linked to SHG since as their income and savings has increased and they invest the same for the investment related programmes such as purchase of livestock, purchase of plot which improves their financial status. Sharma and Bharatish (2006), discusses that SHGs has played a pivotal role in the upliftment of the poor by providing credit to the

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weaker sections of the society, supporting the fact that by increasing the financial capabilities of the poor and extremely poorer sections of the country population will only encourage the economies performance.

- **Incidence of Domestic Violence**

Despite being associated with SHG (Self Help Groups) the results show that there was no change on the intra-household domestic violence as indicated by Professional Assistance for Development Action (PRADHAN 2005) study analyses, indicate that in the Indian context they did not find any significant difference in the incidence of domestic violence as reported by members and nonmembers. While Kabeer (2005) analyses of responses reported that most women felt that domestic violence had gone down.

- **Access to Infrastructural amenities**

The study results shows that after joining SHGs respondents are now more access to market, medical facilities, school for children and as far the infrastructure of the house is concerned many of them agreed that they now live in pucca makan i.e. cemented house with proper sanitation facilities. However the impact of SHGs on water supply is less as it is more of the Govt responsibility rather than of the SHGs.The noteworthy piece of information is that there is development in Market facilities which indicates that the companies are seeking for making fortune at bottom of pyramid.

IMPACT ON CONSUMPTION PATTERN

- **Preference for Quality Products**

The study results shows that majority of bottom of pyramid members feel that there is a quality difference between the local open products and packaged of brands available in market and they do prefer the quality product in comparison to local loose items for example shampoo sachets, wheel detergent powder etc.

- **Purchasing power**

The study finds that members agree that there is a difference in quality of loose products and packaged products and now it is affordable for them, After being associated with SHG majority of them were saying that quality products are preferable as it is coming in their purchasing power. .

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- **Change in Consumption Pattern**

The study results indicate that there is a vast change in the consumption pattern of personal care and grooming products like soaps, shampoos, hair oil, crème/lotions , tooth paste and oral consumption. These products are generally preferred in package of certain brand followed by the kitchen staple items and miscellaneous products.

Companies Incentives

- **Selling Branded Products**

The study results that the vendors of bottom of pyramid section who are in business for more than a year prefer to sell branded or packaged products in comparison to local loose items. The reason could be the incentives provided by the company for selling the branded products and also the preference of bottom of pyramid section is now converting to quality/branded products in comparison to local loose items.

- **Change in Demand**

The study results indicate that there is a vast change in the consumption pattern of personal care and grooming products like soaps, shampoos, hair oil, crème/lotions, tooth paste and oral consumption. These products are generally preferred in package of certain brand followed by the kitchen staple items and miscellaneous products.

- **Incentives by Company**

The study indicates that incentives do play a significant role in creating demand for quality products by the bottom of pyramid members that shows that the companies are taping the potential of bottom of pyramid sections for making their fortunes.

RECOMMENDATIONS

Though the Micro Finance Industry has grown from the years of its initiation and the dominant programme of Micro Finance i.e. SHG Bank linkage programme has made a serious far reaching impact on the lives of bottom of pyramid membersbut still there is a long way to go ahead and it cannot be the only remedy for the overall development of the rural sector. It cannot be considered as a panacea, a magic bullet or a blueprint for the problems of rural sector. There is a need for combined effort of the govt, Banks, private players or donors, corporates and the micro finance programmes to make a serious dent on the economic and social position of the weaker section to make them

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self sufficient. The focus will be a paradign shift by making bottom of pyramid members entrepreneurs rather than treating as just markets of consumers.

Based on the survey work and the analyses work there are certain suggestions and recommendations for the Banks associated with the SHGs (Self Help Groups) and the Govt officials and the corporate sector and the companies who are tapping the bottom of pyramid members:

- **Quality of SHGs** : Focus is needed to be shifted from quantity to quality of SHGs (Self Help Groups).Attention is required to be concentrated on the creation and maintenance of high quality SHGs(Self Help Groups) rather on increasing the number i.e. quantity just to show the expansion of groups. As Basu and Srivastava (2005), suggested that concerns over numeric target of group creation and linkage do not override attention to group quality and resilience.
- **Training programmes**: Provision of proper Training programmes for the SHGs (Self Help Groups) members for enhancing their basic skills and Knowledge base.
- **Awareness among bottom of pyramid members**: Creating awareness among the bottom of pyramid members for the schemes available under the Micro Finance since field experience indicates that the villagers are ignorant about the schemes and its benefits. For creating awareness doorstep banking can be used or the help of NGO officials can be taken or the awareness camps can be organized in the village.
- **Converting the MFIs into Banks:** Bandhan Bank has been working as a Microfinance institution from many years and even though it has a lasrge number of borrowers some of whom are very poor but since its NPAs are negligible in comparison to public sector banks.(Basu.etal, 2015).
- **Development Programmes**: Equality of opportunity does not mean equality of well being similarly in the case of BOP SHGs (Self Help Groups) linkage programme all the members in the group may not possess the same caliber and skills therefore many of the times the benefit reaches to the active member of the village or to those who are literate. Thus the Banks and NGO’s should identify the incompetent group members and can arrange development programmes for them.

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- **Flexible Products**: Banks should arrange flexible products for the poor people depending on their requirement .The loan availability can be segregated as per the time period such as for short term loans for meeting the emergency and consumption needs, investment requirement can be acquainted with medium term loans and for the other long term loans can be offered for old age pension, insurance, education etc.

- **Confidence among members**: For developing the confidence among all the members of the group the leadership position of SHGs (Self Help Groups) members is to be rotated periodically so that everyone can experience the exposure of Formal Banking working system.

- **Proper targeting of clients**: Ensuring proper targeting of clients it has seen in the study that the benefit of the schemes is more to the segment who are not below the poverty line or at least very near to poverty line.

- **Monitoring Authority** :While conducting the field survey in some of the villages respondents stated that though the Bank members start the groups and they arrange the loans also but afterwards nobody takes care for how the group is working, nobody suggests them new ideas for starting some new business or how to market the products of SHGs (Self Help Groups) etc. There should be also a check upon the company whether they are treating the bottom of pyramid members correctly by selling them the quality product or they are just making money by tapping a number of consumers there. Therefore a monitoring authority must be there to check upon the Banks and SHGs (Self Help Groups) and companies working and periodic reports must be prepared appraising the quality aspect of groups.

- **Entry of private banks and corporates**: Government should encourage the entry of the private Banks and corporates in the rural finance sector. Madhogaria and Chaudhari (2006), indicates that micro credit is viable business option in developing countries and the private players can also make profit through micro credit by reducing cost through prevention of wastage at each step of the loan process, coupled with innovative technologies and an efficient management system etc.

- **Uniform Interest rates**: Govt should set up a policy of setting interest rates. There should be uniformity among the interest rates on the various schemes of rural finance.

- **No discrimination**: After reviewing the performance of the SHGs further loans should be provided without any discrimination on the basis of caste or link between the president of group and the Bank official.
- **Representation from village**: The Rural Bank officials are normally from non poor background not aware of the ground realities therefore in every rural bank branch one representative of village should be appointed so that proper link can be set up with the village members.
- **Counseling sessions**: It can be arranged for the women especially to make them learn about the importance of girl education, child birth, how to deal with the social evils such as dowry, drinking habits of their husband, domestic violence etc.
- **Entrepreneurship Skills:** The govt. and the companies both collectively can arrange entrepreneurship skill development programmes for encouraging them to be self sufficient where by becoming the entrepreneur they can provide the jobs to other members also and leads to overall development of that place.
- **Check upon advertisements:** The govt. should also undertakes that company should not present fake advertisements which make the bottom of pyramid members to waste their income on these products.
- **Quality Products:** The company should not cheat the bottom of pyramid members. They should offer the genuine products at the genuine price which is being affordable by the bottom of pyramid section.
- **Incentives by company:** The company should provide incentives to the bottom of pyramid members selling quality products, reason being this will motivate the shop owners and they will try to influence the demand pattern also.

Before concluding this discussion we would like to especially draw attention to a few important issues and concerns that emerged in the course of the field survey. A large number of respondents had a common concern. They felt that there is a need for a training component within the SHG Bank Linkage programme something that is

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currently not fully functional in the villages surveyed. Without training the participants are often unable to make the best use of the finance available via microfinance schemes and infact they simply end up using the loans for consumption purposes in many cases. The absence of training programmes and complete lack of monitoring by bank officials is the post lending phase may even result in manipulation of the program by a relatively small number of 'cunning' members. In this case, most often, it is the illiterate and the poorest that end up being at the loosing end. This is a great pity, as they are the ones whom the program should ideally benefit the most. In view of this we would like to underscore the need for adding a knowledge and skill based training component within the SHG Bank Linkage programme, with involvement of bank officials, participants and NGOs if necessary. This would add great value to the programme and go a long way towards strengthening the weaker section of the society.

In the final analysis we would like to conclude by saying that though Microfinance may not always be reaching out to the core poor; nevertheless it is filling in a crucial lacuna in the bottom of pyramid section.

Kalpana (2008), discussed that the main mode of accessing microcredit especially for poor women, is through neighbourhood based poor groups or SHG's, which are user-managed and member-controlled.

Kalpana (2008), reveal the friction and asymmetrical power relations between SHGs and banks. SHGs are frequently distrusted by bank staff and have been subjected to discriminatory treatment suggestive of caste-profiling.

Microcredit finance programmes do not have any inherent quality which they empower their women clients or address concerns of poverty alleviation. The ways in which poor people experience the poverty-reduction or empowerment impacts are invariably mediated by the institutional context of these programmes (Kalpana 2008).

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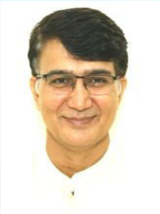

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ABOUT THE BOOK

"MICROFINANCE: A STRATEGIC DESIGN for the bottom of pyramid" Since independence, the priority agenda before the government officials and ministries has been to initiate programs of poverty alleviation and rural development. In this context an important solution to the problem is the provision of rural credit. For combating poverty and to bridge the gap between the demand and supply factors Microfinance emerged as a ray of hope for the most neglected section of society which later on considers to be bottom of pyramid by many corporate and marketing gurus. Microcredit as the name suggests means extending small loans to poor people and that too without any collateral. It has evolved as a powerful mechanism to deliver financial services particularly credit to the section of the community that has been excluded from the services of the main stream institutions. Gradually the concept which has started as Microcredit in most of the developing nations has mushroomed as an umbrella of Microfinance, which not only includes the provision of loan but also the financial services such as savings, remittances, provision of risk mitigation products like insurance and providing financial counselling etc. The success of the Microfinance can be seen worldwide as United Nation declared the year 2005 as the international year of credit and also the success of many Microfinance models like Grameen Bank in Bangladesh and Bank Rakyat in Indonesia etc. According to a 1998 publication by Paul B McGuire, John D Conroy and Ganesh B Thapa, 2.5 crore poor households in India require Rs. 15,000 cores over nine years ending 2005. In another study, the demand for credit was found to be Rs. 9,000 per annum per household among the urban poor. The Paradigm Group survey concluded that average credit availed by each household was approximately Rs. 10,071 per annum in urban India. The source of more than 93.5 % of credit is from the informal sector, where interest rates are often very high. The formal banking sector provides only 0.8 % of the total credit. It is quite ironic that the people who require financial help the most are the ones who have little access to banking services. Later on SHG Self help groups emerge which is a part of empowering the weaker section especially women. The book focuses on how the Micro Finance models can be a strategic design for empowering the bottom of pyramid section of society and how can now corporate can see their fortune lying in the rural sector in comparison to urban sector

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