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MICROFINANCE FOR ECONOMIC EMPOWERMENT OF RURAL INDIA

Amaresh Samantaraya
and
*Aritraa Goswami**

ABSTRACT

The present study attempts to assess the potential of microfinance to overcome the limitations of formal institutional finance, and effectively contribute to the economic empowerment of the vast majority of rural masses in India. Using a sample survey, information on various socio-economic indicators of beneficiaries of formal institutional finance and those of microfinance was collected to understand the limitations, advantages and impact of both forms of rural credit in India, by undertaking a comparative analysis. After presenting an overview of the formal institutional arrangements for rural credit in the country, the study discusses the findings of a comparative study of members of a primary cooperative credit society and14 self-help groups dealing with microfinance in Baduria block of North 24 Parganas district of West Bengal to examine the degree of penetration of microfinance activities in the district. The sample households covered are 167 members of 14 SHGs and 100 members of the cooperative society. An NGO named Swanirvara has been actively involved in the block for promoting SHG formation and microfinance activities in the district. The study revealed that microfinance very well suits the socio-economic realities of the rural poor in India, and effectively contributes to their economic prosperity. The majority of beneficiaries of microfinance did not possess necessary endowments, technical skills and qualifications for availing of formal institutional finances. Microfinance has tremendous potential for reducing economic inequality and rural poverty, as it covered sizeable disadvantaged lower castes. On women empowerment, however, our observations were mixed.

* Associate Professor and Research Scholar, Respectively, Department of Economics, Pondicherry University, Kalapet, Puducherry - 605 014. E-mail : amaresheco@gmail.com

Introduction

The Indian economy witnessed noteworthy achievements during the post-reform period since early 1990s as reflected in terms of high economic growth with reasonable stability, considerable progress in global integration both in terms of trade and investment, largely stable inflation, etc. India became the third largest economy in the world in PPP terms. Nevertheless, several concerns and reservations as regards the inclusiveness of the recent growth process dampen the above achievements. Particularly, it is widely perceived that the large masses in rural India have not benefited from the post-reform growth dynamics. As noted by Kalam and Singh (2011), significant achievements on economic progress in the post-reform period in India will be "unsustainable unless it is inclusive of 70 per cent of the population's habitat – the villages with 750 million people – which also need to be a site for empowerment and entrepreneurship." For sustaining the present growth process and making it more meaningful through wider inclusion, the imperative need of ensuring the rural economy progress keeping in pace with the urban centres cannot be overemphasised.

Since India's Independence, there has been continuous emphasis in major economic and political programmes on revitalisation of the rural economy and its integration with the more dynamic urban centres. However, the stated motives did not result in significant economic improvement for the rural poor, in reality. This was due to various contributing factors. Firstly, employment opportunities created through the process of the industrialisation under the central planning were grossly inadequate for the vast majority of rural unemployed and underemployed. Secondly, lack of proper education and technical skills had forbidden the rural youth to benefit from earlier industrialisation and recent rapid growth of services sector. Thirdly, resource constraint of the rural farmers could not create the enabling conditions to progress through private investment and enhanced productivity. Heavy concentration of land and other assets with a handful in rural areas culminated in limited spread of benefits from the improvements in agricultural production. Fourthly, with resource constraints and lack of motivation and awareness, there was limited scope to pursue other alternative but beneficial vocations and self-employment in rural areas such as animal husbandry, carpentry, tailoring, small trading, etc.

Guided by the fact that issues related to availability of rural credit are very critical for improving the socio-economic profile in rural India with multi-dimensional benefits, there has been a long history of conscious and serious efforts towards promoting the flow of rural credit in India. It is widely accepted that in addition to conventional benefits of financial intermediation, rural credit system plays a vital developmental role in accelerating agricultural growth and poverty reduction. Hence, there has been a series of endeavours to augment flow of institutional credit over time through a variety of institutions to relieve the rural masses from the exploitation of informal money lenders and traders. Before the advent of 'microfinance' in recent years, which has widely been advocated as panacea for all-ills in rural areas, mainly three forms of institutional credit were experimented in India. These initiatives included (i) strengthening cooperatives, (ii) directed credit with nationalisation of commercial banks, and (iii) establishment of Regional Rural Banks (RRBs). Interconnected with the above, there were a variety of government sponsored programmes including the Integrated Rural Development Programme (IRDP) and Swarnajayanti Gram Swarojgar Yojana (SGSY), National Rural Livelihoods Missions, etc., which conceived providing credit to rural poor at subsidised cost and augment rural self-employment. However, due to various reasons including some inherent limitations of the institutional finance to suit the conditions and requirements of the rural poor as also the political mismanagement, a vast majority of rural poor did not have access to rural credit. As observed by 59th Round of NSSO Survey, (Survey of National Sample Survey Organisation), nearly three-fourths of the farmer households were excluded from access to formal credit in 2003.

It may be noted that access to formal finance from such institutions required possession of collateral/security/guarantee. A vast population of rural India, particularly the landless poor, unskilled and the uneducated lot were the underprivileged to garner any benefit from such institutions. Inspired by the event of 'microfinance revolution', particularly with the experience in Bangladesh, 'microfinance' gradually emerged as a hope for providing necessary means to the rural poor in India in the last two decades. The 'microfinance' entails providing finance to the poor by organising them into small homogeneous groups, inculcating saving habits in small amounts, supplementing members' savings by borrowing from outside sources, and more importantly rotating the savings and lending within the group. With a 'joint liability contract' and closely-knit groups where each member knows the other well, microfinance ensures members/borrowers of the group screening and monitoring each other. Peer pressure facilitates proper use of funds and augments timely loan repayments. The 'microfinance' has been becoming popular among the scholars, international development agencies and policy authorities as panacea to poverty reduction and financial inclusion in poor countries. It does not entail pre-requirement of possession of security collateral for availing of credit facility, thus suits the realities for vast majority of Indian rural poor. It also facilitates pursuing of alternate vocations and rural-self employment activities other than agriculture and widely believed to promote woman empowerment.

In this backdrop, the present study attempts to independently assess and review the potential role of microfinance towards improving socio-economic dynamics in rural India. Data were collected on socio-economic profile of microfinance beneficiaries such as demographic characteristics, economic and living conditions, use of loan and the related, empowerment of female members in the family and major problems encountered, etc., by conducting a sample survey. To undertake a comparative analysis and gain deeper insight into the related dynamics, we also collected similar information from beneficiaries of cooperative societies from the neighbourhood. Based on the sample survey, we observed that the 'microfinance' activities have tremendous potential to overcome the drawbacks of traditional institutional financing through cooperatives, and bring positive transformations in rural India, in actual reality.

For conducting the household survey, the State of West Bengal was chosen guided by the following facts. It may be noted that the spread of cooperatives and microfinance in India has been highly skewed. At the beginning, the southern India, particularly erstwhile Andhra Pradesh, witnessed most of the early spread in activities of microfinance/SHG formation and credit distribution. However, the growth of microfinance experienced severe setback in 2010 with a large number of suicide cases of microfinance beneficiaries in Andhra Pradesh. In the aftermath, some northern and eastern States in India assumed increasing importance as regards spread of microfinance activities. According to the M-CRIL Microfinance Review 2012 published by the Micro-Credit Ratings International Limited, the State of West Bengal assumed increasing importance in the microfinance landscape in India by March 2011. It became the State with third highest number of active borrowers in India (Sa-Dhan, 2012). According to the Status of microfinance in India, 2012-13 published by NABARD, West Bengal is identified as one of the top 10 priority States in India.

On the contrary, as regards credit flow through cooperatives, West Bengal's comparative performance was observed to be dismal. In terms of spread of cooperatives, with just 335 offices of State and district central cooperative banks, West Bengal has a share of 2.4 per cent of 13,750 offices in all-India, as on March 31, 2013. West Bengal's position in terms of spread of cooperatives in rural areas is even poor. Similarly, out of total loan and advances of State cooperative banks at ₹ 755.6 billion as on March 31, 2012, the share of West Bengal stood at 3.8 per cent. The story is similar as regards distribution of loans and advances of district central cooperative banks with a meagre share of 2.6 per cent. The above looks miserable against the fact that the population of West Bengal constituting close to 7.5 per cent of all-India population as per the 2011 census. The credit-deposit ratio* of State and district central cooperative banks in West Bengal is estimated to be 59.9 and 54.2 per cent, respectively as on end-March 2012. These figures are not very encouraging as compared to 89.0 and 85.7 per cent, respectively for all-India.

The above discussion highlights that the spread of microfinance has been gaining momentum in West Bengal, while that of cooperative is miserable as compared to all-India position. Guided by the above, the present study selected West Bengal for our analysis which will be an interesting case study.

An Overview of Rural Credit Arrangements in India

As indicated above, with a vast majority of Indian population living in the villages, and a dominant portion of the workforce being engaged in agriculture, there has been a series of policy initiatives to promote rural credit

* Estimated as the ratio of outstanding loans and advances to deposits.

through various types of institutions. Joshi and Little (1996) and Reddy (2002) discussed important aspects of such policy initiatives and a quick summary of the same is provided here.

With a long history of cooperative movement which commenced in India as early as 1904, the initial strategy to boost rural credit after the Independence in India was conceived through developing and strengthening the cooperative credit system. The First Five Year Plan accorded a critical role to multi-purpose service cooperatives for agricultural and rural development. However, periodic reviews* on performance of cooperative system underscored that the achievements were significantly below the expectations due to various factors including mismanagement of cooperatives by a handful of politically powerful members, exclusion of a vast section of tenant cultivators and rural poor with meagre or little collateral/security to obtain loans, weak financial position, etc. As observed by Narasimham (1977), "despite considerable amount of State encouragement, despite the Reserve Bank's own effort at building the infrastructure of cooperative credit organisation, all is not well with the cooperative movement... A large number of societies have been dormant and financially weak. Also there is reason to believe that the benefits of cooperative have not always percolated to the small man." Notwithstanding the limitations, cooperatives were the only prevailing institution of rural credit until the nationalisation of 14 major commercial banks in India in 1969. Clearly, the cooperative institutions remained weak to function as effective source of credit to the vast majority of the rural poor, and they were largely dependent on the village landlords and moneylenders for production loans, consumption needs and other exigency requirements. In the process, bulk of the marketable crops of the rural poor were transferred to the above informal creditors and middlemen to settle for past accommodation and thus, whatever small savings generated by the peasants found its way to such creditors.

Realising the urgent need for adequate flow of rural credit juxtaposed with the dismissal performance of cooperatives, an effort was made to strengthen social control of banking in India to meet the requirements. This culminated in nationalisation of 14 major commercial banks in India in June 1969, and the commercial banks were induced and to a large extent pushed to promote rural credit through massive branch expansion in rural areas and priority sector lending requirements. Emphasis was placed to channelise bank credit to agriculture, small scale industries and rural areas which were largely ignored due to their inability to conform to the accepted banking norms. Prior to this, the establishment of the State Bank of India (SBI) in 1955 was also conceived to assign a supplementary role to SBI in extending credit in rural and semi-urban areas along with cooperative institutions. The

* Periodic reviews to assess the performance and impact of cooperative system in promoting rural credit and economic activity in India include All-India Rural Credit Survey (1954), All India Rural Credit Review (1969), Rural Debt and Investment Survey (1981-82) - all conducted by the RBI, and Review by the Expert Committee on Rural credit constituted by the NABARD.

public sector banks consisting of nationalised banks and SBI group thus emerged as important vehicles to provide rural credit with the availability of massive funds and a wide network of bank branches.

There is no disagreement that the period of post-bank nationalisation witnessed massive expansion of bank branches, and there was very impressive growth of bank deposits and credit. Some success as regards extension of rural credit through commercial banks was also evident with share of rural credit in overall commercial bank credit increasing multi-fold from 1.5 per cent in June 1969 to 12.4 per cent in June 1983. This was significant as overall outstanding credit of banks increased from ₹ 36.1 billion to ₹ 368.6 billion during the comparable period. However, contrary to the stated objective, bulk of such directed credit was ushered by the rural elite. Moreover, goaded by the need to achieve stipulated targets under the priority sector, rural branches of the banks were forced to finance half-baked projects, and poor recovery was an obvious outcome. High default rates and arrears in rural exposures, particularly in agriculture had adverse effect on sanction of fresh credit and motivations of the banks. More importantly, due to lack of credit worthiness, technical skills, and unawareness and discomfort of visiting a bank to request for a loan, a vast majority of rural households were deprived from such bank loans. Subsequently, in the post-reform period, reorientation of priority sector requirements and adoption of prudential norms on asset classification and provisioning requirements, further diluted the scope for rural credit by the commercial banks.

In the backdrop of the unsatisfactory experience on the flow of rural credit through cooperatives and directed credit through the commercial banks, it was realised that the coordination and involvement of local development administration with the banks may produce better outcome. In this perspective, specialised institutions in the form of Regional Rural Banks (RRBs) were established since 1975 with joint participation of commercial banks, Central and respective State governments. The RRBs were mandated to lend small loans at concessional rates to people below poverty line. However, in reality, due to lack of commercial orientation, high administrative costs and limitations on operational autonomy, the very existence of RRBs was at stake. It was observed that in 1994, 171 out of 196 RRBs were loss making and a substantial majority of them were with negative net worth. Subsequently, in the post-reform period, several initiatives were undertaken to improve the financial viability of RRBs with the objective of reinforcing them as institutions of rural credit and poverty eradication. These initiatives included capitalisation of RRBs by the government with clean-up and restructuring, greater operational autonomy in use of their funds and relocation of loss-making branches, deregulation of interest rate, etc. However, as observed by Joshi and Little (1996), these changes have apparently led RRBs to divert lending from rural poor to the government.

With explicit focus towards promoting agricultural and rural credit, the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982. This facilitated consolidation of institutional arrangements

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related to coordination, promotion and supervision of rural credit, through various institutions as discussed above. It also coordinated various government sponsored schemes aimed at promoting rural credit and employment. Nevertheless, the latest review conducted by the Expert Committee on Rural Credit constituted by the NABARD which submitted its report in 2001, observed that many of the deficiencies of institutional rural credit in India as discussed above continue to persist. While recognising the contribution of substantial improvement in rural credit by all the above three types of institutions, and thus supporting sustained growth of agriculture, employment generation and poverty alleviation in rural India, the Committee also noted various impediments constraining these institutions in terms of reaching a vast majority of rural poor. As regards cooperatives, it was observed that the rural financial cooperatives suffer from precarious financial position, deficiencies in mobilisation of funds, and lack of professional and democratic management of cooperatives with severe political distortions. The Committee noted that commercial banks have turned shy to rural credit and preferred meeting the priority sector requirements by investing the shortfall in RIDF. This was in the context of non-viability of some rural branches, lack of motivation and unwillingness of staff to work in rural branches, and some procedural problems putting the commercial banks in a disadvantage position as compared to cooperatives. The Committee observed that RRBs have fared better than cooperatives and other banks towards attracting deposits, lending to small businesses and small borrowal accounts. But more than half of their investments are in the form of deposits with sponsor banks.

In the backdrop of unsatisfactory achievements of the institutional credit to serve the needs for rural credit juxtaposed with the 'microfinance revolution' spreading many developing economies, Indian financial landscape witnessed emergence of 'microfinance' in last two decades as a tangible hope to meet the funding requirements of a majority of the rural poor. The 'microfinance revolution' was led by success of 'Grameen Bank' in Bangladesh which along with its founder Muhammad Yunus awarded Nobel Prize for Peace in 2006 for their efforts to create economic and social development from below. Yunus (1998) highlighted that the poor are deprived from the conventional bank credit as they do not possess the required collateral, and the bank premises is a terrible threatening place for the rural poor and illiterate to visit for a loan. On the contrary, he highlighted how 'microfinance' became an innovative and unconventional method to facilitate credit to the poor. 'Joint liability contract' in group lending becomes an innovative collateral substitute, and 'social capital', and peer pressure facilitates proper loan appraisal, monitoring and repayments in microfinance. The borrowers jointly decide on the amount of loan, interest rate charged and repayment schedules, themselves.

In India, few pilot projects on microfinance were initiated since mid-1980s in Andhra Pradesh and other southern States. The microfinance movement in India assumed official support in 1992 with NABARD launching a pilot project to link Self-help

Groups (SHGs) to banks so as to provide funding support to SHGs to on-lend to their members. By mid-2005, linking of SHGs to the banking system emerged as the major microfinance programme in India. By July-2005, 16.5 lakh SHGs were linked to the banks and with outstanding credit of ₹ 70.6 billion to SHGs. By March 31, 2013, the corresponding figures increased to 44.5 lakh and ₹ 393.8 billion, respectively. On the way, commercialisation of microfinance with entry of several micro-finance institutions (MFIs) such as Share Microfin Ltd., SKS Microfinance, Spandan, etc., added momentum to the microfinance movement in India, but also accused to be part of the problem leading to the crisis in Andhra Pradesh. A comprehensive account on the progress of microfinance in India until this crisis is provided by Chakrabarti and Ravi (2011).

Presently, there has been considerable emphasis on microfinance, particularly the bank-SHGs linked programme spearheaded by the NABARD to promote rural credit, particularly to the poor and women. This programme has encouraged all the three types of institutions such as cooperatives, commercial banks and RRBs to participate in microfinance movement indirectly by providing credit to SHGs. Out of total outstanding loans of ₹ 393.8 billion to SHGs as on March 31, 2013, 67.7 per cent is accounted for commercial banks. The RRBs and cooperative banks contributed to the rest 26.7 and 5.6 per cent, respectively.

Sample Design

The present study adopted a multi-stage sampling approach for conducting the household survey. In the first stage, out of 19 districts in West Bengal, the most populous district of North 24 Parganas was chosen. As per the 2011 census, the population of North 24 Parganas was at around 10 million as compared to 91 million for the entire State. According to the Economic Review 2011-12, published by the Government of West Bengal, North 24 Parganas stands out with significant spread of commercial banking network in the State, with little over one-tenth of offices of scheduled commercial banks in West Bengal being located in this district. This is only next to Kolkata district in terms of number of bank offices and deposit generation amongst all districts in West Bengal. However, given its massive population, average population per bank office was reported to be approximately 18,000 in 2011 as compared to 16,000 for the entire State, and 13,000 for all-India. Interestingly, significant number of bank offices did not lead to commensurate growth of bank credit in the district. Deposit generation and extension of advances by commercial banks in the district is acutely skewed. This is reflected in the low credit-deposit ratio of 22.6 per cent in 2011 as compared to State average of 58.13. In fact, North 24 Parganas registered second lowest credit-deposit ratio of commercial banks across all the districts in West Bengal. Even within rural offices of scheduled commercial banks, its credit-deposit ratio was 27.5 per cent as compared to State average of 36.0 per cent in 2011. Given the above fact that North 24 Parganas performs very poorly among districts of West Bengal in terms of credit penetration by scheduled commercial banks, we were curious to study if the spread of microfinance is of any help in this regard.

In the second stage, within the district of North 24 Parganas, the present study selected the poorest and economically backward block of Baduria, bordering Bangladesh. According to the District Human Development Report: North 24 Parganas published by Development and Planning Department, Government of West Bengal in 2010, more than 60 per cent are BPL households in the block. Among the workforce, 57.1 per cent are engaged in daily/agricultural/ other manual labour activities and another 21.0 per cent are farmers. It may be noted that an NGO named *Swanirvara* has been actively involved for promoting SHG formation and microfinance activities in the district of North 24 Parganas. Its headquarters is located in Baduria, making it an active area for growth of microfinance.

A preliminary survey was conducted in January 2013 in N 24 Parganas district to find out areas with fair penetration of microfinance activities, and we identified Baduria to be a suitable block. During this time, within Baduria block, we visited several villages and interacted with officials/beneficiaries of microfinance and cooperative society for identifying SHGs/ villages which satisfy active area criterion for conducting the survey. Subsequently, household survey was conducted during June-July 2013. Using random sampling method, we had chosen 14 SHGs for primary data collection under microfinance beneficiaries. Most of such SHGs were associated with Swanirvara. It may be noted that all the members of the above 14 SHGs consisting of 167 sample households were covered for this purpose. The sample households were spread across ten villages, namely Bakshirhati, Chandalaati, Chandpur, Haydarpur, Jangalpur, Kolsur, Kumrabajar, Parpatna, Pashkhali and South Kolsur.

For selecting cooperative beneficiaries, we were confined to the members of Magurkhali Primary Cooperative Society which is the only functioning primary agricultural cooperative society (PACS) in Bhaduria block (as informed by the officials of the Society and confirmed from our local acquaintances). It was established in 1976, and was rewarded as one of the best serving in the State for the last five years, consecutively. Most of its beneficiaries are spread in three villages of Magurkhali, Rudrapur and Andharmanik. This cooperative society is tied up with the West Bengal State Cooperative Bank as its financier. It has many depositors of around 4,800, and many of the depositors are non-members. Only members are eligible for loans. We had selected 100 households by applying random sampling method amongst around 400 members of the Society.

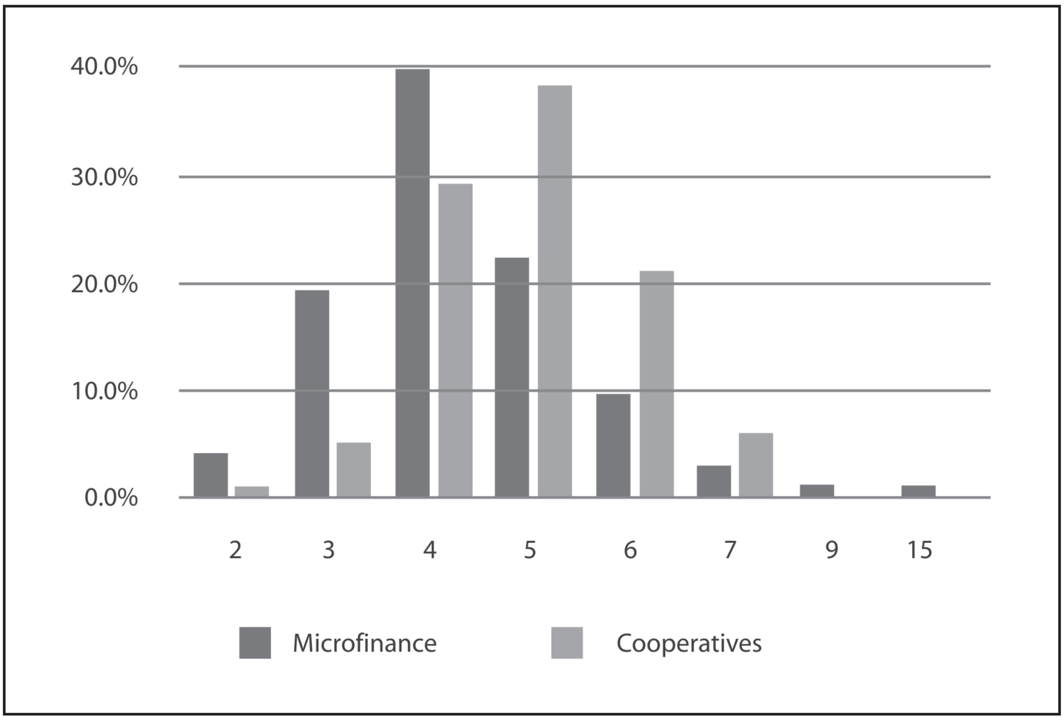
The data collected from sample households using a brief and comprehensive questionnaire covering various socio-economic information, viz., (i) demographic aspects, (ii) economic conditions and standard of living, (iii) various aspects of loans such as amount and end-use of loan, term to maturity, interest rate charged, etc., (iv) decision making in sample households including control over use of funds, (v) expectations about future income, and (vi) major problems encountered. For convenience of the respondents, the questionnaire was prepared in Bengali – the local language. Towards ensuring accuracy of information provided by the respondents, the same was cross-checked with other members of the groups, neighbours, officials of the microfinance institutions promoting SHG formation, and our own acquaintances.

Survey Results and Discussion

The information gathered from our sample survey is discussed in the present section to assess socio-economic conditions of beneficiaries of microfinance in Baduria block as compared to their cooperative counterparts. This comparative analysis will help us drawing inferences on whether microfinance can overcome the limitations of cooperative institutions in meeting the needs for rural credit in India. The discussion is carried out on several aspects of socio-economic profile of the sample households, sequentially as below.

Demographic Aspects: As regards family size, it was observed that beneficiaries of microfinance have relatively smaller family in our sample. For example, the modal family size for microfinance beneficiaries is 'four', while that for cooperative households is 'five' (Graph 1). It was also observed that the proportion of family members in the working age (30-60 years) is higher for microfinance households as compared to the cooperatives (Graph 2).

Graph 1 : Distribution of Family Size



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Graph 2 : Age Distribution of Households

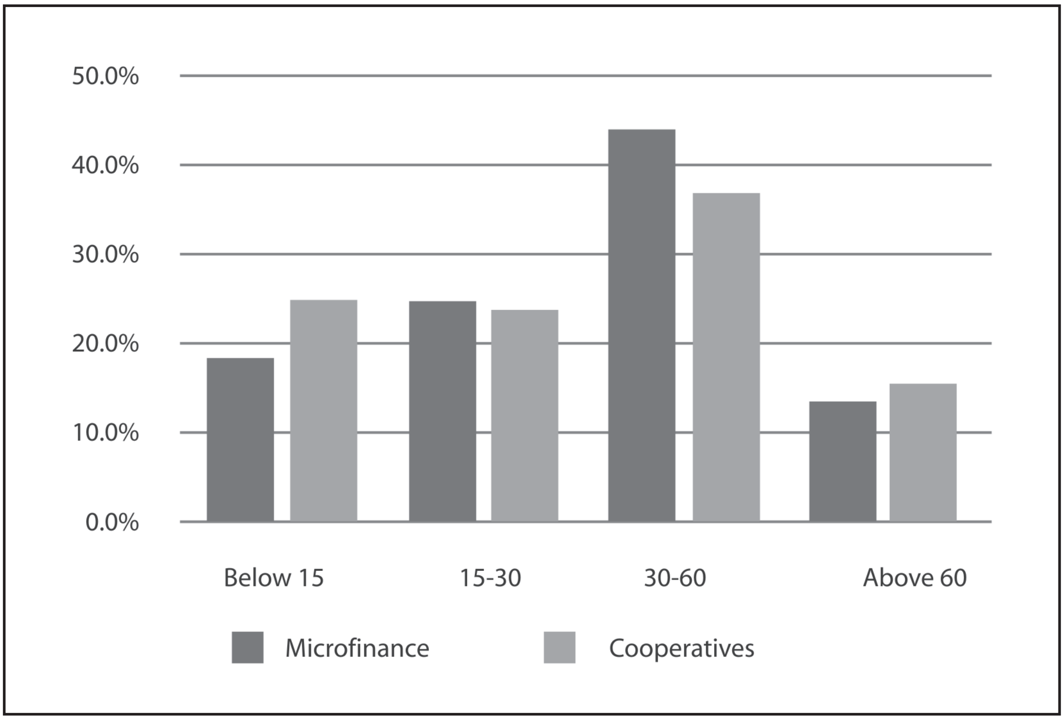

Table 1 presents distribution of male and female earning members in our sample households, comprising both beneficiaries of microfinance and cooperative. While most of the male members in the age group '30-60 years' earn in both the groups, the proportion of female earning members in this age group is twice in microfinance households as compared to cooperative counterparts. Even in the age group of '15-30 years', the proportion of family members' earning, both in male and female categories were significantly higher among microfinance beneficiaries as compared to cooperative ones.

Table 1 : Age-wise Distribution of Earning Members

N = 267 (167 + 100) (in per cent)

Age Group (Years)	Male		Female	
	Microfinance	Cooperatives	Microfinance	Cooperatives
Below 15	1.3	0.0	0.0	0.0
15-30	45.6	34.0	12.6	3.1
30-60	95.7	98.0	39.9	19.0
Above 60	2.0	2.6	0.0	0.0

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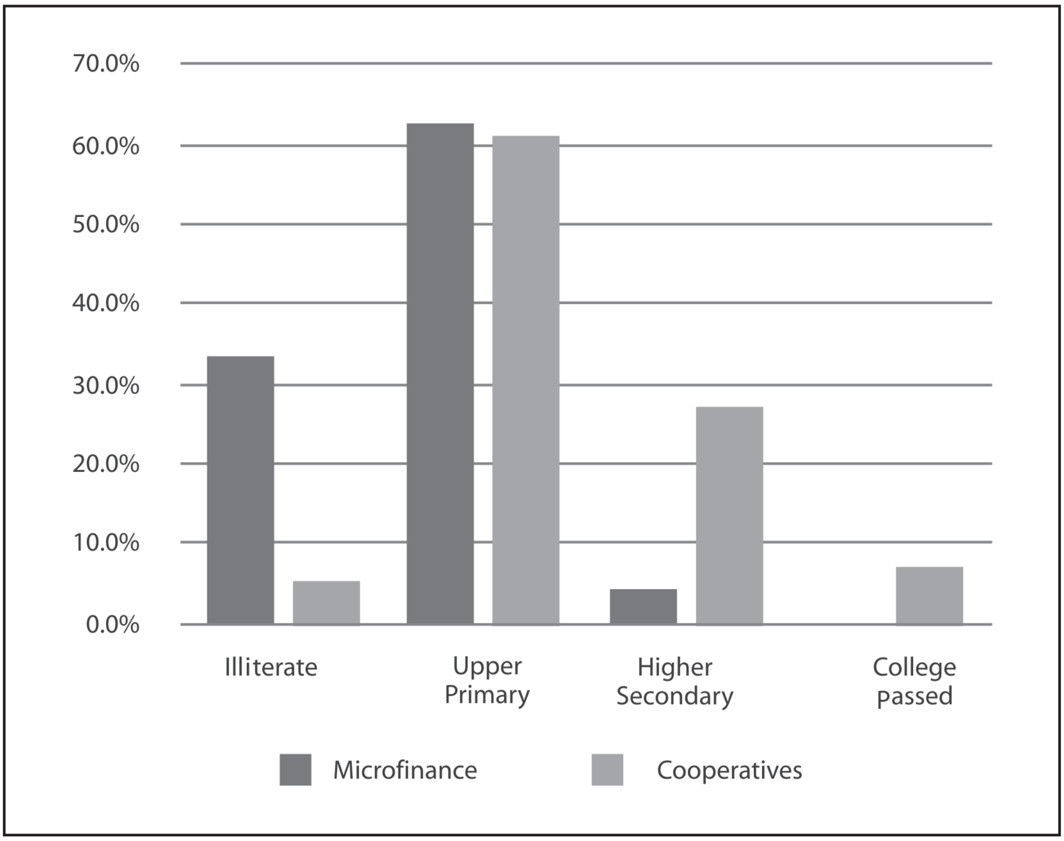
As regards educational qualification, around one-third of microfinance beneficiaries are illiterate, while the comparable group for cooperative beneficiaries is around 5.0 per cent (Graph 3). On the contrary, little over one-third of cooperative beneficiaries have passed higher secondary as against a proportion of around 4.2 per cent for microfinance households. Thus, in terms of education, generally the microfinance households are found to be lagging behind.

Graph 3 : Educational Qualification



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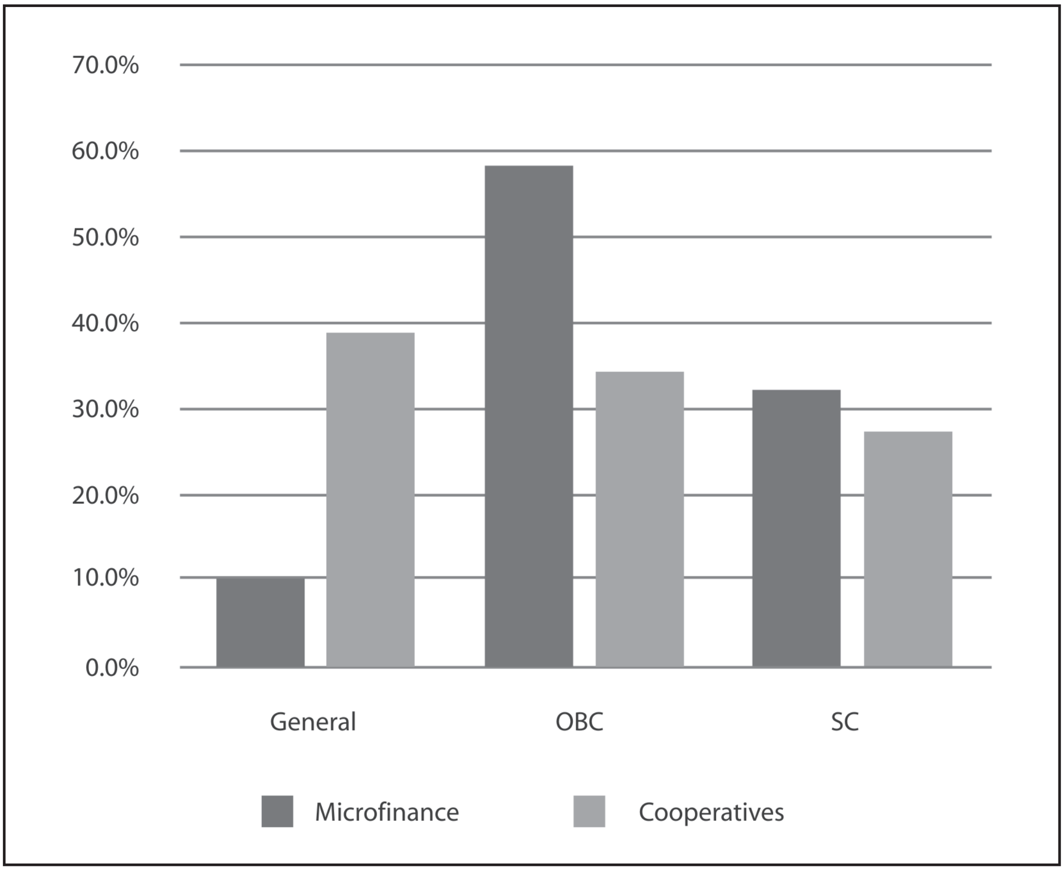
In terms of caste distribution (Graph 4), it was observed that the share of general castes constitutes close to two-fifths of sample households under the cooperative category, while the comparable share under microfinance households was around one-tenth. On the contrary, vast majority of microfinance households belonged to other backward castes (OBC) constituting close to 58.1 per cent of sample households, while the share of OBC in cooperative households was close to one-third. Even the share of SC households in microfinance category was higher as compared to cooperative category. Thus, it was observed that while majority of sample households under cooperative category belonged to 'general' castes, the same under microfinance belonged to the relatively disadvantaged castes.

Graph 4 : Caste Distribution



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Economic Conditions and Standard of Living: Information collected on various indicators of standard of living for our sample households is summarised in Table 2. As regards conditions of dwelling of sample households, we did not observe very significant differences between microfinance vis-a-vis cooperative beneficiaries. However, the share of households living in dwellings with 'good' conditions was a shade higher for the latter. Close to 11 per cent of 'microfinance households' did not have electricity connections to their residences as compared to the observation that all 'cooperative households' in our sample had electricity connection. In terms of basic necessity of water supply, 27.0 per cent of cooperative households possessed their 'own tube-well' reflecting their better economic conditions as against a small fraction of 0.6 per cent of microfinance households enjoying this facility. One-third of microfinance households did not have domestic toilet facility as against a comparable proportion of one-fifth of cooperative households.

Table 2 : Comparative Living Conditions

	Microfinance	Cooperatives
Condition of Dwellings		
Good	13.2	21.0
Average	74.3	65.0
Poor/Need Repair	12.6	14.0
Domestic Electricity Connection		
Yes	89.2	100.0
No	10.8	0.0
Domestic Water Supply		
Public pipeline	41.9	73.0
Own tube-well	0.6	27.0
Public pipeline and common tube-well	57.5	0.0%
Own Domestic Toilet Facility		
Yes	66.5	80.0
No	33.5	20.0
Monthly Income		
Mean Income (in ₹)	4405	6565
Coefficient of Variation (%)	58.05	51.10
Median Income (in ₹)	4000	6000

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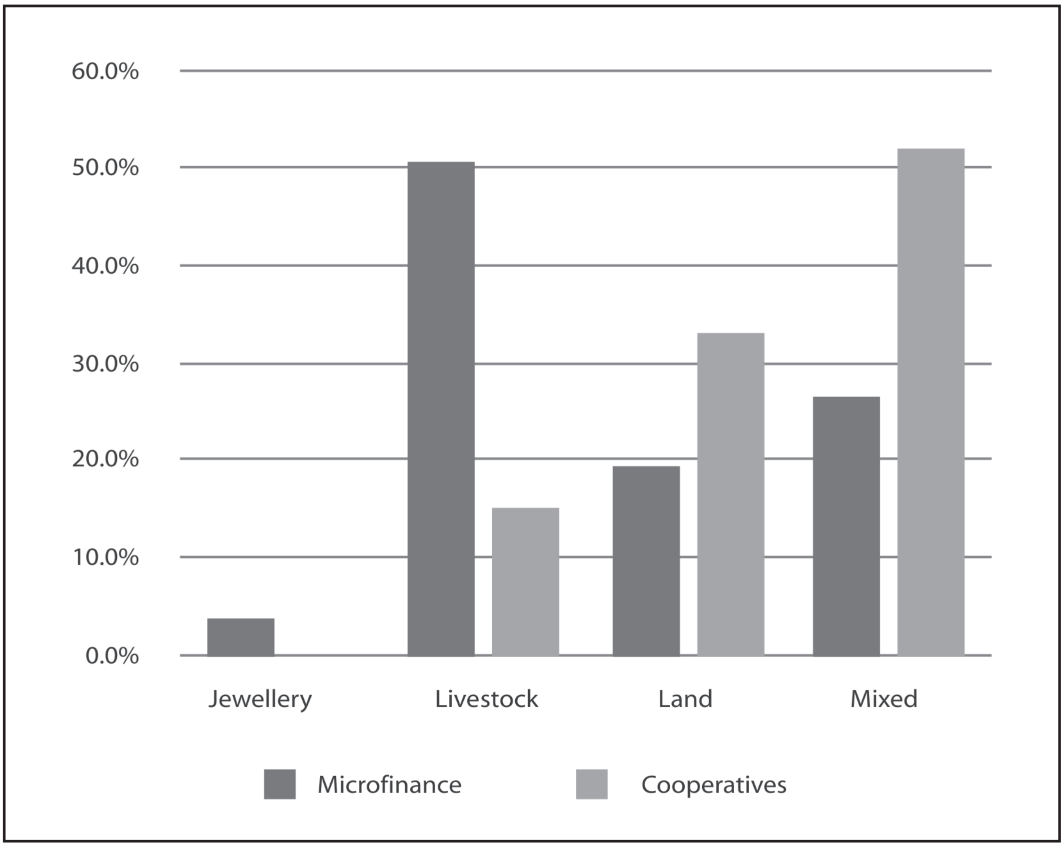
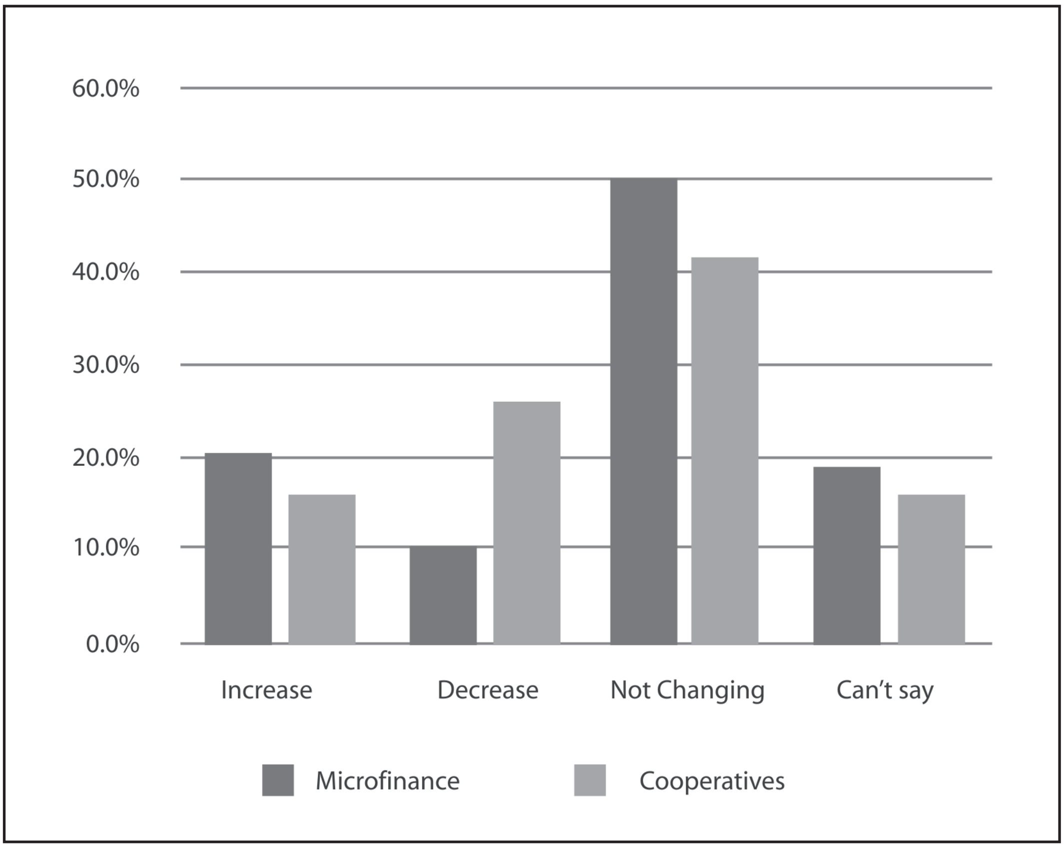
Graph 5 : Asset Holdings



The average monthly income of a cooperative household at ₹ 6,565 was also observed to be higher by a half as compared to average income of ₹ 4,405 for a microfinance household. The above economic disparity was also confirmed by asset holding of the sample households. It was observed that little less than one-fifth of microfinance households possessed only 'land' and another 3.4 per cent of them held only 'gold and jewellery'. Nearly half of microfinance households held only 'cattle and livestock' as their assets, and nothing else. It implies that at least half of them are landless, and thus, largely ineligible for obtaining formal finance including loans from cooperatives. Contrary to this, cooperative households were relatively wealthy. A little over half of them, possessed a mix of assets including land, gold and jewellery, and other forms of wealth. Thus, the economic conditions and standard of living of the microfinance households in our sample were observed to be relatively weak.

On the contrary, about future income prospects, the microfinance households seemed more optimistic. Close to 20.4 per cent of microfinance households expect increase in their income next year as compared to 16.0 of cooperative households in our sample (Graph 6). Moreover, one-tenth of microfinance households expected decline in their income next year, while the similar proportion for cooperative households was little over one-quarter of cooperative households.

Graph 6 : Expectation about Future Income



Loan Profile : It was observed that the loan amount for microfinance households varied between ₹ 2,000 to ₹ 20,000, generally beginning with a smaller amount for the new entrants and gradually raising the amount for subsequent loans on successful repayment of past loans. While many better-off borrowers were eager to avail of loan amount exceeding ₹ 20,000, they were not encouraged by the SHGs. All the loans availed of by the microfinance households in our sample were without any security collateral or guarantee. Discussion with the sample households and officials of *Swanirvara,* the agency promoting microfinance for majority of our sample SHGs revealed that loan recovery is generally satisfactory. Rare occasions of loan delinquencies were dealt with severity, after allowing some extra time for repayments. The households were not paid interest on their deposits (savings), which varied from ₹ 10 to ₹ 50, per week.

The majority of loans availed of by our cooperative households are agricultural loans varying between ₹ 10,000 to ₹ 60,000, while others also availed of other short-term loans including personal loans. All the loans were availed of against some form of security and/ or guarantee. Land documents and other financial investment certificates such as NSCs, KVPs, etc., were generally provided as security. Some loans were also availed of under guarantee of some individuals with good financial standing such as headmasters of government school, and the like. The households received interest payments of 4.0 per cent on their saving account deposits and around 8.0 per cent on term deposits.

Distribution of loans according to interest rates charged revealed that microfinance households generally paid higher interest rates as compared to their cooperative counterparts. The majority of the cooperative households availed of loans at 7.0 per cent (agricultural loans), and the rest availed at 12.0 per cent. The majority of microfinance households availed of their loans at 12.5 per cent, and different interest rates up to 14.0 per cent were charged to some borrowers depending on the amount and purpose of loans.

For cooperative households, the term of the loan was generally observed to be one-crop season i.e., around six months for agricultural loans, and those for other loans was around 12 months. The term to maturity for microfinance loans was around 10 months.

In terms of end-use of loans availed of, it was observed that 56.1 per cent of cooperative sample households used the funds for agriculture and related needs, and another 24.5 per cent for meeting the operating costs requirements (Table 3). In contrast, bulk of the microfinance households (59.4 per cent) used the facility to meet operating cost requirements for their vocation such as purchase of livestock for goat raising, sheep breeding and poultry, inputs for betel leaf plantation, carpentry and tailoring tools, grocery items, vegetables and other consumer goods for small trading, etc. Around 16.1 per cent used the funds for construction of houses, which was also mainly to facilitate their business activity. Contrary to the wider perception, we did not observe significant diversion of funds for consumption needs or meeting marriage/funeral spending for the microfinance households.

Table 3 : Comparative Loan Profile

N = 267 (167 + 100) (in per cent)

	Microfinance	Cooperatives
Actual Use of Loan		
Agriculture and related	3.9	56.1
Education of kids	4.5	4.1
Medical and other emergencies	3.2	4.1
Marriage and funeral	1.3	0.0
Starting up new business/vocation	6.5	0.0
Meeting operation costs	59.4	24.5
Construction of house	16.1	6.1
Buy land	3.2	1.0
Others	1.9	4.1
Rate of interest (%) — Distribution of Loans at Different Rates of Interest		
7.0	0.0	56.1
12.0	0.0	43.9
12.5	50.3	0.0
13.0	14.6	0.0
13.5	5.7	0.0
14.0	29.3	0.0
Months — Term of Loans		
6	0.0	57.1
10	99.4	0.0
12	0.0	42.9
24	0.6	0.0

Borrowing and managing loans : It is generally believed that microfinance activities promote gender equality by extending financial support to women who form SHGs and facilitates making them financially independent. Our observations in this regard were very interesting. It was observed that all of the loan applicants in our microfinance sample were females (Table 4), while close to 96.0 per cent of loan applicants were males amongst cooperative households. But microfinance has not necessarily led to empowerment of women

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in terms of decision taking. This is because it was observed that within the microfinance sample, in 73.2 per cent cases decisions regarding use of loan money were taken by the husband of the borrower, while in another 8.9 per cent cases, another member of the family took the decision. This is worse as compared to other financial decisions in the family. For example, in 41.0 per cent cases, husbands and wives jointly decide on other financial matters of the family, while only in 10.8 per cent cases, such a joint decision is taken for use of microfinance loan.

Table 4 : Borrowing and Decision Making

N = 267 (167 + 100) (in per cent)

	Microfinance	Cooperatives
Loan Applicant		
Wife	96.8	4.1
Husband	0.0	95.9
Both wife and husband jointly	0.0	0.0
Any other family member	3.2	0.0
Decision on Use of Loan		
Wife	7.0	0.0
Husband	73.2	94.9
Both wife and husband jointly	10.8	5.1
Any other family member	8.9	0.0
Other Financial Decisions in the Household		
Wife	7.2	1.0
Husband	42.8	65.3
Both wife and husband jointly	41.0	28.6
Any other family member	9.0	5.1

In cases of cooperative households, it was observed that most of the loaners are the male members of the family, and the decisions on use of loans were also taken by the male members. Even in 4.1 per cent cases although loan applicants were female members, they did not take decision on use of loans.

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Additional Information on Microfinance Households : It may be noted that our microfinance households also availed of funds from other sources in addition to SHG loans to meet various requirements (Table 5). However, it is encouraging to note that 64.1 per cent of our sample households did not have any financial liabilities other than SHG loan during our survey, and their average loan amount was ₹ 9,449. Close to a quarter of households had outstanding dues to be paid to the grocery store-owner and 13.8 per cent availed of loans from their friends and relatives.

Table 5 : Various Sources of Borrowings for SHG Members

N = 267 (167 + 100) (in per cent)

Sources of Borrowings	Proportion of HHs	Av. Amount (₹)
Friends and Relatives	13.8	4704
Grocery shop (outstanding dues)	24.0	3050
Employer	2.4	4750
Recovery of past loans	0.6	4000
SHG Loans	94.6	9461
Memo		
Only SHG Loans	64.1	9449

Amongst various problems encountered by the microfinance households, it was observed that for a majority of 30.5 per cent households, inadequacy of funds for business start up was the biggest problem (Table 6). Another 14.4 per cent felt that shortage of funds for meeting operational cost requirements is their biggest problem. It seems that access to finance is no more the biggest challenge for our sample households joining microfinance, as less than 1 per cent considered it as the biggest problem. Cost of inputs, cost of borrowing and lack of skills are also not considered the biggest setback for a vast majority of our sample households. To sum up, while most of our households have capabilities and access to finance to undertake gainful economic activity after joining microfinance, a majority of them emphasise on the need for enhancing the quantum of finance. It is now a matter of scaling up rather than very access to finance.

Table 6 : Major Problems Encountered by SHG Households

N = 267 (167 + 100) (in per cent)

Nature of the Problem	Proportion of HHs
Inadequacy of funds for business start up	30.5
Shortage of working capital	14.4
Competition in the market	9.0
Lack of technical skills	6.6
High cost of borrowing	6.6
High cost of inputs	6.0
Weak demand for products	3.0
Lack of access to loan	0.6

Summary and Conclusions

The present study attempted to analyse the socio-economic profile of beneficiaries of microfinance vis-a-vis cooperatives to assess the potential of microfinance to effectively meet the needs for rural credit and contribute to economic empowerment of rural poor, as widely perceived. For this purpose, a sample survey was conducted in Baduria block of West Bengal which witnessed rapid growth in microfinance activities in the recent years. It was observed from the sample survey that microfinance suits the socio-economic realities of the rural poor in terms of lack of endowments, technical skills and qualifications which makes them ineligible to benefit from conventional institutional finances such as cooperatives. Majority of the microfinance households did not possess land or jewellery which they can use as collateral. Close to half of them had livestocks as the only form of wealth which they mostly acquired using microfinance loan. A significant proportion of microfinance households were illiterate and over half of them had just elementary education – putting them in disadvantaged position in terms of awareness about loan eligibility and availability. Without microfinance, the above would perhaps have failed to avail of credit facility, and improve their economic conditions.

Despite joining the microfinance programme, economic conditions of our sample households were generally found to be weaker as compared to cooperative households. This was reflected in their monthly income, conditions of dwelling, facilities like electricity, drinking water, and sanitation, etc. But, it is heartening to note that majority of the beneficiaries were from the disadvantaged castes in microfinance. Close to two-thirds of microfinance households in our sample did not have any financial liabilities other than SHG loans. They were more optimistic as regards

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future income prospects. Thus, extrapolating from the findings of our sample survey, we assert that the microfinance has tremendous potential to effectively contribute to economic empowerment of rural poor in India.

It has been widely perceived that microfinance augments women empowerment. In this regard, our observations are mixed. From our sample survey, it is obvious that a larger proportion of female members amongst microfinance households were gainfully employed as compared to their cooperative counterparts. The microfinance has facilitated providing the necessary means to pursue vocations and rural self-employment activities such as goat raising, sheep breeding, poultry, vegetable farming, embroidery work, share cropping, tailoring, etc. But it was also observed that this did not reflect in terms of taking decision on use of funds. Even though the female members were the actual borrowers from our women SHGs, actual decisions on use of the funds were taken by the husband of borrower in a majority of cases.

A major task to make microfinance meaningfully contribute to the progress of rural India is to strengthen the amount of funds available through microfinance. As noted by a majority of sample households, the issue of access to finance is resolved thanks to microfinance, but the amount of available fund is not adequate. The SHG-bank linking programme has been successful in supporting the fund requirements of the SHGs, but there is a need to further increase the amount of funding commensurate with the requirements. But, learning from the experience of Andhra Pradesh crisis, necessary precautions need to be undertaken to guard off the adverse implications of multiple lending to the same individuals beyond their capacity and commercialisation of microfinance.

It is also observed from our discussion with NGO officials and leaders of the SHGs that delinquency in loan repayments is negligible. But inappropriate policy decisions like loan-waivers may create a moral hazard problem risking non-payments and spoiling the microfinance movement.

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