MICRO-CREDIT: A REALITY CHECK

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I. Introduction

Borrowing is an important feature of financial behaviour of households, and access to credit is essential for consumption smoothing. However, poor households are often left out of the formal banking system, because of several reasons: their inability to provide collateral, the high risks in lending to them, the rigid formalities that are a part of the formal lending system and the high costs. As a result, the poor often have to resort to informal moneylenders, who charge usurious rates and often exploit the situation.

Micro finance institutions aim to reduce the default risk by devolving the risk to a group of lenders; that is repayment of a loan taken by a person becomes the collective responsibility of the group he is a part of. In Yunus's words, "It is based on "trust", not on legal procedures and system." In the SHG model, people from the group deposit their savings from time to time with a bank/NBFC/NGO, which then loans out money to people in the group when the need it. Group participation ensures that loans are not made to people with high risk proposition, or that the funds are not utilized for purposes other than for which they are borrowed, and peer pressure ensures that repayment schedules are met as the creditworthiness of the group depends on repayment of loans taken by the member.

An increasing number of studies are being conducted across the world to assess the impact of micro credit on the lives of its beneficiaries. This paper attempts to understand whether or not micro credit increases the welfare of its beneficiaries by analysing data obtained on income, employment opportunities generated as a result of the micro credit programme, consumption and saving. It is based on data that was collected in surveys conducted in Kolkata of SHG members. In section II, a brief overview of micro-credit is provided followed by a background to the credit policies that have existed in India in section III. Section IV discusses the various micro-credit models working in West Bengal, followed by the survey results and analyses in section V.

II. Overview of Micro Credit

Micro-credit is the extension of very small loans (micro loans) to the unemployed, to poor entrepreneurs and to others living in poverty who are not considered bankable.
These individuals cannot approach banks because they lack:

- Collateral.
- steady employment.
- a verifiable credit history and therefore cannot meet even the most minimal.

Micro credit is a financial innovation which originated in developing countries where it has successfully enabled impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and try and reduce poverty. Due to the success of micro credit, many in the traditional banking industry have begun to realize that these micro credit borrowers should more correctly be categorized as *pre*-bankabl*e*; thus, micro credit is increasingly gaining credibility in the mainstream finance industry and many traditional large finance organizations are contemplating micro credit projects as a source of future growth. Although almost everyone in larger development organizations discounted the likelihood of success of micro credit when it was begun in its modern incarnation as pilot projects with ACCION and Muhammad Yunus in the mid-1970s, the United Nations declared 2005 the International Year of Micro-credit.

Micro-credit is a tool for empowerment of the poor; the higher the income and better the asset position of the borrower, the lower the incremental benefit from further equal doses of micro-credit is likely to be. It is essentially for promoting self-employment in the informal sector of the economy - generally used for (a) direct income generation (b) rearrangement of assets and liabilities for the household to participate in future opportunities and (c) consumption smoothing-because micro credit is aimed at the poorest, micro-finance lending technology needs to mimic the informal lenders rather than the formal sector lending. It has to: a) provide for seasonality (b) allow repayment flexibility (c) eschew bureaucratic and legal formalities (d) fix a ceiling on loan sizes.

Micro finance approach is based on certain facts that are not always recognized. They are:

- That the poor are bankable; successful initiatives in micro finance demonstrate that there need not be a trade off between reaching the poor and profitability - micro finance constitutes a statement that the borrowers are not ‘weaker sections’ in need of charity, but can be treated as responsible people on business terms for mutual profit.
- That almost all poor households need to save, have the inherent capacity to save small amounts regularly and are willing to save provided they are motivated and facilitated to do so.
- That easy access to credit is more important than cheap subsidized credit which involves lengthy bureaucratic procedures.
- 'Peer pressure' in groups helps in improving recoveries.

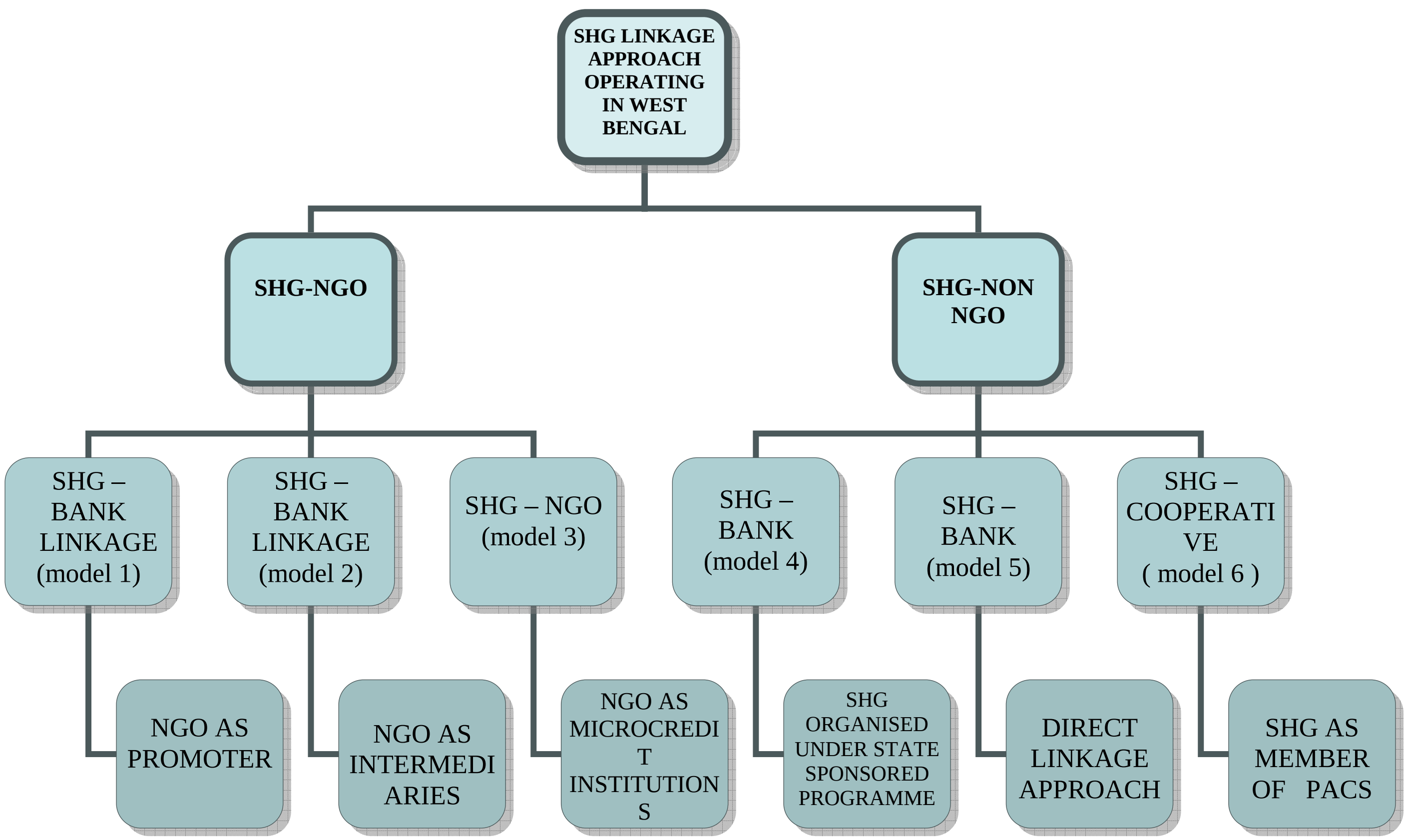
III. Background of Credit Policy in India

There are two schools of thought on rural credit policy in developing countries. One is the conventional supply side approach that tries to inject subsidized credit from the outside in order to get rid of informal lenders, who enjoy usurious practices, and modernize the credit market. The other approach advocated mainly by researchers at Ohio State University emphasises the importance of saving mobilisation and the viability of rural credit markets. More importantly, the old paradigm of micro credit programme in India, the conventional supply-side approach, failed in terms of both efficiency and equity. It failed mainly for two reasons, the non-viability of these programmes to the target group and poor recovery performance.

The new paradigm of micro credit programme in India which emphasises qualitative as well as quantitative outreach of the poor and self sustainability of the micro-finance institutions tied with their programmes, advocates the principle of ‘Ohio schools of thought’-saving mobilisation and the viability of rural credit market. Under this programme, many non-government organisations enter the rural credit scene by way of organising the poor into informal groups for self help through mutual aid along with the practice of their regular saving programmes. The initiative to organise Self-Help Groups was taken by the NGO in the early part of the 1980s. Almost at the same time (1982-83), the group approach was initiated by the Government under a programme called Development of Women and Children in Rural Areas (DWCRA) in order to use the collective strength of groups of poor women to break social barriers that have denied their income generating and self fulfilling opportunities. With a view to evolving supplementary credit strategies for reaching unserved rural poor, the National Bank for Agriculture and Rural Development (NABARD) introduced the pilot project in 1992-93 for linking SHG’s with credit institutions.

IV. Micro-Credit in West Bengal

Broadly there are mainly two different models, which have emerged under the SHG linkage approach operating micro credit activities in west Bengal. Each of the two different models is further classified into three linkage approaches in the following:



MODEL 1 : NGOs are working as promoters and linking SHG's directly with the Banks [Example : Sreema Mahila Samity]

MODEL 2 : NGO's are working as intermediaries for channelising credit from bank to SHG's
[Example : Sish , 24 Parganas District]

MODEL 3 : NGOs are developing as MFI's for providing credit to SHG's with bulk supply from RMK / SIDBI / RASS / Different foreign institutions, etc.
[Example : Village Welfare Society / Taj Mahal Gram Vikash Kendra]

MODEL 4 : SHGs are organized under state sponsored programmes (SGSY / DWCRA) and linked with Banks for credit linkage.
[Example : Bagnan Nari Unnayan Samanya Samiti]

MODEL 5 : Banks themselves promote SHG's and provide them credit
[Example: UBI / Allahabad Bank in 24 Parganas , North district]

MODEL 6 : SHG's are being enrolled as members of PACS for saving and credit linkage .
[Example : Hooghly District , Howrah District]

Few NGO's and co operatives are the major micro credit practitioners in West Bengal. Most of the NGO' s in West Bengal are engaged in multi-sectoral development programmes, where micro-credit or micro saving programme is a part of that comprehensive intervention package which is executed through NGOs .

Under Co operative SHG linkage approach West Bengal has established a few good examples as in Hooghly and Howrah Districts.As a part of national strategy, all Indian micro-credit players are also in operation in West Bengal. Under SHG BANK linkage of commercial banks, first linkage in West Bengal was established by SAGAR GRAMIN BANK in Habra II block in 24 Parganas (North). But the success of SHG bank linkages in West Bengal is not satisfactory in relation to other advanced states like Andhra Pradesh, Karnataka. West Bengal is a late starter in development of micro-credit and is in its early stage of growth.

V. Case Study

1. Introduction

To obtain an understanding of the ground realities of the micro credit situation in Kolkata, a field survey was conducted with the help of a local NGO, Forum of Communities United in Service. 25 members of the different SHG's were interviewed. The details of the questionnaire have been provided in the annexure 2.

NAME OF THE NGO: Forum of Communities United in Service (FOCUS)
Registered in 1985 under West Bengal Government
Societies Act, 1960; and also under Government Income Tax Exemption Act, 1961.

AREAS OF VISIT : Gobindo Khatik Road and Christopher Road in ward 58, Kolkata

TARGET GROUP : Women living below poverty line (BPL)

FUNDED BY : TRICKLE UP PROGRAMME (T.U.P) , USA

FOCUS has 1900 SHG's working under its wing since the start of its micro-credit project from the year 1988. The year 2007 was their "SUPPORT WOMEN YEAR ", in which 200 women are given CONDITIONAL GRANTS of $100 (per beneficiary) in two instalments to start an enterprise.

The NGO in question is primarily and strictly engaged in the task of providing micro level grants to individuals selected on the basis of:

- Social Mapping:
  a. Participatory rural appraisal (for target groups in rural areas)
  b. Household survey (for target groups in urban areas)
- Baseline Survey: Details enclosed in the annexure
- Poverty Assessment Tool**:** Details enclosed in the annexure

After the selection, the selected individuals are given short-term entrepreneurship training and vocational training and thereafter form SHGs. Each SHG consists of a minimum of 3 members lead by a business leader.

The grant given to them at the initial stage has to be solely used in entrepreneurship activity and the following conditions have to be fulfilled:

- Reinvestment of 20 % of the profits into their respective enterprise.
- Overall health improvement in the family.
- Proper education of the children.
- Improvement in food consumption and housing.
- Improvement in their participation in social events.

The above activity is strictly monitored by volunteers as well as employed individuals at the ground level. The rationale behind providing grant before credit is to provide the poor with some sort of success and experience in small-scale enterprise, so that repayment of loans and success of targeted individuals is ensured. Hence, the program aims at first elevating the individuals to a basic level of sustenance before pushing them into a full-fledged financial credit system.

2. Research Objectives

With micro credit increasingly gaining world wide acceptance as a potentially powerful instrument in the objective of poverty alleviation, there has been considerable debate among economists on its viability as a truly empowering social tool. In this backdrop, this project was undertaken to examine the impact of micro credit on the target groups. The model of micro credit studied in this paper is a highly simplified abstraction of reality as only the impact of the grant provided has been studied and repayment of subsequent loans has not been analysed.
The objectives were:

- Study the impact of micro credit on the self employment opportunities of the target groups.

- Examine the increase in income, if any, that can be attributed to the micro credit scheme only and no to other causes.

- Analyse saving and consumption variables to indicate a rise a well being.

- Study the social impact of micro credit as manifested in the positive externalities the scheme gives rise to.

3. Research Methodology

The field study was conducted with members of the NGO, Forum of Communities United in Service (FOCUS) in ward 58 of Kolkata where the organisation runs 12 to 13 Self- Help Groups (SHG's) each group comprising 10 to 12 members.

A sample of 20 people was chosen at random, regardless of the SHG the member belonged to, and an interview was conducted to obtain information on the variables of income, consumption and saving, and learn about new self employment opportunities and social benefit of the programme.

The details of the questionnaire have been provided in the annexure 2.

5. Data Set and Results

<u>INCREASE IN INCOME</u>

Before the grant was provided to the members, the study reveals that majority of the members had incomes between Rs 500 and Rs 1000. 68% of the members had income in that range while 16% had income upto Rs 500 and 16% had income between Rs 1000 and Rs 1500. Table 1 shows these results.
After receiving credit, incomes increased for 20 members from the sample of 25. For 3 members, income first increased then as a result of work or family problems and expenditures, income declined.
For 2 members, income did not change. The majority of members reported a rise in monthly income between Rs 200 and Rs 500. In the study this number was 10. For 20% of the members in the study (5 members), income increased by upto Rs 200.

Studies on Grameen Bank have in general shown a positive change in the income of the beneficiaries [Hossain 1988; Hulme and Mosley 1996; Todd 1996; Khandkar and Chowdhury 1996].
In this study it is to be noted that for some members incomes first increased and then declined, while for a number of members incomes rose. Thus provision of credit does have a positive impact on incomes, but the loans should be recurring to bring about a significant long lasting change and to be able to repay the loan.

Table 1: Distribution of SHG members by income before their participation in the micro credit programme

Income range (in Rs)	Number of members	Percentage of total

Upto 500	4	16
501-1000	17	68
1001-1500	4	16

Table 2: Distribution of SHG members by increase in monthly income

Income range (in Rs)	Number of members	Percentage of total
Income first increased, then decreased	3	12
Income same	2	8
Upto 200	5	20
201-500	10	40
501-1000	3	12
Above 1000	2	8

OCCUPATIONAL STRUCTURE

Table 3 gives a picture of what were the occupations in which the members were engaged before the grant was provided. 76% of the members (19 of 25 members) used the grant to improve their work or business. Thus the loan was income generating for its beneficiaries.
36% of the members were working in clothes trade, which included selling old saris or clothes, clothes for medicinal purposes and tailoring work. 24% of the women were working as household helps before the grant was provided. Out of these 6 women, 5 of them entered the clothes trade and one entered flower selling after the grant was provided.

Table 3: Distribution of SHG members by occupation before provision of grant

Occupation	Number of members	Percentage of total
Clothes trade	9	36
Rickshaw pulling	2	8
Household help	6	24
Rag picking	2	8
Food trade	4	16
Shop owning	2	8

SAVINGS STATISTICS

In order to assess the impact of any grant or loan provision scheme, it is necessary to examine the saving records of the beneficiaries. In this study it was

seen that before grant provision, 19 of the 25 members did not save while only 6 of them did so. After the grant, 17 of the 19 members who did not save earlier started saving. 2 members continued not to save, while from the members who used to save earlier, for 2 their savings did not increase remarkably.
For the 19 members who started saving, the savings ranged from Rs 500 to Rs 1500 in a period of 3 years with one member reporting a saving of Rs 2800 in 3 years

Table 4: Distribution of SHG members by saving before provision of credit

Saving	Number of Members	Percentage of total
Did not save	19	76
Saved	6	24

Table 5: Distribution of SHG members by characteristic of saving after provision of grant

Saving	Number of Members	Percentage of total
Did not save earlier, but started	17	68
Did not save earlier, and continued not to	2	8
Saving did not increase greatly from earlier	2	8
Saving increased Greatly from earlier	4	16

Money that was not saved or utilised for enterprise purposes was used for consumption. 21 of the members said that their consumption of food had increased. In addition to this, money was also used for recreational purposes by 3 members. One could afford to buy a television as a result of the increase in income. Hence, there was a positive impact on consumption.

SOCIAL ISSUES

Turning to the social aspects, the micro credit programme is also found to have a positive impact on the quality of life of all the SHG member households. There were positive social changes like enrolment of children in school, immunisation of children ,medical treatment of members in the family and participation in social action. Thus micro credit programmes through SHG's confirm some positive externalities for those SHG member households which are not direct beneficiaries of micro credit for their participation in the group activities.

PROBLEMS FACED IN THE ANALYSIS

- Reporting of data would involve a certain amount of recall bias, as most of the members stated figures of previous earnings from memory.
- Only the first stage of the credit delivery process has been studied, and the second stage which would involve borrowing of loans and paying interest has not been analysed.

Conclusion

It is thus seen that micro credit has a highly uplifting role in the development of the target groups. In terms of income, consumption, saving and externalities generated, the impact has been positive and this affirms that in the presence of an effective disbursement of funds and management of credit by the NGO or the bank, micro credit has the potential to alleviate the conditions of people stricken by poverty. In this study only the impact of the grant has been studied, and only if this yields positive results is the repayment of loans possible.

Thus the impact of micro credit programme through the SHG's has been effective in bringing about some positive social change to all member households. In order to make the micro credit programme more effective on the economic front, there needs to be a higher coverage of the target groups and an effective outreach so that the poorest of the poor can benefit from the gains of this programme.

Annexure 1

Poverty Assessment Tool

The Poverty Assessment Tool evaluates individuals on the basis of the following criteria:

- Status of the women (whether married/widow/divorcee/deserted)
- Existence of any disability
- Presence of any male member in family
- Status of housing, electricity
- Number of family members
- Employment status of women in the family
- Education of children
- Presence of productive assets owned by family (such as rickshaw, livestock, small productive machinery etc)

A Baseline Survey follows the Poverty Assessment Tool.

Baseline Survey

Trickle Up Program

The Baseline Survey assesses the beneficiaries on the basis of the following criteria:

- Religion
- Caste
- Type of Settlement(i.e. Slum, Squatter, Colony, Village or Displaced)
- Household Information (Marital Status and Employment of individuals)
- Housing Pattern (Kaccha, Semi Pukka or Pukka)
- Sanitary Facilities
- Drinking Water Source(Tube well, Tap, Pond , River or Well)
- Land, Household and Livestock Assets
- Income from different sources
- Migration of members of the family
- Health conditions of members of family
- Whether any members of family are under debt

Annexure 2

1. Employment status before grant was provided (working/not working).
2. Profile of the work before grant was provided.
3. Monthly income before grant was provided.
4. Amount of saving if any.
5. Nature of work after grant was provided.
6. Amount of money invested in the new enterprise and amount used for other purposes.
7. Change in income, if any.
8. New savings.
9. Other benefits or change in living standards after the grant was provided.

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