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THE CONTRIBUTION OF MICRO-FINANCE ON THE GROWTH OF MICRO-ENTERPRISES IN UKEREWE DISTRICT, MWANZA, TANZANIA

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Abstract

This paper sought to determine the intended and the actual usage of micro-credits by the micro-enterprises in Ukerewe district and the extent of growth of micro-enterprises in Ukerewe district after accessing micro-credit. The study adopted a cross sectional survey design and utilized both qualitative and quantitative research methods for data collection and analysis with Ukerewe District as the study area. A sample size of 50 respondents made of MWDA micro-entrepreneur borrowers from 10 active groups was used. Data were mainly collected using a questionnaire. The results from this study revealed that 32%, 28%, 18%, 16% and, 6% of the respondents were involved in food vending, shop-keeping, tailoring, hair salon and charcoal businesses respectively. Results on actual and intended usage of loans showed that 85% of the respondents set aside part of the loan for emergencies. Respondents who acquired assets before investing in businesses were 78%. Half of the respondents (50%) used part of the loans to pay school fees for their children. Change of loan uses was made to make sure that in case the business failed to produce expected profit, the borrowers would still make their repayments to MWDA. The results show that 60% of the respondents had their business capital increasing from TZS 50,000 received from MWDA to between TZS 100,000 and 300,000. On the other hand 52% of respondents sold more products to existing customers to earn monthly profits of TZS 10,000 – 200,000. Growth was also evident in the increase in business incomes where 56% of respondents reported an increase in income between 31-40% and 20% of respondents had an increase in income ranging between 41-100%. Other results show that 66% of respondents accumulated savings after joining the program; in additional to the above results all (100%) respondents reported to have acquired household assets from their profits. Households improvement was made by 76% of respondents, the above results show how micro-credits have influenced the growth of micro-enterprises.

The study recommends to MWDA the application of group lending methodology and capacity building on financial sustainability. Policy makers to ensure clear and favourable working conditions for micro-enterprises. It is also recommends that future research on the differential contributions of micro-finance in Tanzania and on the joint liability of groups to reveal efficiency and performances of such groups be undertaken.

Introduction

The number of micro-credit programs in Tanzania has significantly increased. The micro-credit providers to the micro-enterprises include Government Agencies, Commercial Banks, Donors, NGOs, Cooperatives and Individuals. Ukerewe district being an island in Lake Victoria ranks last compared with other districts of Mwanza region, in social and economic attainment, and the poverty level is relatively high although MFI numbers have risen. Despite the fast growing number of micro-finance programs in Tanzania, there is limited information and literature regarding the contribution of the micro-finance provided to the micro-enterprises in Tanzania and in particular Ukerewe district. The existing evidence of the contribution of micro-finance to the micro-enterprises in Tanzania is scarce, and few studies have investigated the impact of different strategies in detail. Many studies that have been done evaluated and critically analyzed the impact of small loans on women micro-entrepreneurs in South East Asia and in some few urban areas of Tanzania. Therefore, this study sought to; determine the intended and the actual usage of micro-credits by the micro-enterprises in Ukerewe district and the extent of growth of micro-enterprises in Ukerewe district after accessing micro-credits. Finally, the study identified constraints facing micro-enterprises in Ukerewe district.

Literature Review

Microcredit and microfinance are two terms which have been used interchangeably in development discourses. Microcredit emerged in 1970s (Grameen Bank, 2007) and became popular in the early 1980s.

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This term was primarily applied in Bangladesh by Grameen Bank and later spread onto other nations. Grameen Bank defines microcredit as delivery of small loans to the rural poor, especially to women, who have been disqualified by the private money lenders (Grameen Bank, 2007). Different from conventional banks, microcredit is collateral-free, aiming to increase local income through economic activities. In 2005, microcredit served, in total, 81,949,036 clients who were among the poorest, 68,993,027 (84.2%) of whom were women (Daley-Harris, 2006).

Microfinance is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as microfinance institutions (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly. More broadly, microfinance refers to a movement that envisions a world in which low-income households have permanent access to a range of high quality financial services to finance their income-producing activities, build assets, stabilize consumption, and protect against risks. These services are not limited to credit, but include savings, insurance, and money transfers (http://www.microfinancegateway. org/p/site/m/template.rc/1.26.9183/).

Contribution of Micro-Finance on Micro-enterprises

Studies conducted in Bangladesh and some Asian countries found out that participation in micro-credit programs results in micro-entrepreneurs' economic and social empowerment (Mayoux, 2001), while others conclude that participation gives way to greater subordination of micro-entrepreneurs especially the women by giving opportunities to husbands to have control of the loans. The following are some of the studied contributions of micro-finance to the micro-entrepreneurs through their micro-enterprises:

Social Contribution

The idea of micro-finance programs in organizing group loans is to make each member of a group responsible for repayments and it is widely assumed that groups will benefit members socially. The group lending system is intended to provide borrowers a chance to meet, make repayments, and discuss and exchange various social development issues such as health, education, and business issues. Analysts suggest that both the loans and the social aspects of credit programs contribute to micro-entrepreneurs' empowerment (Nelson et al, 1996). The weekly meetings at which loans are repaid and savings deposited provide a genuine reason for micro-entrepreneurs to leave their households and businesses to associate with one another and with organizations' staff members. The regular contact with program staff and other members during repayment meetings exposes micro-entrepreneurs to new ideas and increases their confidence and social interactions (Kabeer, 2001).

Nevertheless, lending groups can have negative results especially in how they operate. The demand for timely repayments increases friction and stress amongst loan officers and fellow group members. Groups can be a source of hatred and violence against members and staffs of the organization (Mahmud, 2003). On the other hand if repayment group meetings are focused on repayments, it is unlikely that borrowers can be empowered socially (Orri and Saiti, 2002). It is therefore a challenge to MFI to design a mechanism where repayment groups meetings can be integrated with other interesting agendas to the micro-entrepreneurs.

Increased Income

It is difficult to measure to what extent an increase in income within the household has been due to the availability of loans (Mayoux, 1999). This is because households may have more than one source of income. Nevertheless, micro-entrepreneurs' participation in micro-credit has positively increased their income and their contribution to family income apart from other sources. Research findings varied from one country to another, but there was an obvious observation that family members live in large households, and that female participation in a micro-finance program, benefits all the members of the household. Nevertheless, in all studies conducted by Mayoux (1999), it was found that borrower's increased income or loans are spent on household consumption and children's welfare.

However, when micro-entrepreneurs use increased income in the household, it increases economic vulnerability because of expenditure of loans on consumption and not by investing in economic activities. Furthermore, micro-entrepreneurs especially men can be tempted to misuse family funds when financial situations improve in the family (Afrane, 2002). There are reported cases in Ukerewe island where increased income resulted into polygamy. However, capacity building to micro-entrepreneurs on how best they can use their loans and profits should be enhanced to both men and women micro-entrepreneurs so that they can be able to realise the intended benefit from the micro-credit.

Accumulation of Assets

There are studies which show that access to loans has improved the lives of most micro-entrepreneurs and their housing units too. The quality of borrowers' homes assessed by Bernasek and Stansfield (1997) was better: tin roofs had replaced thatch, keeping homes with waterproof structures, which are more permanent and more likely to withstand the effects of extreme weather. The houses had better ventilation and some borrowers had gone to an extent of making the floors smooth and sealed. Not only housing but also other domestic assets were seen to have increased after micro-entrepreneurs' micro-enterprises have accessed the micro-credits.

Education

There is evidence that some micro-entrepreneurs use their increased incomes to send their children to school. However, there is also some evidence in Kabeer, (2001) that there is withdrawal of girls from school when a micro-entrepreneur is a women due to the increased workloads resulting from the credit enterprise. In Cameroon (Mayoux, 1999), and in Ghana (Cheston & Kuhn, 2002) micro-entrepreneurs were spending some of their loans and income on school fees for the children. The impact of micro-finance on education has been evidenced to be both positive and negative. The MFI should strengthen the positive impacts and bring up measures to minimize the negative impacts.

Entrepreneurs Status

It is widely assumed that there is a clear and direct relationship between access to credit and an increase in the status of micro-entrepreneurs within their households and communities (Hunt & Kasynathan, 2001). Micro-entrepreneurs feel they have been empowered by gaining social status, confidence and training that they received (Hunt & Kasynathan, 2001). The evaluation of the literature review on the contribution of micro-finance on the growth of micro-enterprises shows mixed results and there is no clear conclusion on the impact of micro-finance on the growth of micro-enterprises. While it is quite evident that micro-finance has positive impacts on micro-entrepreneurs, however, the answers depend among other things, social backgrounds, individual background and the lending methodology of the organization. Nevertheless, by providing small loans to micro-entrepreneurs, the credit has become a resource to generate additional income, to accumulate assets, and for consumption purposes. Furthermore, micro-entrepreneurs are able to improve their livelihoods, and for their family's nutrition, health care and education.

There are a number of questions which remain unanswered. For instance, does the impact of micro-finance on micro-enterprises sustainable? To what extent is the proliferation of the micro-enterprise activities considered an indication of economic growth? This research does not intend to answer these questions. The research intends to give a meaningful insight on the issues which micro-enterprises receiving micro-credits from MWDA consider important for their business growth.

Microcredit Weaknesses

One criticism of the microcredit organizations that run solidarity group lending is that they rely on donor funding to capitalize their operations. One survey of programs targeting the poorest borrowers found that they generate revenues sufficient to cover only 70% of their full cost and it is possible that only 5% of all programs will ever be financially sustainable (Murdoch 2000). Another criticism is that microcredit schemes do not reach those that are most poor (Hulme 2000). Microcredit borrowers are typically just above or below the poverty line. Programs that have an explicit poverty reduction goal tend to reach more extremely poor people, but often exclude the destitute. Some argue that savings-schemes are more likely to reach poorer people and that the destitute need direct aid and not financial services. Others maintain that if microfinance institutions (MFIs) provide appropriate services, they can reach the most poor (Simanowitz and Walter 2002).

Approaches to Business Growth

The business will survive, grow and flourish by selling more to more people. This may be selling more of the existing products or services to existing customers, or it can be selling new products or services and/or acquiring new customers or markets. Business growth can be through the following approaches through existing customers, through new customers and markets and through new products and services (www.cim.co.ukwww.cim.co.uk 0.7.2010)). Small business managers think about how they should grow their businesses. However, this is something that happens when they are less busy satisfying orders or sorting out other problems. Usually something forces them to think about growth.

Methodology

A cross sectional survey research design was applied. The study focused on Ukerewe district in Mwanza region which is considered to be a good representative of MWDA micro-credit borrowers in Mwanza region because Ukerewe district was the first to join the program and currently it has more borrowers than rest of the districts where MWDA operates. The targeted population comprised all 40 groups with 250 micro-credit borrowers who have benefited from MWDA micro-credit within the district.

Purposive random sampling technique was used to select the required sample. On the other hand, simple random sampling was used to identify respondents from each selected stratum. This was done putting into consideration the geographical location of the intended respondents. The sample comprised 50 (20%) micro-credit borrowers from 10 (25%) active groups who benefited from MWDA micro-credit program in Ukerewe district. The selection of individual respondents from the groups depended on how active a member was within the group. Groups visited for interviews depended on their geographical locality and performance respectively.

Findings

Table 4:1 Years of respondents in the MWDA loan Program

Years in the Program	Number of Respondents	Percentage
1-3	5	10%
4-6	19	38%
7-9	26	52%
Total	**50**	**100%**

Source: Field Data (2010)

The sample included respondents who enrolled in the MWDA loan program between 1995 and 2006. Table 4.1 shows that 52% of respondents have been in the MWDA loan program for 7 to 9 years now followed by the respondents with between 4 and 6 years who were 38%. Respondents who have been in the program for three years or less were 10% only. This shows that 90% of the respondents in this study have worked with MWDA loan program for over 4 years by the time of study. Thus the sampled respondents had adequate experience of micro-enterprises as well as micro-financing due to working with MWDA loan program for a long time; the above finding assures the researcher of the reliable outputs from the interviewed respondents.

Amount of first loan

Table 4.2 shows that the amount of first loans to the micro-enterprises ranged between TZS 50,000.0 and 100,000.0 depending on the size of business. Respondents who had TZS 50,000.0 as their first loans represented the highest percentage of the sample (60%). Those who started with TZS 100,000.0 were 40% (see table 4.2). This shows that small loans of TZS 50,000 were the most common, an indication that most of the respondents' businesses were relatively small. Generally, according to MWDA's lending methodology, the initial loan amount is based on the type and size of the business.

Table 4.2: Amount of First Loan

Loan Amount	Number of respondents	Percentage
50,000	30	60%
100,000	20	40%
Total	**50**	**100%**

Source: Field Data (2010)

Types of business

The main business types which engaged respondents who receive loans from MWDA were observed to be mainly five. The identified five business types include food vending, shop keeping, tailoring, hair salon and charcoal vending respectively. Food vending employed 32% of the respondents; these worked in cooked food vending businesses. The second group were in the shop-keeping business at 28%. Hair salon business had 16% of respondents and sale of charcoal business involved 6%. A possible explanation for why respondents are concentrated in food business could be due to the fact that the needed start up capital for food businesses was relatively low as compared to other types of businesses. Micro-entrepreneurs in food vending could easily secure initial capitals from personal savings, friends and relatives and establish their businesses. According to the respondents interviewed, the received loans were used to improve their businesses by buying durable cooking vessels, buying tables, chairs and making general improvements in their business places.

Table 4.3: Types of Business Enterprises

Business Type	Number of Respondents	Percentage
Tailoring	9	18%
Food vending	16	32%
Shop keeping	14	28%
Hair Saloon	8	16%
Charcoal	3	6%
Total	**50**	**100%**

Source: Field Data (2010)

Age of respondents

The age of interviewed respondents ranged between 30 to 55 years old respectively. The most represented age group belonged to those between the ages of 36 to 40 years old (48%). The least represented age group was the group above 46 years of age (12%). Eighty eight percent of the interviewed respondents represented the 30 – 45 age group; this is the most active age group, where the micro-entrepreneurs are energetic and are risk free. It is at this age when one micro-entrepreneur can run from place to pace in search of business markets. On the other hand the age above 46 years represented only 12% of total respondents because at this age micro-entrepreneurs are scared by the risks involved in taking loans and they are not strong enough to run after new business markets.

Table 4.4 Age of respondents

Age Group	Number of Respondents	Percentage
30 – 35	12	24%
36 – 40	24	48%
41 – 45	8	16%
Above 46	6	12%
Total	**50**	**100%**

Source: Field Data (2010)

Respondents' Education level

Table 4.5 shows that 90% of respondents received primary level education i.e. Standard VII. The rest 6% had education which was less than standard IV whereas 4% did not go to school at all. The level of education in most cases determines where one will work and how one will perform the job assigned to him or her. Respondents' participation in micro-entrepreneurial activities was partly influenced by low levels of education; this hindered the development of competent micro-enterprises. Due to the fact that most of the respondents had primary school level education, they tend to be engaged in the activities which need minimal skills as well as less initial capital. This finding also is confirmed by Kibas (2001), who indicated that the majority of micro-enterprises are conducted by people who have primary level education.

Table 4.5: Respondents' Education

Class level	Number of Respondents	Percentage
Never to School	2	4%
Std I – IV	3	6%
Std V – VII	45	90%
Total	**50**	**100%**

Source: Field Data (2010)

The loans' actual and intended usage by micro entrepreneurs

The paper sought to determine the intended and the actual usage of the micro-credits provided to the micro-enterprises in Ukerewe district. During the study period, MWDA officials informed the study that 90% of the respondents paid their loans to MWDA on time without missing a single repayment. These statistics may indicate that the businesses of these members were performing well and therefore, the micro-enterprises were making enough money to make repayments.

The extent of growth of micro-enterprises

According to the results of this study, the respondents felt that micro-credits had a positive impact on the growth of their business as well as the micro-enterprises. Respondents testified that they have seen an increase in their incomes, they had an opportunity to save money, they have managed to contribute to children's education expenses, and they were able to purchase household assets. Additionally, they were able to make improvements in houses as well as affording to install utilities like electricity and in house water supply connections respectively and thus improved the overall livelihoods. The details of such achievements are explained below.

Increase in operating capitals

From the study findings respondents indicated an increase in their business operating capitals. Fifty four percent of the respondents started businesses with capitals which ranged between TZS 10,000 and 50,000 before accessing MWDA micro-credit facility, the initial capitals were sourced from sale of agricultural products or from family members. With the introduction of MWDA loan program, 60% of the respondents received TZS 50,000 as their first loan which was added to their working capitals. However, by the time the researcher interviewed them, 56% of the respondents reported a present business capital of between TZS 100,000 and 300,000; another group of respondents who are 24% reported business capital of over TZS 500,000 and the last was 20% of the respondents who had an operating business capital of TZS 300,000 to 500,000 respectively.

Selling more products

52% of the respondents interviewed reported selling more products and services to their existing customers, a fact which enabled their capitals to grow. An increase in business capital is most likely to be the reason which facilitated them to earn adequate business profits. Selling more products did not only enable micro-enterprises to raise capital but also improved business profits. 64% of the respondents reported a monthly profit which ranged between TZS 10,000 and 200,000 respectively. Together with micro-enterprises selling more products to existing markets, they also sold improved products to existing markets as well as to the new markets. Selling of new products was advocated by 52% of the interview respondents. The respondents sold new and improved products to the existing customers or markets. The new products were improved to meet the current customer expectations and needs or to meet the climatic changes. Also 40% of all the respondents sold new products to new markets or changed business after learning that their current businesses were not making good returns.

Increase in business incomes

96% of the respondents reported an increase in their business incomes after they joined MWDA micro-credits program. Fifty six percent of the respondents reported an income increase between 31-40% followed by 41-100% percent increase which was responded by 20% of the respondents. Participation in the program which increased access to cash was said to be the main reason for the increase in business income; the increase enabled the micro-entrepreneurs to use their income in expanding their enterprises as well as conducting economic activities for their well-being and of their families. Increased incomes from the businesses were therefore channeled into enhancing facilities such as housing, education, food and health. These findings are similar to those of Mayoux (1999), who reported that in the case where loans were given to micro-entrepreneurs who were already in business, and who has the basic skills, increases of incomes were evident.

Table 4.6: Increase in Business Incomes

Percentage Increase in Income	Number of Respondents	Percentage
0 – 10%	2	4%
11 – 20%	2	4%
21 – 30%	8	16%
31 – 40%	28	56%
41 – 100%	10	20%
	50	100%

Source: Field Data (2010)

Accumulation of savings

Sixty six percent of the respondents expressed that their participation in the MWDA program have given them an opportunity to accumulate savings, something which they could not have managed to accumulate outside MWDA micro-credit program. Interviewed respondents felt confident because they owned this amount of money even though it was little, but respondents felt secured in case of an emergency which required money. The saved small amount of money could be easily spent to solve the emergence need. The respondents preferred the MWDA voluntary savings arrangement because saving money at home is not easy considering the risks involved such as theft, fire and the temptation to misuse money, particularly when it is additional income. Some respondents explained how they used the voluntary savings to solve social problems, such as funerals, payment of school fees for children, weddings etc. Rutherford (1999) noted that poor micro-entrepreneurs have the ability to save and they need a savings mechanism in order to turn their savings into a functional lump-sum of money.

The finding is further supported by the World Bank, 2002 which states that saving money in a safe place provides the poor a cushion against sudden shocks, such as illness or a bad harvest, which could easily push them into poverty. Greater access to financial services and increased incomes allow the poor people to invest in, for example, their children’s future. They can also be able to seek health care services when needed, rather than to wait until an illness has reached crisis proportions. The finding is similar to the finding by IKM (2004) in a study conducted in Morocco which indicates that the duration of participation in micro-credit programs increases the impact on savings, particularly for the poorest micro-entrepreneurs.

Acquire household assets

In additional to the above reported business growth aspects; all interviewed (100%) reported to have acquired household’s assets during the loan period. The assets were procured from the profits realized by their flourishing businesses. Households items acquired ranged from radio, television sets, and mobile phones to small households items. Simultaneously, 90% of the respondents reported to buy radio and mobile phones after accessing the micro-credits from the MWDA program and investing the loans into the businesses. All 100% of the respondents reported to buy household assets using the profits realized from the micro-credits and 40% of all respondents bought television sets for their households use. Kibas (2001) confirmed that micro-entrepreneurs who were borrowing loans could purchase fixed assets such as commercial plots, business premises and tools and equipment for production.

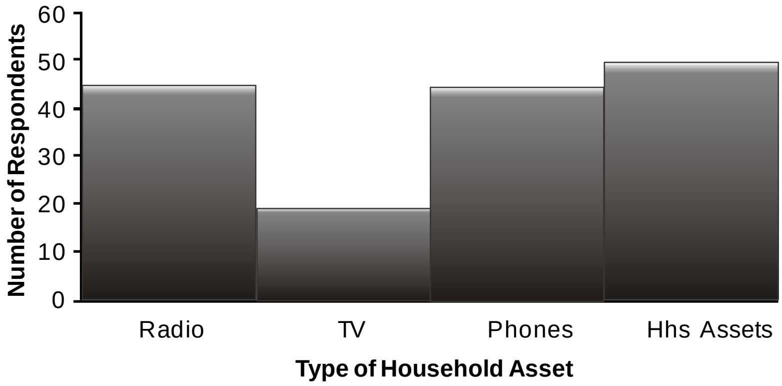

Figure 4.8: Acquired household Assets

Source: field Data (2010)

4.3.6 Households improvements

Improvement of households was another aspect which was discussed with respondents during the study as an indicator for the micro-enterprises growth. Respondents reported using the realized profits in supporting households’ improvements. 76% of respondents used the profits to expand their small houses by constructing more rooms to meet the demand of their expanding families. On the other hand 56% of the respondents used the profit to renovate and do other improvements to their houses whereas 62% installed electricity power to their houses to give room to their children to study for more hours during night as well as increase their business working time in the night. This fact is reinforced by the fact that 68% of the interviewed respondents operated their businesses at their homes.

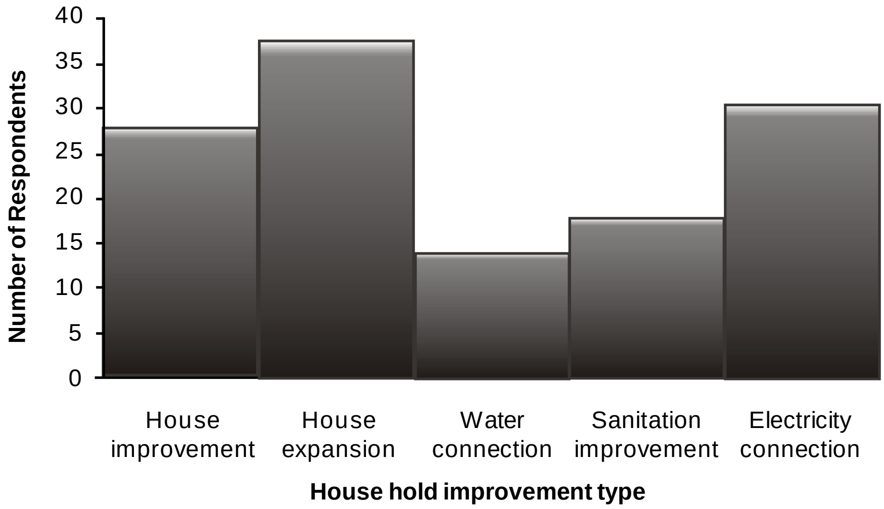

Figure 4.9:Households Improvements

Source: field Data (2010)

Micro-enterprises' employment status

Business growth can also be observed through the number of people employed by the micro-enterprise. From the findings of this study 82% of the respondents had no hired employees; whereas 14% of the respondents hired only one employee and only 4% hired 2 employees. From the findings it can be stated that the receiving micro-credit did not have a direct or immediate influence on increasing the number of people employed within the business. Employment has not been promoted within the micro-credit businesses showing that the contribution of the micro-credit in job creation and therefore poverty reduction was still minimal.

Constraints encountered by borrowers - Micro-enterprises

Micro-enterprises in Ukerewe district face various constraints during the course of their businesses. Respondents when asked to list types of constraints they normally face during their daily operations, they categorized constraints into three major groups, namely institutional related, business related and government policies related constraints respectively.

Institutional related constraints

From the findings 75% of the respondents felt that although group lending had a number of advantages, there were however, disadvantages as well. They pointed out that one of the major problems was when one of the group members failed to pay; the whole group becomes obliged to pay for the member. Failure to do so results in strict measures such as deduction of some amount of money from the group member's savings to cover for the defaulter's outstanding amount. In turn, this measure demoralizes the group members to a large extent and they expressed that this was a major setback to the micro-enterprises growth.

The respondents expressed that before receiving loans group members are normally friends, however, the moment they receive loans, some members start problems with repayments. Such incidences cause a lot of burden to the members because the group members have to pay for the defaulted member. Sometimes, group members could spend the whole day looking for the defaulter; but because irresponsible members know repayment meeting days, they disappear from their homes during such periods. Ledgerwood (1999) noted that while group lending may work to some people, but there are people who consider joint liability as a punishment when group members have to pay for delinquent members.

The expressions of group management were bitterly explained by the respondents and in other words it shows that one is penalized by being a credible client. Whenever, one shows up to a meeting with the repayment, then he/she has the task of paying and chasing untrustworthy and unreliable members of the group. Group lending works perfect to some people in other areas, but there are people who consider joint liability as a punishment when group members have to pay for unfaithful members. Some respondents gave cases where they had their businesses doing fine and they would like to make their repayments as fast as they could and secure another loan. But with MWDA procedure it is not possible. Borrowers have to wait for the other group members to finish up paying before one gets the next loan.

Weekly meetings were also mentioned as a problem, however, there were mixed feelings concerning holding meetings. Some respondents did not approve of weekly meetings because they felt that they took so long, they seem to be too many and were becoming a routine which they did not like. Surprisingly, there were also complaints from groups which held meetings in an interval of two weeks; some of them believed that delinquency is on the rise because two weeks was considered a long time for a small business owner to keep money in the house. At the same time some members thought if someone decides to default and run away from the area, two weeks is a long period of time to find out. Whereas, when a group is meeting weekly, the period is short and actions against problematic members are settled faster. Some members thought they were burdened by large weekly repayments due to the short loan term; this problem was presented especially with members who were taking big loans.

Respondents informed the researcher that despite that they were working with MWDA and accessing loans from the organization but they were not happy with the way loans are managed. The loan interest rate set at 25% per annum charged to the borrowers was said to be too big for most borrowers whose businesses were also small. Not only the charged interest rates but also the repayment period was also said to be too short for the borrowers. The two reasons make the micro-credit borrowers to work hard in order to pay back their loans and be able to take future loans. 10% felt that the provided loans were too small in terms of sizes to make their micro-enterprises and business grow at the expected pace.

Business-related constraints

Major constraints pertaining to micro-enterprises' businesses were customer - related complaints. This is possibly due to the nature of the businesses, which the respondents conducted; food business and food vendor, charcoal and shop keeping. Problems encountered included complaints from customers on quality of service, goods and quantity. For instance, the respondents who were in food vendor business claimed their customers wanted to be served with big portions of food with more meat or fish pieces for a small amount of money. The respondents allowed the largest part of their customers to buy from them on credit. Collecting money back from customers was a big problem according to the respondents, since customers do not pay at the agreed time. As a result, the respondents said there are a number of times they miss repayments because their customers have not paid back.

Seasonality of the market is another problem which faced the respondents. Charcoal making is best done during the dry season, whereas during the rainy season, availability of charcoal is a problem and wholesale prices go up. The roads to the charcoal areas are also bad and this adds to the problem of accessing charcoal from the woodlands. Respondents who were in the shop-keeping business claimed that during the cold season sales went far down, especially the cold drinks; it is impossible to make repayments if one is relying on one type of business only. In addition, respondents in the hair solon business declared that their market is at peak during the dry season, when it rains most of the customers are busy in their farms. The respondents cautioned that one has got to be extra careful in requesting loan by considering seasonality of the business for the requested loan amount must coincide with the business needs.

Government policies-related constraints

Regarding government policies, 80% of the respondents acknowledged that there was no government policy which affected them as micro-entrepreneurs. Although there were no policy effect on micro-enterprises, but the respondents complained that there were so many taxes demanded by the local government contractors from them. The micro-enterprise activities which are in the informal economic activities such as shops and salon were vulnerable to harassments by agents of local government. Such respondents complained that the tax collectors were estimating very high annual revenues from their small businesses; the estimate can be reduced by the officials after a micro-entrepreneur has paid some amount of money outside the official payment system of tax.

Respondents who dealt with food vending faced different challenges from local government officials and especially the health officers, popularly known as ***Bwana Afya.*** Respondents reported cases where health officers confiscated and spilled the foods prepared by the food vendors claiming that they were not prepared in a required hygiene condition or that the locations where they conducted businesses were not planned for food vending. The spilled or destroyed foods were prepared from the borrowed money where the respondents expected to raise revenue to pay back the loan but now ended in loss.

Recommendations to MWDA

MWDA is doing a wonderful job to the borrowers; however, it is recommended that they devise ways and strategies which would help to build the capacity of its borrowers on joint liability. Potential borrowers are pressured by the need for accessing loans and MWDA's requirements for a required number of group members. In this case group members are forced to bring unreliable potential members, who in the long run cause problems in the groups by not making timely repayments. Borrowers with big loans who are normally in the groups are a source of frustration to many small lenders. Whenever a group member with big loan amount misses a repayment, the groups' morale goes down because they cannot cope with the payment for a large loan amount. Members with big loans could be accommodated with individual loans and in this case they can have different loan repayments terms, and repayment schedules with longer repayment periods. In general, flexibility should be emphasized because from the study observations, MWDA's lending methodology is inflexible and the methodology does not accommodate a range of micro-enterprises needs and loan requirements.

The short grace period was seen as one of the major reason leading to members' dissatisfaction. MWDA could put in place grace periods that will help the borrowers invest the capital into their businesses, to produce, and eventually bring repayments from their profits. In the absence of a longer or sufficient grace period, the borrowers are forced to make repayments using the loan they receive and therefore reduce the capital they had expected to invest into their businesses and thus affect the whole business performance.

MWDA has to play an important role in reviewing its loan pricing, especially on interest rates. Bigger loan amounts could probably be charged with lower interest rates. Although the micro-finance sector intends to reduce poverty, they are therefore expected to be self-financed in the long run. This result in these two objectives clashing: financial sustainability and social objectives. The fact that the social objectives of reaching the poor has to go hand in hand with sustainability, raises a contradictory issue and a question in the role of the micro-finance arena as a whole. Outreach, sustainability, income and profits appear to influence structures and features that dominate the micro-finance industry. Analysts remark that the institutions' main goals in achieving financial sustainability is reached through the expense of the borrowers by charging high interest rates and by taking advantage of the vulnerable conditions of the poor (Elahi and Danopoulos, 2004).

MWDA should also be more flexible with fortnight and monthly meeting requirements, especially for members with large loans. In this case, members with larger loans will be relieved from making many but very small repayments after every two weeks. The organization could come up with more flexible and initial loan sizes to suit borrowers' needs. For instance, initial individual loan size of TZS 100, 000 for the micro-enterprise, was considered too small to help micro-credit borrowers' growth. Despite the fact that loan repayment periods are set in collaboration with micro-credit borrowers, MWDA should advise the borrowers accordingly to make sure the repayment periods correspond to the amount of the loan taken. Borrowers whose loans are small can make their repayments at a shorter but agreed period whereas borrowers with large loans can make their repayments at longer period respectively.

Training helps small business owners, managers and potential entrepreneurs to meet the challenges of today's business environment. This would be achievable because it is argued that in order to effectively pursue growth strategies an entrepreneur requires business and marketing skills to improve management and marketing efficiencies (Kessy, Fisher, 1998). Further skills obtained in training are an asset that can help to overcome uncertainty in decision making and open new avenues for opportunities.

There is a strong need for MWDA to consider training as one of its primary goals. MWDA should review their training curriculum after a certain period of time to make sure it complies with the current changes in micro-credit field. The program would also makes sure that all micro-credit borrowers receive pre-award training before accessing

Recommendations to Policy Makers

Political stability and micro-economic policies are likewise important for the micro-finance sector to progress and meet people's needs, and to improve standards of living. The local councils are recommended to create a favorable working environment for the micro-enterprises which are accessible and near the market. There is a tendency for local governments to allocate remote areas for micro-enterprises that are not conducive for the markets for their products and that are very far from the targeted markets.

The government should continue to provide support in the form of reliable, affordable loans to micro-enterprises that are left out by NGOs.

Recommendations to the Micro-credit borrowers

The study strongly recommends that micro-credit borrowers who want to see the benefits from the loans they borrow to stick to the agreed loan uses and make sure that all the borrowed money is used for the proposed activities only, failure to observe this will see the poor borrowers getting into more serious problems rather than advancing business enterprises from the accessed micro-credit facility.

Micro-enterprises are advised to invest all the loans into the intended or planned activities. The realized profit is the only part of the money which is supposed to be used to pay back the loan as well as to buy other necessities without deducting the business

Future Research

It is important to note that socio-cultural background, the study locations and the methodology used in the study may have an influence on the findings of this study. The findings within a single entity such as Ukerewe district alone and within a limited period of time, could be misleading. However, it is still possible to draw general conclusions from the present study on the contribution of micro-finance on the growth of micro-enterprises. Further, research could provide the above considerations more information to analyze and may offer other information about micro-enterprises' participation in micro-finance programs.

Giving micro-credit borrowers the opportunity to form and work together in groups, while institutions are minimizing costs is a strategy that micro-finance organizations have designed. Groups have given low-income micro-credit borrowers who have no collateral an opportunity to borrow. There is a need to study the joint-liability of groups and reveal the efficiencies and performances of such groups. For example in this study, constraints pertaining to group responsibilities occurred when incorporating members who had relatively big loan sizes with members who had small loans.

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COLLATERAL OWNERSHIP AND WOMEN'S PARTICIPATION IN INFORMAL FINANCE SCHEMES

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Abstract

The literature on informal finance provides ample evidence on the importance of informal financial intermediaries for women. Our study extends research in this area by exploring how gender-asset-ownership is related to women's participation in informal finance schemes. Using a random sample of 250 women from Puebla, Mexico, our probit model estimates revealed that younger women with intermediate level of education are more likely to access the informal finance sector. Model estimates also suggest that women who own businesses are more likely to use informal finance. Finally, women are more likely to resort to these schemes when their husbands/partner own assets, but not when they own the assets themselves.

1. Women and informal sector

In both developed and developing countries, among the poor, perhaps the most vulnerable are women (Buviniæ, 1997) since they also have to bear the cost of social tasks like childcare that are unilaterally imposed on them (Zuñiga, 2004; Instituto de la Mujer, 2005). In 2001, the World Bank (Mason & King, 2001) had highlighted the need for reforming institutions to guarantee the same rights and opportunities, as well as promoting women's economic and political participation. A decade later, women still face many barriers in the labor market and to access other services (United Nations, 2009) exacerbating gender inequalities.

Women have lower labor force participation but represent at least 60% of informal employment (ILO, 2002). Informal employment is composed of two types of workers: (a) self-employed workers in informal enterprises and (b) individuals that work in formal or informal family enterprises without work contracts (Hussmanns, 2004). In developing countries participation of women in some sectors of the informal economy reaches 30% and among street vendors and home-based-workers is about 90% (ILO, 2002). During the second quarter of 2009, official Mexican labor statistics (Instituto Nacional de Estadística y Geografía [INEGI], 2009) reported that employment rate in the informal economy accounted for 28.12% of the employed population. At the national level, women show a higher employment rate in the informal sector than men (29.18% vs. 27.49%).

Because of women's predominant role in the informal economy, the decision to carry out informal activities cannot be separated from gender (Valenzuela, 2005). In fact, men tend to fall into the category of informal employers with higher incomes, while at lower levels, related to low skilled and lower revenues, a concentration of female labor participation is observed (Chen, 2007).

1.1 Characteristics of women and informal sector

There are several factors that motivate women to join the informal economy; the most important are related to their educational level, economic and marital status, age and other family issues (such as childcare).

Education

Education increases human capital that in turn leads to a greater productivity and higher income (Becker, 1964; Psacharopoulos, 1975). However, investment in education may be lower for women because of either discrimination (Becker, 1971), or gender differences in education returns (Emerson & Portela, 2002) but also due to cultural or religious reasons (Alí Khan & Alí, 2005a, 2005b).

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Household economic situation

During periods of economic downturns, household's lower income may be compensated through an increase in female labor supply (Pollak, 1990).

Marital status

The literature does not determine a unique relationship between marital status and the decision to join the informal sector. Previous research suggests that marriage increases the likelihood (for women) to be self-employed (Carr, 1996; Taniguchi, 2002; Budig, 2006); this is because women may be more likely to be engaged in the same activity as the spouse (Greene, 2000).

Socio-cultural factors also play a role in decision-making. Because of power relations within marriage, the husband can encourage his wife to be engaged in informal activities without jeopardizing his status as the household head and retaining his role in society as the family's primary breadwinner (Baca, 2006).

Age

In developing countries increased life expectancy coupled with the lack of effective protection schemes require the elderly, particularly women, to continue working (ILO, 2008). Duryea et al. (2006) in a study of 18 countries in Latin America and the Caribbean found that women between 46 and 59 years of age have the highest participation in informal self-employment because of fewer responsibilities at home.

Family issues

Mothers stay at home when children are younger than 1 year old, but as soon as they grow up - 1 to 5 years old - women tend to reconcile their activities between their family and informal work, giving priority to the former over the latter (Gallaway & Bernasek, 2002). In general, young women when having children show a greater likelihood of working in the informal sector, possibly because of flexible work hours and the consequent compatibility with childcare responsibilities (Gallaway & Bernasek, 2002; Budig, 2006). A study by Miriam Bruhn (2009) found that female entrepreneurs are 50% more likely than their male counterparts to face childcare and other household obligations as an obstacle to firm operation and growth. This study also found that, female entrepreneurs are "two to three times more likely than men to operate a business from inside their home" (Bruhn, 2009:3).

The literature supports the advantages related to the establishment of microenterprises (MEs) such as job and income generation, pointing out their role as a safety net for the poorest, and as a mechanism that promotes gender equity and empowerment (Martin et al., 1999; Morduch, 1999). This is because the motivations behind the creation of an ME focus on pursuing higher incomes or to complement family income or looking for economic independence (De Ferranti et al., 2002).

Informal MEs resort mainly to financing sources such as accumulated savings, loans from relatives/ friends, and relying on informal financial markets (Selvavinayagam, 1995; Woodruff, 2001; Berensmann et al., 2002; Isaksson, 2002) that have a negative impact on their growth (Evans & Jovanovich, 1989; Rhyne & Holt, 1994; Hernandez-Trillo et al., 2005; Atieno, 2009). A 2003 study of small and medium enterprises (SMEs) in Mexico (Observatorio PyME en México, 2005) reported that 65% of SMEs were family run businesses. This study also found that only 13% reported having applied for a bank loan and the lack of information associated with government financial supports as well as its use was striking: only 12.65% of SMEs knew about them and just 1.8% applied for these funds. Therefore, access to credit can allow many SMEs to improve their productivity as well as revenues (Holt & Ribe, 1991).

2. Women's participation in formal credit markets

According to a recent report by the United Nations (2006:23-31), access to formal financial services is limited due to several factors ranging from cultural norms to the lack of financial literacy. Previous studies have pointed out that formal credit access has traditionally been limited for women (Lycette & White, 1989; Van Staveren, 2002). Recent evidence from Latin American countries shows that women receive less credit than men (Tejerina & Westley, 2007; Fletschner, 2009).

Women's lower access to and use of financial services is primarily associated with economic criteria (Morris & Meyer, 1993) and the presence of gender-biased transaction costs (Baden, 1996). From a broader perspective, reduced participation in credit markets is due to both demand and supply constraints (Lycette & White, 1989; Zuñiga, 2004). The most common demand-side constraint consist of: (i) collateral requirements; (ii) transaction costs; (iii) limited education and familiarity with loan procedures; (iv) low levels of financial literacy do not match with the complexity of formal financial products and do not allow people to perceive related benefits; (v) social and cultural barriers; and (vi) the nature of women's businesses. These factors constitute barriers that prevent women from having access to resources, encouraging them to resort to informal financial intermediaries such as moneylenders, landlords, relatives/friends, and rotating credit and savings associations, among others.

The informal financial sector, because of its greater flexibility, is much more accessible to women because, unlike its formal counterpart: (i) accepts a wider range of collateral and sometimes the reputation of the borrower replaces the traditional financial and/ or physical collateral (Van Bastelaer, 2000; Dercon & De Weerdt, 2006); (ii) due to proximity to its clientele, has reduced transaction costs and time required to obtain funds; (iii) has simple transactions that often make paperwork unnecessary (Chamoux, 1993); (iv) offers unsophisticated financial products that do not require a deep knowledge of financial literacy.

From the supply point of view, financial intermediaries belonging to the formal sector may consider the market to be unattractive, refusing to provide the resources, because: (i) of higher lending cost (formal intermediaries may not have incentive to lend small amounts because the administrative costs associated with extending credit can bring down the rate of return); (ii) repayment rates may not be high enough according to business activities where resources would be invested; (iii) some areas may not be serviced due to low population density or low income levels.

According to the literature, even though demand side constraints seem to be more tight than supply ones (Bebczuk, 2008), in Mexico the coverage of the formal sector is unevenly distributed because 96% of rural towns (<5,000 people) do not have a branch (95% without ATM), while only 2% of cities (between 300,000 and 1,000,000 people) are without a branch or ATM (Comisión Nacional Bancaria y de Valores [CNBV], 2009).

However, proximity of formal financial intermediaries does not guarantee access to funds because of other obstacles.

2.1 Credit rationing: women and collateral

One of the most important barriers to access credit is credit rationing that has been extensively analyzed in the literature as a consequence of agency problems (Stiglitz & Weiss, 1981). Adverse selection appears when the lender ignores the borrower's default risk, while moral hazard (the debtor might not repay the debt, regardless of being able to do so) arises after the loan has been granted (Jaffee & Russell, 1976). As an attempt to reduce asymmetric information, lenders can monitor borrowers by acquiring information about the project to be financed or calling for collaterals (Bester, 1985; Besanko & Thakor, 1987; Manove, Padilla, & Pagano, 2001). However, credit rationing persists because monitoring is costly (Williamson, 1987) and collateral is often required to mitigate the asymmetric information problem.

The collateral secures the debt when it is valuable for both parties involved in the contract, when the lender can take possession of the security without incurring high transaction costs according to the legal framework (Fleisig, 1995) and when its value does not diminish with use. Because the collateral's value often surpasses the loan (Picker, 1992), it is easier to recover a secured debt than an unsecured one.

In Latin America, as well as in most developing countries, collaterals accepted by the formal financial sector are almost exclusively real estate (Inter-American Development Bank, 2004). Because women often hold their personal wealth in form of moveable assets like jewelry (Baden, 1996), but lack properties or financial collaterals, (United Nations, 2006) they are frequently credit rationed.

2.2 Social capital and self-organization

Due to the poor access and low use of formal financial services, households and producers, mainly in rural areas but also in urban areas, have successfully self-organized through collective or communal social capital. These self-help organizations constitute an avenue to access resources that otherwise members would not be obtaining (Lieberman, 1979). This allows them to lower poverty, and improve their living standards (Woolcock, 1998; Karmakar, 1999; de Janvry & Sadoulet, 2000).

A comprehensive review of these organizations has been provided by Robinson (2001), and their most important feature is the high participation and women and ability to promote women's empowerment. This is because credit may lessen gender inequality by creating a positive impact on a woman's identity, her self-esteem, and economic independence (Zuñiga, 2004). However, a different approach argues that empowerment is not a natural consequence of microfinance institutions (Rankin, 2002; Kabeer, 2008; United Nations, 2009), because these schemes cannot guarantee a far-reaching inclusion due to the inherent limitations of social capital. Furthermore, in some cases funds raised by women through their membership were managed by husbands/partners according to their own needs, sometimes under threat (Goetz & Gupta, 1996).

2.3 Household's wealth management

The above circumstances acknowledge that a household's resources may be managed according different schemes that, at best, are the result of a negotiation process. Unfortunately, there is an implicit (positive) relationship between being the household's breadwinner and the power in the household itself that often reveals a bias in favor of men (Pahl, 1995).

Even thought household members can receive important benefits (health and education among others) when women have some control over household resources (Pitt, et al., 2003), there is evidence that customs and rules deeply rooted in the society still incentivize males' assets possession, but leave females vulnerable. Despite the existence of a formal legislative framework that increasingly favors women, laws are not promptly transformed into property rights. Accordingly, Deere and Doss (2006) analyze how legal marital regimes and inheritance regimes can prevent women from owning assets in Latin America and Africa.

Thus, because women lack collateral the consequent limit to access credit markets is one of the most important factors that promote resorting to informal financing mechanisms. From a female perspective, when the husband/partner has any assets that could serve as a collateral it might relax the woman's credit constraint, reducing having to rely on informal financial intermediaries. Based on the foregoing, the hypothesis of this paper posits that female asset ownership reduces the likelihood of participating in informal financial mechanisms; however when the husband/partner is the one who has the property title her participation increases. That is, the women's participation in informal financing schemes is related to gender asset possession variables.

3. Methodology

3.1 Municipality of Puebla

The city of Puebla, the capital of the state of Puebla, is located 120km south of Mexico City and with approximately 1.5 million people is one of the five largest cities in Mexico. In the city of Puebla, women constitute 52.2% of population (INEGI, 2005). Although the state of Puebla has low educational levels, in the municipality of Puebla adult women reached 9.68 years of schooling (7.16 years for average women in the state) but they still have a lag compared to men (10.35 years of education in the municipality, 7.73 in the state). In particular, out of about 41 thousand illiterate people in the municipality, 69.89% are women and based on the number of people lacking basic education (27.2% of the total population) sex-disaggregated data indicates that women constitute the majority (56.2%).

According to the National Survey of Occupation and Employment for the fourth quarter of 2008 (INEGI, 2008), 42.9% of women and 75.1% of men were economically active in the municipality. The percentage of women working without receiving any payment is almost three times higher than men (9.5% vs. 3.5%). Similarly, female employers (1.6%) are a third of male employers (5.3%).

3.2 Sample

We constructed a questionnaire with 55 closed and multiple choice questions that was administered to a random sample of 250 women between March and June of 2009.

The questionnaire provided information about household socio-economic variables (composition, income and savings), women's and husband/partner's assets, formal and informal financial institutions they relied to as well as the characteristics of the institutions they had participated into.

3.2.1 Descriptive statistics

Out of the total sample, 39.6% of women are housewives, 23.2% are lawfully employed, 15.2% are informally employed, and just 10% run a business. Almost four out of ten women surveyed (36.8%) are in charge of their household (female headed household); although income is generally low with 50% of all households and 76% of women earning less than 4,500 MXN monthly (1 United States Dollar = 13.30 MXN - Mexican Pesos at the time of the survey).

Only 30% of women have some property title; house being the most common title (64.1%), followed by the car (17.4%), and land (14.1%). Husbands/ partners have a higher propensity to hold property titles (36.7%) primarily consisting of housing (47.4%), car (34.6%), and land (12.8%).

Women tend to resort to loans from relatives (62.4%), rotating savings and credit associations – ROSCAs – (11.6%) and friends (11.2%). Formal financial markets are seldom used, only 7.6% of the sample relies to formal financial institution when looking for a loan. Accordingly, 43.2% of the sample participated at least once in a savings group and/or informal credit association; 27.6% participated in a ROSCA, 14.8% in informal savings bank, and 7.2% in savings groups.

3.3 The model

To test our hypothesis we estimated a probit model with robust standard errors. The dependent variable is *inf_finance_exp* that takes value of 1 if the woman currently belongs or she has belonged in the 6 months prior to the survey, to at least one informal credit and/or savings mechanism (ROSCAs, savings group, or informal savings bank) and 0 if she has no informal finance experience.

The independent variables included in the model consist of women's characteristics, household composition, and proxies for socioeconomic status. Also, variables related to the possession of assets – according to the owner's gender – and obstacles for accessing formal financial markets were considered.

Characteristics of women

The continuous variable *age* represents woman's age and her educational level is introduced into the model through the dichotomous variable *primary* that takes value of 1, if she has primary education level, and 0 otherwise. Similarly, we defined *secondary* (secondary school) and *high* (high school); the base category having bachelor education or above (*bachelor_or_above*). In order to include woman's main activity the *entrepreneur* dummy variable takes value of 1 when she owns a business and 0 otherwise; *unemployed* and *housewife* dummy variables are similarly defined in case she is unemployed or takes care of the household.

Woman monthly income in MXN is represented through the continuous variable *w_income* (*w_incomesqr* is the square) whereas *w_savings* continuous variable indicates her monthly savings amount (*w_savingssqr* is the square).

Household Characteristics

The discrete variable *members* stands for the number of people residing in the household and *children* the number of children who live there. When the woman is the household's head the dichotomous variable *fem_hhhold* takes the value 1 and 0 otherwise. To take into account the strength of the social relationship that may have been built along the time with the neighborhood, the dichotomous variable *time* takes the value 1 when the woman has lived less than 15 years in the colony and 0 if she lived more than 15 years.

The total household monthly income (in MXN) is included in the model through the continuous variable *h_income; h_incomesqr* is its square.

Assets ownership

In order to take into account assets ownership according to the owner's gender, the dichotomous variable *w_collateral* takes the value of 1 when the woman has at least a property title in her name, 0 if she has none. Similarly, we defined the dichotomous variable *m_collateral* referring to property titles owned by women's husband/partner. *W_land* (*m_land*) and *w_house* (*m_house*) variables indicate whether a specific property title (land or house) is in the woman's name (husband/partner's name). Due to the lack of variability for other properties, we could not consider whether the woman or husband/partner owned a shop or a car.

Access to formal financial markets

The woman's access to the formal financial market is measured by the dichotomous variable *bank* that takes the value 1 when resorting to formal financial intermediary is the first option when looking for a loan and 0 otherwise. When a woman believes that interest rates charged are an obstacle to access formal credit market, the dichotomous variable *obst_int_rate* takes the value of 1 and 0 otherwise; similarly, *obst_requirements* takes the value 1 when she considers that requirements posed by formal intermediaries prevent accessing formal credit market, and 0 otherwise.

Finally, to measure whether the woman has been credit rationed, the continuous variable *rationed* assesses the difference between the monetary amount requested (*loan_amount_req*) and granted (*loan_amount_grant*) in the last 6 months.

In table 1 four different models estimates have been reported. The coefficients stand for the marginal changes in probability (dF/dx) for a woman to have some experience in informal financing mechanisms. These models break down the assets held by the woman and her husband/partner, according to the credit rationing and its components as well. We detected very small differences in estimates for each model specification and significant variables are consistently the same ones along all four models; also, the percentage of correct classification of the dependent variable is approximately 74% in all cases.

4. Discussion

According to estimates, woman's participation in informal savings schemes decreases with age; so, it is more likely to be a member of an informal scheme when being relatively young. This may be because younger people tend to be more adaptable and a greater openness towards other people. Women who have intermediate education (secondary and high) are more likely to engage in informal financing schemes than those whose have bachelor's degree or higher education. According to estimates, because marginal changes in probability are particularly high, education would be an important determinant of women's participation.

Women who own a business show a higher likelihood to participate in informal finance despite being a small fraction of the sample (10%); however, although a positive coefficient was estimated, being unemployed or staying in the household (*housewife*) are not significant.

Neither woman's monthly income nor saving is associated with her participation in informal financial schemes. The same applies to the number of members and children at home. However, we estimated that household total monthly income has an inverted "U" shape relationship; accordingly, the probability of belonging to such schemes increases at low income levels but falls in correspondence to higher incomes. This behavior highlights the usefulness of these methods for women residing in low-income households, but when the income restriction is relaxed they turn to be less useful probably because other financial intermediaries may be available.

When a woman has some collateral (*w_collateral*) a lower likelihood of participating between 18.8% and 19.2% is observed. For women the most important collateral in reducing the probability to resort to informal finance is the house, but not land (*w_land* is not significant). When the husband/partner is the one who owns a collateral the likelihood of women's participation in informal financing scheme increases by about 23%. In this case, owning land (*m_land*), but not real estate (*m_house*), would significantly promote women's participation (+50%). Thus, while women's property title to any assets (especially for the house) reduces women's labor participation in informal schemes, the opposite happens when assets are officially men's properties (especially land). Even thought in the former case women who own real estate may not need to get involved in informal finance due to their higher wealth; in the latter, men might not want to risk *their* assets for her. This situation, considering the Mexican idiosyncrasy and the establishment of social roles in the family (Cunningham, 2001), leaves open the possibility that financial relations do not seem to be very symmetric between genders in the household.

When relying on formal financial intermediaries (mainly commercial banks) for loans is considered a viable option for women, the probability of participating in informal financial schemes falls significantly between 37.7% and 40%, depending on model specifications. Thus, according to results, the informal financial sector would be the second best option when women do not consider the formal counterpart as a feasible alternative to get funds. In this regard, from women's standpoint, obstacles perceived as brought by the formal sector in terms of high interest rates and paperwork for obtaining credit are positively associated with a higher likelihood of participating in informal schemes.

As expected, women who have been rationed (*rationed*) are more likely to have experience in informal finance mechanisms (1.72% per every 100 MXN rationing), this variable, determined as the difference between the amount required (*loan_amount_req*) and granted (*loan_amount_grant*) is significant at 10%. When replacing the variable *rationed* by its components, we found that higher participation likelihood is associated to the amount the women needed but it decreases according to the granted credit. This indicates that women who need credit have an incentive to participate in informal financial schemes but those who get the funds do not need to do so.

Conclusions

Our results confirm some previous research on the role of informal financial intermediaries but, above all, they also shed light over some important aspects related to asset ownership within the household.

According to the literature, women rely on informal financial intermediaries because they represent an avenue to save and obtain credit when perceiving that accessing formal financial sector entails cumbersome paperwork and incurring in high interest rates. In comparison, informal financial schemes do not entail complex loans procedures or high transaction costs. In the same vein, when the total loan amount cannot be obtained, women are more prone to resort to informal financial schemes that might serve as an alternative source of funds. However, the most important finding of the paper consists of the relationship between assets ownership according to gender and the incentives of joining informal financial schemes.

Our results support that women rely less on informal financial schemes when having property titles under their names but, the opposite occurs when men do. Although these findings are related to certain specific assets (house for women and land for men), they also raise some questions about the often assumed mutual support that should exist in a marriage/ partnership. In fact, if it would be so, then no difference should be found according to collateral ownership. This situation casts some doubts not only on the husbands/ partners' support for women but especially on the reasons behind such – at least suggested – selfishness, that could have social and/or cultural roots.

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Table 1 - Model estimations

Inf_finance_exp = 1	dF/dx	Robust Std. Err		dF/dx	Robust Std. Err		dF/dx	Robust Std. Err		dF/dx	Robust Std. Err	
Age	-0.007	0.005	*	-0.007	0.005		-0.008	0.005	*	-0.008	0.005	*
Primary	0.196	0.147		0.180	0.150		0.244	0.148		0.227	0.151	
Secondary	0.267	0.121	**	0.258	0.122	**	0.303	0.119	**	0.294	0.120	**
High	0.176	0.104	*	0.164	0.105		0.215	0.103	**	0.202	0.104	*
Entreprenueur	0.490	0.078	***	0.485	0.079	***	0.475	0.081	***	0.469	0.083	***
Unemployed	0.244	0.173		0.247	0.174		0.240	0.187		0.244	0.188	
Housewife	0.142	0.095		0.140	0.095		0.105	0.096		0.103	0.096	
W_income	4.51E-05	3.40E-05		4.10E-05	3.40E-05		3.78E-05	3.26E-05		3.43E-05	3.35E-05	
W_incomesqr	6.77E-10	2.60E-09		1.43E-09	2.67E-09		1.38E-09	2.24E-09		2.12E-09	2.43E-09	
W_savings	4.94E-05	2.02E-04		6.51E-05	2.04E-04		3.91E-05	2.00E-04		5.72E-05	2.02E-04	
W_savingssqr	-2.37E-08	9.17E-08		-3.24E-08	9.37E-08		-2.63E-08	9.10E-08		-3.69E-08	9.33E-08	
Members	0.007	0.018		0.006	0.018		-0.004	0.019		-0.004	0.019	
Children	0.050	0.038		0.053	0.039		0.059	0.039		0.061	0.040	
Fem_hhhold	0.078	0.088		0.083	0.089		0.026	0.086		0.032	0.086	
Time	0.122	0.083		0.120	0.084		0.094	0.083		0.093	0.084	
H_income	7.30E-05	3.39E-05	**	7.96E-05	3.52E-05	**	7.67E-05	3.17E-05	**	8.35E-05	3.41E-05	**
H_incomesqr	-3.90E-09	2.01E-09	*	-4.37E-09	2.12E-09	**	-4.06E-09	1.70E-09	**	-4.55E-09	1.92E-09	**
W_collateral	-0.192	0.081	**	-0.188	0.081	**						
W_land							0.052	0.153		0.037	0.153	
W_house							-0.167	0.087	*	-0.163	0.088	*
M_collateral	0.230	0.099	**	0.226	0.100	**						
M_land							0.497	0.105	**	0.499	0.104	**
M_house							0.059	0.125		0.053	0.126	
Bank	-0.377	0.084	***	-0.381	0.083	***	-0.396	0.070	***	-0.400	0.068	***
Obst_int_rate	0.190	0.091	**	0.192	0.091	**	0.177	0.090	*	0.181	0.091	**
Obst_requirements	0.228	0.088	**	0.230	0.088	**	0.229	0.089	**	0.230	0.090	**
Rationed	1.72E-04	9.31E-05	*				1.59E-04	9.16E-05	*			
Loan_amount_req				1.75E-04	9.26E-05	*				1.62E-04	9.13E-05	*
Loan_amount_grant				-1.77E-04	9.27E-05	*				-1.63E-04	9.13E-05	*
	N = 250			N = 250			N = 250			N = 250		
	Wald chi2(23) = 59.13***			Wald chi2(24) = 58.87***			Wald chi2(25) = 70.99***			Wald chi2(26) = 70.60***		
	Pseudo R2 = 0.2303			Pseudo R2 = 0.2333			Pseudo R2 = 0.2395			Pseudo R2 = 0.2430		
	Logpseudolikelihood = -131.602			Logpseudolikelihood = -131.079			Logpseudolikelihood = -130.026			Logpseudolikelihood = -129.415		
	Correctly classified: 74.40%			Correctly classified: 74.00%			Correctly classified: 73.20%			Correctly classified: 73.60%		
*** p < 0.01; ** p < 0.05; * p < 0.1												

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A REVIEW OF ETHIOPIAN MICRO FINANCE INSTITUTIONS AND THEIR ROLE IN POVERTY REDUCTION: A CASE STUDY ON AMHARA CREDIT AND SAVING INSTITUTION (ACSI)

*** M.Venkata Ramanaiah, ** C. Mangala Gowri**

Abstract

In recent times the term 'Microfinance' (MF) became a buzz word in the every corner of the world as well as in the formulation of welfare programs by government. After hearing success stories in microfinance across the developing countries, particularly Bangladesh, third world nations started to give more importance to MFs. Since, banks have failed to reach the poorest of the poor of the countries population; microfinance emerged as a potential tool to fill the gap between financial institutions and needy people. Ethiopia, as a least developed country (LDC), needs huge financial recourses for rapid and sustainable development and reduce gap between haves and have-nots. Though we are in 21st century where science and technology plays a vital role in the pace of development, many countries across the Africa suffered from hunger, ill health, mass poverty and illiteracy. To curb all these awful conditions, there is a need of massive financial recourses. Private Banks and Government sector banks have many limitations in this concern. Mainly, these banks have high profit motives and they used to put many restrictions to sanctions loans to the poor. In this juncture, Microfinance is said to be an effective instrument discovered in 21st century to mitigate rural poverty in the world. Microfinance helps the poor to come out from many wicked problems. The beauty of the MF is in safeguarding a variety of interests of its members. In this paper an earnest attempt is made to review of the need of Micro Financial Institutions (MFIs), the role of MFIs in alleviation of poverty in the country and how woman can get assistance from these institutions with a special reference to ACSI.

1.1 Research problem

Even though, micro finance is said to be an effective tool to mitigate several social and economical problems of rural mass, still there is a huge gap to bridge between the targeted objectives and reality. There is a need to study how micro finance institutions are functioning in Ethiopia towards eradication of poverty and evaluating their performance. And, it is also believed that these findings will be helpful to policy makers for better decisions.

1.2 Objectives of the study

The *general objective* of the present study is to analyze the role of microfinance institutions in connection to eradication of poverty in Ethiopia. Further, there are some specific objectives of the study which are exhibited below:

To identify the severity of the poverty in Ethiopia

The sketch out the present scenario of micro finance institutions in Ethiopia

To establish a link between woman, micro finance and poverty, and

To find out the challenges attributed towards the performance of micro finance institutions and to give some possible recommendations.

1.3 Source of data

The present study is purely based on secondary data. The data is collected from books on the subject, various referred journals and official reports of the organizations including NGOs. Further, necessary data is collected from official websites.

2.1 Poverty in Ethiopia

Ethiopia is one of the poorest countries in the world, with an annual per capita income of US$170. The United Nations Development Programme's Human Development Report for 2007-2008 ranked Ethiopia as 169th out of 177 countries on the Human Development Index. The average life expectancy after birth is only 48 years. Infant and maternal mortality and child malnutrition rates are among the highest in the world. While access to education has increased in recent years, the overall adult literacy rate is low compared to the sub-Saharan African standards. Only

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about 30 per cent of the population has access to potable drinking water and about 80 per cent have no access to improved sanitation. About 47 per cent of children under the age of five are underweight and over 12 million people are currently chronically or transitorily food-insecure. HIV/AIDS constitutes a major threat to sustained economic growth, with about 6 per cent of adults estimated to be HIV-positive. Combined with malaria, the pandemic poses a serious challenge to achieving the MDGs.

Roughly 44 per cent of the population lives below the national poverty line. However, there are marked differences between rural and urban areas. Most rural households live on a daily per capita income of less than US$0.50. Generally, rural households have less access to most essential services. According to the latest Poverty Assessment, overall progress in reducing poverty since 1992 falls short of what is required to meet MDG1 by 2015 as a result of high variability in agricultural GDP and rapid population growth. Most rural households are finding it increasingly difficult to survive without recourse to seasonal or permanent urban migration in search of wage employment.

2.2 Microfinance in Ethiopia

Formally, microfinance is started in Ethiopia in 1994. In Particular, the licensing and supervision of Institution proclamation of the government encouraged the Spread of Institutions (MFIs) in both rural and Urban areas as it authorized them among other things, to legally Accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the Micro financing business. Currently, there are 29 licensed MFIs reaching about 2.2 million active borrowers with an outstanding loan portfolio of approximately 4.6 billion birr. Considering the potential demand, particularly in rural areas, this satisfies only an insignificant proportion.

2.3 Micro-finance as an Anti-poverty Strategy

The recent definition of poverty by the World Bank extended the conceptual dimension beyond the conventionally held ideas of permanent income/ consumption and social income (basic needs) to a more comprehensive notion of lack of income/assets, sense of voiceless-ness and vulnerability to external shocks. Thus the anti-poverty strategies not only need to create income-earning opportunities, but also must ensure empowerment of the poor in the sphere of state/social institutions, and security against variety of shocks. Micro-finance is believed to be one important entry point to addressing many of them. But services are limited in some urban areas, neglecting the majority of the poor.

In Ethiopia, for example, the Development Bank of Ethiopia and the Commercial Bank of Ethiopia, respectively having 5 and 33 branches, provide virtually no access to the rural population since they all are located in urban and semi-urban towns. Also, private banks, though growing in number, do not engage themselves in this activity. According to an earlier study, in rural Ethiopia as a whole, less than 1% of the population has access to this source. Consequently, accessing credit for small scale and informal operators continues to pose a major constraint to growth of the sector.

The alternative is the "*informal*" financial sector, mainly the individual moneylenders. In this case, borrowers are required to provide guarantors and the interest rate is extremely high, varying from 50% to 120% per annum (SIDA, 2001). Recent IFAD study estimated that the *Arata* interest can go as high as 400% in some instances. And this exploitative interest rate of the informal sector diminishes potential return to factors of production, and is a constraint to diversify economic activities of the rural sector.

The Federal Government of Ethiopia has taken several economic reform measures to address poverty in its every aspect. Thus, while trying to fulfill the basic needs of the population, it also embarks upon economic reform measures conducive for free market competition and *employment creation* which includes the promotion of policies that will encourage savings, private investment, increasing income earning opportunities and promotion of small-scale industries in the informal sector among others. The five-year development program document emphasizes, among others, credit as a means to increase smallholder production (EPRDF, 1992 EC: 62). Financial markets are considered by the Regional Government as a good *entry point* in achieving food security objectives as this will allow rural households in both food secure and insecure areas to explore their "comparative advantages" in the market place and to create possibilities for exchange between factor markets (AEMFI, 2000a:9). Thus, in addition to promoting provision of credit through government channels, the program encourages micro-finance institutions to provide their services of credit provision and savings mobilization. However, even if policies aimed at changing the regulatory environment were expected to pave the way for increased flows of resources to the rural and informal sectors, micro financial services are very inadequate still.

2.4 Woman, Microfinance and Poverty

There is an argument that, due to a number of factors (including rapid population growth and population pressure on land, dislocation and separation of households due to war, famine, resettlement, etc), there is increasing tendency towards diversification and engagement of rural people in *off-farm* activities much of which is "compulsive" and survival-oriented (IFAD 2001:7). Within this process, women are considered to be the most active participants. Rural women's increasing engagement in off-farm activities is one of the factors, which is likely to put a dynamic pressure on the traditional gender division of labour.

Thus, since the 1980s, a number of projects have been initiated in rural Ethiopia (including micro-financing and saving and credit projects). Most of these schemes target women and are intended to expand income earning opportunities in traditional or new areas of women's off-farm activities to alleviate poverty and economically empower women. The impact of these programmes on rural women's lives is not known.

Generally, empowerment as a development strategy approach for women involves two levels: *intrinsic* and *extrinsic*. The extrinsic level refers to gaining greater *access* and *control* over resources. On the other hand, the intrinsic level involves *changes from within*, such as the rise in *self-confidence*, *consciousness* and *motivation*. It recognizes women's triple roles and seeks to meet strategic gender needs through bottom-up participation on resources and development issues that concern the life of women.

Credit and saving programmes in particular are geared towards the promotion of off-farm activities by rural women. These programmes are implicitly or explicitly based on the *assumption* that rural women are conversant with non-farm income generating activities, have sufficient time and labour to expand traditional, or start new, income generating activities. As suggested above, one of the important issues relevant for gender-focused policy interventions is the question of how rural women manage to actively engage in off-farm activities on top of their demanding roles in agricultural production and domestic labour. Here lays the appropriate channel to identify the potentials and constraints that rural women face concerning gender focused rural intervention, especially those relating to saving and credit schemes. There are real practical problems in this regard.

3.1. Trends in Microfinance

Out of 29 registered MFIs across the country 14 MFIs are very active in their activities by the end of the year 2008. These 14 MFIs are contributed almost all 95 per cent of total microfinance business. These 14 MFIs are given 4.2 billion Birr to the needy during the year with 1.9 million active borrowers. Among these MFIs, ACSI occupies first rank in its activities whereas Harbu occupied the place in granting loans to needy. In concern to active member ship also the same trend follows in case of first position but Letta occupies the last place. In the year 2000, there were 3 MFIs in the country namely, ACSI, OCSSCO and Sidma respectively. These together have granted loans Birr 13,086,616 with active borrowers of 176,629 during the year. During 9 years period, there is tremendous growth rate in terms of loan granting and active borrowers. Among 14 MFIs, the first four (See Table 1) play a dominant role in the development of microfinance in the country. These four MFIs accounted for 92.33 per cent and 87.43 per cent respectively in terms of gross loans and active borrowers.

Table 1: Gross Loan Portfolio and Active borrowers by the end of 2008

Name of MFIs	Gross Loan	Rank	Number of Active Borrowers	Rank
ACSI	155,668,558	1	710,576	1
DECSI	145,826,452	2	464,622	2
OCSSCO	62,639,156	3	364,584	3
ADCSI	28,795,929	4	112,259	4
Wisdom	8,479,338	5	56,735	5
Wasasa	4,431,981	6	38,331	7
PEACE	3,920,947	7	19,921	10
Eshet	3,700,900	8	27,268	8
SFPI	3,239,159	9	26,459	9
BG	3,152,628	10	38,921	6
Meklit	1,874,083	11	13,557	11
Gasha	1,580,443	12	4,224	13
Letta	1,305,128	13	434	14
Harbu	912,287	14	11,713	12
Total	425,526,989		1,889,604	

Source: Compiled by author on various basis

Table 2 portrays the present condition of average deposits made in MFIs and Average loans taken from MFIs. By the end of year 2008, Average deposits were 82.71 Birr per each depositor and average loans were 174 per cent in its deposits across various MFIs. Among these MFIs, Letta is registering in collecting high range of deposits with an average of 468 birr from each depositor whereas Eshet registered a low collection of deposits with an average of 18 birr. In connection to average loans given by MFIs, the average is 174 per cent in average loan balance per borrower. Letta has registered 1st position in this concern with an average of 1364 per cent while Harbu has occupied the last position in this concern with an average loan rate of 35.4 per cent per each borrower. By observing this situation one can conclude that there is a huge gap between deposits collection and loans given to borrowers. The microfinance institutions must be more liberalize in sanctioning of loans to needy. At the same time they should take appropriate steps for collection of debts from borrowers.

Table 2: Average deposits and Average loans for each Depositor and Borrower (By the end of 2008)

Name of MFIs	Average Deposits (Birr)	Rank	Average Loans (Percentage)	Rank
ACSI	77	4	99.58	5
ADCSI	41	8	116.6	4
BG	19	13	36.82	13
DECSI	153	2	142.66	3
Eshet	18	14	61.69	10
Gasha	41	9	170.07	2
Harbu	36	10	35.4	14
Letta	468	1	1,366.91	1
Meklit	44	7	62.84	9
OCSSCO	92	3	78.1	7
PEACE	50	5	89.47	6
SFPI	50	6	55.65	11
Wasasa	34	12	52.56	12
Wisdom	35	11	67.93	8
Average	82.7143		174.02	

Source: Compiled by author from different sources

Table 3 elucidates movements in Capital asset ratio in 14 major MFIs in the country during 2005-08. Capital asset ratio is very important measure to estimate the residual value for stake holders in a particular MFI. It says the financial soundness of the organization. If you look at table 3, we can find that in every MFI there is decrease in capital asset ratio. It indicates positive signs of improvement of efficiency and surplus funds in MFIs. But most of the MFIs are having higher capital asset ratio which is not recommendable. From Table 3, DECSI has lowest capital asset ratio where as Letta has registered 88.03 per cent capital asset ratio. Still, MFIs have to concentrate more on this concern to curb capital asset ratio.

Table 3: Trends in Capital Asset Ratio in MFIs during 2005-2008

Name	2005	2006	2007	2008
ACSI	0.3236	0.2998	0.269	0.235
ADCSI	0.7086	—	—	0.698
BG	0.6611	0.664	0.4311	0.444
DECSI	0.2325	0.2105	0.2009	0.192
Eshet	0.2752	0.3213	0.2815	0.258
Gasha	0.4347	0.4392	0.4755	0.241
Harbu	—	0.3334	0.3161	0.338
Letta	—	—	0.915	0.88
Meklit	0.3356	0.2847	—	0.284
OCSSCO	0.4369	0.2961	—	0.253
PEACE	0.2777	0.2678	0.3139	0.336
SFPI	0.5514	0.5252	0.4562	0.457
Wasasa	0.485	0.4634	0.4253	0.33
Wisdom	0.4873	0.472	0.3613	43.64

Source: www.mixmarket.org/mfi/

3.1 Microfinance- A way to root out poverty

In a country where almost half of the population barely survives on less than a dollar a day, micro credit offers poor people a unique opportunity to engage in small businesses or improve their agricultural production. With the support of national and international organizations, many institutions across the country extend small loans to poor people in rural areas to help them improve their incomes and overcome poverty. In the mountainous sparingly populated rural people's struggle to living. Displaced by famine or by the lack of economic opportunities, most of them who have relocated into areas are as poor as the ones who left, where they have no assets and no land to cultivate. The Amhara Credit and Saving Institution (ACSI), a institution, was established in 1995 to help the most destitute but active members of rural communities invest in a better future. With support from the International Fund for Agricultural Development (IFAD), ACSI provides much-needed financial services to poor rural people, enabling them to invest small sums of money in productive activities.

4.1 The Amhara Credit and Savings Institution (ACSI)

The Amhara Credit and Saving Institution (ACSI) were established in the region aiming to bridge the gap of formal institutions to meet the need of small-scale borrowers in income generation schemes. It has its distinct vision, mission, objectives and strategies. The operation of ACSI is traced back to 1995 when it was initially initiated by the Organization for the Rehabilitation and Development in Amhara (ORDA), an indigenous NGO engaged in development activities in the Amhara region. 1996 was the year when ACSI had undertaken its pilot activities. ACSI was licensed as a microfinance share company in April 1997.

Giving priority to fill knowledge and understanding of the Complex, Diverse, and Local (CDL) realities of the poor, ACSI entertains flexibility in operation and a process of learning from practice. It fully considers rural values, economic and social settings, settlement and gender issues, with a commitment to play a key role in improving the living standard of the population through self-employment and dignity, preserving rather than charity handouts. ACSI thus essentially targets the *productive poor*. Those if appropriately assisted could by themselves create the activities that could enable them to get out of poverty i.e. the entrepreneurial poor. Indeed, such people do not need "direct" assistance (e.g. subsidy, etc) for themselves, but they do need help like indirect assistance (e.g. business development services, credit, etc) in setting up an activity that will eventually increase income. They are not passive recipients of money transferred from other segments of the economy in a top-down approach, rather they need to be empowered to create their own jobs and enhance private income, thus transforming the funds into large and more substantial streams of money (Garson, 1999:5). Such a strategy targets the *causes of poverty*, rather than the poor themselves, making anti-poverty policy cost effective.

4.1 Reaching the poorest?

ACSI started in 6 of the 140 woredas in the region and now it operates in 13 branchs, 185 sub branches and 11 micro banks and one head office to implement its plans. It reaches 1.3 million poor people and has 710,576 active borrowers.

Major qualitative benefits include one or more of the following: increased food security (66%), constructing/maintaining house (18%), ability to send children to school (39%), ability to buy additional cattle (14%), and other benefits (44%) including: experience in cash management, no disposing off assets, not having to go to the money-lender, increased acceptance in the community, etc. Overall, 89.9% reported that their life is much better than before the loan. Some 20% reported that they exhibit no change in their life-style, while the remaining 3.3% actually experienced worst life style as a result of the credit, which may include failure in business, and therefore increased debt burden, having to sell some assets to settle debt, etc.

4.2 Demand for credit is large and growing

The demand for is still largely untapped. ACSI reaches just one third of the estimated 3 million people in need of services in Amhara, and most of Ethiopia's institutions face the same challenge. Because of the crucial importance of rural financial services in the fight against poverty IFAD, works with the Government of Ethiopia to provide support for 17 institutions and nearly 2,000 rural savings and credit cooperatives (RUSACCOs) through the Rural Financial Intermediation Programme (RUFIP). The programme started in 2003 and has duration of seven years. IFAD's loan covered US$25.7 million of the total cost of US$88.7 million. The impact of on rural people's lives is so visible and impressive that the demand is growing exponentially every day. ACSI, like many other institutions, is looking for more sources of funding. There is a massive need to be able to access capital in a sustained manner. It is known fact that clients' savings are insufficient to cover credit needs.

5.1 What does ACSI do for better outcomes?

To effectively reach poor people, ACSI has to adapt to the local context. To be closer to its clients, it sets up its sub-branches deep in rural areas and creates a six-member credit and savings committee in each village. The committee composed of local leaders, respected community members and an ACSI employee, screens loan applications, giving priority to the poorest members of the community. Since most poor people do not have collateral, ACSI requires individuals to form a group of five to seven people who follow up on one another's progress and act as guarantors for one another. ACSI's staff guides them step by step in making a business plan, so that it is possible even for illiterate people to join the scheme.

An impact study conducted by the Association of Ethiopian Institutions (AEMFI) in 2007 estimated that the institution (ACSI) was responsible for substantial growth in agricultural gross domestic product (GDP) in the Amhara region. According to the study, by the eighth loan cycle clients are able to put poverty permanently behind them, but even by the fifth loan cycle they can significantly improve their living conditions. So that ACSI should work more effectively so that it could help the poor to come out from their ill-fated for centuries together.

5.2 High Operational Costs and Non-market based Interest

Now every MFIs is severely affecting by the high operational costs which directly influence the smoothness of its activities. There are, for example, those women who require loans as small as Br. 50, for such activities as spinning (used for the production of the local *Gabbi)*. And such poor people are not necessarily the ones with no business skill, and looking only for charity hand-outs, as often assumed by many authors. They have the requisite skill for this specific task, the demand for their products is often available, they can fully repay the loan and, in fact, they are too proud to look for charity. Yet, such loan size would have required 100 clients to sell a total portfolio of just Br. 5000, the maximum allowable limit. The MFI would need more credit officers who would attend all these clients, with additional cost, when, in fact, it can dispose such a loan to just one big borrower.

Given the very poor infrastructure in the region, attending all such clients would undoubtedly increase operational costs, which cannot be covered from such operations because of the *low (subsidized) interest rate*. Although the National Bank regulation has allowed MFIs to fix their interest that can cover the cost of operation, many are still reluctant to do so because of a wrong perception that by so doing they might hurt the poor whom they come to support out of poverty. There is a strong belief that there is still room for improvement in terms of productivity of staff and administrative efficiency to ensure sustainability while keeping the *interest rate* low so that clients do not have to subsidize inefficient operations through higher interest rate. After all, some may argue, MFIs are there to help the poor improve income and *not* to exploit! Thus, whereas the transaction costs of providing micro credits in targeted remote and isolated areas become increasingly higher than those for providing standard commercial loans, and while it is clear that prompt, reliable access to credit is more important to clients than low interest rate as such, ACSI has still been committing itself to a low interest rate. So, there should be optimum rate of interest which can cover its operational costs. Though, MFIs are not meant for exploit the poor and needy, any MFIs should not run in longtime without recovering it costs.

5.3 The panacea for high operational costs- Group lending method?

This methodology removes the main entry barrier for those with no collateral, limited literacy, weak technical knowledge and narrow prior money management experience. It has many advantages for MFIs in terms of screening out those who are not credits worthy. Research on Grameen Bank reveals that:

"Women who are really disorganized and cannot "manage" their households, women who are considered foolish or lacking in common sense, women who are "belligerent" and cannot get along with others, women with many small children, with husbands who are "lazy" and gamble and waste money or are "bad", are generally considered "high risk". It is felt that these women will be unable to use loans "wisely"; they would be unable to save and invest and increase incomes.

These women, even if provided with membership, would drop out and would have negative influence on others." (See Syed M. Hashemi (1997); p.115)

Though there are some considerable problems, the advantages of peer monitoring over traditional practices lies in its social connectedness, as local knowledge about other's assets, capabilities, and character traits is used to sort and self select. In theory, the dynamic of joint liability implies that groups screen and self-select their own members to form relatively homogeneous groups. It is assumed that social solidarity will ensure that the successful members cover for the defaulters.

6. Findings

MFIs are playing a dynamic role to uplift the poor and downtrodden from centuries together. The efforts made by MFIs so far does not even satisfy 10 per cent of the poor, particularly rural poor. There is a huge gap between the demand and supply parameters. There is a need for awareness about microfinance and its advantages too. There is a need for conducting awareness programmes across the country. MFIs should be going in-depth the rural areas where people badly need the money. MFIs should try to implement the following suggestions.

To be well-served by the credit delivery, important demands of the poor need to be met. Since the poor require a loan that is flexible enough in terms of repayment period and repayment frequency.

Diversifying the lending methodology away from the current "group methodology" into others like village banking and possibly to individual lending may help, for the group lending on the one hand tends to ignore the very poor, and on the other hand, have no room for those who can borrow on individual bases.

The poor cannot be served very well by the delivery of credit alone. Saving services constitute an important part of the demand of the poor. Evidence in many cases indicates that most poor people want to save most of the time, while they do not want to borrow at all.

Credit must, above all, be accompanied by some kind of marketable skill development, which the poor seriously lack. Credit alone can only increase the "scale" of existing activities rather than enabling the poor to move into new or higher value activities. Given the poor market condition in rural areas, this gives rise to easy market saturation, which diminishes potential profitability. Some kind of cultural transformation may also be called for at this particular juncture in order to change the attitudes of some otherwise very poor people who are reluctant, due to obvious cultural reasons, to engage themselves in non-traditional activities which are much more rewarding indeed.

Women are "allocated" some portion of the credit, but a good portion of it is destined to their male counterparts, violating the institutional objective. This partly has to do with the fact that women are still highly handicapped with lack of any business skill, much more than their male counterparts. On the other hand, however, this may have also to do with the "wrong assumptions" that planners of micro-finance services had on the available time that women have. We planners forget that women are fully engaged in domestic works through out the day, and have nothing to afford for such business activities. And this might be much more serious for the Ethiopian women.

Recommendations

The following are the recommendations to achieve the objectives of microfinance in connection with eradication of poverty in Ethiopia.

For Microfinance institutions:

MFIs should reach out to the gross root level in the rural areas where people badly need the financial support for better living conditions.

MFIs should come with flexible and amicable strategies to reach the un-reached.

MFIs should give top priority to woman in self help groups for more participation in policy related decisions. So that, woman can understands in better way of the needs of family.

MFIs should take appropriate policies in such away to avoid bad debts from borrowers.

Occupational finance should be encouraged for deserving groups who are under same occupation.

For Government of Ethiopia:

Government should come forward to work more in collaboration with microfinance institutions.

Government should take appropriate steps to promote microfinance institutions with more social responsibility

Government should give the need based training to empower woman as entrepreneurs in collaboration with micro finance institutions.

Government should direct the banks to provide more finance to needy people by establishing more rural branches inform of microfinance.

In addition to the above, there should be dedication and devotion towards poor and downtrodden. MFIs should be aware of a very fundamental truth that they are not for profit making but for serving the poor. With smooth cooperation of the needy, the institutions could curb many wicked problems in society.

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IMPACT OF MICRO FINANCE THROUGH SHG-BANK LINKAGE PROGRAMME ON WOMEN OF RURAL PRIORITY COMMUNITIES IN COIMBATORE DISTRICT

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Abstract

The experience of Micro Finance through SHG-Bank Linkage Programme in India showed that it was one of the successful interventions in rural credit market. It proved that the poor are bankable. In general, micro finance is a path towards empowering the most marginalised among the poor to take charge of their life's requirements. While micro finance is looked upon as a financially viable approach to address economic vulnerability, it has demonstrated the potential of building up the social capital of the poorest communities especially SCs, SCTs, minorities and physically challenged women. In this context a research was carried out to study the economic and social impact of the micro finance on SHG women of SCs, minorities and physically challenged (priority communities).

The study was confined to the priority communities of rural SHGs in Coimbatore District of Tamil Nadu. Multistage random sampling method was used to select the respondents. Based on the priority communities concentration, 10 blocks were selected randomly by getting the details from 10 NGOs who act as a facilitator in the promotion of SHGs. Further 10 villages in each selected block were further indentified and two SHGs with members of priority communities having five years of experience as on 2009-10 have been identified from each selected village constituting 200 SHGs. From these 200 SHGs, priority community women namely SCs 150 members, minorities 100 and physically challenged 50 were selected randomly. Period of the study was five years from 2005-06 to 2004-10. To fulfill the objectives of the study, the primary data was collected through a detailed interview schedule during the period August 2010 to October 2010.

The statistical tools like paired't' test, 'z' test for proportions and Likert scaling technique were applied. The study results proved that the intervention of micro finance through SHG-Bank Linkage Programme has positive impact on the economic and social status of the members especially the priory communities, in terms of increase in income, savings, employment generation, asset creation, decrease in the dependency on money lenders, improvement in decision making skills, participation in community affairs and the empowerment of women. Micro finance emerged as a new mechanism, which provided financial products and services and helped women to build their business, families and communities. Micro finance activities can give them a means to climb out of poverty and it could serve as a solution to help them to extend their horizon and offer them social recognition and empowerment.

Introduction

The experience of Micro Finance through SHG-Bank Linkage Programme in India showed that it was one of the successful interventions in rural credit market. It proved that the poor are bankable (Patel, 2002) and poverty alleviation was possible without subsidies (Khandker, 1998). The studies on micro credit policy in India indicated that the group lending through SHGs reduced the lending and transaction cost of public banks (Puhazhendi 1995 and Manthri 2004) Recovery rates for SHG loans stand above 99 percent (Gupta, 2008 and Rajan, 2009). Micro credit has given women in India an opportunity to become agents of change. Poor women, who are in the forefront of the micro credit movement in the country, use small loans to jumpstart a long chain of activity. Keeping in view the immense inherent potential in SHGs in mobilising savings and credit multiplication, the banks are considering micro credit as one of their important marketing avenues. Recognising their importance, both the Reserve Bank of India and NABARD have been spear heading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies and systems. The programme of micro finance has made rapid strides in India (Gupta, 2008).

Need for the Study

There are empirical evidences which show that the involvement of women associated with the micro finance SHG-Bank Linkage Programme has been on

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the rise, resulting in a greater awareness and confidence amongst them. In general, micro finance is a path towards empowering the most marginalised among the poor to take charge of their life's requirements. While micro finance is looked upon as a financially viable approach to address economic vulnerability, it has demonstrated the potential of building up the social capital of the poorest communities especially SCs, SCTs, minorities and physically challenged women. In this context, a research was carried out to study the economic and social impact of the micro finance on SHG women of SCs, minorities and physically challenged (priority communities).

Objectives of the Study

1. To examine the economic and social impact of the micro finance programme on the SHG women of priory communities.

2. To analyse the impact of micro finance programme on total personality development of SHG women of priority communities.

Methodology

Study Area:

The study was confined to the priority communities of rural SHGs in the Coimbatore District of Tamilnadu.

Selection of the Sample Self Help Groups and Sample Members.

Multistage random sampling method was used to select the respondents. In the first stage, a list of affiliated Non-Governmental Organisations (NGOs) engaged in the promotion of SHGs was obtained from Mahalir Thittam Office, Coimbatore. Out of the list ten NGOs who act as a facilitator in the promotion of SHGs were identified and approached to get the details of SHGs. In the second stage, based on the information provided by the NGOs, 10 blocks were randomly selected in the district covering more than 75 percent of blocks namely 1) Anaimalai 2) Annur 3) Karamadai 4) Kinathukadavu 5) Madukkarai 6) Periyanayakanpalayam 7) Pollachi 8) Sulthanpet 9) Sulur 10) Thondamuthur. In the third stage 10 villages in each selected block were further identified based on the priority communities concentration. In the fourth stage two SHGs with the members of priority communities and having five years of experience as on 2009-10 had been identified from each selected village. Thus 200 SHGs were selected. From these 200 SHGs , priority community women namely SCs 150, minorities 100 and physically challenged 50 were selected randomly.

Period of the Study and Collection of Data

Period of the study was five years from 2005-06 to 2004-10. To fulfill the objectives of the study, the primary data was collected through a detailed interview schedule during the period August 2010 to October 2010.

Tools for analysis:

The statistical tools like paired't' test, 'z' test for proportions and Likert scaling technique were applied.

Pairel 't' test:

Was applied to find out the significant changes in the selected variables of the members before and after SHG period. The variables tested were

1. Average annual income
2. Savings
3. Increase in the decision making capacity.

'z' test:

was applied to test the proportions of increase in the selected variables during pre-SHG and post-SHG period. The variables examined were:

1. Institution wise changes in the savings
2. Changes in the indebtedness of members
3. Changes in the assets acquired

Likert's Scaling Technique :

The impact of SHG-Bank Linkage Programme on personally development of priority community women was analysed by following five point scaling technique. The scores were assigned as follows:

Significantly improved	:	5
Improved	:	4
No change	:	3
Not improved	:	2
Significantly not improved	:	1

The respondents were asked to opine their level of improvement based on which the scores were allotted, the total score and mean score were found out for analysis.

Results and Discussion :

The findings of the research study are discussed under the following headings:

- Ø Socio-Economic Status of the Members
- Ø Savings and Credit Activities of the Members
- Ø Economic Impact
- i. Changes in the annual income and Savings of SHG Members
- ii. Institution wise changes in the Savings
- iii. Changes in the level of indebtedness of Members
- iv. Types of assets acquired by SHG Members
- v. Employment Generation
- vi. Repayment behaviour
- Ø Social Empowerment of women
- Ø Problems of the members
- Ø Conclusion

Socio-Economic Status of the Members

Today economic independence is considered to be the prime basis for improving the status of women in India. Availability of credit to women especially the priority communities would result in reducing their dependency, enhancing their social and economic status as well as empowering them to assert more in the household decisions. In this context it is imperative to understand the socio-economic characteristics of women of priory communities in the study area. The table one draws a detailed description on the socio-economic status of the members.

The table revealed that the majority of the sample SHG women in all the three categories were in the age group of 31-40 years followed by the members in the age group of 41-50 years. Regarding the educational status of the members 21.33 percent of SHG women of SCs were illiterate followed by 18 percent in the case of minorities and 12 percent in the case of physically challenged women. The rest were literate. It is observed that majority of them were married: (above 95 percent of women of SCs and minorities), whereas only 36 percent were married in the case of women of physically challenged. Again it could be noted that majority of the members family size is in between 5-7 members in all the three categories. Further it is revealed that majority of them, 46 percent in all, were having the family annual income of Rs. 20001-25000, followed by 30.67 percent below Rs.20000 before joining the SHGs.

To sum up, the majority of the sample members, in all the three categories were in the age group of 31-40 years, with middle level education and having the annual income of below Rs.25000 indicating the importance of SHG set up to create confidence for economic self-reliance among women especially the priority communities.

Cultivating the habit of regular savings and the ability to access them when required through credit not only reduces significantly the vulnerability of the livelihood base of the poor and their dependence, it also enhances human development. It enables them to borrow for urgent needs instead of going to money lender, gives them a degree of freedom to bargain for better wages and working conditions and enables them to build a capital base which hitherto has been impossible since the exorbitant interest rates demanded by money lenders siphonied of all surpluses. The quantum of money saved by the members ranged from Rs50 to Rs.200 per month, per member during the study period. The average savings, average internal loan availed and the average bank loan availed is given in table 2.

Table – 1 Distribution of Sample Members by Socio-Economic Status

S.No.	Socio-Economic Factors	Members of SCs	Members of Minorities	Members of physically challenged	Total
	Age of the members (in years)				
1	Below 30	20 (13-33)	5 (5)	5 (14)	32 (10.67)
	31-40	80 (53)	65 (65)	28 (56)	173 (57.63)
	41-50	40 (26.67)	22 (22)	10 (20)	72 (24)
	50 and above	10 (6.67)	8 (8)	5 (10)	23 (7.66)
	Total	**150**	**100**	**50**	**300**
2	Educational Status of the members				
	Illiterate	32 (21.33)	18 (18)	6 (12)	56 (18.67)
	Middle	98 (65.34)	62 (62)	22 (44)	182 (60.67)
	Higher Secondary	18 (12)	20 (20)	22 (44)	60 (20.00)
	Graduates	2 (1.33)	-	-	2 (0.66)
	Total	150	100	50	300
3	Marital Status of the members				
	Married	142 (94.67)	96 (96)	18 (36)	256 (85.33)
	Unmarried	2 (1.33)	-	32 (64)	34 (11.33)
	Divorced / Widowed	6 (4.00)	4 (4)	-	10 (3.34)
	Total	150	100	50	300
4	Family size				
	Below 5 members	42 (28)	28 (78)	30 (60)	100 (33.33)
	5-7 members	100 (66.67)	67 (67)	20 (40)	187 (62.33)
	Above 7 members	8 (5.33)	5 (5)	-	134.34
	Total	150	100	50	300
5	Annual income (in Rs)				
	Below 20,000	32 (21.33)	22 (22)	38 (76)	92 (30.67)
	20001-25000	78 (52.00)	48 (48)	12 (24)	138 (46.00)
	25001-30000	30 (20.00)	18 (8)	-	48 (16.00)
	30000 and above	10 (6.67)	12 (12)	-	22 (7.33)
	Total	150	100	50	300

Source: Field Survey, 2010.

Figures in parentheses indicate the percentage to the number stated Savings and Credit Activities of the Members

Table - 2 Savings and the Average Loan availed by SHG Women of Priority Communities

(Amount in Rs.)

Category	Average savings in SHG	Average internal loan	Average bank loan
Members of SCs	6250	19150	29500
Minority communities	6850	18250	28750
Physically challenged	7100	20500	31500

Source : Calculations based on Field Survey, 2010

It could be observed that the members were very active in savings and availing internal loan from the group for consumption purposes and bank loan for income generating activities. The members utilised the internal loan for various purposes namely for food materials, children's education, health, life-cycle ceremonies, to repay debts and other personal needs. The bank loan availed was utilised by the members to start income generating activities either in group (or) individually. The members started different income generating activities namely agricultural and allied activities, manufacturing activities, trading activities and service activities. The members were also given adequate training on various aspects of income generating activities, maintenance of books of accounts, conduct of meetings, marketing the products etc. The training was given by the NGOs, Government agencies and other institutions.

Economic Impact:

Economic empowerment is recognised as an important goal of the SHGs. Economic empowerment may be defined as a state where in the SHG members are able to fulfill their basic needs through reasonable opportunities for income generation and to own assets of liquid and immovable properties through their income-generating activities. The economic impact has resulted in changes in the annual income and savings of the members, institution wise changes in the savings, increase in the acquisition of assets, employment generation, reduction in the level of indebtedness and excellent repayment behaviour.

Changes in the Annual Income and Savings of the Members

The SHG-Bank Linkage Programme with better access to credit brings in its wake increased income to SHG members. The income and savings of the members after joining SHGs had increased and this is shown in table – 3.

Table – 3 Changes in the Annual Income and Savings of SHG members

Changes in income									Paired 't' Test
S.No.	Groups	Pre-SHG		Post-SHG		Increment		Percentage of increment	Paired 't' value
		Mean	SD	Mean	SD	Mean	SD		
1.	SCs	15697	2263.44	27986	6880.05	12289	5618.05	78.29	39.976**
2.	Minorities	15100	2251.02	30500	7284.26	15400	5984.81	103	42.478**
3.	Physically challenged	8200	1443.81	31800	7316.05	23600	6341.46	287.80	67.814**
Changes in Personal Savings									**Paired 't' Test**
S.No.	Groups	Pre-SHG		Post-SHG		Increment		Percentage of increment	Paired 't' value
		Mean	SD	Mean	SD	Mean	SD		
1.	SCs	775	447.98	1490	514.58	715	237.77	92.25	55.087**
2.	Minorities	885	412.38	1630	605.33	745	283.36	84.18	51.187**
3.	Physically challenged	650	390.16	1400	501.82	750	260.87	115.38	49.379**

Source: Calculations based on Field Survey, 2010. (Table value 2.58)
**Significant at 1 percent level

The increase in the average annual income and the savings of members of priory communities were statistically significant and the percentage increases of income was higher for the members of physically challenged with 287.80 percent. The SHG-Bank Linkage Programme distinctly differs from other micro finance programme across the world mainly interms of its greater emphasis on savings. There was a significant increase in the average annual savings of all the members but is more for the physically challenged members with 115.38 percent.

Institutions wise Changes in the Savings:

The institution wise share of savings during pre and postSHG situation are present in Table – 4.

Table – 4 Institution wise Changes in the Savings

S.No.	Institution	Members of SC N : 150		Members of Minorities challenged N : 100		Members of physically N : 50		'z' test		
		Pre-SHG	Post-SHG	Pre-SHG	Post-SHG	Pre-SHG	Post-SHG	SCs	Minorities	Physically challenged
1.	Savings in post offices*	18 (12)	68 (45.33)	11 (11)	73 (73)	7 (14	45 (90)	4.269**	5.279**	4.124**
2.	Savings in banks*	23 (15.33)	140 (93.33)	14 (14)	86 (86)	6 (12)	42 (84)	7.012**	7.120**	4.016**
3.	Insurance and private savings*	12 (8)	86 (57.33)	6 (6)	76 (76)	4 (8)	50 (100)	5.123**	4.263**	4.214**

Source: Calculations based on field Survey, 2010. N – Number stated (Table value 2.56)
*Multiple response ** significant at 1 percent level

Figures in parenthesis indicate the percentage to the number stated

It could be observed from the table that there was a significant improvement in the percentage of members savings in different institutions. The table also indicates that the members awareness and preferences towards the bank savings were higher indicating the positive impact and healthy attitude to avail bank credit for business ventures and that was proved by 'z' test also.

Changes in the Level of Indebtedness of Members

The members who have debts from the informal sources were categorised into loans availed from money lenders in cash, mortgaging their material assets to the pawnbrokers and relatives and friends. The intervention of micro finance programme on the rural areas contributed for reduction of outside loan among the poor priority communities and is shown in table 5.

Table – 5 Changes in the Level of Indebtedness of Members

S.No.	Groups	Members of SC N : 150		Members of Minorities challenged N : 100		Members of physically N : 50		'z' test		
		Pre-SHG	Post-SHG	Pre-SHG	Post-SHG	Pre-SHG	Post-SHG	SCs	Minorities	Physically challenged
1.	Money lenders*	150 (100)	12 (8)	80 (80)	7 (7)	10 (20)	-	4.14**	9.12**	7.56**
2.	Pawn brokers*	78 (52)	0	48 (48)	0	-	-	-	-	-
3.	Friends and relatives*	97 (67)	15 (10)	27 (27)	12 (12)	27 (54)	7 (14)	3.08**	2.68**	2.59**

Source: Calculations based on field Survey, 2010. N – Number stated (Table value 2.56)
*Multiple response ** significant at 1 percent level

Figures in parenthesis indicate the percentage to the number stated.

It could be observed that after joining the SHG, the dependence on money lenders for credit declined sharply from 100 percent to 8 percent for members of SCs, from 80 percent to 7 percent for minorities and from 20 percent to nil for the physically challenged. All of them have repaid the old debts to pawn brokers and the level of indebtedness due to friends and relatives also significantly declined. The 'z' test also proves that there was a significant reduction of the indebtedness of members after joining the SHGs. Hence it is proved that the SHG-Bank Linkage Programme has resulted in reduction of past loans with a higher rate of interest and this results is in consistence with the findings of Anjugam and Alagumani (2001) and Das Gupta (2000).

Types of Assets Acquired by SHG Members

The poor are characterised by their low asset. Therefore, any programme targeting the poor should strengthen their assets holding pattern. The increase in assets strengthens the financial position of the household and also improves its stock absorbing capacity. The SHG-Bank Linkage Programme through micro finance interventions increases the productive assets of households like milch animals, farm animals and various consumer durables such as transistor, cycle, furniture, electronic items and others. Table – 6 depicts the type of household assets acquired by the members after joining SHGs.

Table -6 Types of Household Assets Acquired by SHG Members

S.No.	Groups	Members of SC N : 150		Members of Minorities challenged N : 100		Members of physically N : 50		'z' test		
		Pre-SHG	Post-SHG	Pre-SHG	Post-SHG	Pre-SHG	Post-SHG	SCs	Minorities	Physically challenged
1.	Thatched House to tiled[N]	32 (30.47)	20 (13.33)	25 (25)	5 (5)	10 (20)	5 (10)	0.392 [NS]	0.415 [NS]	0.212 [NS]
2.	Material Assets[N]	95 (63.33)	135 (90)	42 (42)	86 (86)	22 (44)	48 (96)	0.403**	8.363**	7.521**
3.	Gold and Silver[N]	42 (28)	126 (84)	33 (33)	96 (96)	12 (24)	24 (48)	6.266**	5.324**	3.251**
4.	Gas, Electricity and water tap connection[N]	52 (34.66)	132 (88)	46 (46)	88 (88)	8 (16)	42 (84)	4.554**	5.421**	3.675**
5.	Construction of Toilets[N]	14 (9.33)	120 (80)	48 (48)	96 (96)	12 (24)	44 (88)	33.499	2.672	3.686**
6.	Consumer durables[N]	86 (57.33)	150 (100)	45 (45)	100 (100)	34 (68)	48 (96)	2.5999**	2.625**	1.726 [NS]
7.	Vehicles[N]	22 (14.66)	64 (42.66)	31 (31)	87 (87)	5 (10)	50 (100)	2.764**	3.982**	14.403**
8.	Farm animals	68 (45.33)	140 (93.33)	15 (15)	85 (85)	-	-	2.02*	6.533**	-

Source: Calculations based on field Survey, 2010.

[N] Multiple response * significant at 5 percent level ** significant at 1 percent level [NS] Non Significant

It could be observed from the table that all the members have significantly acquired different types of assets, which is also proved statistically by applying 'z' test. Hence it is implied that the access to Bank Linkage Programme has positive impact on creation of assets among the members and attempted to improve the quality of life of the rural SHG members especially the women of priority communities.

Employment Generation:

The micro enterprises initiated by the SHG members were providing employment opportunities to the members as well as the non-members and is given in table – 7.

Table – 7 Employment Generation

Relationship	Members of SC N : 150	Members of Minorities N : 100	Members of Physically challenged N : 50	Total No : 300
Spouses	78 (34.82)	68 (44.16)	10 (16.6)	156 (35.62)
Family members	112 (50.12)	64 (41.56)	32 (53.33)	208 (47.49)
Hired labourers	34 (15.18)	22 (14.28)	18 (30.00)	74 (16.89)
	224	154	60	438

Source: Calculations based on Field Survey, 2010.
Figures in parenthesis indicate the percentage to the number stated.

It could be observed from the table that SHG members of SC categories provided highest number of employment opportunities to the family members followed by the minorities: maximum number of employment opportunities to the spouses and family members and in the case of physically challenged maximum number to family members. Out of the total employment provided 47.49 percent were accounted for family members, 35.62 percent were spouses and 16.89 percent were hired labourers and this will provide greater scope for achieving income and more economic benefits to the rural poor.

Repayment Behaviour:

Since the groups own accumulated savings were part and parcel of the aggregate loans lent to their members, peer pressure ensures timely repayments. Groups solidarity, group pressure and sequential lending provide strong repayment motivation and produce extremely low default rates. About 92 percent of the sample members were very prompt in repayment of the internal loan and bank loan.

Social Empowerment of Women

The micro finance through SHG-Bank Linkage Programme also helped the members to improve their literacy, health and hygiene, community participation and overall personality development. The overall personality development of women was analysed by following five points scaling technique and the result is given in Table – 8.

Table – 8 Impact on Personality Development of Women

S.No.	Attributes	Members of SC N : 150	Members of Minorities N : 100	Members of Physically challenged N : 50
1	Self Confidence	4.80	4.75	4.95
2	Communicative skills	4.62	4.66	4.85
3	Leadership quality	4.83	4.75	4.82
4	Participation in Official discussion	4.21	4.56	4.88
5	Commanding respect in the family	4.62	4.62	4.86
6	Reduction in domestic violence	4.52	4.74	4.82
7	Family and community living	‘4.79	4.65	4.85
8	Self-identity and self-respect	4.62	4.65	4.88
9	Marketing skills	4.58	4.73	4.87
10	Management skills	4.65	4.62	4.88

Source: Calculations based on Field Survey, 2010.

The scoring approach reveals that the mean score for the members of physically challenged was high in all aspects of attributes revealing that their self confidence increased to a larger extent there by their overall skill development also increased followed by other categories in equal respect. The overall results revealed that the members were empowered in different traits thereby promoting their personality development.

Problems of the Members

Members in general faces few problems like lack of technology, marketing problems, lack of full support from Government and other social problems. The Government, NGOs and SHG Federations have to take the remedial measures to overcome the problems of SHG.

Conclusion

The study results proved that the intervention of micro finance through SHG-Bank Linkage Programme has positive impact on the economic and social status of the members especially the priory communities, in terms of increase in income, savings, employment generation, asset creation, decrease in the dependency on money lenders, improvement in decision making skills, participation in community affairs and the empowerment of women. The SHGs had contributed in developing the personalities of women, in moulding the community in the perspective and in exploring the initiatives of women in taking up entrepreneurial ventures. SHGs had emerged as the providers of social capital for transforming today's rural India into a powerful society though micro finance.

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MICRO FINANCE IN THE CONTEXT OF THE GLOBAL SUSTAINABILITY QUESTION: RETURN TO GANDHI ONCE AGAIN?

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Abstract

In a series of recent reports (Abbasi and Abbasi 2010 a,b; 2011 a,b) we have brought out that the prevailing developmental model based on globalization, liberalization and privatization (GLP) will continue to enhance global warming, ocean acidification, acid rain, ozone hole and other existence-threatening mega-impacts even if the world shifts to renewable energy sources and achieves major technological breakthroughs with nanotechnology, genetic engineering, etc, towards cleaner production. We have also brought out that the prevailing hope that science and technology will somehow come up with the magic potion that would bring the increasingly feverish earth back to health is dangerously misplaced. In other words the GLP trinity is inherently incompatible with sustainable and equitable development. No infusion of technology or shift to renewable energy can alter this fact. Likewise, within the GLP paradigm, any talk of 'reforms with a human face' is a contradiction in terms because erosion of cultural diversity, replacement of humans with automation, and increasing centralization of resource use are the basic ingredients that sustain globalization. Even though the first large-scale and systematic implementation of micro finance took place over 120 years ago in Germany, and this concept was for a while quite extensively implemented in some parts of India in the early years of the previous century, the present impetus in promoting micro finance institutions (MFIs) in the developing world has almost coincided with the rise and spread of globalization. Developing countries like India look at MFIs as something which may provide a hedge against the dispossessing and impoverishing impact that globalization is relentlessly exerting on the world's poor. In this paper we confront the reality that MFIs haven't proved the panacea we have been expecting them to be. If there are poster-decorating success stories, there are also heart-breaking failure stories. The jury is still out on which side the balance is tilting. We then argue that micro finance can't take on globalization on the latter's turf; it has to set its own rules for its game. We then arrive at the prospect that lead for this new thrust can come from the Gandhian model of development. A few examples are also given of the possible 'do how'.

1. Micro finance's big come-back

People have been lending and borrowing small sums of money since time immemorial. Given the very broad sweep and depth of ancient Indian wisdom it is very much possible that economists like Kautilya might have dwelt upon the nuances of something like present-day microfinance too. In late 19th century, micro finance, as we perceive it today, had gained global attention due to the 'banking with the poor' that was pioneered in Germany by Raiffeisen and Schulze-Delitsch. The 'people's banks', as they were known collectively, were part of a broader series of financial and educational initiatives that helped spur Germany's rise from an economic back-runner to a galloping stallion within a span of fifty years. At their peak in 1913, some two million people were members of various people's banks (Wolff, 1910; Woolcock, 1999).

Many other countries then tried to replicate the 'people's banks' approach of the German pioneers to poverty alleviation, including India. Whereas some of the countries, like Ireland, failed to emulate the German model despite very ambitious plans to do so, the model had a fair run in India. It gave birth to the cooperative credit movement in India in 1904, which was taken up in many other forms by Gandhi (among others), who regarded the development of cooperatives of all types as an essential step in the process towards economic self-reliance and political independence. The cooperatives were particularly popular in Bengal in the early decades of this century, but successive political upheavals and devastating famines all but wiped them out in that region (Baviskar and Attwood, 1995).

In its widespread institutionalized form micro finance (MF) has staged a major comeback across the world in the 1980s. In its present avtar MF is the prop with which the poor are expected to become first generation entrepreneurs, based on their potential earnings rather than collateral. It is now one of the trendiest of all international development activities, with

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close to 60 countries replicating just the Grameen Bank model of Mohammed Yunus. According to one estimate, of the 500 million or so entrepreneurial poor (i.e., those who can borrow and run micro enterprises), only 10 million have so far been reached by formal institutions. If a mere 30% of them are to gain access to institutional finance by the year 2025, the total profiles of the micro finance institutions (MFIs) in micro loans, which is now about US$ 2.5 billion, would grow to a staggering $90 billion by 2025, serving about 180 million clients (WWBGPF 1995). If a not-too-unrealistic a sum of US $ 1000 (about ₹ 45000) can be loaned to each one of the needy then the value of micro finance industry would touch an astounding $500 billion!

2. The ground reality

But even as one beholds these charming projections, half of the world's over 6 billion people continue to live on less than $2 a day and one-fifth on less than $1 a day (World Bank 2000). Distribution of global economic gains achieved during the twentieth century has been extra-ordinarily unequal and unethical, creating increasingly larger fraction of losers and smaller fraction of winners. The average income in the richest 20 countries is 37 times the average in the poorest 20 ? a gap that has doubled in the past 40 years. Intra-country disparities too are equally or even more disturbing.

Interestingly, the resurgence of MF as an economic movement that has penetrated large parts of the globe has almost coincided with the rise of a much more all-pervasive and bigger global invasion we call globalization.

3. MF as a cushion against the adverse impact of globalization

As more and more governments in developing countries, prompted directly or indirectly by capitalist forces, court globalization (associated with liberalistion of government controls and privatization), progress in poverty reduction is not just stalled but is actually getting reversed. For example the number of poor in Indonesia more than doubled to around 50 million within 2 years as seen by a IFAD study (IFAD 1999). In India, nearly two decades of globalization have left our vast multitudes in crushing poverty, with as many as 9 of our states being worse off than the poorest of the sub-Saharan Africa. The big information technology bubble of the previous decade provided only about 5000,000 *green collar* jobs, excluding from the pie over 95% of the Indians. Those once 'green'–looking jobs had, in fact, hidden enormous muck and not only India but most of the developing world is now left with the problem of electronic waste (e-waste) on its hands which is more daunting than the already forbidding problem of municipal solid waste. Moreover, true to the 'tradition' of globalization, it is the developing countries which are bearing the burden of the 'IT revolution' fuelled by the developed countries.

It has been said (Padmanabhan, 2001) that the Wall Street dealers have sometimes received on their bonus day, sums of the order of # 12.5 billion which is more than ten times the daily income of the poorest fifth of humankind! This is the kind of wealth polarization that has defined globalization through the last two decades. Thus even as globalization has provided a better (read more consumerist) life to a few people, the benefit of the new economics has eluded the majority of the world's population. This is but to be expected due to the inherent incompatibility between the macro policy driven by globalization and the goals of welfare projects.

4. But can micro enterprises take on globalization on the latter's turf?

The mutual incompatibility between globalization and the welfare of the poor has. inevitably, touched the microcredit sector. On the one hand, donors promote microcredit projects to help the poor engaged in micro enterprises (MEs), but on the other, globalization as promoted by them renders those very MEs unviable. Such contradictions are seen in other sectors too.

An MFI can evade the tentacles of globalization only when it is not subsidized by the same forces which promote globalization or are sustained by it. But an independent MFI must confirm to the basic principle of banking, *viz* the borrower must be able to reap a return higher than the borrowing rate for both the lender and the borrower to survive. There is no escaping this immotile law of "borrower returns and lending rate compatibility. Indeed notwithstanding the dazzling success of the Grameen Bank (GB) concept thus far, not a few believe that sooner or later it will run out of steam unless subsidised by donor support.

But under the shadow of globalization, MEs simply cannot compete with modern technology and mass production. In the present macroeconomic dispensation an astonishingly large and increasing number of people are just not needed or wanted to make goods or to provide the services that the paying customers of the world can afford. The competition to cut costs at a global level has raised the prospect that the vast majority of the 8 billion human beings living on earth by 2025 will be neither producers nor consumers. This is because in the globalizing economic system efficient production of goods takes precedence over everything else, shifting all but a few individuals who are involved in production or consumption out of all reckoning (Barnet & Cavanagh, 1995).

5. Micro-entrepreneurship of the most poor

The ability to borrow, then take the risk of investing the borrowing in a micro-enterprise, and then making a success of the micro-enterprise sufficiently to reap enough surplus returns to repay as per a predetermined schedule: all these skills are often beyond the poorest of poor. It is the absence of these talents which had put them in that strata in the first place. The logic that a loan can undo these deficiencies is inherently flawed. This is all the more true for women subsisting in the informal sector, who are scared of getting indebted in ventures located outside their household. Moreover, several recent studies show that really hard-pressed poor are not reached by microcredit as is being claimed; this indicates that even in situations where MFIs are effective, the benefit may not reach those who need it the most, *viz* the poorest of the poor (World Bank 2000).

6. Gandhism and the prevailing economics of globalization

In its bare essentials Gandhian model of development is bottom-up, labour intensive, and conservation-oriented, in contrast to the essentially top-down, machine-based, and consumption-oriented thrusts of the 'other' economics. To the former, dignity of labour, harmony with nature, morality, and equitability must be at the core of all developmental initiatives while these have little relevance in the 'other' system. If the Gandhain path is oriented towards 80% or more of the world's citizens, the other path is traversed by a small fraction of the rest.

Given the antagony that pervades every element of the two models the former can't prevail unless the latter is summarily uprooted. But that is unlikely to happen in the near future.

7. Adopting 'Gandhian economics'

We can go back to Gandhi and adopt his developmental model in two ways:

a) In *toto*

b) Piece-meal, to make MF more tuned to its real purpose than it is now

It appears unlikely that the world at large, or even India, will adopt the 'Gandhian economics' in the near future. Of course the world will eventually do it because no other developmental model is going to sustain our existence. But all of us who are among the small fraction of the world population with access to the – largely illusory – fruits of globalization will not come out of its spell in a hurry. The mega corporations which are growing symbiotically with the power centres of the world to the increasing exclusion of the world's majority, are even less likely to welcome Gandhi's second coming in a hurry.

After all, thanks to globalization, some of the largest economies of the world are not nations, but corporations. And their number and wealth will only go up with the spread of globalization.

In fact corporate-funded scientists are already coming out with report after report to discredit critiques of consumerism and its propellant globalization that there is no such happening as global warming and all talk of threat to the long-term sustainability of earth's ecosystem is a mischief perpetrated by those who are anti-poor and anti-progress. Isn't globalization lifting up the per capita income all round? Isn't it creating jobs? Isn't it bringing fruits of science and technology like paved highways, luxury hotels, coca-cola, KFC, airports, etc, to places which once had nothing else but unproductive wilderness?

Eventually, and hopefully before it is too late, the world will take to the Gandhain path but as on date it remains an utopia in the eyes of all supporters of globalization.

For now, creation of only 'islands of excellence' is possible using the Gandhian model – it is something like the social equivalent of the ecological bioreserves that the world is nurturing to protect the world's biodiversity. By itself it won't be enough but it will at least delay the inevitable till, hopefully, the world's controllers come to grief and change their ways.

8. Introducing elements of Gandhian economics in micro finance

As elaborated in Section 5, most often the most needy are the ones who have no skill for entrepreneurship. Instead of attempting to make millions of people self-employed, the focus should shift on creating more and more micro-enterprises where the most needy can be wage-employed.

Secondly there should be a thrust towards putting some purchasing power in the hands of the poor. This can be made possible by promoting appropriate technologies, enterprises, and markets, which can tap the low-skilled labour of the poor in a dignified manner as also generate products which primarily fulfill the local needs.

Thirdly there should be gradual skill upgradation through appropriate vocational education, in particular for the women (Ninan, 2009). When post-modern high technology revisits traditional wisdom, it ever so often finds that the latter could solve many a problems with a lot less effort and a lot more beauty than the former. Hence the wage-earners in the micro-finance enterprises should be encouraged to invoke traditional wisdom in finding solutions to problems which high technology is either unable to solve, or does so with much lesser efficiency and grace.

Fourthly the projects must confirm to the defining trait of Gandhian science – genuine harmony with nature. To use the current jargon, the projects should be 'eco-friendly' but it must be emphasized that words like 'eco-friendly', 'environmentally compatible' and 'sustainable' are used rather loosely by the practitioners of mainstream science like these authors. Any product which generates lesser waste than other products is promptly libeled 'eco-friendly' by us without any thought for the *raison de etre* of that product. But in Gandhian view eco-friendliness has a much broader and deeper meaning – it is the very fulcrum of existence.

According to the Gandhian view, science and technology (S&T), like other social and political articulation of Gandhism, are a means to understanding nature and to keep human existence closely aligned with it. S&T are meant to serve the cause of nature-human relationship by helping it perceive truth and achieve truly sustainable comfort and peace. In other words, nature is an underlying 'truth' and S&T but a means to reach the truth. In the context of micro finance initiatives, Gandhian ideology will be a reforming force, a corrective method against the deviation from the pure forms of nature–human relationships that has been forced by the western industrial capitalism driven by the reductionist science which presently controls human existence.

The S&T on which production should be based in micro enterprises must be inherently 'natural'. To quote a well-known Gandhian economist: Nature works in well-defined grooves according to the immutable laws. When man understands its laws and reduces them to a system of knowledge, we call it science. It follows, therefore, that any course of action to be termed scientific should conform to nature in all its bearings and where we deviate from nature, to that extent we are unscientific. Man may understand vaguely the lines which nature works, and makes use of that partial knowledge for his own purpose, deviating by so doing from the course ordained by nature. Such deviation will lead ultimately to his own destruction because he himself is a product of nature (Kumarappa, 1945).

Lastly, but most importantly, the entire system must orient towards religious, moral, and ethical education aimed to reinforce the values of 'inconspicuous consumption', simple living, tolerance, and compassion ? as essential ingredients for a comfortable and happy existence.

It all sounds very much utopian because of the life-long conditioning we have had in the consumerism-oriented paradigm of progress. But once we retune our mindset to the Gandhian rhythm it is the other model which will appear utterly unrealistic, impractical, and unadoptable because it gives so little enduring happiness to so few but at such an astounding cost.

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PREDATORY CREDIT AND CREDIT LAW IN MEXICO

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Abstract

Predatory lending consists of those credit practices that taking advantage of the borrowers' lack of financial literacy exploits customers through high cost credit. People may be victim of predatory lending because lacking alternative financial options; this is when being rationed by the formal financial market. However, the underlying premise is a weak credit law. Despite some advances in consumer protection law, predatory lending has not been regulated in Mexico being not even defined in the law.

While the money is hoped for, and for a short time after it has been received, he who lends it is a friend and benefactor; by the time the money is spent, and the evil hour of reckoning is come, the benefactor is found to have changed his nature, and to have put on the tyrant and the oppressor. (Hows, 1847:30)

1. Predatory lending.

The term "predatory loan" refers to the practices that, through manipulation or providing incomplete information, provide benefits to the lender when exploiting the borrower's lack of knowledge regarding the loan terms. In this case, because the loan contract disproportionately favors the lender, the problems faced by the borrower to repay the debt significantly undermine his wealth and welfare (U.S. Department of Housing and Urban Development, 2001; Morgan, 2007).

The most common practices in predatory lending contracts consist of: i) loans are structured to result in seriously disproportionate net harm to borrowers; ii) lenders charge interest rates and fees in excess compared to the risk of the borrower; iii) loans involve fraud; iv) lack of transparency; v) loans involving waiving legal redress; vi) lending discrimination, and vii) servicing abuses (Drury, 2009:139-140). Also, predatory loans are often granted without an appropriate check of the credit quality of the potential borrower, and by using different methods to persuade consumer to underwrite the loan (Reiss, 2010).

According to the literature, predatory practices have been acknowledged mostly in mortgages market, payday loans, moneylending, pawnbroking and credit sales (U.S. Department of Housing and Urban Development, 2001; Silverman, 2005; Drury, 2009).

In this paper we review some of the literature related with predatory lending focusing on the fact that these practices may be aimed at borrowers with low levels of financial education and/or credit constrained. In Mexico a clear definition of this term has not been established; hence, the legal framework did not rule out predatory practices. In this sense, the blurred Mexican credit law is the most important factor that might be contributing to set the conditions for the proliferation of predatory lending (Pogrund, 2005).

2. Financial Education.

According to the Organisation for Economic Cooperation and Development (OECD, 2005:13), financial education consists of:

"(…) the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being."

A recent review of the conceptual definitions of financial education that have appeared in the literature over the last 10 years (Remund, 2010), revealed that they can be categorized into:EscucLeer fonéticamente i) knowledge of financial concepts, ii) ability to communicate about financial concepts, iii) aptitude in

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managing personal finances, iv) skills in making appropriate financial decisions, and v) confidence to plan effectively for future financial needs.

The literature consistently reports that most individuals lack of a proper financial education (Matul et al., 2004; Miles, 2004; OECD, 2005; Orton, 2007; Mandell, 2009). In particular, low financial knowledge has been detected among Hispanic and African American minorities (National Council on Economic Education [NCEE], 1999; Kotlikoff and Bernheim, 2001; Lusardi and Mitchell, 2007; Sun et al., 2007), among women and individuals with low and middle education (Lusardi and Mitchell, 2006), among youths, elderly and low income people (Anderson et al., 2004; OECD, 2005; Lusardi, 2008; Agarwal et al., 2009).

The need to spread the knowledge of basic financial concepts has led to establishing financial education programs focused on promoting such information among the most vulnerable sectors (Vitt et al., 2000), to know the long-run consequences of over-indebtedness (Cohen and Sebstad, 2003) and to provide information about predatory practices (Todd, 2002; Lucey and Giannangelo, 2006).

Although financial education is associated with having more information and skills on households financing and investment options (Maki, 2004; van Rooij et al., 2007; Lusardi and Tufano, 2009), the direction of causality is still ambiguous (Hathaway and Khatiwada, 2008). Despite of a natural association between increased knowledge and better financial decisions, research providing some evidence on causality is rare (Hilgert et al., 2003; Lusardi and Mitchell, 2007). However, a higher level of financial education is associated with an increase in savings (Bernheim and Garrett, 1996; Bernheim et al., 2001; Clancy et al., 2001; Moore et al., 2001), a greater wealth accumulation (Bernheim et al., 2001; Lusardi, 2003, 2004), a larger amount of savings for retirement (Clark et al., 2003; Lusardi, 2004; Bayer et al., 2008), a lower default rate (Hirad and Zorn, 2001) and a debt reduction (Elliehausen et al., 2007). Recently, Raccanello (2010) found that a lower level of financial education is related to a higher amount of debt underwritten with a pawn shop and a higher frequency of resorting to a pawnbroker. That is, the lack of financial education is associated with an intensive and frequent use of a costly source of financing.

Financial education can be easily confused with consumer protection because they both share the same goal: improving people's financial wellbeing. However, they are different concepts because consumer protection, through regulation and legislation, seeks to establish minimum standards of compliance in the financial sector, providing comprehensive, adequate and comparable information on prices, terms and conditions of financial products and services. It also achieves its purposes through providing mechanisms for addressing complaints and resolving disputes, and to respect the privacy in the handling of personal financial information. In contrast, financial education is intended, through education and counseling, to help consumers making informed decisions (OECD, 2005; Rutledge, 2010). In other words, the regulation related with consumer protection can avoid some wrong decisions, but it does not give them the faculty to make right decisions (HM Treasury, 2007). It follows that financial education and consumer protection complement each other in order for consumers to have a better opportunity to improve their financial wellbeing.

3. Access to formal financial market.

In the United States the spread of predatory lending has been associated with the impoverishment of some sectors of the population when seeking new credit sources (Peterson, 2004). This situation, combined with low levels of households' savings and higher indebtedness (Stegman and Faris, 2003), highlights the misuse of economic resources by households (Hogarth et al., 2002) whose tend to use complementary financial services. Additionally, the lack of financial literacy prevents households to forecast the undermining consequences of the debts owed to high-cost intermediaries (Carr and Kolluri, 2001;Carr and Schuetz, 2001; Leslie and Hood, 2009).

Formal financial institutions, supervised by financial authorities, offer products that due to their limited flexibility (amounts, terms, collateral and paperwork among others) may not meet customer needs (Ray, 1998). Also, especially in the developing economies, penny economies, where people manage small amounts of cash, reduce the profitability of the formal financial institutions (Bouman and Houtman, 1988) exacerbating asymmetric information and monitoring problems (Hoff and Stiglitz, 1990; Aryeetey and Udry, 1995; Floro and Ray, 1997). Based on the above it follows that formal financial sector rations credit incentivizing borrowers to resort to the informal counterpart (Stiglitz and Weiss, 1981;Gine,2005).

In Mexico, most transactions are in cash (Caskey et al., 2006), a situation coupled with low banking penetration and a decrease in consumer credit (Banco de México, 2009; *Comisión Nacional Bancaria y de Valores* - National Banking and Securities Commission [CNBV], 2009; Morfin Maciel, 2009). Due to the lack of credit, individuals may resort to informal loans from family and/or friends, moneylenders, pawnbrokers among others that may charge high interest rates. In Mexico during 2002, the proportion of households that relied on informal credit sector vs. formal sector was 3 to 1: 18.8% vs. 6.2% (Tejerina and Westley,2007).

The literature claims that the most vulnerable people are more likely to resort to informal and semi-formal financing sources for coping drops in revenues due to unforeseen events (Schrader, 1996; Rutherford, 2000; Leslie and Hood, 2009). In this case, low income and savings, but the lack of financial education as well, may heighten relying on strategies that lead to an excessive indebtedness because overestimating their repayment capacity (Stegman and Faris, 2003; Peterson, 2004), loss of assets and a drop in future earnings (Cohen and Sebstad, 2003; Schreiner et al., 2005; Madestam, 2007). This situation has been associated with the exponential growth bias, according to which individuals approximate through a linear model an exponential behavior (Stango and Zinman, 2008) leading to a consistent underestimation of the composite interest rate (Eisenstein and Hoch, 2007). Accordingly, individuals with low levels of financial education tend to underestimate borrowing costs, especially in the short run, by reducing savings and accumulating lower wealth (Stango and Zinman, 2007). Moreover, the myopia of consumers in decision-making can be strategically exploited by intermediaries, even in a competitive market, whose achieve higher profits by hiding relevant information to customers or through price discrimination (Palmer and Conaty, 2002; Gabaix and Laibson, 2006; Morgan, 2007; Stango and Zinman, 2009). Also, due to a poor understanding of information, lack of financial education has been associated with higher demand inelasticity (Hastings and Tejeda-Ashton, 2008).

4.Legal framework.

Predatory practices take advantage of loopholes in the financial legislation, modifying their attributes, and hindering an inclusive definition (Trufant Foster, 1940; Litan, 2001; U.S. Department of Housing and Urban Development, 2001; Peterson, 2004; Ho and Pennington-Cross, 2005; Consumer Federation of America, 2008).

In Mexico, despite the efforts, the credit and consumer protection laws are still inadequate to regulate predatory practices. In the next two sections we will review some of the most important Mexican laws related with this issue.

4.1 The lack of protection in the Mexican financial sector.

In Mexico, before 1976 borrowers were not protected against abuses perpetrated by financial intermediaries because the legal system was not equipped with the appropriate body of laws to regulate the financial sector. The Federal Government promulgated the Federal Consumer Protection Law (*Ley Federal de Protección al Consumidor* - LFPC -, issued on December 22nd, 1975), but this law was not intended to protect the clients of the financial sector (banking, insurance companies, credit agencies and brokerage services); thus, it retained a significant gap in the financial legislation (Acosta et al., 2002).

After the LFPC about seven years passed before for the enactment of the Public Service and Credit Bank Regulation (*Reglamento del Sevicio Público de Banca y Crédito* - RSPBC) that helped to regulate the bank nationalization (September 1st, 1982). The RSPBC established a procedure to protect bank clients and set the National Banking Commission (actually the National Banking and Securities Commission - *Comisión Nacional Bancaria y de Valores* - CNBV) as the body for mediating conciliations and solving disputes. Despite these steps forward, the clients of insurance companies, factoring, credit unions, and brokers were still exposed to abuses, as the Law of Organizations and Credit Activities (*Ley de Organizaciones y Actividades del Crédito*) and the Securities Exchange Act (*Ley del Mercado de Valores*) did not provide any protection mechanisms for them.

When the bank privatization began (1990-1992), the Mexican legal system undergone numerous reforms, introducing conciliation and arbitration procedures entrusted to Government bodies aimed at client's protection. Therefore, the National Banking and Securities Commission (CNBV) was granting protection to brokers' clients.

In 1992, the Law for the Protection and Defense of Financial Service Users was issued (*Ley de Protección y Defensa de los Usuarios de Sevicios Financieros* - LPDUSF). Through this the National Commission for the Defense of Financial Services Users (*Comisión Nacional para la Defensa de los Usuarios de Servicios Financieros* - CONDUSEF) was created. CONDUSEF arose as a decentralized body with legal personality aimed at promoting, advising, protecting and defending the rights of individuals who use financial products or buy financial services offered by intermediaries. Because the LPDUSF established that the rights granted by the act itself are inalienable, it represents the most important advance for financial services consumers.

4.2 A weak legal framework.

4.2.1 Contracts of adhesion.

Despite the initial optimism related to the creation of the CONDUSEF, the commission began to work only in 1999; unfortunately, both conciliatory and solving-disputes functions are still *de facto* ineffective. In 2007, the commission solved only 29% of the conciliation reports but during the same year only 3 cases came to arbitration; this is because the financial institutions are not obliged to abide commission's recommendations (Díaz, 2009).

Currently, one of the main aspects related to the LPDUSF is "to review and propose amendments to regulations referring to adhesion contracts" by the CONDUSEF. In Mexico adhesion contracts are "voluntary agreements related to both proposed and rigid, rights and obligations, offered by one part to the other one which can accept or reject it" (Rubiel, 1997:53). Therefore, adhesion contract - that constitute the common standard form contract used by commercial stores/business and some lenders - assume, from its very beginning, a formal and structural inequality, because the lender is the one who has the power to negotiate and unilaterally set the details of the contractual relationship. According to such contracts, commercial enterprises can establish harmful clauses to customers whose cannot delete or modify them when they do not contravene a statutory provision on financial matters. Hence, because the borrower is unable to participate in shaping the content of the contract, it is essential to carry out an external administrative, judicial and legal control to determine whether any contract term unfairly affects the relationship between the parts (often to the detriment of client's interests).

4.2.2 Predatory practices in the financial sector.

The economic and financial crisis that hit Mexico in late 1994 exposed the vulnerability of the Mexican banking system and the national stock market. People lost confidence in the financial sector while credit institutions trustworthiness decreased; so, in the next few years, the government had to recover citizens' confidence in the financial system. The strategy used by government sought to give greater legal certainty to borrowers and lenders by promulgating laws establishing savings-protection-oriented-mechanism (Protection of Bank Savings Law – *Ley de Protección al Ahorro Bancario*). Despite of these rules and institutions (Institute for the Protection of Bank Savings – *Instituto de Protección al Ahorro Bancario* - IPAB), the legal framework did not devote a single section to regulate predatory practices.

It was not until 1999 when the second Law for the Protection and Defense of Financial Service Users (2LPDUSF) was issued; it was aimed to:

"(…) protect and defend the users' rights and interests of the financial services provided by the public, private and social sector duly authorized, and to regulate the organization, procedures and operation of the public entity responsible for these functions." (2LPDUSF, Art. 1)

Because of increasing trade with other countries, to prevent the weakening of consumer protection, the Federal Consumer Protection Law was amended on February 4th, 2001. In this law the economic protection of the consumer is linked to the Competition Law (Quiroz, 2008), but Acosta et al. (2002) argue that 2LPDUSF still contains some inconsistencies due to problems related to transparency and consumer protection, which have been grouped in:

I. Information disclosure. Actions aimed to solving low quality and asymmetry information problems.

II. Credit cards. Procedures aimed at providing access to precise information on fees and interest rates.

III. Best practices. Measures aimed at preventing borrowers' over-indebtedness.

IV. Transaction costs. Measures aimed at promoting competition through lower costs for switching between financial institutions.

Therefore, to address the legislative gaps mentioned above, in 2007 the Law for Transparency and Financial Services Ordering (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros* - LTOSF) was issued. Although predatory practices are not even mentioned in the text, this law may be considered as the first approach for regulating them because recognizing (at least some of) the activities performed by predatory lenders. In fact, concerning adhesion contracts, LTOSF Article 11 states that:

"... The rules in the above paragraphs will refer to the following aspects:

I. The healthy banking and business practices, regarding operation or service, as appropriate;

II. The use of printed formats in order to facilitate reading and understanding of the contracts content …"

However, the LTOSF is still ambiguous when referring to "healthy banking and business practices"; Mendoza (2010) interpreted it as the need to include a number of rules aimed at promoting an equitable relationship between users and institutions offering financial services in order to avoid borrowers' over-indebtedness. Moreover, to date (December 2010) the National Supreme Court has not released any comment regarding the interpretation of this part of the law leading to a controversy for disentangling which lending practices may be considered as healthy and which ones do not.

5. Conclusions

In Mexico, the legal framework cannot prevent predatory lending from harming borrowers because these practices have not been lawfully regulated yet. Despite some recent advances based on the Law for Transparency and Financial Services Ordering, much more needs to be done. Of course, people can reduce the likelihood to fall into predatory contracts when possessing enough financial skills (that allow detecting these practices ex-ante) or when having access to formal financial market (because no need to resort to fringe banking).

Although research focused on predatory lending in other countries, Mexico seems to be both a suitable (for banking and economic conditions) and a vulnerable country (for lack of regulation) for developing such strategies. According to expectations, some retail stores aimed at the low-middle income people already begun to apply credit sales strategies that share several aspects linked to predatory credit. Unfortunately, these strategies can be easily implemented, through weakly regulated adhesion contract, by many sectors belonging to formal and informal market.

The need for regulation in the Mexican financial sector is urgent; while writing this article, one of us (Raccanello) was contacted by telephone at least 4 times by commercial bank representatives who tried to sell him a medical insurance which was starting to cover medical expenditure after the first 48 hours of hospitalization (!). Of course, the delay in covering such urgent and unforeseen payments was never mentioned in any of the calls received but clearly stated in the insurance contract (requested through telephone but never received, and finally accessed through the bank's web page).

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MICRO FINANCE INSTITUTIONS IN INDIA – A STUDY ON FINANCIAL PERFORMANCE

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Abstract

Predatory lending consists of those credit practices that taking advantage of the borrowers' lack of financial literacy exploits customers through high cost credit. People may be victim of predatory lending because lacking alternative financial options; this is when being rationed by the formal financial market. However, the underlying premise is a weak credit law. Despite some advances in consumer protection law, predatory lending has not been regulated in Mexico being not even defined in the law.

Introduction

Microfinance has gained a lot of significance and momentum in the last decade. India now occupies a niche in global microfinance through the promotion of Self Help Groups (SHGs), Non-Government Organizations (NGOs) etc., Micro credit has also involved in the potential beneficiaries of Rural Credit in the credit delivery system. In total, more than 30,000 branches of commercial banks, Cooperative banks and Regional Rural Banks in over 520 districts in 30 states and union territories are now in the implementation of the SHG-Bank Linkage Programme introduced and encouraged by NABARD. Microfinance is an economic development approach that involves providing financial services through institutions to low income clients. The beginning of the microfinance movement in India could be traced to the Self-Help Group (SHG)-Bank Linkage Programme (SBLP) started as a pilot project in 1992 by National Bank for Agricultural and Rural Development (NABARD). This programme has emerged as the most popular model of microfinance in India. Other approaches like Micro Finance Institutions (MFIs) also emerged subsequently in the country. Recognizing the potential of microfinance to positively influence the development of the poor, the Reserve Bank of India (RBI), has taken several initiatives over the years to give a further fillip to the microfinance movements in India.

Consultative Group to Assist the Poor finances the MFIs. Based on the disclosure frequency, CGAP has rated the institutions engaged in Microfinance. The suitability of MFI firms to receive donations and grants are based on the guidelines formed by the Consultative Group to Assist the Poor (CGAP), a global body of dominant donors on MFI space framed its own guidelines and linked the donations with the quality and amount of disclosure made by aid seeking MFIs. CGAP has developed disclosure guidelines to specify information that should be included in MFI financial reporting. Donors, other investors, board members and managers of MFIs rely on financial statements when they assess financial sustainability and the loan portfolio. But many financial statements do not include enough information to permit such an assessment. The disclosure guidelines help to address this problem. The guidelines are not accounting standards but augment accounting standards to improve MFI reporting. They are voluntary norms. They require disclosure of some information not normally found in financial statements like grants and donations, in-kind subsidies, portfolio composition and delinquency status. They do not prescribe a choice of accounting basis or method but call for the reporting of the basis or method used. The guidelines explain on the requirement of importance of information.

Microfinance and Micro Finance Institutions – A General View

Majority of the population in India resides in rural areas. Thus, development of rural India is a key step towards economic development for a country like ours.

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Credit is one of the very important inputs of economic development. The timely availability of credit at an affordable cost has a big role to play in contributing to the well being of the weaker sections of the society. Proper access to finance by the rural people is a key requisite to employment, economic growth and poverty reduction which are the primary tools of economic development. India has a huge network of institutional credit. Institutional credit refers to credit offered by financial institutions like banks. India is experimenting with different types of developmental policy with an objective to enhance the welfare and well being of her population. women, aged people, people with deficiency, ethnic, religious and sexual minorities and all the groups that are commonly recognized by their 'vulnerable situation' have been continually and still are excluded from the development benefits, as an attempt in the right direction of development process. There has been genesis of the theory of' inclusive development' and that being debated in the recent past.

Financial Inclusion

Financial Inclusion is the delivery of banking services at an affordable cost of the vast sections of disadvantaged and low-income groups. As banking services are in the nature of public goods, it is essential that availability of banking and payment services be made to the entire population without discrimination. The scope of the financial inclusion can be expanded in two ways. i.e. either through state-driven intervention by way of statutory enactments or through voluntary effort made by the banking community itself for evolving various strategies to bring large section of population within the ambit of the banking sector, when bankers do not give the desired attention to certain areas, the regulations have to step into remedy the situation.

Financial Inclusion and Microfinance in India

India as a country, presents great diversity in its geography, history, culture and population demography. This diversity makes it extremely difficult to suitably categorize the country on economic, political, religious or demographical grounds. Post independence growth has led to overall development of the country as a whole but it has also divided it into two distinct segments thus providing a suitable basis of categorization in the form of Rural India and Urban India. As per the census of 2001 only 74.22 crores of people live in rural while the rest 28.12 crores of people live in urban area. The rural segment is distinct in respect of various features such as purchasing power, development, social system etc. These distinctions relate directly to the kind of distinct demand patterns that the rural sector has in various product segments especially when it comes to financial services. The sector presents a real challenge given its technological backwardness and mass illiteracy as people are still caught in ancient financial systems that were both exploitative and futile.

Statement of the Problem

Poverty alleviation is one of the primary objectives of any planning in a national economy. It becomes imperative to formulate specific situational poverty alleviation policies and programmes for the generation of minimum level of income for the rural poor which forms the substantial percentage of the national population in developing societies. The Programmes organized by Commercial banks, Regional Rural banks, Co-operative banks have not completely attained their objective in improving the standard of the poor. Thus, Microfinance Institutions came into existence as an extension programme for development. Micro credits like retail loans, education loans, household financing, micro enterprises etc., are provided by these Microfinance Institutions to the low income groups. In this context, an attempt has been made to analyze the financial performance of the selected MFIs in India.

Objectives of the study

The study has the following objectives:

· To examine the operating profile of selected Microfinance Institutions in India.

· To ascertain the financial health of selected Microfinance Institutions in India.

· To identify the top line and bottom line performers from the selected Microfinance Institutions.

Data Sources

Secondary data has been used in this study for analysing the performance of the selected Microfinance Institutions in India. The secondary data has been extracted from www.mixmarket.org. This is the only website which contains the data for MFIs in India and foreign countries. Additional information has been taken from Journals, Articles, Magazines, Books and Websites.

Period of Study

The period employed for the study of selected Microfinance Institutions in India is from 2005-2006 to 2009-2010, namely, five years.

Statistical Tools

- Annual Growth Rate
- Compounded Growth Rate
- Mean, Standard Deviation, and Analysis of Variance

Sample and Sampling Technique

There are 85 Microfinance Institutions in India, which have reported their financial information to CGAP through the website (www.mixmarket.org) with different frequency in timings. The MFIs which have 'reported information' continuously for four or five years have been identified. It is noted that only twenty - nine institutions have fulfilled the requirement. Applying random sampling techniques, seven institutions (25 per cent) have been chosen for the current study. They are:

1. Spandana Sphoorty Financial Ltd
2. Bandhan
3. BASIX
4. Axomi
5. Village Financial Services Private Ltd (VFSPL)
6. Grameen Financial Services Pvt Ltd (GFSPL)
7. Grama Vidiyal (GV)

Hypotheses

The following hypotheses have been applied:

- The MFIs do not differ in their financial structure and overall financial performance.
- The MFIs do not differ in their efficiency, productivity and risk.

Review of Literature

Waterfeild.C and Ramsing. N (1998) have written an article on "Handbook of Management Information Systems (MIS) in MFIs" in which they have aimed to underline the importance of a MIS to a well functioning MFI, provide guidance financial ratios and useful reports for monitoring institutional performance, and provide both managers and information systems staff with guidance in selecting or refining an MIS. While the handbook presents much general information, it primarily addresses the MIS needs of the medium-size to large MFIs. A fundamental problem in developing effective MIS has been poor communication between the two groups. The handbook tries to improve this communication by assisting information users in educating each group about the world of the other

Joselito Gallordo (2002) in his article titled "Framework for Regulating Micro finance Institutions; the experience in Ghana and Philippines" has presented a regulatory frame work that has identified threshold in financial intermediation activities that triggered a requirement for a Micro finance Institution to satisfy external or mandatory guidelines. He has focused on key issues in the regulatory and supervisory environment for microfinance. He has given maximum attention to the thresholds at which intermediation activities become subject to prudential regulation and regulatory standard for capitalization, asset quality, capital adequacy and liquidity management. The key elements and characteristics of Microfinance regulatory experience of two countries may be useful for other countries in establishing environment conductive to the development of sustainable microfinance institutions. Thus, clear pathways for Institutional transformation facilitate the integration of Microfinance Institutions into the formal financial system.

Mr. Justine Nannyonjo and Mr. James Nsubuga (2004) have presented a working paper on "Recognizing the role of MFIs in Uganda". In this paper, they have shown that microfinance is an important part of the growth strategy in Uganda. This is evidenced by initiatives and strong commitment by the government, donors etc... towards supporting microfinance activities in Uganda. They have identified a number of challenges like the need to strengthen the capacity of MFIs to build their management information systems and to rebuild infrastructure in underserved areas. Moreover, for the many programmes aimed at supporting the microfinance industry to be effective, there is a need for continued economic stability, government commitment to develop the industry, and future efforts to rebuild the capacity at local governments.

Muralidhar. K Rao (2006) in his article, "MFIs in India - An Overview" has examined the microfinance service providers like NABARD and SIDBI. The uniqueness of microfinance through SHGs is that it is a partnership based approach and has encouraged NGOs to undertake not only social engineering but also financial intermediation. In India, the RBI has extended credit facilities that both public and private banks have extended sizeable loans to MFIs at interest rates ranging from 8-11% per annum. But many MFIs are charging around 12-26% which is exploitative. Various committees like advisory committees and informal forums have examined the map for regulation and supervision of MFIs. A development mode rather than a regulatory mode needs to be adopted for encouraging MFIs to innovate and evolve in areas where financial exclusion of the poor is widespread

Kyereboah-Coleman and Anthony (2007) in their article, "The impact of capital structure on the performance of microfinance institutions" has examined the impact of capital structure on the performance of microfinance institutions. Panel data covering the ten-year period 1995-2004 were analyzed within the framework of fixed- and random-effects techniques. The authors have found out that most of the microfinance institutions employ high leverage and finance their operations with long-term as against short-term debt. Also, highly leveraged microfinance institutions perform better by reaching out to more clients, enjoy scale economies, and therefore deal better with moral hazard and adverse selection, enhancing their ability to deal with risk.

Profile of the selected MFIs

Spandana Sphoorthy Pvt Ltd : Spandana microfinance institution has been established on January 1, 1998. It has its head office at Hyderabad Spandana has come forward with its main challenges as "There are two important challenges ahead. Spandana at present has completed a process of transformation in a Non Bank Financial Company and is currently transferring the Society's activity to the Company. Spandana has outperformed the most performing organisations by setting up trends with high level of efficiency, productivity and thereby profitability levels. Thus the biggest challenge lies in retaining these levels in the pace of increasing competition." Spandana hold the Second place in top microfinance institutions in India. According, to the Journal "Business Vision". Spandana holds five star grades for its high disclosure.

Bandhan Society: Bandhan (meaning togetherness) was born in 2001 under the leadership of Mr. Chandra Shekhar Ghosh, a Senior Ashoka Fellow. Bandhan commenced group-based microfinance operations in West Bengal in July 2002. Presently, all microfinance activities are carried under Bandhan Financial Services Private Limited (BFSPL), incorporated under the Companies Act, 1956 and also registered as a Non Banking Financial Company (NBFC) with the Reserve Bank of India (RBI). Presently, Bandhan has a microfinance client base of 2.5 million spread across 15 states of India with a Rs.1495.14 crore loan portfolio. Started from a small village, Bagnan (60 km away from Kolkata, West Bengal) in July 2002, Bandhan has today travelled to some of the major states of India

Basix : Basix is a livelihood promotion institution established in 1996, working with over ***a million and a half customers, over 90% being rural poor households and about 10% urban slum dwellers. Basix works in 16 states*** - Andhra Pradesh, Karnataka, Orissa, Jharkhand, Maharashtra, Madhya Pradesh, Tamilnadu, Rajasthan, Bihar, Chattisgarh, West Bengal, Delhi, Uttarakhand, Sikkim, Meghalaya and Assam, 205 districts and over 25,300 villages. It does not come under India's top 50 microfinance institutions. But according to the Journal "Business Vision". Basix has been graded with five star for its disclosure.

Axomi: Axomi has started microfinance operations in the financial year 2000-2001. Axomi main financial programs are bringing awareness among the rural and under - privileged section of the society towards the opportunities available in their areas of operations and to provide counseling as well as hand holding for setting up viable economic activities. Axomi is a leading microfinance institution (MFI), currently operating in the state of Assam with over 30 branches and 150 employees Axomi has, just within a space of 6 years, established itself as one of Assam's leading non governmental organisation (NGO) engaged in social transformation.

Village Financial Services Pvt Ltd : Village Financial Services Private Limited(V.F.S.P.L) has started Micro Finance Operations in the financial year 2005-2006.Micro Finance program of V.F.S.P.L has grown and has touched the lives of many thousands of poor underprivileged and backward section of our society by providing them credit for income generating activities and helping them to become economically self sufficient, sensitizing women about empowerment issues and bringing about a qualitative change in them and their families related to standard of living and their own status in the society. Village Financial Services Private Limited (V.F.S.P.L) is the 1st Micro Finance Company in Eastern Region with Non Banking Financial Company status (N.B.F.C) licensed by Reserve Bank of India (RBI). Out of 85 microfinance institutions in India (VFSPL) holds 36th place. For its disclosure it is rated with three star according to the Journal "Business Vision".

Grameen Financial Services Pvt Ltd : Grameen Financial Services (GFSPL) was born out of this need for timely and affordable credit to India's poor and low-income households. They drew inspiration from Give Us Credit (Alex Counts – President and CEO, Grameen Foundation USA), a book that detailed the remarkable stories of Bangladesh's poor raising themselves out of poverty through the microfinance movement that was spearheaded by Nobel Laureate Professor Muhammad Yunus. Grameen financial services private limited holds the 10th place in top microfinance institution in India. According to the Journal "Business Vision". GFSPL holds five star grades for its high disclosure

Grama Vidiyal : In 1996 Grama Vidiyal registered as public charitable trust, has provided small loans to women without access to formal credit and who typically have daily incomes of less than Rs 80 per day. From early beginnings of a few groups formed for the purpose of internal lending to a rapidly growing organization offering a wide range of financial products to its members, GV has emerged as a regional force in the Indian microfinance sector. GV expects continued rapid growth, reaching more that 2 million clients by expanding to other states of India with more than Rs1500 crores by 2012. GV hold 9th place in top microfinance institutions in India. According to the Journal "Business Vision" GV hold five star grades for it is high disclosure.

I) FINANCIAL PERFORMANCE - AN ANALYSIS

Analyzing the financial performance is a process of evaluating the relationship between component parts of a financial structure to ascertain a better understanding of an Institution's position and performance. The purpose of financial analysis is to judge the transparency of the MFIs. The interpretation is essential to bring out the mystery behind the figures in financial statements

a)Products offered

The concept of MFI in India has gained momentum only in the recent part. The MFIs have come forward with Products namely retail loans, household financing and micro enterprises loans with aggressive efforts, particularly in the years 2008 – 09 and 2009 -10, which are depicted in the table. These details for the three previous years are not available**.**

Table- 1 Products offered by selected MFIs during2008 - 09 & 2009 – 10.

ProductsOffered	MFIs	2008-2009	2009-2010	Percentage increase
Retail loans (Numbers)	Spandana	24,32,000	36,62,846	51
	Bandhan	14,54,834	23,01,433	58
	Basix	4,98,681	11,14,468	123
	Axomi	10,125	40,449	299
	VFSPL	77,206	1,84,020	138
	GFSPL	2,11,562	3,52,648	67
	GV	3,60,466	7,72,050	114
Household Financing (Numbers)	Spandana	--	--	--
	Bandhan	--	616	--
	Basix	38,795	98,762	155
	Axomi	--	--	--
	VFSPL	--	--	--

	GFSPL	19,616	--	--
	GV	--	15,441	--
Micro enterprises (Loans)	Spandana	24,32,000	--	--
	Bandhan	--	23,00,817	--
	Basix	4,59,886	10,15,706	121
	Axomi	10,125	40,449	299
	VFSPL	77,206	1,84,020	138
	GFSPL	3,33,032	--	--
	GV	--	7,56,609	--

Source: computed — not available

It is inferred from the above table that the role of MFIs has gained more importance in the later part of the study period, namely 2008 – 09 and 2009 – 10 because of the non coverage of the poor both urban and rural by the Commercial banks, Regional Rural Banks and Co-operative banks**.**

b) Category of Borrowers

The following table shows the percentage of Women, Men and Legal Entity to total borrowers

Table -2 Category of borrowers in selected MFIs

MFIs	Borrowers	05-06	06-07	07-08	08-09	09-10
Spandana	Female	100	97	97	97	92
	Male and Legal entity	0	3	3	3	8
Bandhan	Female	100	100	100	100	100
	Male and Legal entity	0	0	0	0	0
Basix	Female	44	47	51	57	66
	Male and Legal entity	56	53	49	43	34
Axomi	Female	93	82	66	90	97
	Male and Legal entity	7	18	34	10	3
VFSPL	Female	96	99	100	100	100
	Male and Legal entity	4	1	0	0	0
GFSPL	Female	100	100	100	99	99
	Male and Legal entity	0	0	0	1	1
GV	Female	100	100	100	100	100
	Male and Legal entity	0	0	0	0	0

Source: computed

It is inferred from the above table that the women holds the higher percentage of borrowing when compared to male and legal entity. But Basix is an exceptional case of equal constitution for both the categories.

c) Number of Loans Outstanding

This following table shows the number of loans outstanding according to category wise allocation of the selected MFIs, in respect of female, male and legal entity borrowers.

Table -3 Category wise distributions for number of loans outstanding of select MFIs

MFIs	No. of loans outstanding	2008-09	2009-10	Per cent increase
Spandana	Female	11,47,823	33,68,115	193
	Male and legal entity	—	2,94,731	—
Bandhan	Female	14,54,834	23,01,433	58
	Male and legal entity	—	—	—
Basix	Female	2,85,863	7,39,581	158
	Male and legal entity	2,12,818	3,74,887	76
Axomi	Female	9,112	39,374	332
	Male and legal entity	1,013	1,075	6
VFSPL	Female	77,206	1,84,020	138
	Male and legal entity	—	—	—
GFSPL	Female	3,57,887	5,25,589	47
	Male and legal entity	799	2,134	167
GV	Female	4,92,291	11,56,390	135
	Male and legal entity	—	—	—

Source: computed — not available

It is found that, the maximum utilization of the products offered by the MFIs has been by women and it is vivid that the number of loans outstanding has also been greater from women when compared to the males. Axomi has shown a larger per cent increase (332 per cent) when compared to the other selected MFIs

II) FINANCIAL HEALTH OF SELECTED MFIS IN INDIA.

The following ratios have been chosen to analyse the institutions on seven parameters of financial performance, namely.

1) Financial structure

2) Overall financial performance

3) Revenue

4) Expenses

5) Efficiency

6) Productivity

7) Risk

1) Financial Structure:

To analyse the financial structure of MFIs selected, the following ratios have been applied, namely,

- Total Equity to Total Assets (Debt Equity Ratio)
- Gross Loan Portfolio to Total Assets.

H_o:“There is no significant difference among the selected MFIs in respect of total equity to total asset ratio and gross loan portfolio to total assets during the study period.”

Table-4 ANOVA for Financial Structure

MFI	Debt equity ratio		Gross loan portfolio to assets	
	Mean	S.D.	Mean	S.D.
Spandana	15.19	12.17	80.73	9.36
Bandhan	14.16	5.88	78.47	16.31
Basix	6.20	1.60	73.47	11.42
Axomi	124.28	278.27	68.95	20.54
VFSPL	8.27	3.45	72.18	10.28
GFSPL	6.54	2.14	78.18	3.54
GV	11.45	8.38	70.11	19.91
F Value		**.806**	**.484**	
Significance		**Ns**	**NS**	

Source: computed

The ANOVA result shows that the calculated F ratio value (0.806) for debt equity ratio is less than the table value (2.459) at 5 per cent level of significance. Since the calculated value is less than the table value, there is no significant difference among the MFIs selected and have the null hypothesis is accepted.

The F Value for gross loan portfolio to assets is 0.484 which is less than the Table Value, 2.459. Hence, the Hypothesis is accepted.

2) Over all Financial Performance

To ascertain the overall financial performance of the selected MFIs, the following ratios have been applied, namely,

- Return on assets
- Return on equity

H_o: "There is no significant difference among the selected MFIs in respect of return on assets and return on equity during the study period."

Table- 5 ANOVA for Over all Financial Performance

MFI	Return on Assets		Return on Equity	
	Mean	S.D.	Mean	S.D.
Spandana	5.13	3.09	52.29	20.84
Bandhan	5.41	3.38	77.58	47.39
Basix	1.83	.83	13.00	7.53
Axomi	.48	2.01	14.56	66.91
VFSPL	4.00	3.70	42.14	45.34
GFSPL	2.09	2.55	22.89	33.56
GV	2.05	1.77	16.12	8.80
F Value		**2.251**	**2.063**	
Significance		**Ns**	**Ns**	

Source: computed

From the above table, it is concluded that, there is no significant difference found on the return on assets and return on equity for the seven Microfinance Institutions. Hence, the Hypotheses are accepted.

3) Revenues

Revenue is the total amount received by a firm for sale of goods / services (loans) provided during the certain time period. It is calculated before expenses are subtracted. To analyse the position of revenues of the MFIs, the following ratios have been applied, namely,

- Financial revenue ratio
- Profit margin

Table -6 ANOVA for Revenues

MFI	Financial Revenue Ratio		Profit Margin	
	Mean	S.D.	Mean	S.D.
Spandana	22.28	7.06	32.56	13.97
Bandhan	23.92	5.58	28.17	14.36
Basix	24.17	1.09	13.27	4.45
Axomi	11.78	8.49	-5.43	40.71
VFSPL	22.03	6.84	18.72	8.96
GFSPL	25.56	1.39	8.94	8.99
GV	20.96	8.42	14.56	11.83
F Value		**2.178**	**2.237**	
Significance		**Ns**	**Ns**	

Source: computed

It is inferred from the above table that there is no significant difference in the financial revenue ratio and profit margin. Hence, the Hypotheses are accepted.

4) Expenses

The employment of funds towards various commitments is also analysed for the selected MFIs by applying,

- Total expense ratio
- Operating expenses ratio

Table-7 ANOVA for Expenses

MFI	Total expenses ratio		Operating expenses ratio	
	Mean	S.D.	Mean	S.D.
Spandana	14.28	2.52	3.85	.79
Bandhan	15.78	3.79	4.62	1.30
Basix	21.10	1.91	7.48	2.04
Axomi	11.00	8.66	2.78	2.48
VFSPL	17.53	4.12	3.40	1.53
GFSPL	23.23	2.14	5.45	.19
GV	17.70	6.87	5.29	1.95
F Value		**3.139**		**4.361**
Significance		*		*

Source: computed

In the total expenses ratio, it is significant at a level of 5 per cent because the F value of 3.139 is higher than the table value which is 2.474. Hence, the Hypothesis is rejected. It is observed from the above table that, the F value for operating expenses ratio 4.362 is higher than the table value which is 2.474. Which is significant and hence the hypothesis is rejected.

5) Efficiency

Efficiency is the comparison in performance with achievement in consumption of resources (money, time, labour etc.,). It is an important factor in determining the productivity of the firm.

- Operating expenses/loan portfolio
- Cost per borrower

Table-8 ANOVA for Efficiency

MFI	Operating expenses		Cost per borrower	
	Mean	**S.D.**	**Mean**	**S.D.**
Spandana	6.85	1.33	7.60	1.82
Bandhan	9.51	1.81	310.80	44.28
Basix	10.98	11.54	1291	78.14
Axomi	13.33	2.59	734.80	512.17
VFSPL	15.39	1.45	11.40	2.30
GFSPL	15.25	6.53	931.25	132.65
GV	15	7	647.60	257.91
F Value		**5.900**		**21.698**
Significance		*		*

Source: computed

It has been inferred form the above table that, operating expenses and cost per borrower are found to be significant at a level of 5 per cent. Hence, the null hypotheses are rejected

6) Productivity:

To ascertain the productivity of the selected MFIs, the ratio of the borrowers for the staff members have been analysed.

Table-9 ANOVA for Productivity

MFI	Borrowers / staff member	
	Mean	**S.D.**
Spandana	417.05	59.14
Bandhan	299.33	55.32
Basix	163.32	12.88
Axomi	115.36	69.83
VFSPL	325.45	44.42
GFSPL	593.68	717.58
GV	242.54	52.64
F Value		**1.715**
Significance		**Ns**

Source: computed

The ANOVA results show that there is no significant difference in the ratio of borrowers per staff member. The F Ratio Value is 1.715 whereas the table value is 2.445. Hence, the hypothesis is accepted.

7) Risk Coverage:

To ascertain the risk coverage of selected MFIs, the following ratios has been analysed, namely.,

- Portfolio risk>30 days
- Portfolio risk>90 days

Table-10 ANOVA for Risk Coverage

MFI	Portfolio risk>30 days		Portfolio risk>90 days	
	Mean	S.D.	Mean	S.D.
Spandana	3.23	3.86	4.01	3.80
Bandhan	.12	.03	.08	.03
Basix	1.87	.45	1.13	.24
Axomi	6.20	7.87	4.32	5.93
VFSPL	1.23	.98	.94	.63
GFSPL	103.60	146.23	102.51	144.95
GV	.29	.39	.28	.41
F Value		2.830		2.523
Significance		*		Ns

Source: computed

It is observed from the above table that, the table value (2.638) is less that the F value (2.830). It is significant at a level of 5 per cent. So, the hypothesis is rejected. The results show that there is a significant variation in the portfolio risk>30 days.

The table value for portfolio risk>90 days which is higher than the F ratio value So, the hypothesis is accepted.

III) TOP LINE AND BOTTOM LINE PERFORMERS AMONG THE SELECTED MFIS.

The following table has been prepared based on the mean ratio to find out the top line and bottom line performers among the selected MFIs.

Table-11 Top Line and Bottom Line Performers

Ratio	Mean Value for Top Line	Mean Value for Bottom Line	Top line	Bottom line
Debt/Equity Ratio	15.19	124.28	Spandana	Axomi
Gross Loan PortFolio/Total Assets	80.73	68.95	Spandana	Axomi
Return on Assets	5.13	0.48	Bandhan	Axomi
Return on Equity	52.29	14.56	Bandhan	Basix
Financial Revenue Ratio	22.28	11.78	GFSPL	Axomi
Profit Margin Ratio	32.56	-5.43	Spandana	Axomi
Total Expenses Ratio	14.28	11.00	Axomi	GFSPL
Operating Expenses Ratio	3.85	2.78	Axomi	Basix
Operating Expenses/Loan Portfolio	6.85	13.33	Spandana	VFSPL
Cost per Borrower	7.60	734.80	Spandana	Basix
Borrower per Staff Member	417.05	115.36	Spandana	Axomi
Portfolio at Risk>30 Days	3.23	6.20	Bandhan	Axomi
Portfolio at Risk>90 Days	4.01	4.32	Bandhan	Axomi

Source: Computed

By analysing all the ratios it is found that Spandana is the top line performer among the selected MFIs and Axomi is the bottom line performer among the selected MFIs.

It is observed from the table that, Spandana ranks first among selected MFIs in the ratios applied, followed by Bandhan. Axomi is a bottom line performer as it comes last in most of the applied ratios.

Findings

The following are the findings that appeared while analyzing the study

- Due to insufficient – coverage of poor by rural banks, commercial banks, RRB's (Regional Rural Banks), co-operative banks, the MFIs came into existence with products like retail loans, household financing, education loans, etc
- MFIs covers female borrowers more than other categories, but Basix is an exception as it gives equal importance
- Spandana has a high debt equity relationship when analyzing the MFIs
- Total expenses and operating expenses need to be reduced in case of most of the selected MFIs (GFSPL, Basix, GV and VFSPL) as they are operating under huge expenditure.
- Risk coverage is found to be moderate
- From the analysis made, it is found that Spandana is the top line performer, as it has satisfied most of the applied ratios due to its efficient functioning.
- Axomi is found to be bottom line performer. It has to improve in its debt equity ratio, return on assets ratio, return on equity ratio and it has to decrease its risk coverage.

Suggestions

The following suggestions can be given a thought for a better analysis:

- The MFIs should try to fall under high disclosure group of CGAP, Mix Market (reporting)
- The Reserve Bank of India can take promotional measures to develop the MFIs and provide them facilities for a better connectivity with the masses.
- Cross-sectional time series analysis will throw in more insights into the performance of MFIs.
- Innovative steps can be promoted by the MFIs with the help from the Government to reach the unreached.
- More awareness campaigns can be conducted for micro credits, micro insurance and other products like micro thrift, etc on a wide base.
- The Government, RBI and NABARD can come out with subsidy schemes for borrowing group which in turn will lead to human empowerment.
- The MFIs can be ethical in their disclosure for a better rating.
- The MFI can offer loan products at a cheaper rate of interest to the masses , which at present is exorbitant, in comparison to that of commercial banks.

Scope for further research:

A comparative study of microfinance institutions with other micro credit lending institutions can be made.

Conclusion

Micro finance acts as a catalyst in the lives of the poor. In the present study, an attempt has been made to analyze the financial performance of various microfinance institutions operating in India based on their profile, financial health and performance. MFIs must be able to sustain themselves financially in order to continue pursing their lofty objectives, through good performance and vivid functioning. Thus, there is an urgent need to widen the scope, outreach as also the scale of financial services to cover the unreached population.

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FINANCIAL LITERACY AND MICRO CREDIT MANAGEMENT: A MICRO STUDY AMONG MEMBERS OF NEIGHBOURHOOD GROUPS OF KUDUMBASHREE (KERALA)

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Abstract

The Self Help Groups (SHGs) aimed at pooling of poor women to find ways and means to combat their family poverty and thereby their own empowerment have been widely recognised in India especially on its southern part comprising Kerala, Tamil Nadu, Andhra Pradesh and Karnataka. The higher concentration of micro finance efforts – micro credit and micro savings – in the southern states in the county have been substantiating evidences for this. Though the higher spread of micro finance through SHGs are positive symptoms towards poverty alleviation and empowerment in this region, there is also a question of efficient and effective use these credit. Inefficient use of credit may worsen the financial situation of the poor than bringing economic empowerment. Basic financial literacy is paramount here to ensure efficient and effective utilisation of credit. Provision of financial literacy to the poor by different possible means has been, therefore, inevitable to ensure proper micro credit management. The present paper is an empirical one pursuing into the measurement of basic financial literacy and micro credit management knowledge level of members of formal women groups in one of the grama panchayats in the State of Kerala, India.

Introduction

The Self Help Groups (SHGs) aimed at pooling of poor women to find ways and means to combat their family poverty and thereby their own empowerment have been widely recognised in India especially in its southern part comprising Kerala, Tamil Nadu, Andhra Pradesh and Karnataka. The higher concentration of micro finance efforts – micro credit and micro savings – in the southern states in the county have been substantiating evidences for this. As per the records of the National Bank for Agriculture and Rural Development (NABARD), the southern region of the country comprising these four states having a population of 21.82 per cent stands top in credit outstanding as on 31.3.2009 (65.75 per cent) and SHGs' formation (53.99 per cent) (NABARD, 2009). Though the higher spread of micro finance through SHGs are positive symptoms towards poverty alleviation and empowerment in this region, there is also a question of efficient and effective use of these credit. Inefficient use of credit may worsen the financial situation of the poor than bringing economic empowerment. Basic financial literacy is paramount here to ensure efficient and effective utilisation of credit. Though advanced financial literacy with strong construct is not applicable here, financial literacy construct with basic knowledge is quite inevitable to avoid losses.

The different variants of micro finance efforts like micro credit, micro savings, micro enterprises, micro insurance, micro housing, etc. are acknowledged as effective tools in developing nations to combat poverty (Khandelwal, 2007; Morduch, 1999). It has also been acquiring momentum in its varied forms even in developed nations like the United States of America to facilitate low income groups with financial services (Lakshman, 2010; Murali and Padmanabhan, 2007; Naik, 2008). The international agenda of poverty alleviation as part of Millennium Development Goals (MDGs) initiated by the United Nations (UN) also signifies world-unified efforts in this regard. Increasing momentum regarding micro credit dispensation all over the world demands its effective utilisation to attain the objective. Provision of financial literacy to the poor by different possible means has been, therefore, inevitable to ensure proper micro credit management. The present paper is an empirical study pursuing into the measurement of basic financial literacy and micro credit management knowledge level of members of formal women groups in one of the grama panchayats in the state of Kerala, India.

I. Kudumbashree Mission in Kerala

The Government of Kerala introduced a novel scheme of poverty alleviation based on micro credit

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and self help grouping in 1998. The state's poverty eradication programme paraphrased as "Kudumbashree" (prosperity of the family), aims at improving the living levels of poor women primarily belonging to families below poverty line (BPL) in rural and urban areas. Kudumbashree has been conceived as a joint programme of the Government of Kerala and NABARD implemented through Community Development Societies (CDSs) of poor women, serving as community wings of Local Governments. The grassroots of Kudumbashree are Neighborhood groups (NHGs) (same as SHGs) that send representatives to the ward level Area Development Societies (ADS). The ADS sends its representatives to the Community Development Society (CDS), which complete the unique three-tier structure of Kudumbashree. Within a short span of ten years, Kudumbashree could bring about considerable changes in the lives of Kerala women by converging resources, ideas and programmes. About thirty-six lakh women of the state have been organized into 182,969 grass root level Self Help Groups (Neighborhood Groups). As a programme targeting poor women in the state, Kudumbashree has been periodically initiating varied efforts to improve the basic financial literacy level and basic understanding on credit management.

II. Scope and Objectives of the Study

The study aims at measuring the basic financial literacy of women members of neighbourhood groups of Kudumbashree and their basic understanding about micro credit management. The geographical area of the study is Aikkaranadu grama panchayat in Ernakulam district of Kerala. The specific objectives of the study are to:

1. Assess the basic financial literacy of the members of NHGs of Kudumbashree in the panchayat,
2. Measure the basic micro credit management knowledge level of the members of NHGs of Kudumbashree in the panchayat, and
3. Gauge the extent of help sought by the members of NHGs of Kudumbashree in the panchayat to support their micro credit management knowledge level.

III. Hypotheses

1. The basic financial literacy level of the members of NHGs of Kudumbashree in the panchayat is moderate.
2. The basic micro credit management knowledge level of the members of NHGs of Kudumbashree in the panchayat is moderate.
3. The members of NHGs of Kudumbashree in the panchayat have been seeking considerable help from others to support their micro credit management knowledge level.

IV. Defining Basic Financial Literacy and Micro Credit Management Knowledge

Financial literacy is the knowledge at varying degrees about the financial terms and concepts and the ability to translate the knowledge skilfully into behaviour (Federal Reserve Bank, 2002; Tustin, 2010). Basic financial literacy is inevitable to ensure economical access to credits and its effective utilisation. A positive relationship normally exists between financial literacy and poverty alleviation. Financial literacy can break the cycle of poverty while the people associated with below poverty line (BPL) have been supplied with micro credit to support their lives. The common notion that higher the financial literacy, higher the knowledge to manage the micro credit applies here. For the present study the basic financial literacy of the members of the NHGs (Financial Literacy Construct) has been assessed using eleven variables and the knowledge level of the members to manage micro credit (Credit Management Construct) has been measured using another set of seven variables. The help sought by the members to support their credit management knowledge level (Credit Management Outsourcing Construct) has also been measured to elicit the credit management process by the women members to the fullest extent.

The condition that the mean values of the summated score of the eleven variables measuring basic financial literacy level, and the seven variables measuring the basic micro credit management knowledge level of the members being equal (individually) to the central value (i.e. 2), then the financial literacy and credit management knowledge of members of NHGs are moderate. Similarly, the condition that the mean value of the summated score of the seven variables measuring the degree of help outsourced by them for their credit management being equal to the central value (i.e. 2), then it is deemed that the members are seeking considerable help from others for their micro credit management.

IV. Research Methodology

IV (i) Determination of Sample Size

The empirical study, as explained earlier, was done in one of the panchayats viz. Aikkaranadu in Ernakulam district of Kerala. The population for the study is the 1120 members of NHGs in the panchayat. The sample size (*n*) of the finite population is 80 which is determined by the formula (Kothari, 2004);

$$n = \left(Z^2 .N.\sigma_p^2\right) \div (N-1)e^2 + Z^2 .\sigma_p^2$$

Where; N = Size of population (i.e. 1120); n = Size of sample; Z is confidence level at 5 per cent i.e. 1.96; $\sigma^2 =$ standard deviation of population calculated on the basis of twenty trial samples i.e. 0.475; e = acceptance level of sampling error i.e. 10 per cent.

IV (ii) Selection of Sample Units

The sample size of 80 respondents was selected at random from among the 1120 members of the 84 NHGs spread among the 14 wards in the panchayat. The multi-stage selection process follows (Table 1).

Table 1 Sample Selection

Stage 1	Stage 2		Stage 3	
Selection of Wards	Selection of NHGs		Selection of Respondents	
4 Wards(out of the 14 Wards)	12 NHGs(3 each from each Ward)		80 women members$(N \div S)\ n$*	
Ward Number	Total No. of NHGs	No. of NHGs Selected	Total No. of Members in Selected NHGs	No. of Members Selected
Ward 2	7	3	42	21
Ward 5	6	3	36	18
Ward 10	7	3	41	20
Ward12	7	3	43	21
Total	27	12	162	80

Note: * denotes, N = Numbers of members in each of the selected NHG; S = Total number of members in all the selected NHGs; n = Sample size determined.

IV (iii) Constructs and Variables for Measurement

The constructs measuring the basic financial literacy level, micro credit management knowledge level and the extent of help sought to substantiate micro credit management knowledge are given in Table 2. Altogether, a set of eleven variables was used to measure the basic financial literacy of the members of the NHGs. The micro credit management knowledge of the members was assessed based on a different set of seven variables and the extent of help sought by the members from different persons to substantiate their individual knowledge was measured using another set of seven variables. The responses of the members were anchored on a three- point scale – Likert Type Scale.

Table 2 Constructs and Variables for Measurement

Financial Literacy and Credit Management Constructs	No. Of Variables	Description of Variables	Response Scale Anchors
Basic FinancialLiteracy	11	Awareness about – no-frill accounts, kinds of deposit, education loans, gold loan, agricultural loan, fixed rate interest, floating rate interest, ATM Debit cards, Cheque/Demand Draft, calculation of simple interest and bank charges on services.	Low awareness to High awareness (3 point Likert type scale)
Basic Micro Credit Management Knowledge	7	Understanding about – credit requirement, credit utilisation, modes of repayment, interest obligation, penalisation for default, alternative sources of credit and keeping simple accounts.	Low understanding to High understanding(3 point Likert type scale)
Credit Management Outsourcing	7	Help on decisions about – credit requirement, credit utilisation, modes of repayment, interest obligation, penalisation for default, alternative sources of credit and keeping simple accounts	Low help to High help (3 point Likert type scale)

IV (iv) Data Collection and Analysis

The primary data were collected using a structured interview schedule. A pilot survey was conducted covering twenty respondents to statistically determine the sample size and to restructure the preliminary interview schedule. Item analysis was done to ensure reliability of the responses of the members of NHGs. One Sample Student's t test was employed to statistically test the summated mean score of the set variables.

V. Results and Discussion

V (i) Profile of Members

Membership in NHGs of Kudumbashree is primarily limited women members of BPL families. The profile of the sample respondents in the Aikkaranadu grama panchayat is given in Table 3.

Majority of the members of NHGs (above 86 per cent) belong to the age between 30 years and 60 years. While 32.5 per cent of the members have been associating with their respective NHGs since last 3-5 years, 25 per cent since last 5-7 years and 38.8 per cent have been associating with the NHGs since above 7 years. Mere 3.8 per cent have association less than 3 years. Five per cent of the members have no formal education. Majority (53.8 per cent) have primary education, 36.3 have high school education and the rest 5 per cent have plus-two education. While 83.8 per cent of the respondents are married and living with their spouse, 1.3 per cent are divorced and 15 per cent are widows. Regarding family size, 67.5 per cent of the members have up to 4 members in their family; 31.3 per cent have 5-7 members and only 1.3 per cent have members above 7 in their family. While spouse (husband) of the respondents are the prime earning member in 72.5 per cent of the families, 12.5 per cent of the families have the respondents themselves as the prime earning member. Among the respondents, 43.75 per cent are daily labourers, 32.5 per cent are doing agriculture, 6.5 per cent are engaged in small trade and the rest 17.5 per cent have no occupation.

V (ii) Financial Literacy and Micro Credit Management of Members

As part of measuring the basic financial literacy and credit management knowledge based on the summated score of the responses of the members of the NHGs, the parametric statistical test, One Sample Student's t, was used. The application of this test requires a minimum value of 0.7 for reliability (Nunnally, 1978). The reliability coefficients (Cronbach's Alpha)

Table 3 Profile of Respondents

Sl. No.	Profile	Age Groups	Frequency	Per cent
1	Age of Respondents	<30 Years	2	2.5
		30-45 Years	42	52.5
		45-60 Years	27	33.8
		>60 Years	9	11.3
		Total	80	100.0
2	Years of Association with NHG	<3 Years	3	3.8
		3-5 Years	26	32.5
		5-7 Years	20	25.0
		>7 Years	31	38.8
		Total	80	100.0
3	Education	No Education	4	5.0
		Primary Education	43	53.8
		High School	29	36.3
		Plus Two	4	5.0
		Total	80	100.0
4	Marital Status	Married	67	83.8
		Married but Divorced	1	1.3
		Widow	12	15.0
		Total	80	100.0
5	Number of Members in the Family	Up to 4	54	67.5
		5-6	25	31.3
		>7	1	1.3
		Total	80	100.0
6	Prime Earning Member of family	Herself	10	12.5
		Husband	58	72.5
		Others	12	15.0
		Total	80	100.0
7	Occupation	Daily Labour	35	43.75
		Agriculture	26	32.5
		Small trade	5	6.25
		No Occupation	14	17.5
		Total	80	100

Source: Author's Data

of the set of eleven variables for assessing the basic financial literacy and the set of seven variables for assessing the credit management knowledge were found to be 0.791 and 0.819 respectively. Similarly, the reliability coefficient of another set of seven variables measuring the degree of help sought by members was found to be 0.807. The response collected on each variable on a three-point scale has a minimum possible value of 1 and a maximum value of 3. So, the central value was 2.

The basic financial literacy of the members of the NHGs measured based on eleven variables revealed a summated mean score of 1.698 (Table 4). Among the eleven variables, the variables reflecting awareness about different credit facilities such as gold loan, agricultural loan and education loan ranks at the top. Awareness about calculation of simple interest, system floating rate of interest and bank charges on different services ranks low.

Table 4 Basic Financial Literacy Score

Sl. No	Basic Financial Literacy	Mean	Rank
1	Awareness on Gold Loan	2.54	1
2	Awareness on Agricultural Loan	2.38	2
3	Awareness on Education Loan	1.85	3
4	Awareness on ATM Debit Cards	1.85	4
5	Awareness on No-frill Accounts	1.71	5
6	Awareness on Cheque/Demand Draft	1.70	6
7	Awareness on Fixed Rate of Interest	1.48	7
8	Awareness on Kinds of Bank Deposits	1.43	8
9	Awareness on Calculation of Simple Interest	1.30	9
10	Awareness on Floating Rate of Interest	1.26	10
11	Awareness on Bank Charges	1.20	11
	Mean of Summated Score	1.698	-

Source: Author's Data

The first hypothesis set for the study, that the basic financial literacy level of the members of NHGs of Kudumbashree in the panchayat is moderate, stands rejected. The P – value (0.000) of the One Sample Student's t test (Table 5) indicates that the mean of the summated score of the basic financial literacy construct (1.698) is significantly lower than the central value i.e. 2.

Table 5 One Sample T Test Result of Financial Literacy

Construct	N	Mean	SD	T value	P – value
Basic Financial Literacy	80	1.698	0.35859	7.511	0.000

Significant difference
Source: Author's Data

The basic micro credit management knowledge of the members of the NHGs measured using seven variables has shown a mean score of 1.989 (summated) against the central value of 2 (Table 6). The P-value of 0.852 obtained in the One Sample Student's t test (Table 7) reveals that the second hypothesis set for the study, the basic micro credit management knowledge level of the members of NHGs of Kudumbashree in the panchayat is moderate, stands accepted. It is interesting to note here that, even though the basic financial literacy of the members of NHGs is lower, they do possess moderate level of knowledge in micro credit management.

Table 6 Micro Credit Management Knowledge Score

Sl. No.	Credit Management Knowledge	Mean	Rank
1	Understanding on Penalisation for Default	2.26	1
2	Understanding on Mode Repayment	2.24	2
3	Understanding on Interest Obligation	2.21	3
4	Understanding on Credit Utilisation	2.10	4
5	Understanding on Credit Requirement	2.05	5
6	Understanding on Alternative Sources of Credit	1.56	6
7	Understanding on Keeping Simple Accounts	1.50	7
	Mean of Summated Score	1.989	-

Source: Author's Data

Table 7 One Sample T Test Result of Credit Management Knowledge

Construct	N	Mean	SD	T value	P – value
Basic Micro credit Management Knowledge	80	1.989	0.51321	0.187	0.852

No significant difference
Source: Author's Data

V (iii) Outsourcing of Micro Credit Management Knowledge

The analysis on basic financial literacy and micro credit management knowledge reveals that the members of NHGs possess moderate knowledge in micro credit management even though their basic financial literacy is lower. The moderate level of micro credit management knowledge possessed by the members is found to be outsourced from different sources (Table 8). Each member has been supported primarily by another source in credit management. Spouses of the members (husband) are the supporting source of micro credit knowledge to 45.5 per cent of the respondents. Group members are supporting 33.8 per cent respondents. Support of friends outside NHGs are found to be meagre (1.3 per cent), but the support of family members other than spouse (mainly youths) is somewhat considerable (22.5 per cent).

Table 8 Sources of Micro Credit Management Knowledge Outsourced

Sl. No.	Sources	Frequency	Percent
1	Husband	34	42.5
2	Group Members	27	33.8
3	Other Friends	1	1.3
4	Other Family Members	18	22.5
5	Total	80	100.0

Source: Author's Data

Regarding the degree of outsourcing by members on different micro credit management variables (Table 9) indicate that moderate to above moderate help in micro credit management decisions were sought by the members from different sources except for understanding the details of alternative sources of credit (score 1.78) and keeping of accounts (score 1.54). The One Sample Student's t test (Table 10) confirms that the micro credit management by members of NHGs are moderately supported by outside help comprising spouse, their group members, other friends and other family members. Therefore, the third hypothesis set for the study, that the members of NHGs of Kudumbashree in the panchayat have been seeking considerable help from others to support their micro credit management knowledge level, stands accepted (P – value 0.758).

Table 9 Micro Credit Management Knowledge Outsourcing Score

Sl. No.	Help Sought by Members	Mean	Rank
1	Help on Deciding Credit Requirement	2.29	1
2	Help on Understanding Repayment terms	2.16	2
3	Help on Deciding Credit Utilisation	2.06	3
4	Help on Understanding Penalisation for Default	2.06	4
5	Help on Understanding Interest Obligation	2.01	5
6	Help on Understanding Alternative Sources of Credit	1.78	6
7	Help Keeping Simple Accounts	1.54	7
	Mean of Summated Score	1.985	-

Source: Author's Data

Table 10 One Sample T Test Result of Micro Credit Management Knowledge Outsourcing

Construct	N	Mean	SD	T value	P – value
Micro credit Management Knowledge Outsourcing	80	1.985	0.41329	0.309	0.758

No significant difference
Source: Author's Data

The moderate level of micro credit management knowledge possessed by the members of NHGs of Kudumbashree in the Aikkaranadu grama panchayat without having moderate level of basic financial literacy may be paradoxical. However, the extent of help sought by the members for credit management has resulted in an increase in the knowledge level of the members to the extent of credit management. The moderate level of support sought by the members in this regard (1.985; Table 9) substantiate the point. Therefore, discussions can take the direction that outside non-professional help has positively resulted in increasing the knowledge level of members of NHGs in micro credit management.

VI. Conclusion

Basic financial literacy, no doubt, is a prerequisite for bringing the bottom of the pyramid to the mainstream. The financial inclusion efforts in India on its march towards double digit growth in the immediate future have 'financial literacy' as one of its core means. The micro finance efforts in the country can ensure its ultimate objective only if the financial literacy led use of finance among the poor is ensured. The present micro study has brought in empirical evidences for the lower level of financial literacy among women members of BPL families (who are members of formal women groups) in one of the panchayats in the most literate state in India – Kerala. Fortunately, the outsourced informal non-professional support from some other sources has increased their knowledge level in credit management even in the negative situation of lower financial literacy. Therefore, the inferences from the study necessitate the need for increasing the financial literacy level of members of women groups by formal concerted efforts. The call for increased financial literacy among members of the women groups is uncompromising as women groups are considered as a strong channel of financial inclusion.

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A STUDY ON THE ANNUAL MICRO CREDIT PLAN OF BANKS AND FINANCIAL INSTITUTIONS IN KANYAKUMARI DISTRICT

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Abstract

Every year the banks and financial institutions in Kanyakumari District prepare an annual credit plan with the current year target and previous year target achieved in terms of value and achieved percentage on target fixed. They also prepare the same for the micro credit for the district. Year after year these financial institutions plan about the micro credit also in the same way. This study is made with the objective of finding out the pattern of growth of micro credit in target fixed, target achieved in terms of value and in terms of percentage achieved on target fixed. This study would help to know the growth of micro credit fixed and offered to Kanyakumari District under different categories during the last five years ie. 2005 to 2009.

I. Introduction

District Profile

A. Populations and Occupational Pattern

As per 2001 census, the district has a population of 16.76 lakhs. The rural population consists of 35% of the total population. The density of population is 999 per sq.km.

B. Rivers

Table 1 Rivers, Dams and Channels in Kanyakumari District

RIVERS		DAMS		CHANNELS	
Sl. No.	Name	Sl. No.	Name	Sl. No.	Name
1	Thamiraparani River	1	Pandiyan Dam	1	Pandiyan Kal
2	Pazhayar	2	Puthen Dam	2	Thovalai Channel
3	Valliyar	3	Pechipparai Dam	3	Regulatory Kal
4	Ponniavaikal	4	Pernchani Dam	4	Anandanar Channel
5	Paraliyar	5	Chittar Dam – I	5	Nanchinad Puthanar Channel
		6	Chittar Dam – II	6	Padmanabhapuram
		7	Polkai Dam	7	Puthanar Channel

Source: Annual Credit plans of Kanyakumari District

C. Livestock

The population statistics in respect of livestock resources in Kanyakumari District is given below.

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Table 2 Livestock Population in Kanyakumari District

SI. NO.	TYPE	NUMBER
1	White Cattle	50581
2	Black Cattle	631
3	Sheep	1143
4	Goat	100698
5	Poultry	463824
6	Pigs	1266
7	Domestic Dogs	69717
8	Others	1079

Source: Annual Credit plans of Kanyakumari District

D. Industries

A number of factors hampered the industrial development in the district, in which most of the areas are wet lands, the non-availability of lands for non-agricultural purposes and the high cost of farm lands. In spite of all these, a number of small industries have come up in the district. There are five large and 632 working factories, 974 small scale industries and 127 cottage industries in the district. The major industries are cashew nut industries, rubber industry, spinning mills, coir industries, fish net industries, etc.

E. Government Sponsored Schemes

1. Land Purchase Scheme
2. Agricultural Activities
3. agricultural and allied activities
4. Manufacturing and processing services
5. Trade and Commerce
6. Transport, Storage and Communication
7. Other Service
8. Training
9. SHG Training and Vocational Training
10. Self Help Group(E.A)
11. Revolving Fund
12. Discretionary Fund(2007-08)
13. CDF for Tsunami
14. E.D.P Training
15. SEPY

F. Developmental programs

1. National Horticulture Board

The National Horticulture Board provides subsidy to farmers under their “Commercial Horticulture scheme @ 20% of the project cost with a ceiling of Rs.25 lakhs per project”.

2. Micro Irrigation

Drip and Sprinkler Irrigation System: 50% subsidy for horticultural crops and each beneficiary will be assisted to install micro irrigation systems in their holding to a maximum extent of 5 Ha.

3. Capital Investment Subsidy Scheme (CISS)

The scheme is designed for construction expansion, modernization of cold storage / storage for horticulture produce.

4. Contract farming with M/s. Cadbury India ltd. for Cocoa cultivation

Cocoa has been included on the specific advice of Govt. of India. M/s Cadbury India Ltd. has already entered into agreement with the State Horticulture Department to cover 4000ha. In 16 districts with buy back arrangements.

5. Medicinal and Aromatic Plants (Macs)

It is estimated that above 50 ha are under different medicinal and aromatic plants like Arrow Root, Kocholam, Aswagandha, Tulsi, Dhavan, Lemon grass, Palmarosa, etc. High value medicinal and aromatic plants like Stevia, Safed musli and Vanilla are also grown on a very small scale.

6. Diary Development

Kanyakumari is deficit in milk production and hence dairy development is important and one of the major allied activities in the district. About 3.37 lakhs (97%) of operational holdings are of less than one hectare.

7. Venture Capital Fund for Dairy and Poultry

Under the scheme, interest free loan to the extent of 50% of the project outlay will be provided. In addition, 50% of the interest charged on the bank loan will subsided to the borrowers on regular repayment.

8. Seaweed Culture

Seaweed is an important source for sea farming. It forms the raw materials for the manufacture of agar, carraginan, alginates, mannitol and lodine.

9. Non-farm sector

Kanyakumari District is predominantly an agrarian economy and industrially backward. It has only a few large sized industries. However, there are a large number of small scale, tiny, handicraft village and cottage industries.

10. Agro & Food Processing

Kanyakumari district offers good scope for setting up food processing industries, especially fruit and vegetable processing industries, due to availability of raw material within the district.

11. Venture Capital fund – Poultry

The main objective of the scheme is to create a venture capital fund for providing financial assistance to individual, NGOs, public and private sector undertakings, cooperative etc.

12. Fisheries development

Marine fisheries are one of the most important economic activities in Kanyakumari District. The district has a coastline of 68 KM. There are about 42 fishing villages in 5 blocks viz. Agastheeswaram, Kurenthencode, Rajakkamangalam, Killiyoor and Munchirai.

13. Inland

There are 2627 inland fishing ponds, 242 tanks (FFDA) covering 791.53 HA. Further dams viz, Pechiparai, Perunchani, Chittai I and Chittar II are spread in 1515 Ha., 915Ha., 292Ha., and 414Ha.respectively.

14. Poultry Development

As per the 2003 livestock census the total number of poultry in Kanyakumari District was 463824. The egg production as per the data 2005-06 indicates that as many as 2110.48 lakh.

15. Contract Farming

Small farmers who invest on shed and equipment, apart from providing their own labor, can rear poultry birds by obtaining inputs viz. chicks, feed, medicines, technical support from etc. from the poultry companies.

Every year the banks and other financial institutions together prepare the credit plan for all the sectors and publish the overall credit plan for Kanyakumari District. They prepare the target fixed and target achieved for agriculture, service and industry every year. The target fixed and the target achieved during 2006 to 2009 for agriculture are collected and presented in the following table.

Table 3 Target fixed and achieved in agriculture for Kanyakumari District

(Rs. '000s)

S No.	Name of the Bank	Target				Achieved			
		2006	2007	2008	2009	2006	2007	2008	2009
1	IOB	1117420	1360637	1646082	2247478	1273300	1652326	1402298	3220671
2	SBI	465031	580200	865140	1120547	583424	1446327	418929	1071095
3	SBT	760410	940232	928470	1151590	1447536	1048577	1427191	745750
4	CB	688919	479817	758743	903333	688919	479817	821370	688057
5	IB	144204	181710	227593	261655	168761	233999	149593	736850
6	SyBk	165943	205261	187891	223737	190673	127111	158688	424629
7	CBI	102761	125652	156596	163620	104715	115288	110737	207799
8	UBI	60218	73140	62785	73405	156647	197509	183190	27021
9	UCO	12460	15200	7350	7675	22513	5901	13666	16386
10	BOB	10538	12850	14000	19660	28831	25657	89340	93718
11	BOI	11064	13498	11000	13000	32561	44988	3319	3839
12	PNB	27184	33316	41831	55494	42958	63962	42692	51374
13	TMBL	1020824	1221284	1379245	1683128	1459529	2479640	2860351	2893473
14	LVBL	2015	2500	14100	13900	54186	71488	28005	25941
15	ICICI	1232	1800	2250	4300	6287	38261	0	23714
16	SIBL	1542	1970	16370	35000	54033	65591	76448	418255
17	CSBL	768	1000	1250	1625	5043	7549	37300	40807
18	KDCC BK	1493250	1822410	570000	603900	604771	0	5666858	911594

Source: Annual Credit plans of Kanyakumari District

The above table clearly decides the role of banks and other financial institutions in granting credit to Kanyakumari District. The target fixed and achieved for agriculture in Kanyakumari district during 2005 to 2009 are computed and presented in the following table.

Table 4 Target fixed and achieved in industries for Kanyakumari District

(Rs. '000s)

S No.	Name of the Bank	Target				Achieved			
		2006	2007	2008	2009	2006	2007	2008	2009
1	IOB	32165	40545	82811	94954	15789	19272	24464	48876
2	SBI	37014	47805	12718	38965	24275	26961	5405	3466
3	SBT	41552	29960	42369	48520	3286	8292	15525	18993
4	CB	37685	46957	34265	63185	21672	6605	2270	1855
5	IB	1952	2800	20350	8900	6947	12887	25976	32767
6	SyBk	8770	10600	15650	20200	17671	17813	1100	6157
7	CBI	11490	13910	14590	17100	100	2675	2044	1189
8	UBI	4890	5870	45100	51500	25041	131250	164183	11520
9	UCO	225	400	200	200	306	0	4	9498
10	BOB	3300	3960	8000	8940	8360	75255	23950	21770
11	BOI	8900	10800	106	13300	40410	11413	0	800
12	PNB	5830	7009	7317	5495	4797	4200	3300	2200
13	TMBL	115581	138567	147242	195011	42300	112452	117075	49296
14	LVBL	9621	12505	8975	8650	0639	32316	800	3287
15	ICICI	440	600	1200	0	0	0	0	0
16	SIBL	325	410	470	3500	8314	0	2090	5710
17	CSBL	280	350	450	500	0	0	800	1500
18	KDCC	105000	126000	173500	178320	31	0	0	0
19	TNCSARD	61920	74452	73556	0	0	0	0	0
20	TIIC	72488	86985	147420	136000	81251	109363	33987	101728
21	TAICO	6600	7920	7995	0	5915	6423	0	20464
22	PCB	1100	1320	1470	4460	0	0	0	0

Source: Annual Credit plans of Kanyakumari District

The above table shows the credit plan and achieved during 2006 to 2009 for Kanyakumari District. The target fixed and target achieved for industry sector during this period are collected and presented in the following table.

Table 5 Target fixed and achieved in service for Kanyakumari District

(Rs. '000s)

S No.	Name of the Bank	Target				Achieved			
		2006	2007	2008	2009	2006	2007	2008	2009
1	IOB	197040	223080	332010	413728	202696	197142	156430	293420
2	SBI	197387	232880	264036	366318	187463	217743	175255	214944
3	SBT	271804	293149	317668	366150	494861	290142	321257	515684
4	CB	190629	220165	371906	260809	213725	96093	181362	105548
5	IB	23819	28030	57440	750000	91915	112850	51733	156352
6	SyBk	75500	88490	83650	97150	68039	21849	30317	71148
7	CBI	25050	28400	46525	54925	19214	28271	46671	50088
8	UBI	27664	30350	38400	47000	26036	191405	50718	17670
9	UCO	4000	5200	5400	7400	18420	13633	8010	17043
10	BOB	19300	21230	24000	28000	78410	112714	37982	46877
11	BOI	22600	24850	18000	33600	31542	21427	8501	3092
12	PNB	31040	35254	39200	57075	15686	36705	21559	11403
13	TMBL	233383	265026	347464	524865	183748	337139	481611	890014
14	LVBL	4770	6220	11435	8250	28167	34124	4947	10876
15	ICICI	50000	60000	80000	96000	187605	79612	8020	19249
16	SIBL	4600	9000	6360	9400	0	24	5204	13840
17	CSBL	7613	8400	7900	8700	6240	5753	20190	8593
18	TIIC	5839	3150	2580	1500	3558	5456	4491	13976
19	ALB	5540	6000	8000	6500	2829	451	2597	2082
20	DEBK	10320	12300	14500	19800	3553	9393	10754	7322
21	FBL	10390	11782	15820	17400	8339	53487	7082	67526
22	KDCC	109500	121160	253400	291310	49672	0	12624	0
23	TNCSARD	71590	86996	92356	0	0	512	0	0
24	TIIC	5839	3150	2580	1500	3558	5456	4491	13976
25	TAICO	1300	5720	3960	0	6313	0	0	0
26	PCB	900	9900	1080	29040	54217	84683	118347	16055

Source: Annual Credit plans of Kanyakumari District

From the above table we can understand the credit offered by the banks and other institutions to the service sector in Kanyakumari District during 2006 to 2009. These three sectors also included the credit target fixed and offered under micro credit system.

II. Problem of the study

Every year the banks and financial institutions operating in Kanyakumari district prepare the overall credit plan. The micro credit planned and achieved are also prepared and presented by them in the annual credit plan. But the micro credit schemes and plans planned and amount offered are not brought out. So this study is made to find the micro credit schemes and plans targeted and offered by the banks and other financial institutions. It also helps to understand the percentage of micro credit offered every year on the target fixed under different categories during 2005 to 2009.

III. Objective

1. To study the annual credit plans of banks and financial institutions operating in Kanyakumari District during 2005 to 2009 for micro credit.

2. To study the growth pattern of micro credit offered during 2005 to 2009 by banks and financial institutions operating in Kanyakumari District

IV. Scope

The Kanyakumari District lies at the southern most tip of the Indian Peninsula. It is the smallest district of TamilNadu. The district has the total area of 1672 sq.kms. It has 2 revenue divisions, 4 taulks, 4 municipalities, 9 blocks, 18 revenue firhas, 81 revenue villages, 7 assembly constituencies and 1 parliamentary constituency. In the district, there are 113 nationalized bank branches, 24 co-operative bank branches, 113 Primary Agriculture Co-operative banks, 33 private sector bank branches and 1 TIIC branch functioning to provide credit for the development and growth of the district. They finance agriculture, industries and service sectors. They provide loans and advances to all sections of society under different schemes and projects. Every year the district prepares an annual credit plan comprising the overall credit plan of all the banks and financial institutions functioning in Kanyakumari District. This study has covered the last 5 years ie. 2005 to 2009 the banks and financial institution operating in Kanyakumari district provides micro credit to weaker sections and others under 14 categories. They prepare the targets every year for the 14 categories. This study would help to know the target fixed and target achieved for micro credit offered in the district under different categories. People can understand the growth pattern of micro credit offered by banks and financial institution in Kanyakumari district.

V. Methodology

A) Only Secondary data was used - Annual credit plan published by Lead Bank Office in Kanyakumari District.

B) Tools: 1) Compound Annual Growth Rate (CAGR)

The CAGRs of 2005 to 2009 is calculated for the target and achieved values by using the following formula.

$$CAGR = \left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{\#\text{ of years}}\right)} - 1$$

This yielded better comparison and understanding to know the growth pattern of micro credits during the given periods.

2) Correlation Analysis

In order to analyze the relationships between the targets and achievement of targets the correlation was calculated for the study.

VI. Analysis and Interpretation

In order to analyze the micro credit offered by the banks and other financial institutions target fixed by the commercial banks, cooperative banks and other financial institutions during 2005 to 2009, the target fixed by them during this period were collected, computed and presented in the following table.

Table 6 Institutions offering micro credit during 2005 to 2009

(Rs. '000s)

Institution wise credit flow	2005	2006	2007	2008	2009
Commercial banks	5080770	6560323	9931939	9065707	11493815
Co-operative banks	1441700	1885072	-	1224532	1107030
Other financial institutions	243440	100456	308080	150000	137500
Grand total	6765910	8545851	10240019	10440239	12738345

Source: Computed data

From the above table it is clear that 146 commercial bank branches together fixed maximum targets for micro credit during the year 2005 to 2009. The cooperative banks have the next maximum target for micro finance. But the cooperative bank branches and cooperative societies are functioning under a single bank called Kanyakumari District Central Cooperative Bank (KDCC Bk). Hence as a single bank having the target as next highest to all commercial banks together, it is inferred that KDCC bank has a pivotal role in offering micro credit to the district.

In order to have further analysis the category-wise loan offered under micro credit system during 2005 to 2009 in Kanyakumari District are collected, computed and presented in the following table.

Table 7 Category-wise target fixed for micro credit during 2005 to 2009

(Rs. '000s)

Sl. No.	Sector wise scheme	2005	2006	2007	2008	2009
1	Crop loan	4162969	5004103	1865664	1811192	2453729
2	Minor irrigation	33480	74325	218052	127051	133163
3	Land development	42138	75002	460621	314176	359240
4	Farm Mech	61351	98638	534537	235800	270887
5	Plantation and Horti	449158	444036	864879	2682085	3757821
6	Diary Development	68534	102882	535943	204442	200942
7	Poultry Farming	7757	29099	494352	173088	154423
8	Animal Husbandry-Others	24030	30118	216669	676500	92353
9	Fisheries	57726	217892	813187	634878	506814
10	Forestry and Waste Land Development	2232	324	12066	5500	18450
11	Storage and Market Yards	27578	136729	721483	268493	196747
12	Agriculture-Others	595706	62887	869399	524077	667436
13	Non-Farming sector	459817	586838	707605	893898	962345
14	Priority sector	1361793	1682978	1925562	2523940	2963995

Source: Computed Data

From the above table, it is understood that among the 14 categories of micro credit target fixed the crop loan schemes had highest amount followed by priority sector and non-farming sector category. The forestry and wasteland had least amount of target. Hence it is inferred that the banks and financial institutions concentrate more on crop loan in agriculture sector and priority sectors in Kanyakumari district.

In order to compare the amount of credit offered the target fixed in each category, the achievement of target fixed during 2005 to 2009 in 14 categories by the commercial banks, cooperative banks and the other financial institutions for Kanyakumari District is calculated and presented in the following table.

Table 8 Target achieved by financial institutions during 2005 to 2009

(Rs. '000s)

Institution-wise credit flow	2005	2006	2007	2008	2009
Commercial banks	6652228	8493180	10545004	10110057	14247204
Co-operative banks	1196286	721285	-	697829	952948
Other financial institutions	183621	84809	208273	38478	115704
Grand total	8032135	9299274	10753277	10846364	15315856

Source: Computed Data

In the above table, it is evident that all the commercial banks together reached higher than the cooperative banks in Kanyakumari District. Even though the cooperative banks achieved on target lesser than commercial banks, it is a considerable amount of credit offered because the KDCC bank is the only cooperative bank which is functioning in Kanyakumari District with its branches and societies. Hence it is inferred that KDCC bank play a vital role in offering micro credit in Kanyakumari District in terms of value.

The category-wise target achieved for the micro credit offered during 2005to 2009 were collected, calculated and presented in the following table.

Table 9 Category-wise micro credit offered during 2005 to 2009

(Rs. '000s)

Sl. No.	Sector wise scheme	2005	2006	2007	2008	2009
1	Crop loan	4298798	4547586	6619288	6610972	9151529
2	Minor irrigation	222507	347569	98191	64024	24420
3	Land development	248010	225716	78186	376764	71985
4	Farm Mech	14556	29977	9725	38841	49421
5	Plantation and Horti	167677	253266	396200	605584	1670959
6	Diary Development	35052	213683	163457	100775	110385
7	Poultry Farming	15398	4093	3862	5090	3968
8	Animal Husbandry -Others	466	9269	22633	90937	141376
9	Fisheries	74355	153351	145205	72537	177225
10	Forestry and Waste Land Development	0	3631	4285	4829	16171
11	Storage and Market Yards	159	30	300	397	1266
12	Agriculture-Others	1210842	1175756	632307	67111	683488
13	Non-Farming sector	630421	329470	582126	427724	378614
14	Priority sector	1764412	2005877	1997512	1844316	2835049

Source: Computed Data

From the above table it is evident that maximum amount of micro credit is offered under crop loan category followed by priority sector, Agriculture-others, plantation & horticulture and the non-farming sector. Hence it is inferred that the banks operating in Kanyakumari District concentrates more on agricultural and priority sector in providing the micro credit.

Even though the category-wise targets are fixed for the micro credit, the micro credit offered on targets fixed needs to be calculated to know the actual amount of credit offered. Hence the percentage of credit offered on the target fixed is calculated and presented in the following table.

Table 10 Percentage achieved on target fixed in scheme-wise micro credit fixed during 2005 to 2009

Institution-wise credit flow	2005	2006	2007	2008	2009
Commercial banks	131	129	106	112	124
Co-operative banks	83	38	-	57	86
Other financial institutions	75	84	68	26	84
Grand total	119	109	105	104	120

Source: Computed Data

From the above table it is clear that during 2005 to 2009 all the commercial banks operating in Kanyakumari District offered the micro credit on an average of 20% more than the target fixed by them.

In order to find the credit offered on the target fixed on different categories of micro finance the category-wise percentage was calculated and presented in the following table.

Table 11 Category-wise percentage achieved on target fixed during 2005 to 2009

Sl. No.	Sector wise scheme	2005	2006	2007	2008	2009
1	Crop loan	103	90	354	365	373
2	Minor irrigation	664	467	45	50	18
3	Land development	588	301	17	120	20
4	Farm Mech	23	30	1	16	18
5	Plantation and Horti	37	57	45	23	44
6	Diary Development	51	207	30	49	55
7	Poultry Farming	198	14	-	3	3
8	Animal Husbandry -Others	1	30	10	13	153
9	Fisheries	128	70	17	11	35
10	Forestry and Waste Land Development	0	1120.68	35	88	88
11	Storage and Market Yards	0.58	0.02	0.04	0.15	0.64
12	Agriculture-Others	203	0	72	129	102
13	Non-Farming sector	137	56	82	46	39
14	Priority sector	130	119	103	73	96

Source: Computed Data

From the above table, it is clear that during 2005 to 2009, micro credit was offered maximum in agriculture (crop loan, minor irrigation, land development etc.) and priority sector in terms of percentage achieved on target fixed.

In order to analyze the growth pattern of micro credit offered the Compound Annual Growth Rate (CAGR) of 14 categories of micro credit offered in Kanyakumari District by banks and other financial institutions are calculated. The CAGR for the target fixed, target achieved and the percentage of achievement on target fixed are calculated, ranked and presented in the following table.

Table 12 CAGR of target fixed, achieved and achieved percentage during 2005 to 2009

Sl. No.	Sector wise scheme	Target	Rank	Achieved	Rank	Achieved Percentage	Rank
1	Crop loan	-10.032	14	16.31	8	29.35	2
2	Minor irrigation	31.801	8	-35.72	14	-51.4	13
3	Land development	53.511	3	-21.91	12	-49.14	12
4	Farm Mech	34.58	7	27.7	5	-4.78	6
5	Plantation and Horti	52.94	4	58.37	2	3.53	3
6	Diary Development	24.003	10	25.79	6	1.52	5
7	Poultry Farming	81.88	1	-23.75	13	-56.74	14
8	Animal Husbandry -Others	30.9	9	213.62	1	173.49	1
9	Fisheries	54.417	2	18.97	7	-22.84	10
10	Forestry and Waste Land Development	52.57	5	45.27	4	-45.06	11
11	Storage and Market Yards	48.14	6	51.28	3	2	4
12	Agriculture-Others	2.3	13	-10.8	11	-12.85	8
13	Non-Farming sector	15.92	12	-9.69	10	-22.22	9
14	Priority sector	16.83	11	9.95	9	-5.88	7

Source: Computed Data

From the above analysis, it is observed that during the last five years ie. 2005 to 2009 the banks and other financial institution operating in Kanyakumari district has been increasing the target mostly on agriculture related activities. It is evidentially proved from the above CAGR of 14 categories of loan. But the crop loan has 10% decrement in the annual growth of the target amount. The non-farming and priority sector has a growth of more than 15%. Hence it is inferred that the financial institutions operating in Kanyakumari District have been given more emphasis to agriculture activities in promoting micro credit.

In the case of the amount on the target fixed for 14 categories of micro credit the agricultural activities and crop loan (Animal Husbandry-others category 213.62%, plantation and horticulture 58.37%, storage and market yards 51.28% etc.) had the maximum annual growth rate during 2005 to 2009. The priority sector had an average annual growth rate of 10%. But the ranks of the achieved targets clearly depicts that there is a high amount of variation between the target fixed and achieved. Hence it is inferred that the banks and financial institutions have been granting credit higher than the target fixed for the agriculture related activities by giving more priority in terms of value. It is also understood that the financial institutions did not provide credit based on the amount of target fixed.

In order to probe the difference between the target fixed and achieved, further analysis was made by considering the percentage of achieved on target fixed it is evidentially proved that the banks and financial institutions have been granting maximum amount of credit to the crop loan and Animal Husbandry-other categories. These two categories had highest annual growth rate for the last 5 years ie. from 2005 to 2009. So it is inferred that, during 2005 to 2009 the banks and financial institutions have been granting maximum percentage of credit on the target fixed to Animal Husbandry-other category and crop loan category.

As there is lot of discrepancies witnessed in the above three analysis, it is essential to analyze further to find the relationship between the target fixed and target achieved in terms of values and the percentage of credit granted on the targeted amount. Hence in order to analyze the relationship between these three variables the correlation was calculated on the CAGR values of the 14 categories of micro credit as follows.

Table 13 Correlation of CAGR between target fixed & target achieved and target fixed & percentage achieved on target fixed during 2005 to 2009

Sl. No.	Sector wise scheme	Target	Achieved	Achieved Percentage
1	Crop loan	-10.032	16.31	29.35
2	Minor irrigation	31.801	-35.72	-51.4
3	Land development	53.511	-21.91	-49.14
4	Farm Mech	34.58	27.7	-4.78
5	Plantation and Horti	52.94	58.37	3.53
6	Diary Development	24.003	25.79	1.52
7	Poultry Farming	81.88	-23.75	-56.74
8	Animal Husbandry -Others	30.9	213.62	173.49
9	Fisheries	54.417	18.97	-22.84
10	Forestry and Waste Land Development	52.57	45.27	-45.06
11	Storage and Market Yards	48.14	51.28	2
12	Agriculture-Others	2.3	-10.8	-12.85
13	Non-Farming sector	15.92	-9.69	-22.22
14	Priority sector	16.83	9.95	-5.88

Source: Computed data

Correlation between target fixed and target achieved (in terms of value) = -0.003

Between target and percentage achieved on target = -0.31

From the above correlation analysis values it is clear that there is negative relationship between target fixed and target achieved. The higher negative correlation is found between the target fixed and the percentage of target achieved on target fixed. Hence it is inferred that banks and financial institutions operating in Kanyakumari District did not grant credit as per the target planned and fixed during 2005 to 2009.

VII. Findings

1. The banks and financial institutions operating in Kanyakumari district have been fixing maximum amount of target to agriculture and related activities and priority sectors during 2005 to 2009 in terms of value.
2. The banks and financial institutions operating in Kanyakumari district granted maximum amount of loans to agriculture and related activities during 2005 to 2009 more than the targeted amount.
3. The banks and financial institutions concentrated maximum on crop loan and capital Animal Husbandry-other categories of micro credit during 2005 to 2009.
4. The amount of credit granted during the period 2005 to 2009 is not based on the target planned and fixed for the different categories of micro credit (proved in correlation).
5. The percentage of growth of credit is not based on the target fixed every year (proved in correlation).
6. Concentration was more on agriculture and allied schemes and plans in grating credit even though targets were fixed for all the categories.

VIII. Suggestions

1. The banks and financial institutions may plan and fix the target clearly in their annual credit plan so that there will not be many discrepancies between target fixed and target achieved.
2. The banks and financial institutions may try to grant credit to all the categories under micro credit system as per the original target fixed in the annual credit plan.
3. The percentage achieved on target fixed annually for each category has been in the decreasing trend (CAGR negative) in many categories. Such negative growth may be avoided as it may give a notion of failures in those schemes and plans.

IX. Conclusion

This study was focused mostly to find the growth pattern of micro credit fixed and offered to Kanyakumari District through the annual credit plan during 2005 to 2009. As per the analysis it is concluded that the growth pattern of the micro credit offered in Kanyakumari District is found to be negative in most of the schemes and plans of micro credit.

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SELF-HELP GROUP MICROCREDIT DELIVERY MODELS IN KARNATAKA (INDIA): AN ECONOMETRIC STUDY OF FACTORS INFLUENCING PERFORMANCE

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Abstract

Prosperity of India lies in the prosperity of its villages. Even though the Indian economy is experiencing a GDP growth rate of about seven percent, almost a third of the rural and a quarter of the urban population is still living below the poverty line. Microcredit through Self-Help Groups (SHGs) has emerged as a springboard to reach the rural poor. Presently, in India microcredit being practiced in different ways and is grouped and monitored between three different arrangements in which SHGs are linked with their supporting organizations. The three models can be differentiated; Model-I: Bank promoted, Model-II: Government agency and Model-III: NGO promoted. Each of these models is operating under a different framework of rules and regulations. Moreover, these groups may also systematically differ in their performance. The aim of this paper is to examine the factors that have a critical impact on the performance of the three delivery models. The analysis is based on data gathered from 90 members of nine SHGs (three SHGs for each of the three models), operating in three taluks in the Davanagere district of Karnataka state (India). First, a model-wise factor analysis was used to reduce the complexity of the variables. The results reveal that direction and magnitude of variance of each variable in explaining the factor loadings of the components varies in each model. The paper ends with policy recommendations and implications for further research.

1. Introduction

Basically, Self Help Groups are a form of cooperation with a definite ambience of dynamism, cohesion and collective action surfaced in the group members by their association within and outside the groups which are formed in their neighbourhood. In Indian rural villages, neighbourhood groups are informally named with different local names, but widely called Self-Help Groups. These are informal groups of 10 to 20 members that have a common vision of the need and importance towards collective action (KHUN, 1985). SHGs in their basic form existed in rural society long prior to the period when rural planners formulated this concept. The groups have also been termed "affinity groups" due to the existing natural bonds of neighbourhood, blood, caste, community, or activity, as well as being termed "solidarity groups", as they provide monetary and moral support to each other in difficult times. SHG is not a new concept in Indian society. Traditional Indian society functioned mainly on the basis of self-help and mutual aid. However in recent years, SHGs have been emerging as a major strategy for the promotion of informal credit to the poor. The concept of SHG in India can be traced back to the *Gandhian Grama Swaraj* movement. It is mainly concerned with the poor and helping each other through the motto of democracy, "Of the people and for the people[1]". Unlike many other countries that implemented SHGs after the mid-1970s as a part of the formal credit delivery system, India has been experimenting with the concept for decades (KARMAKAR, 1998). Since the beginning of new millennium, these SHGs have emerged as alternative credit sources for the poor with the recovery performance of 99 per cent, with mutual trust, solidarity, group accountability, and collective action as inherent operational mechanisms (RAJAGOPALAN, 1998). Indeed, the impetus of the present-day microcredit movement can be attributed to the success of the Bangladesh based Grameen Bank concept (HOSSAIN, 1998). Presently, this concept functions in over 52 countries and has been operational for a long time in Bangladesh, Malaysia, Korea, Philippines, and Indonesia. In a large country like India, several of the national rural development programmes implemented are based on the SHG concept. Hence to achieve success of the development programmes, necessary to study the success and viability of the existing microcredit models.

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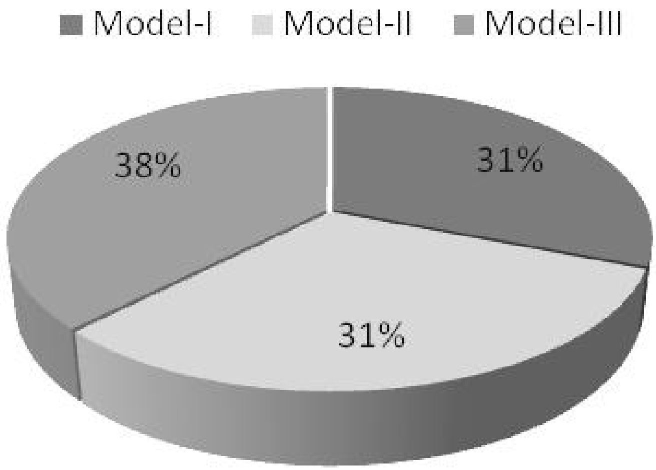
In turn, this raise and necessitates addressing a question in the context like, what factors influence the performance of different SHGs microcredit models.

2. Problem Statement

Being a largely populated country, India is one of the developing countries facing challenges related to poverty. One of the major causes of poverty in rural India is lack of access to productive assets and financial resources for both individuals and for communities (IFAD, 2007). Microcredit has emerged and succeeded as a new paradigm for combating poverty and has become a major instrument for financial institutions to provide services for the rural poor. Since last decade, microcredit through SHGs has been used as a springboard to reach the rural poor to meet their financial demands in the present world (ROY, 1994 and OJHA, 2001). The peer group pressure has been identified as a valuable collateral substitute, which has resulted in high levels of repayment. In the beginning, in India this approach has been extensively used only by the voluntary agencies (NGOs). But presently, microcredit through SHGs is being practised in different ways and is grouped and monitored primarily under three models based on their linkage with the supporting institution, namely – Model-I: bank-promoted; Model-II: government agency-promoted; Model-III: NGO-promoted. Each of these models is operating under a different framework of rules and regulations, starting with group formation. They also differ in attributes like the amount of government support given, the main purpose of loans, the amount of loan disbursement, the interest rate, the mode of repayment, the purpose of group formation and the functioning, etc., (UNESCO, 2004) and hence they also differ in their performance and impact on their members. The microcredit through SHGs under these three models had a modest beginning and now has become "macro" in its approach and observed a wide variation in the shares of these implemented models. The model-wise share of SHG microcredit delivery models in Karnataka is depicted in Figure 1. It indicates that Model-III has the highest share, 38 per cent, followed by Model-I and Model-II, with equal shares of about 31 per cent each in the total credit linkage, indicating that all three models are competing equally in reaching the poor with different factors influencing their performance.

With this backdrop, the present study attempts to examine the factors influencing the performance of these three microcredit delivery models, with a main objective of "to study and compare the factors influencing the performance of different microcredit delivery models of Self-Help Groups".



Source: NABARD, 2009

Fig 1. Model-wise share in delivery of microfinance (%) in Karnataka

3. Literature Review

A quantitative study (RENUKARYA, 2004) assessed the performance of SHGs in India. The study determined the variables which effectively discriminate the better performing and worse-performing groups using three quantitative techniques. Discriminate functional analysis was used to discriminate between the groups. The principle component analysis and factor analysis were used to reduce the dimensionality of multivariate data. The above methodology was tested in 44 SHGs in the state of Karnataka and recommended that a similar methodology could be used in studies in other developing countries.

An empirical analysis on Rotating and Savings Credit Associations (ROSCAs)[1] in Senegal has been conducted by Fadiga and Fadiga (2004). The study mainly emphasised that, they are several variables to be considered in the analysis, like age dispersion of participants, gender composition, loan amount, age of ROSCA, size of the association, amount of savings per month by individual members, frequency of contribution, default history of members, ratio of number of defaults to size of association, reasons for default, measures to cover default. The results revealed that availability of default coverage and size of ROSCA contributes to increases in the default rate. The default rate is lower for same-gender composition association, associations with higher contribution levels, and those members who are offered help. Further, default rate increases by 0.41 per cent for each additional member in the group when all other variables were held constant. This study finally infers that the length of existence of an association, the coverage available to cover a default and the association size all contributed towards a lower institutional performance, whereas the member homogeneity, individual contribution levels, and offers to help allowed for enhanced performance of the association. Thus implying performance of the groups is influenced by various group related factors. These points put forth the following research questions to take up the present research.

1. Does the socio-economic profile of the members differ from one microcredit model to other in the study area?
2. Do the variables have significant difference in these models?
3. How these variables are explaining the components in each model by their factor loadings?

4. Methodology

Description of the study area

The study was conducted in three *taluks* of the Davanagere district in Karnataka state (India). In Karnataka, among the 27 districts in the state, the Davanagere district is purposively selected based on secondary data of the three microcredit models and also considering the criteria's similar number of SHGs in the districts. The Davanagere district[1] is located in the central part of Karnataka state with six *taluks*, which together cover a geographical area of 0.597 million hectare. The district is predominantly agrarian with no major and medium -sized industries. The total population of the district is 1,790,952 with rural and urban population of 1,247,954 (69.68%) and 542,998 (30.32%) respectively, indicating the rural population is prevailing in the district (Government Of Karnataka, 2008). The literacy is on par with the average Indian literacy rate for males (76.4%) and females (58%); the average literacy rate of the district is 67.4 per cent.

Microfinance through SHGs has been on vogue in the district for the past several years. The institutional credit framework in the district has met 50 to 60 per cent of the total rural credits needed and the rest is being met by informal systems. Hence, the establishment of linkages between banks and SHGs under three different microcredit models is intended to solve some of the problems encountered by banks in extending the credit to the rural poor without any security. There are 19 NGOs operating in the district to organise rural people into SHGs and to establish the linkage to the banks. The Women and Child Development Department (WCDD)[2] is playing an active role in the formation and linkage of Sthree Shakti groups and there are about nine banks that are keenly involved in the promotion and linkage of SHGs in the district. The total number of SHGs in existence in the district is about 15,343 of which 12,455 groups are credit-linked under the three different microcredit models mentioned above (Nabard, 2009).

Sample Frame

In the study area, three SHGs were randomly selected from each microcredit delivery model, thus a total of nine SHGs was studied. The details of the selected SHGs for the study are presented in Table 1. Furthermore, the results allow to distinguish the three microcredit models irrespective of their *taluk*. A further 10 members from each SHG were randomly selected, reaching a total of 90 members, and were interviewed with the help of a semi-structured questionnaire. The quantitative data collected is compiled and analysed using suitable statistical techniques to study the research objectives. The socio-economic profile of the respondents is studied using frequencies and percentages.

Table 1. Details of the SHGs selected for study

Name of the *Taluk*	Name of the SHG	Year started	Number of members
Davanagere (Tq)			
Model-I	Sri Vanitha Mahila SHG	2005	20
Model-II	Sri Shakti Renuka Mahila SHG	2001	15
Model-III	Sri Valmiki Mahila SHG	2007	20
Jagalur (Tq)			
Model-I	Sri Maileshwara SHG	2003	13
Model-II	Sri Laxmi SHG	2003	13
Model-III	Sri Halaswamy Mahila SHG	2007	16
Harapanahalli (Tq)			
Model-I	Sri Sharada SHG	2003	15
Model-II	Sri Choudeshwari SHG	2003	16
Model-III	Sri Kollambika SHG	2003	15

Source: Own compilation, 2009

Data Source

The required data relevant to the study was elicited mainly from SHG members as the primary source of data using structured comprehensive questionnaires and collected by personal interview method. A separate semi-structured questionnaire was used to collect detailed information from SHGs and SHG members at group level and from individual members respectively. The required secondary data for the study was collected from government offices, NGOs sources are quoted clearly wherever used in the paper.

Analytical Tool used

Factor analysis was mainly employed to identify representative variables from much larger sets of variables for use in subsequent multivariate analyses. The purpose was to condense few important variables out of a larger set of variables in the dataset. This helps in reducing the number of variables required for subsequent analysis. It is a multivariate technique used to define the underlying structure in a large data matrix, and in the present study it was used for studying the performance of SHGs. Factor analysis by principal component method can accommodate a large number of variables and reduce the information to a convenient size. The inter-relationship among a set of many inter-related variables were examined and represented in terms of a few underlying factors or dimensions that explain the correlations among a set of variables. Only factors with Eigen values of more than one and based on latent root criterion were considered for the study (Hair *et al.*, 2005). The purpose behind latent root criterion is that any individual factor should account for the variance of at least a single variable if it is to be retained for interpretation, each variable contributing a value of one to the total Eigen value. The Eigen values are used for establishing a cut-off when the numbers of variables are between 20 and 50; the present study also has a similar number of variables. Only the factors having latent roots or Eigen values greater than one are considered significant and all other factors with latent root less than one are considered insignificant and are disregarded. This assumes that the observed (measured) variables are linear combinations of some underlying source variables (or factors or dimensions). Factor analysis exploits this correspondence to arrive at conclusions about the dimensions (Harman, 1968). The respective factor loading provides the correlation between the variable and the underlying dimension. The rotated sum of squares of the factor loadings explains the extracts of the factors in the order of their importance and explains the amount of variance. The product of the corresponding factor loadings can provide the correlation between any two variables.

The factor analysis model in matrix form can be summarised as follows,

$$X\ (n \times 1) = A\ (n \times m) \times F\ (m \times 1) \quad \ldots\ldots\ldots(1)$$

Where,

X = matrix of variables

A = matrix of factor loadings (a_{ij})

F = matrix of dimensions

a_{ij} = net correlation between j^{th} dimension and i^{th} observed variable

n = number of variables

m = number of dimensions

The maximum number of factors possible is equal to the number of variables. However, a small number of factors by themselves may be sufficient for retaining most of the information on the original variables. Renukarya (2004) applied the same technique in his study while analysing the factors influencing the better performing and worse-performing Self Help Groups in Karnataka Stat.

5. Results and Discussion

Socio-economic profile of the sample SHG members

The socio-economic profile indicates the livelihood status of the respondents. Hence, it necessitates studying the socio-economic information of the respondents before getting into the study. The socio-economic characteristics such as age, education, and marital status, type of family, family size, occupation, religion, caste, and annual income of the sample respondents are presented under the three models of SHGs (Table 2) and discussed below.

The age of the respondents are categorised under three groups: young, medium, and old. More than half of the respondents were middle aged in all three models, and about 20 per cent in Model-II and 33.33 per cent in models I and III belonged to the young age group. Of the few remaining people, about 10 per cent in Model-I and 13.33 per cent in Model-III were older than 56 and belongs to the "old age" group. Interestingly, none of the respondents were from the old age group in Model-III. The results are in line with the results of the study done by Rangi *et al.,* (2002). The desire to try innovative ideas and take risks trying to improve living standards with the help of SHGs might be the reason for the predominance of younger respondents.

The educational levels of the sample members in all three models show that more than 60 per cent of the members are illiterate. Among the literate, about 20 per cent, 26.67 per cent, and 13.33 per cent have studied up to primary school in models I, II, and III respectively, followed by members with high school education of 2 per cent in both models I and II, and 4 per cent in Model-III. Only a meagre 1 per cent of respondents received pre-university (3.33%) and university education (3.33%) in Model-I, whereas none of the respondents received pre-university and university education in models II and III. The results are supported by Puhazhendi and Jayaram (1999). The situation might have occurred due to the low financial position of the family, poor education facilities, schools being located in faraway places, and most importantly the elders depriving girls from school education. However, few respondents have been educated up to pre-university and college level and it might be because of the growing awareness of the importance of education in the family.

It is clear from the table that most of the respondents were married: 80 per cent, 86.67 per cent, and 76.67 per cent in models I, II, and III respectively. Hence, only a very small percentage of SHG members were unmarried in Model-I (13.33%) and Model-II (3.33%) and no members are unmarried in Model-III. The main reason for a lower percentage of unmarried members in SHGs may be that, in the Indian social system, women have to leave the village and join their husbands once they get married. As SHG is a long-term activity, leaving the group either due to marriage or any other reason would hamper the group activities. This could be the reason in the group for having mostly married members. The remaining percentage of women was from the widow and divorced categories. The models II and III have 10 per cent and 20 per cent widows ,respectively, and only 3.33 per cent in Model-I. The number of divorced women is negligible, with 3.33 per cent in both models I and III, and in

Model-II none of the respondents were divorced. However, it is reassuring to see that the weakest among the weaker category of women, namely the widows and divorced, were also taking part in SHGs, thereby gradually becoming self-reliant and stable in leading their lives.

Nuclear families[1] were the dominant family type in all three models. In Model-I 70 per cent of the respondents were from nuclear families; the remaining 30 per cent belonged to joint families; whereas in Model-II about 96.67 per cent belonged to a nuclear family and the remaining 3.33 per cent to a joint family. In Model-III all the respondents were from nuclear families. The results concur with the findings of HEMALATHA PRASAD (1997) and PRASAD (1998). The predominance of nuclear families might be due to the fact that most of the respondents are from poor families with marginal land or landless labourers, and lack of physical and financial assets made them choose nuclear families to reduce their responsibilities.

The information on the size of families clearly says that among the respondents, about 80 per cent in Model-I and 60 per cent in both models II and III were from medium-size families. Model-I has an equal percentage of respondents (10%) from small and large families. Similarly, Model-III has 20 per cent respondents from both small and large families. However, Model-II has 23.33 per cent from small families and 16.67 per cent from large families. The results are in line with the findings of KUMARAN (1997) and MAHAPATRA *et al.*, (1997) and they have found that this might be due to their awareness regarding the increased cost of living and difficulties in the maintenance of a big family and lack of family support in small families. Hence, they might have found that it is beneficial to have medium-size families to lead a better and comfortable life.

The occupation of the respondents is an important factor in determining the economic condition of the SHG members. In all three models, most of the respondents were working as agricultural labourers, and next majority respondents were involved in agriculture as occupation in Model-II (56.67%), Model-I (36.67%), and Model-III (20%). Only Model-I has 6.67 per cent of respondents working as a housewife, and none in models II and III, which indicates it is necessary for women's earning to be agricultural labourer to meet the financial requirements of the family. The respondents working in other occupations were few, indicating the scope for women to enter into many of the non-agricultural and small-business activities – either individually or through their group in the village – to improve their financial status was limited. Similar results were recorded by KUMARAN (1997) and PRASAD (1998) – that the majority of women were engaged as agricultural labourers due to lack of physical and material resources.

The socio-economic study also focussed on the respondents' religions and caste profiles to show the distribution of members in the group. The data elucidates that more than 85 per cent of the respondents belong to the Hindu religion in all three models, with 96.67 per cent in models I and II, and 86.67 per cent in Model-III. The few remaining respondents belonged to a Muslim religion, and no respondents were from other religions like Christianity or Jainism, though the related population prevails in the study area.

The study reveals that in Model-I, the different castes of the sample respondents are equally represented in the groups – SC/ST (33.33%), OBC (30%), and General (36.67%) – whereas Model-II has more than half of the respondents from the OBC caste and the remaining 46.67 per cent from SC/ST. However, in Model-III, over three-fourths (86.67%) of the respondents belong to SC/ST and just 13.33 per cent to the OBC group, but interestingly in Model-II and Model-III, none of the respondents were from the General caste. The results are supported by the SUDHARANI (2002) study, in which it was found that SHGs covered most of the SC/ST population. On the other hand, still a majority of the poor are from SC/ST group, which is the main target group of SHGs.

The annual income of the family reveals that more than half of the respondents in all three models fall under the 11,500–30,000 (256$- 667$) INR income category with 63.33 per cent in Model-I and 50 per cent in model-II and model-III. About 40 per cent in Model-II, 43.33 per cent in Model-III, and only 26.67 per cent in Model-I fall in the below 11,500 INR (256$) income category. However, in all three models, 10 per cent or fewer of the respondents were from the above 30,000 INR (667$) category. This emphasises that the SHGs target, that is, the poorest of the poor and those on the poverty line, were covered in all three models.

The average number of members per SHG revealed that there is not much difference in the number of members per SHG between the three models. In a nutshell, the socio-economic features show that there are no big differences in the members' profiles across all levels of the three models. The results confirm with the findings from a comparative study of SHGs from government departments and NGOs in Kerala state (Government of Kerala, 2004). The findings from their detailed members' socio-economic study has found that though there is no much significant difference between NGO monitored SHGs and *Kudumbasree* monitored SHGs members' socio-economic status.

Table 2. Socio-economic profile of the sample members (n=30, N=90)[6]

Particulars	Model-I	Model-II	Model-III
Age			
Young (below 35 years)	10 (33.33)	6 (20.00)	10 (33.33)
Middle (36–55 years)	17 (56.67)	20 (66.67)	20 (66.67)
Old (56 years and above)	3 (10.00)	4 (13.33)	-
Education			
Illiterate	20 (66.67)	20 (66.67)	22 (73.33)
Primary school	6 (20.00)	8 (26.67)	4 (13.33)
High school	2 (6.67)	2 (6.67)	4 (13.33)
PUC	1 (3.33)	-	-
Degree holders	1 (3.33)	-	-
Marital status			
Unmarried	4 (13.33)	1 (3.33)	-
Married	24 (80.00)	26 (86.67)	23 (76.67)
Widows	1 (3.33)	3 (10.00)	6 (20.00)
Divorced	1 (3.33)	-	1 (3.33)
Type of family			
Nuclear	21 (70.00)	29 (96.67)	30 (100.00)
Joint	9 (30.00)	1 (3.33)	-
Family size			
Small (up to 4 members)	3 (10.00)	7 (23.33)	6 (20.00)
Medium (4–6 members)	24 (80.00)	18 (60.00)	18 (60.00)
Large (7 and above)	3 (10.00)	5 (16.67)	6 (20.00)
Occupation			
Agriculture	11 (36.67)	17 (56.67)	6 (20.00)
Agriculture labour	16 (53.33)	12 (40.00)	22 (73.33)
Housewife	2 (6.67)	-	-
Non-agri labour	-	-	1 (3.33)
Small business	-	-	-
Pottery	-	1 (3.33)	-
Other	1 (3.33)	-	1 (3.33)
Religion			
Hindu	29 (96.67)	29 (96.67)	26 (86.67)
Muslim	1 (3.33)	1 (3.33)	4 (13.33)
Caste			
SC/ST	10 (33.33)	14 (46.67)	26 (86.67)
OBC	9 (30.00))	16 (53.33)	4 (13.33)
General	11 (36.67)	-	-
Annual income (INR)			
Up to 11,500	8 (26.67)	12 (40.00)	13 (43.33)
11,500–30,000	19 (63.33)	15 (50.00)	15 (50.00)
Above 30,000	3 (10.00)	3 (10.00)	2 (6.67)
Average members/SHG	16	16	17

Note: Figures in parentheses indicate percentage of the respective. Source: Own compilation, 2009

Test of significance of variables

During the study, information was collected from the respondents that covered many of the aspects. Further, the most important variables influencing SHGs in the three models are identified using factor analysis. Before doing factor analysis, the variables are tested for significance by using the *Kruskal-Wallis* test to know which variables significantly differ between the three models (Table 3). The results indicate that the personnel profile variables like caste, marital status, main occupation, and type of family significantly differ between the models. The group characteristics such as the nature of the SHG, age of the SHG, terms of office bearers, number of members in the SHG, meeting attendance rates, dropouts from the SHG, action taken against an SHG member for non-involvement in SHG activity, satisfaction of SHG member with the workings of the supporting institution, training programmes conducted for SHG members, and overall group functioning also have shown significant differences between the models. The variables related to savings and credit, like total savings amount of individual in the SHG, loan amount taken per person, interest rate paid for the loan amount, cost involved in acquiring the credit compared to other sources of credit and risk involved in it, the purpose of loan being taken, steps taken for delay in loan repayment by the members, punishment for delayed loan repayment, credit taken that equals more than the savings amount of SHG members, available instalments, and duration of loan repayments have revealed significant differences between the SHGs of the three models under study. Thus, the above variables create significant differences between the models and are used further in the current study. It clearly indicates that though the three models are focussed on the same population with the same objective, they differ in many of the factors, which in turn can influence the performance of the SHGs under the three models. All the variables mentioned in Table 3 have found significant differences between the models at 5-per cent level.

Table 3. Test of significance for variables under study between SHG models

Variable	Chi-square	Sig.
Caste	12.687	.002
Marital status	7.001	.030
Main occupation	7.632	.022
Type of family	7.367	.025
Nature of SHG	6.457	.040
Age of SHG	28.886	.000
Term of office bearers	28.972	.000
Number of members in SHG	8.603	.014
Attending meetings	20.597	.000
Dropouts	25.395	.000
Action taken against SHG member for non-involvement	19.391	.000
Satisfaction about the workings of supporting institution	11.270	.004
Training programmes conducted	26.061	.000
Overall rating of group functioning	45.036	.000
Total individual savings amount in SHG	8.897	.012
Loan amount/person	63.440	.000
Interest rate on loan	43.310	.000
Subsidy amount/person	24.244	.000
Cost involved in acquiring the credit	12.757	.002
Risk involved in acquiring the credit	8.661	.013
Purpose of loan	6.984	.030
Steps taken for delay in loan repayment	8.692	.013
Punishment decision for delayed loan repayment	6.345	.042
Credit taken more than thrift	8.063	.018
Available instalments for loan repayment	24.250	.000
Available duration of loan repayments	15.964	.000

Note: All variables in table are significant at 5-per cent level. Source: Own compilation, 2009

Results of factor analysis

Factor analysis is used to create a subset of variables from a larger set, based on the original variables that have the highest correlation with the principal component factors and also by handling the multicollinearity between the variables. The results of the factor analysis are presented in Table 4 and Table 5.

The most important components and their relative explanatory power as expressed by their Eigen values, considering the latent root criterion, are presented in Table 4. It also explains the total amount of variance explained by each component to the total variation in the set of variables under the factor matrix. It is clear from the results that all the models have three components explaining their extracted factor loadings. The extracted components explain the factor loadings, wherein Model-I explains about 51.42 per cent of total variance extracted by the factor solutions, followed by Model-III with 47.48 per cent, and 45.81 per cent in Model-II.

In Model-I, the first component explains 29.12 per cent variance, followed by the second and third components, with 14.29 per cent and 8 per cent, respectively. In the case of Model-II, 20.03 per cent and 17.63 per cent of variance was explained by the first and second components and 8.15 per cent by the third component, whereas in Model-III, the first component explained 17.53 per cent variation, followed by the second and third components with 15.99 per cent and 13.96 per cent respectively.

Table 4. Total variance explained by factor analysis

Component	Model-1			Model-2			Model-3		
	Rotation Sums of Squared Loadings (Eigen values)			Rotation Sums of Squared Loadings (Eigen values)			Rotation Sums of Squared Loadings (Eigen values)		
	Eigen values	% of variance	Cumulative %	Eigen values	% of variance	Cumulative %	Eigen values	% of variance	Cumulative %
1	22.718	29.125	29.125	16.226	20.033	20.033	14.378	17.534	17.534
2	11.149	14.294	43.419	14.284	17.635	37.668	13.116	15.995	33.529
3	6.245	8.006	51.425	6.603	8.152	45.819	12.168	13.961	47.489

Extraction Method: Principal component extraction method.

In Table 5, the rotated component matrix loadings for identified factors are given and the values represent the loadings of variables on their respective component. This helps in identification of the variables that have large loadings on the same component. This also explains how well each variable is explained by the component. It can be seen from the table that in Model-I, the first component is explained by the loading of several variables that act in different directions. The age of the SHG, membership fees, credit taken more than their savings, cost involved in acquiring the credit, subsidy amount per person, and discussion of social problems have significantly higher loadings with positive signs and are grouped for having same pattern of loading. The other variables, like number of members in the SHG, savings amount per person per week, total individual savings amount in SHG, loan amount/person, interest rate on loan, available instalments, and duration of loan repayments all have higher factor loadings with negative signs indicating these variables move in opposing patterns to the previous group. In the case of the second component, training programmes conducted and interest rate on deposits are the two variables with negative signs explaining considerable factor loadings, whereas attending meetings and equal opportunity to become office bearer are the two variables with opposing patterns, with positive signs explaining the third component.

It is apparent from Model-II that the variables like age of the SHG, number of members in the SHG, savings amount per person per week, total individual savings amount in the SHG, and loan amount per person load significantly on the first component, with positive signs and other variables like cost involved in acquiring the credit, available instalments for loan repayments, and interest rate on deposits having negative signs moving in the opposite direction with higher loadings on the component. In the second component, subsidy amount per person and credit taken more than thrift have positive signs with higher loadings and move in the same pattern, whereas attending meetings moves in the opposite direction with a higher negative loading. Only the variable training programme had positive sign loads on the third component.

Model-III has detained variables like age of the SHG, number of members in the SHG, and terms of the office bearer with a significant positive sign load on component one, whereas membership fees, savings amount per person per week with a negative sign load significantly on component one and move in opposing patterns. However, the interest rate on deposits and credit taken more than thrift both have opposing signs and load significantly on the second component. The variables such as attending meetings and caste are significantly positive, with a higher factor loading on the third component.

The extracted factor loadings (Table 5) show that the variables loading on each component vary significantly both in sign and value from one model to other. The variables that are under the first, second, and third components of Model-I are not necessarily under the first, second, and third components of the other models and vice versa, emphasising that the direction and magnitude of variance of each variable in explaining the factor loadings of the components varies from one model to the other and, furthermore, that these variables are used in studying the performance of SHGs under three models. Similar results were observed by RENUKARYA (2004) in his study on performance of SHGs and mentioned that many factors with different factor loadings influence the performance of SHGs under study.

Table 5. Rotated components matrix explaining factor loadings of each variable on extracted component

Variables	Model-I	Model-II	Model-III
Component: 1			
Age of SHG	0.918	0.942	0.898
Number of members in SHG	-0.865	0.803	0.942
Membership fees	0.990	-	-0.979
Savings amount / person/week	-0.990	0.915	-0.898
Total individual savings amount in SHG	-0.941	0.915	-
Credit taken more than thrift	0.990	-	-
Cost involved in acquiring the credit	0.990	-0.927	-
Loan amount/person	-0.990	0.961	-
Interest rate on loan	-0.990	-	-
Subsidy amount/person	0.990	-	-
Available instalments for loan repayment	-0.926	-0.872	-
Available duration of loan repayment	-0.971	-	-
Discussion of social problems	0.921	-	-
Interest rate on deposits	-	-0.927	-
Terms of the office bearer	-	-	0.968
Component: 2			
Training programme conducted	-0.894	-	-
Interest rate on deposits	-0.894	-	-0.920
Subsidy amount/person	-	0.932	-
Attending meetings	-	-0.860	-
Credit taken more than thrift	-	0.845	0.979
Component: 3			
Attending meetings	0.864	-	0.954
Equal opportunity to become office bearer	0.806	-	-
Training programme conducted	-	0.938	-
Caste	-	-	0.875

Source: Own compilation, 2009

6. Conclusion

In the present paper the important factors influencing the three SHGs microcredit delivery models like, Model-I: Bank promoted, Model-II: Government agency and Model-III: NGO promoted are analysed using quantitative data. The analysis shows that there are no significant differences in the three models with respect to their socio-economic data. Further, *Kruskal-Wallis test* results proved that there are significant differences in the personnel profile variables like caste, marital status, main occupation, and type of family and group characteristic variables such as nature of the SHG, age of the SHG, terms of office bearers, number of members in the SHG, meeting attendance rates, dropouts from the SHG, action taken against an SHG member for non-involvement in SHG activity, satisfaction of SHG member with the workings of the supporting institution, training programmes conducted for SHG members, and overall group functioning and also variables related to savings and credit operations like total savings amount of individual in the SHG, loan amount taken per person, interest rate paid for the loan amount, cost involved in acquiring the credit compared to other sources of credit and risk involved in it, the purpose of loan being taken, steps taken for delay in loan repayment by the members, punishment for delayed loan repayment, credit taken that equals more than the savings amount of SHG members, available instalments, and duration of loan repayments have revealed the significant differences between the three microcredit models under study. In the study considering the above variables the factor analysis using principle component method is applied. The variables are classified under the three main components in each model explaining different factor loadings of each variable on extracted component. Based on these results it is clear that, in each model there are specific factors that predominantly influence the performance of the individual models; factors which – when adopted by other models – could enhance their performance.

Hence, while dealing with SHGs microcredit, one has to know the difficulties and intricacies that exist in every specific context in which the SHG tries to achieve a better outcome. Thus results clearly indicates that though the three models are focussed on the same population with the same objective, they differ in many of the above mentioned factors, which in turn influence the performance of the SHGs under the three models. The outcome of the present study raises a question to measure the influence of these variables on social and economic performance of the SHGs microcredit models in the further research.

Footnotes

1 http://www.swaraj.org/whatisswaraj.htm

2 The rotating savings and credit association (ROSCA) is an association in Africa formed upon a core of participants who all agree to make regular contributions to a fund that is given in whole or in part to each contributor in rotation in the group (Ardener 1964, p. 201).

3 The coordinates for this district are 14°27’ N latitude to 75°55’ E longitude.

4 WCDD is a government department established in the year 1985 by government of India as a part of Ministry of Human Resource Development to give the much needed focus on women and children’s’ holistic development, Later the department was upgraded with separate ministry in the year 2006. http://wcd.nic.in/

5 A Nuclear Family is a small family/Social unit consisting of a father and mother and their children who are living together in a household dwelling. The term is relatively new has a reference back to the term from 1924 in the oxford English Dictionary. Murdock, George Peter (1949). *Social Structure*. New York: The MacMillan Company.

6 “n” indicates the total sub-sample from each model and “N” indicates the total sample under study from all the models, which is sum of number in each row.

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FACTORS INFLUENCING EMPOWERMENT OF RURAL SHG WOMEN IN BHANDARA DISTRICT OF MAHARASHTRA: LOGISTIC REGRESSION MODEL

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Abstract

At the end of ninth five year plan, in India, 26.1 per cent of the population was living Below Poverty Line (BPL) and in the rural area, 27.1 per cent of the population was living under poverty. The overall unemployment rate is estimated to 7.32 per cent. The female unemployment rate was 8.5 per cent. The rate of growth of women unemployment in the rural area was 9.8 per cent. This was because of the low growth rate of new and productive employment. In the end of IX plan various schemes implemented were focused to reduce poverty and to promote the gainful employment. But the more attractive scheme with less effort (finance) is Self Help Group (SHG). Since 1990, government policy has been focusing towards Empowerment of women. Economic and political empowerments are the twin processes operated through governmental effort. But the concept of empowerment includes a wide array of facets in a situation of comprehensive social development, which is analogous to Mahatma Gandhi's concept of "Sarvodaya". Mahatma Gandhi's loving and respectful concern for women, his belief in their role in politics and society are sometimes difficult to reconcile. Yet Gandhi, more than anyone else, struggled with these paradoxes in the existing social milieu. Comparing his vision of women with the current status of women, and the ongoing struggle for women's empowerment will provide a measure of what has been achieved through Self Help Group's micro-finance.

Empowerment of Women

Women's empowerment is a process whereby women become able to organize themselves to increase their own self-reliance, to assert their independent right, to make choices and to control resources which will assist in challenging and eliminating their own subordination (Nailakabeer, 1996).

About 90 years ago Gandhi advocated similar views exhorting women to realise their potential and work as a collectivity for social transformation. Though many of his ideas relating to women's economic and political participation are not women-friendly, yet his concepts of self-esteem, self-realisation, selfless service as a collectivity are the keys to justice for all human beings irrespective of their being men or women.

Mahathma Gandhi in Young India (30th April, 1930) stated, "To call women the weaker section is mans injustice to women. If by strength is meant brute strength, then indeed is woman measurably superior to man".

Self Help Group (SHG)

Self Help Group founded by Mohammed Yunus was originated from Grameen Bank of Bangladesh and was formed in 1975. In India, National Bank of Agriculture and Rural Development (NABARD) had sponsored , in 1986-87, a Action Research Project of MYRADA on SHG s initiated in 1986-87. But the actual effort was taken only in 1992, by launching Pilot Project on SHG Bank Linkage Programme..

National Bank for Agriculture and Rural Development (NABARD, 1996) has defined the Self Help Group as a small homogeneous affinity group of the rural poor which is voluntarily formed. It can be also a formal grouping.

A SHG is a small economically homogeneous affinity group of the rural poor voluntarily coming together to save small amount regularly, which are deposited in a common fund to meet members emergency needs and to provide collateral free loans decided by the group. (Abhaskumar Jha 2004).

SHGs are working in democratic manner. The upper limit of members in a group is restricted to 20. Among them two members are selected as the representatives. The group members meet every week/month. They discuss about the group savings, rotation of group funds, bank loan, repayment of loan, social and community action programmes.

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They have been recognized as useful tool to help the poor and as an alternative mechanism to meet the urgent credit needs of poor through thrift (V. M. Rao 2002) SHG is a media for the development of saving habit among the women (S. Rajamohan 2003).SHGs enhance the equality of status of women as participants, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life. (Ritu Jain 2003).

The basic principles of the SHGs are group approach, mutual trust, organization of small and manageable groups, group cohesiveness, sprit of thrift, demand based lending, collateral free, women friendly loan, peer group pressure in repayment, skill training capacity building and empowerment (N.Lalitha).

SHGs are, therefore, tools to promote rural savings and gainful employment and thereby, reducing considerably the rural poverty. Besides, women members are economically, socially and politically independent and their contribution to household income, women's achievement of Ghandhian concepts of self-esteem, self-realisation, selfless service their freedom, decision making and participation in the public activities is also increased.

Micro-Finance

Micro-finance interventions are well-recognized world over as an effective tool for poverty alleviation and improving socioeconomic status of rural poor. In India too, micro-finance is making headway in its effort for reducing poverty and empowering rural women. Micro-finance through the network of cooperatives, commercial banks, regional rural banks, NABARD and NGO's has been largely supply-driven and a recent approach. Micro-finance institutions are, other than banks, are engaged in the provision of financial services to the poor.

Objectives

The general objective of this study is to study the factors influencing empowerment of rural women who were the members in SHG during 2000-2007 through logistic regression model in Bhandara district of Maharashtra which is economically backward and large number of population (85%) is in rural area.

Methodology

In order to study the factors influencing empowerment of rural women through logistic regression model in Bhandara district of Maharashtra in India, out of seven tehsils in Bhandara district, two tehsils namely, Bhandara and Sakoli were considered as the study areas. The present study had considered the rural women who were the members of Self Help Groups formed and linked with banks during 2000-2007 years in rural areas of Bhandara and Sakoli Tehsils in Bhandara district of Maharashtra. Stratified Random Sampling method was used for the selection of tehsils, Villages, SHGs and rural women who were the members of women SHGs formed and linked with banks during 2000-2007 and the rural women of women Self Help Groups formed and linked with banks were considered as sampling units. There were totally 2140 women Self Help Groups (SHGs) formed and linked with banks during 2000-2007 in Bhandara and Sakoli tehsils in Bhandara district of Maharashtra. Out of a total of 2140 women Self Help Groups(SHGs), 350 women Self Help Groups(SHGs) were fixed as sample size (Sampling fraction being 16.36 per cent) and these 350 women Self Help Groups(SHGs) were selected at random by using sampling frame corresponding to each tehsil and were interviewed with the help of a well designed and pre-tested Questionnaire.

The logistic regression model, an extension of multiple regression in which the dependent variable(Empowerment of Rural Women) is not a continuous variable was used to examine the effect of prediction variables, (i) Age, (ii) Marital Status, (iii) Caste, (iv) Education, (v) Spouse's Education, (vi) Type of Family, (vii) Type of House, (viii) Possession of House, (ix) Occupation, (x)Spouse's Occupation, (xi) Land Owning, (xii) Main Source of Drinking Water,(xiii) Type of Toilet Facility, (xiv) Main Source of Lighting, (xv) Type of Fuel Mainly Used for Cooking, (xvi) Live stocks Owning, (xvii) Habit of Savings, (xviii) Entrepreneurship Training Programme Attended, (xix) Micro Finance Assistance Availed and (x) Number of Training Programme Attended.

The form of the logistic function is

$$P = \frac{1}{(1 + \exp(-Z)} \qquad \text{.........} \ (1)$$

Where 'P' is the estimated probability of empowerment of rural women and 'Z' is the predictor variables:

Assuming that Z is linear function of set of predictor variables

$$Z = b0 + b1\ x1 + b2\ x2 + b3\ x3 \quad \ldots\ldots\ldots\ldots\ldots (2)$$

After substituting for Z in the logistic function in (1), the outcome will be

P = ———————— …..……… (3)

All the basic properties of logistic functions were preserved when this substitution were preserved when the substitution is applied. The function would range between 0 and 1 and achieved its maximum ratio of change with respect to change in any of the Xi.

Variable Used for the Logistic Regression Analysis

All the variables mentioned above were categorical variables and classified as presented below

Table 1: Classification of Categorical Variables

Sl.No.	Categorical Variables	Categories	Reference Category
1.	Age(in years)	20-24, 30-34, 35-39, 40 and Above	20-24
2.	Marital Status	Married, Unmarried, Widowed, Divorced/Deserted	Unmarried
3.	Caste	SC/ST, BC/MBC, Others	SC/ST
4.	Education	Illiterates, Primary School, Middle School, High School, Hr.Sec.School/PUC, Degree/Diploma, PG Degree	Illiterates
5.	Spouse's Education	Illiterates, Primary School, Middle School, High School, Hr.Sec.School/PUC, Degree/Diploma, PG Degree	Illiterates
6.	Type of Family	Joint, Nuclear,	Nuclear
7.	Type of House	Pucca, Semi-Pucca, Kachcha	Kachcha
8.	Possession of House	Own, Rented, Lease	Rented
9.	Occupation	No Employment, Agrl.Labour, Domestic, Activity, Self Employment, Non-Farm Labour, Salaried, Employment,	No Employment
10.	Spouse's Occupation	No Employment, Agrl.Labour, Domestic, Activity, Self Employment, Non-Farm Labour, Salaried, Employment,	No Employment
11.	Land Owning	Owning,Not Owning	Not Owning
12.	Main Source of Drinking Water	Tap Water Owned, Tap Water Shared , Hand Pump/ Well (owned), Hand Pump / Well (shared), Pond / River	Hand Pump / Well (shared), Pond / River
13.	Type of Toilet Facility	Own Flush Toilet, Own Pit Toilets, Shared Pit Toilet, Public / Community Toilet, No toilet facility	No toilet facility
14.	Main Source of Lighting	Electricity, Kerosene, Others	Kerosene
15.	Type of Fuel Mainly Used for Cooking	Electricity/Gas, Kerosene/ Firewood, Others	Kerosene/ Firewood
16.	Live stocks Owning	Yes, No	No
17.	Habit of Savings	Yes, No	No
18.	Entrepreneurship TrainingProgramme Attended	Yes, No	No
19.	Micro Finance Assistance Availed	Yes, No	No
20.	Number of Training Programme Attended	Not Attended, More than one	Not Attended

Results of the Logistic Regression Analysis

To assess whether the logistic regression model fits the data, the predicted outcome was compared with observed outcome. The following Table 4.1.7(b) presents the actual and predicted outcomes of fulfillment of students' expectation.

Table 2: Frequency table for actual and predicted outcome: Empowerment of Rural Women

Actual \ Predicted	0	1	Total
0	136 (74.3)	47 (25.7)	183 (100.0)
1	67 (40.1)	100 (59.9)	167 (100.0)
Total	203 (58.0)	147 (42.0)	350 (100.0)

Figures in parenthesis give the proportion of the row totals.

Overall percentage: 67.42857142857

Note:

0 = No Empowerment of Rural Women

1 = Empowerment of Rural Women

Figures in the parenthesis represent the proportion to the row totals.

No Empowerment of Rural Women was correctly predicted in 39 per cent and Empowerment of Rural Women was correctly predicted in 29 per cent of total rural women interviewed. Overall 67 per cent of rural women were correctly classified.

This implied that the logistic model fits the data. The high value of -2 log likelihood (397.06) revealed the goodness to fit of the model.

The results of the logistic analysis such as probability of Empowerment of Rural Women and significant level of independent variables were presented in the following Table 3:

Table 3 : Results of Logistic Analysis for Factors influencing Empowerment of Rural SHG Women

Sl.No.	Variables	Co-Efficients (B)	Standard Error (B)	Wald	df	Significant Level	Exp (B)
1.	Age(in years)	0.671	.308	4.738	1	.030	1.956
2.	Marital Status	1.316	.711	3.429	1	.064	3.728
3.	Caste	-0.762	.353	4.661	1	.031	.467
4.	Education	-0.923	.433	4.548	1	.033	.397
5.	Spouse's Education	2.429	.718	11.458	1	.001	11.348
6.	Type of Family	-0.302	.311	.942	1	.332	.740
7.	Type of House	-0.169	.309	.297	1	.586	.845
8.	Possession of House	-0.416	.369	1.266	1	.261	.660
9.	Occupation	3.813	1.325	8.287	1	.004	45.301
10.	Spouse's Occupation	-1.561	.861	3.285	1	.070	.210
11.	Land Owning	0.117	.341	.119	1	.730	1.125
12.	Main Source of Drinking Water	-0.438	.407	1.158	1	.282	.645
13.	Type of Toilet Facility	-0.881	.335	6.903	1	.009	.414
14.	Main Source of Lighting	1.831	.662	7.652	1	.006	6.238
15.	Type of Fuel Mainly Used for Cooking	0.132	.289	.208	1	.648	1.141
16.	Live stocks Owning	0.253	.284	.790	1	.374	1.288
17.	Habit of Savings	2.987	1.111	7.225	1	.007	19.831
18.	Entrepreneurship Training Programme Attended	0.228	.310	.541	1	.462	1.256
19.	Micro Finance Assistance Availed	0.581	.359	2.620	1	.106	1.787
20.	Number of Training Programme Attended	-1.594	.627	6.467	1	.011	.203

-2 log likelihood = 397.06

Note : Wald - Wald Statistics

df - Degrees of freedom

The likelihood of the event Empowerment of Rural Women increased as the value of independent variables like Age(in years), Marital Status, Spouse's Education, Rural Women's Occupation, Land Owning, Main Source of Lighting, Type of Fuel Mainly Used for Cooking, Live stocks Owning, Habit of Savings, Entrepreneurship Training Programme Attended Micro Finance Assistance Availed increased. Whereas it decreased as the value of independents variables like Caste, Education, Type of Family, Type of House, Possession of House, Spouse's Occupation, Main Source of Drinking Water, Type of Toilet Facility and Number of Training Programme Attended decreases.

The beta coefficient (B) and Wald statistics revealed that the amount of change in Rural Women for a unit change in independent variables like Rural Women's Age(in years) ($p<0.05$), Caste($p<0.05$), Rural Women's Education($p<0.05$), Spouse's Education($p<0.01$), Rural Women's Occupation ($p<0.01$), Type of Toilet Facility($p<0.01$), Main Source of Lighting($p<0.01$), Habit of Savings($p<0.01$) and Number of Training Programme Attended ($p<0.05$). That is, these independent variables had significant effect on Empowerment of Rural Women.

The Value of Exp (B) explained in the last column of Table 3 indicates the factor by which the odds changed when the category of a particular variable increased by one unit compared to reference category. The Type of Family, Type of House, Possession of House, Main Source of Drinking Water, Land Owning, Type of Fuel Mainly Used for Cooking, Entrepreneurship Training Programme Attended and Live stocks Owning had one time more intensity in Empowerment of Rural Women. The Rural Women's Age(in years), and Micro Finance Assistance Availed had increased Empowerment of Rural Women by a factor of two whereas Marital Status and Main Source of Lighting had three and six times more intensity respectively in Empowerment of Rural Women. The Spouse's Education and Occupation had more than six times intensity in rural women Empowerment.

Suggestions and Recommendations

i) From the foregoing findings, the study has brought out the fact that the level of empowerment of rural women depend on the women's literacy level. According to the National Population Policy (NPP) 2000, one of the 14 National Socio-Demographic Goals which are to be achieved by 2010 is to make school education up to age 14 free and compulsory, and reduce dropouts at primary and secondary levels to 20 per cent for both boys and girls. Hence, it is suggested that in addition to the operational strategies being implemented by the Government of India, SHG women, particularly rural women, may be motivated by the SHGs to educate them about the importance of their children's education.

ii) Formation of SHGs with similar age group and common economic activities should be tried while implementing the SHG programme.

iii) Joint Liability Group concept of NABARD for agri-based activities should be encouraged.

iv) Entreprenuership programme for SHG members should be arranged

v) Training programs need to be organized periodically for the members of SHGs, NGOs, Village Panchayat Leaders, Village Volunteers, Village Youth Clubs (Yuvak Kendra) and Women's Association (Mahila Mandal) to abreast them with the development in micro financial services;

vi) Rating system based on performance should be devised and availability of loans from financial institutions should be linked with rating;

vii) Repayment of microfinance through SHGs was found to be effective and same should be the criteria for performance assessment of microfinance;

viii) Norms for sanctioning of loan, security, margin, interest rate need to be modified and simplified to make the availability of loan easy to SHGs;

ix) More research activities are needed to be carried out in different rural areas of India to assess the impact of microfinance through SHGs to enable the Policy Makers and Program Implementers to formulate an universal approach to empower the rural women.

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SOCIAL PERFORMANCE OF INDIAN MICROFINANCE INSTITUTIONS: WITH SPECIAL REFERENCE TO FIVE DIAMOND PROFILE MFIS LISTED IN THE MICROFINANCE INFORMATION EXCHANGE

*** N.Sivasankaran, ** P. Saravanan**

Abstract

Financial sustainability of a micro finance institution does not automatically lead to the attainment of its social objectives. Hence, a micro finance institution needs to achieve both financial and social performance. It is important for a micro finance institution to reach the people who are under the poverty line and thereby ensuring that its services enable the poor to realize and appreciate improvement in their living conditions. The donors/funders should demand the Micro Finance Institutions to offer them details about the social performance like some subjective cases of positive change and number of clients reached as a prerequisite for offering financial aids.The scope of the study is confined to the relative performance assessment of the Indian Micro Finance Institutions (MFIs) [that are listed in the Micro Finance Information Exchange (MIX) with five diamond Profile] to the World average. This study makes an attempt to measure the performance of the listed (five Diamond) Micro Finance Institutions on the Social metrics. The study also aims at finding out the impact of the Micro Finance Institution's self rating about their managerial performance on their Social Performance. Further the study reveals the influence of the Organizational Characteristics, Operational Performance and Financial Performance of the sample Micro Finance Institutions on their Social Performance. The data were collected from 10 Indian Micro Finance Institutions listed in the Micro Finance Information Exchange with five diamond profile, using a structured questionnaire. The study covers the social performance metrics of the selected Micro Finance Institutions for a period of five financial years commencing from financial year 2003-04 and ending with financial year 2007 08. The collected data were analyzed by the statistical tools and based on the analysis, Findings, Suggestions and Conclusions are put forward.

Introduction

Several studies have been conducted in India, on the various aspects of micro finance such as the impact of microfinance programs on the women, role of Micro Finance Institutions in the development of Women in rural areas, effectiveness of the micro finance model, progress in the self help group bank linkage programmes, trends in rural credit, before and after living standards of the clients of micro finance. However, there is hardly available some literature on the Social Performance assessment of Micro Finance Institutions operating in India. Very limited number of studies was carried out on this topic in abroad. For instance, **Ejigu (2009)** conducted his study on the topic "Performance Analysis of a sample Micro Finance Institutions of Ethiopia" using the secondary data reported by 16 Ethiopian Micro Finance Institutions listed in the Micro Finance Information Exchange. Some of the researchers working for Micro Finance Information Exchange have conducted studies on the topic using the secondary data reported by the Micro Finance Information Exchange. For example, **Gonzalez (2006 and 2007)** conducted studies covering the drivers of operating costs and sources of revenue and asset allocation at micro finance institutions. Further Micro Finance Institutions do not report their performance data in the Micro Finance Information Exchange on a continuous basis. Even among those Micro Finance Institutions which report their performance details in the Micro Finance Information Exchange on a continuous basis, they do not provide details on all the four types of performance measures. Hence, the finding of the study is an eye opener to the researchers in the field of micro finance, because the study is based on the primary data provided by the Micro Finance Institutions which have been operating in the industry over a period of last five financial years.

Serrano et al. (2005) points out that the sudden growth of Micro Finance Institutions necessitated the need for Micro Finance rating agencies. These rating agencies have assigned ratings only based on the micro finance institution's performance in the financial indicators. So, there is a need for rating agencies to consider social performance aspects into account while assigning ratings to Micro Finance Institutions. The

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social rating should complement the financial ratings of the Micro Finance Institutions. They also observed that there were only three rating agencies out of the 13 surveyed, were assessing the social performance of micro finance institution.

Micro finance programs have become one of the most important interventions in developing countries efforts to reduce poverty. There has been paramount growth of Micro Finance Institutions in terms of organizations, number of clients and provision of subsidized donor funding in developing countries. Hence, they insist on the need to measure the impact of their work on the society. **(Makina and Malobala, 2004). Zeller et al. (2002)** state that donors do not only value the financial aspects of the Micro Finance Institutions but also, and especially, their social aspects. This resulted in the dual orientation of Micro Finance Institutions – financial and social - the assessment of their performance is based on the so-called double - bottom line; financial (first bottom line) and social (second bottom line).

According to **Tucker (2004)** an increase in competition and the emergence of an ability to compare the financial performance of Micro Finance Institutions with each other and to benchmarks is beginning to create greater concentration on improving business practices. Further, realisation that more efficient and financially sustainable Micro Finance Institutions may also in the end lead to the assistance of a greater number of the poor has served to link improving business practices with social mission. He opines that for profit making businesses, gaining market share is the best strategy to gain economies of scale. This strategy helps the business simultaneously overcome the threats of competition. In the micro finance sector, scale can be accomplished by attracting more clients, increasing the size of loans or both.

Gutierrez-Nieto et al. (2009) have taken three inputs and four outputs while measuring the social efficiency of Micro Finance Institutions. The three inputs taken by them were : assets, operating cost and number of employees, two of the outputs were financial – gross loan portfolio and revenue – and two outputs were social-the number of women borrowers and an indicator that measures the extent to which the activities of the micro finance institution can benefit the poorest. **Gutierrez-Nieto et al. (2009)** have taken number of active borrowers as an output under the assumption that a micro finance institution that gives loans to many individuals is playing an important role in poverty reduction. But not all the borrowers need to be poor. So they suggest the 'average loan balance per borrower' as a measure of the commitment that a micro finance institution has in poverty reduction.

Meyer (2002) noted that outreach is a multidimensional concept. The different dimensions of outreach are: the number of persons served by the micro finance institution, number of women served by the micro finance institution, depth of poverty and, variety of financial services rendered by the micro finance institution. **Navajas et al. (2000)** indicated that there are six aspects of measuring outreach; depth, worth of users, cost to users, breadth, length and scope. Here, depth of outreach refers to "the value the society attaches to the net gain from the use of the micro credit by a given borrower". The worth of outreach to users means how much a borrower is willing to pay for a loan. The cost of outreach to users consists of interest rates and various payments that they have to pay, which are sources of revenue to the lender, and other loan related transaction costs like expenses on documents, transport, food, taxes, etc. The breadth of outreach is the number of users while length of outreach refers to the time frame in which a microfinance institution produces loans and the scope of outreach is the number of type of financial contracts offered by a microfinance organization. **Navajas et al. (2000**) argues that the length of a loan matter, because If the Micro Finance Institutions support the poor only in the short run, it will affect the social welfare of the society in the long run. Further, when the client of the micro finance institution knows that he / she will not receive additional loan in the future, they would have no incentive to repay their loans.

Christen et al. (1995) and Otero and Rhyne (1994) were of the opinion that outreach and financial sustainability are complimentary under the assumption that higher the number of clients of a micro finance institution, Lower is the costs per head. However, **Hulme and Mosely (1996)** argued that there exists an inverse relationship between outreach and financial sustainability. **Dewez (2008)** lists down the social performance dimensions used by Incofin in his research paper titled "The Role of Socially Responsible Investors in the Social Performance of Microfinance Institutions". The dimensions are; mission and vision of the micro finance institution, scale and outreach of the micro finance institution, Human Resources of the micro finance institution, and Environmental and social contribution made by the micro finance institution to the community. **Schreiner (2002),** state that there is hardly any accepted measure available for measuring the social performance of Micro Finance Institutions. The term outreach is defined by many in different ways. Some researchers have opined that the relationship between outreach and sustainability is still not clearly proved (For e.g., **Conning, 1999 and Zeller and Meyer, 2002)**. They also state that the practitioners can assume that there exist some links between these two goals of a micro finance institution. In this context, the present study is carried out with the following objectives :

1. To assess the Comparative social performance of Micro Finance Institutions operating in India (with special reference to Micro Finance Institutions listed with five diamond profile in the Micro Finance Information Exchange)with that of the Industry Benchmark.
2. To profile the organizational nature of the Indian Micro Finance Institutions listed in the Micro Finance Information Exchange with five diamond profile.
3. To gauge the influence of Organizational Characteristics, Managerial Performance, operational performance and financial performance of the respondent Micro Finance Institutions on their Social Performance.
4. To furnish findings along with suggestions to improve the Social Performance of the Micro Finance Institutions selected for this study

The following are the major hypotheses formulated and tested by the researchers in the process of achieving the above stated research objectives.

1. Organizational Characteristics of the sample Micro Finance Institutions impact their Social Performance.
2. Indian Micro Finance Institutions perform better than the World average in the Social Performance.
3. Managerial Performance of the surveyed Micro Finance Institutions influences their Social Performance.
4. Operational Performance of the respondent Micro Finance Institutions impacts their Social Performance.
5. Financial Performance of the surveyed Micro Finance Institutions influences their Social Performance.

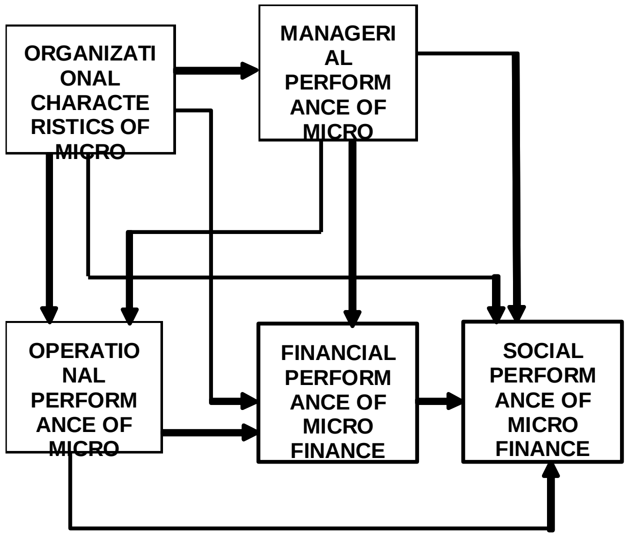
Research Model and Methods

There were 24 Micro Finance Institutions which were listed with five diamond profile in the Micro Finance Information Exchange for the financial year ending 31-03-2008. These 24 Micro Finance Institutions represent the population of the study. The reasons for selecting only the five diamond profile Micro Finance Institutions for the study is that only these Micro Finance Institutions have disclosed their complete general, management, audited financials and operational data in the Micro Finance Information Exchange.

The research design of the study was descriptive in nature as the researcher aimed at assessing the performance of the Indian Micro Finance Institutions that were listed in the Micro Finance Information Exchange. With a comparative descriptive design, the research describes two or more groups of participants. A co-relational research design is used to describe the statistical association between two or more variables. The researchers have made use of all these three types of descriptive research designs in the study.

The researchers have attempted to formulate the following **Research Model**

RESEARCH MODEL



The research model assumes that the organizational characteristics of the surveyed Micro Finance Institutions influence their Social Performance. The managerial,Operational and Financial Performance are presumed to impact the respondent Micro Finance Institution's Social Performance.

Organisational Characteristics consist of the legal status, lending model adopted, micro finance model followed, approach pursued and the number of operating states, and size of the micro finance institutions.

Social Performance is assessed by the following five sub-metrics: Number of active borrowers, Per cent of women borrowers, Number of outstanding Loans, Average loan balance, and Deposits.

Managerial performance is assessed by the MFI's self rating on[a scale of 1-5 where a rating of 5 indicates very good performance]the following sub metrics :Record keeping system and leverage on technology, Internal audit and control system, Management of cash flows, Loan recovery mechanism, Networking ability of the Micro Finance Institution (with apex funders and overseas funds),Ability to undertake product and process innovations at regular intervals,Ability to strike tie- ups with marketing networks for the produce of Self Help Groups / Grameen Groups,Regular conduct of the capacity building programs,HR practices (recruitment of professionals and management graduates, proper reward system and other HR practices),Frequency of the review of operations by the Micro Finance Institution,Composition of the board (number of independent directors), Experience of the key men in micro finance, and Overall rating on the Managerial Performance of the Micro Finance Institution.

Operational performance is measured using the following seven sub-metrics: Operating expenses to loan portfolio, Personnel expenses to loan portfolio, Cost per borrower, Borrowers per staff, Loans per staff, Borrowers per loan officer, and Loans per loan officer.

The financial performance of the selected Micro Finance Institutions is measured using the following 24 sub-measures: Assets, Capital to assets ratio, Debt to equity ratio, Deposits to loans ratio, Deposits to assets ratio, Gross loan portfolio to assets, Return on assets, Return on equity, Operational self sufficiency, Financial revenue to total assets, Profit margin, Yield on gross loan portfolio, Total expenses to assets ratio, Financial expenses to assets ratio, Provision for loan impairment to assets ratio, Operating expenses to assets ratio, Personnel expenses to assets ratio, Administrative expenses to assets ratio, PAR above 30 days ratio, PAR above 90 days ratio, Write off ratio, Loan loss reserve, Risk coverage ratio, and Non earning liquid assets as a per cent of total assets

The researchers have employed N**on-Probability Sampling** in general and **Purposive Sampling** in particular for the study. The research has used both primary and secondary data for this study. Primary data was collected with the help of a well structured questionnaire. The secondary data were collected from various sources such as research journals, text books, magazines, newspapers and internet. A structured questionnaire was designed for the purpose of collecting data from the Indian Micro Finance Institutions listed with five diamond profile in the Micro Finance Information Exchange (MIX). The Questionnaire consisting of details regarding Organization, Management, Social, Operational and Financial performance of Micro Finance Institutions were prepared in accordance with the inputs received from the experts working in the Indian micro finance industry.

The questionnaires were circulated among the 24 Micro Finance Institutions, targeted for the study. The questionnaires were sent to the Micro Finance Institutions by mail and E-Mail. The respondent Micro Finance Institutions were requested to offer data regarding their operations for the period starting from financial year 2003-2004 and ending with the financial year 2007-2008, i.e., five financial years. The researchers could collect the filled in questionnaires from 10 out of 24 micro finance institutions (response rate of 41.67%) targeted for the study.The content validity of the research questionnaire was duly tested before the data collection stage. Pilot study was conducted among four Micro Finance Institutions operating in India. The final draft of the questionnaire was prepared after incorporating all the suggestions offered by the respondents of the pilot study.

The researchers have formulated questions using the Likert Scale (five points) only for the management details of the research. The Cornbach's alpha for the self rating offered by the respondent Micro Finance Institutions is estimated at 0.89, which is above the accepted norm of 0.70. Hence, it can be concluded that the test is reliable.

The statistical tools used for the study consist of Mann-Whitney U test, Kruskal-Wallis one way ANOVA, Dunn's multiple comparison test, Pages test for ordered alternatives, one sample T-test, and simple regression.

The following are the limitations of the study:

1. This study is confined to the Micro Finance Institutions listed with five Diamond profile in the Micro Finance Information Exchange. There are more than 300 Micro Finance Institutions operating in India. The number of micro finance institutions reported to micro finance information exchange was 74 in the financial year 2007-2008. But the findings of the study are based on the data provided by 10 Micro Finance Institutions only. Hence, the findings of this study cannot be generalized.

2. Most of the respondents are operating only in southern part of the country. Therefore, the results of this study are skewed towards the performance of Micro Finance Institutions operating in south India only.

3. In spite of the systematic efforts pursued by the researchers, the number of Micro Finance Institutions responded to the questionnaire were only 10. Most of them were not interested in revealing their financial and key operational data.

4. Most of the large Micro Finance Institutions declined the request to respond to the research questionnaire.

FINDINGS, SUGGESTIONS AND CONCLUSION

-Organizational Characteristics of the respondent MFIs and their comparative social performance with the world average

· Majority (70%) of the respondent Micro Finance Institutions have Non Banking Finance Companies [NBFC] formats, and only three of the surveyed Micro Finance Institutions have Non- Non Banking Finance Companies formats.

· Most of the respondent Micro Finance Institutions (80%) have adopted group based lending model. It is observed that, 10 per cent of the surveyed Micro Finance Institutions are pursuing a combination of group and individual lending models. Only one out of 10 surveyed Micro Finance Institutions pursues its operations by using individual lending model.

· Majority of the respondent Micro Finance Institutions are following the "Grameen Model". Forty per cent of the respondents pursue the "Self Help Group model" for their micro finance operations. And only one Micro Finance Institution has responded stating that it is following the "Joint Liability Group (JLG) model".

· Most of the respondents (70%) have adopted the long term oriented Integrated Approach in their operations while three out of ten respondent Micro Finance Institutions have opted for the short term oriented Minimalist Approach in dealing with the poor clients.

· Five out of 10 surveyed respondents operate in less than two states while the other five of them operate in more than two states. This indicates that a considerable number of them are facing the concentration risk in their operations.

· The Indian Micro Finance Institutions Social Performance is better than the Industry Benchmark in three out of five Social Metrics. Their performance is superior to the world average in "number of active borrowers", "per cent of women borrowers" and "number of outstanding loans". However their performance is inferior to the industry benchmark in the other two metrics i.e., the performance of Indian Micro Finance Institutions is not good in "average loan balance "and "deposits". The five year average number of active borrowers of the Indian Micro Finance Institutions exceeds that of the world average

Table 1: LEGAL STATUS OF THE RESPONDENT MICRO FINANCE INSTITUTIONS

Legal Status	Number of Micro Finance Institutions	Percentage of the Total Number of Respondents
Non-Banking Finance Companies	7	70
Non-Non-Banking Finance Companies	3	30
Total	10	100

Table 2: LENDING MODEL ADOPTED BY THE RESPONDENT MICRO FINANCE INSTITUTIONS

Lending Model	Number of Micro Finance Institutions	Percentage of the Total Number of Respondents
Individual based	1	10
Group based	8	80
Both group and individual based	1	10
Total	10	100

Table 3: MICRO FINANCE MODEL PURSUED BY THE RESPONDENT MICRO FINANCE INSTITUTIONS

Micro Finance Model Adopted	Number of Micro Finance Institutions	Percentage of the Total Number of Respondents
Grameen Model	5	50
Self Help Group Model	4	40
Others (Joint Liability Group)	1	10
Total	10	100

Table 4: APPROACH ADOPTED BY THE RESPONDENT MICRO FINANCE INSTITUTIONS

Approach Adopted	Number of Micro Finance Institutions	Percentage of the Total Number of Respondents
Minimalist	3	30
Integrated/Maximalist	7	70
Total	10	100

Table 5: CONCENTRATION IN OPERATIONS OF THE RESPONDENT MICRO FINANCE INSTITUTIONS

Operating in	Number of Micro Finance Institutions	Percentage of the Total Number of Respondents
Less than 2 States	5	50
More than 2 States	5	50
Total	10	100

Table 7: FIVE YEAR AVERAGE PERFORMANCE OF RESPONDENT MICRO FINANCE INSTITUTIONS AND THE INDUSTRY BENCHMARK

S.No.	Metric / Sub-Metric	Respondent Micro Finance Institutions	Industry Average (Micro Finance Information Exchange)
SOCIAL Performance Metrics			
1	Number of active borrowers (in '000)	102.86	5.56
2	Percentage of women borrowers	99.37	66.42
3	Number of outstanding loans (in '00000)	1.22	0.08
4	Average loan balance per borrower (Rs. in lakhs)	0.06	0.17
5	Deposits (Rs. in lakhs)	253.93	304.29

Table 8: H_1 = the five year average number of active borrowers of the Indian Micro Finance Institutions is higher than the world average.

N	Mean Standard	Deviation Standard	Test value (Population Mean)	Calculated Value (t)	Table value (at 5% Significance Level, df = 9)
10	102.86	139.2256	5.56	2.210	1.833
H_1 is accepted					

Table 9: H_1 = the five year average percent of women borrowers of the Indian Micro Finance Institutions is higher than the world average.

N	Mean Standard	Deviation Standard	Test value (Population Mean)	Calculated Value (t)	Table Value (at 5% Significance Level, df = 9)
10	99.37	1.1671	66.42	89.21	1.833
H_1 is accepted					

Table 10: H_1 = the five year average number of outstanding loans of the Indian Micro Finance Institutions is greater than the world average.

N	Mean Standard	Deviation Standard	Test Value (Population Mean)	Calculated Value (t)	Table Value (at 5% Significance Level, df = 9)
10	1.22	1.7715	0.08	2.033	1.833
H_1 is accepted					

Table 11: H_1 = the five year average loan balance of Indian micro finance institutions is superior to the world average.

N	Mean Standard	Deviation Standard	Test Value (Population Mean)	Calculated Value (t)	Table Value (at 5% Significance level, df = 9)
10	0.06	0.0176	0.17	-19.75	1.833
H_1 is rejected					

Table 12: H_1 = the five year average deposits of the Indian micro finance institutions is greater than the world average.

N	Mean Standard	Deviation Standard	Test Value (Population Mean)	Calculated Value (t)	Table Value (at 5% Significance Level, df = 9)
10	253.93	361.67	304.29	-0.44	1.833
H_1 is rejected					

Table 13:SUMMARY OF THE RESULTS

<table>
<tr><th>S.No.</th><th>Metric / Sub-Metric</th><th colspan="2">Result Indian Micro Finance Institutions performance is</th></tr>
<tr><td colspan="4">SOCIAL</td></tr>
<tr><td>1</td><td>Number of active borrowers (in ‘000)</td><td>Better than the benchmark</td><td rowspan="5">Indian Micro Finance Institutions perform better in three out of five parameters</td></tr>
<tr><td>2</td><td>Percentage of women borrowers</td><td>Better than the benchmark</td></tr>
<tr><td>3</td><td>Number of outstanding loans (in ‘ 00000)</td><td>Higher than the world average</td></tr>
<tr><td>4</td><td>Average loan balance per borrower (Rs. in lakhs)</td><td>Lower than the world average</td></tr>
<tr><td>5</td><td>Deposits(Rs in lakhs)</td><td>Lower than the benchmark</td></tr>
</table>

-Influence of Organizational Characteristics of Micro Finance Institutions on their Social Performance

· The performance of Indian NBFC Micro Finance Institutions is better than the Non- NBFC Micro Finance Institutions in the sub-measures of Social Performance.

· Micro Finance Institutions following group lending model in their operations perform better than the Micro Finance Institutions pursuing other lending model in the Social Performance measures.

· The Grameen Micro Finance Institutions produce superior Performance than the Self Help Group Micro Finance Institutions in the sub-measures of social performance.

· Respondent Micro Finance Institutions following Maximalist Approach in their operations generate greater performance than the Micro Finance Institutions following the Minimalist Approach in operations.

· The Micro Finance Institutions operating in less than two states produce better results than those operating in more than two states

Table 14: H_1 = Indian non-banking finance companies micro finance institutions reveal progressive growth trend in all the metrics of social performance over the last five financial years (2003 to 2007)

S.No.	Parameter	Calculated Value (P Value)	Critical Value for Page's Test (k = 5, n - 7)	Result
1	Number of Active Borrowers	385	338	H_1 is accepted
2	Percentage of Women Borrowers	293	338	H_1 is rejected
3	Number of Outstanding Loans	379	338	H_1 is accepted
4	Average Loan Balance	368	338	H_1 is accepted
5	Deposits	342	338	H_1 is accepted

Table 15: H_1 = Indian Non-non-banking finance companies micro finance institutions disclose progressive growth trend in all the metrics of social performance over the last five financial years (2003 to 2007)

S.No.	Parameter	Calculated Value (P Value)	Critical Value for Page's test (k = 5, n - 3)	Result
1	Number of Active Borrowers	166	150	H_1 is accepted
2	Percentage of Women Borrowers	131	150	H_1 is rejected
3	Number of Outstanding Loans	162	150	H_1 is accepted
4	Average Loan Balance	158	150	H_1 is accepted
5	Deposits	143	150	H_1 is accepted

Table 16: H_1 = Indian Micro Finance Institutions following Group Lending Model in their operations, generate progressive growth trend in all the metrics of social performance over the last five financial years (2003 to 2007).

S.No.	Parameter	Calculated Value (P value)	Critical Value for Page's Test (k=5,n-8)	Result
1	Number of Active Borrowers	437	384	H_1 is accepted
2	Percentage of Women Borrowers	360	384	H_1 is rejected
3	Number of Outstanding Loans	477	384	H_1 is accepted
4	Average Loan Balance	417.5	384	H_1 is accepted
5	Deposits	389	384	H_1 is accepted

Table 17:H1 = Indian Micro Finance Institutions following Other Lending Model (OLM) in their operations, generate progressive growth trend in all the metrics of social performance over the last five financial years (2003 to 2007).

S.No.	Parameter	Calculated Value (P value)	Critical Value for Page's test (k=5,n-2)	Result
1	Number of Active Borrowers	109	103	H_1 is accepted
2	Percentage of Women Borrowers	92	103	H_1 is rejected
3	Number of Outstanding Loans	104	103	H_1 is accepted
4	Average Loan Balance	109	103	H_1 is accepted
5	Deposits	93	103	H_1 is accepted

Table 18: H1 = Indian Micro Finance Institutions following Grameen Model (GM) in their operations reveal significant growth trend in all the metrics of social performance over the last five financial years (2003 to 2007).

S.No.	Parameter	Calculated Value (P value)	Critical Value for Page's test (k=5,n-5)	Result
1	Number of Active Borrowers	273	244	H_1 is accepted
2	Percentage of Women Borrowers	222.5	244	H_1 is rejected
3	Number of Outstanding Loans	268	244	H_1 is accepted
4	Average Loan Balance	265.5	244	H_1 is accepted
5	Deposits	211	197	H_1 is accepted

Table 19: H1 = Indian Micro Finance Institutions following self help group model in their operations produce significant growth trend in all the metrics of social performance over the last five financial years (2003 to 2007).

S.No.	Parameter	Calculated Value (P value)	Critical Value for Page's test (k=5,n-4)	Result
1	Number of Active Borrowers	216	197	H_1 is accepted
2	Percentage of Women Borrowers	177.5	197	H_1 is rejected
3	Number of Outstanding Loans	222	197	H_1 is accepted
4	Average Loan Balance	211	197	H_1 is accepted
5	Deposits	195.5	197	H_1 is accepted

Table 20: H1 = Indian Micro Finance Institutions following minimalist approach in their operations reveal significant growth trend in all the metrics of social performance over the last five financial years (2003 to 2007).

S.No.	Parameter	Calculated Value (P value)	Critical Value for Page's test (k=5,n-3)	Result
1	Number of Active Borrowers	164	150	H_1 is accepted
2	Percentage of Women Borrowers	132	150	H_1 is rejected
3	Number of Outstanding Loans	155	150	H_1 is accepted
4	Average Loan Balance	149.5	150	H_1 is rejected
5	Deposits	144.5	150	H_1 is rejected

Table 21: H1 = Indian Micro Finance Institutions following maximalist approach exhibit significant growth rate in all the metrics of social performance over the last five financial years (2003 to 2007).

S.No.	Parameter	Calculated Value (P value)	Critical Value for Page's test (k=5, n-7)	Result
1	Number of Active Borrowers	382	338	H_1 is accepted
2	Percentage of Women Borrowers	321	338	H_1 is rejected
3	Number of Outstanding Loans	376	338	H_1 is accepted
4	Average Loan Balance	377	338	H_1 is accepted
5	Deposits	340.5	338	H_1 is accepted

Table 22: H1 = Indian Micro Finance Institutions operating in less than two states reveal significant growth rates in all the metrics of social performance over the last five financial years (2003 to 2007).

S.No.	Parameter	Calculated Value (P value)	Critical Value for Page's test (k=5,n-3)	Result
1	Number of Active Borrowers	255	244	H_1 is accepted
2	Percentage of Women Borrowers	369	244	H_1 is rejected
3	Number of Outstanding Loans	267	244	H_1 is accepted
4	Average Loan Balance	255.5	244	H_1 is rejected
5	Deposits	253.5	244	H_1 is accepted

Table 23: H_1 = Indian Micro Finance Institutions operating in more than two states have significant growth rate in all the metrics of social performance over the last five financial years (2003 to 2007).

S.No.	Parameter	Calculated Value (P value)	Critical Value for Page's Test (k=5, n-7)	Result
1	Number of Active Borrowers	275	244	H_1 is accepted
2	Percentage of Women Borrowers	223	244	H_1 is rejected
3	Number of Outstanding Loans	274	244	H_1 is accepted
4	Average Loan Balance	265	244	H_1 is accepted
5	Deposits	182	244	H_1 is rejected

-Impact of Managerial Performance of Micro Finance Institutions on their Social Performance

The Managerial Performance of the respondent Micro Finance Institutions (Operational Effectiveness, Institutional Arrangements, Quality of Management and Overall Managerial Performance) both individually and collectively does not influence their Social Performance

Table 6: MEAN SCORE OF THE RESPONDENT MICRO FINANCE INSTITUTIONS ON MANAGERIAL PERFORMANCE

Category	Mean Score
Sample Micro Finance Institutions (all the respondents)	4.24
Non-Banking Finance Companies - Micro Finance Institutions	4.34
Non- Non-Banking Finance Companies Micro Finance Institutions	4.00
Micro Finance Institutions following combined lending model	4.31
Micro Finance Institutions following group lending model	4.18
Micro Finance Institutions following Individual lending model	4.65
Grameen Micro Finance Institutions	4.50
Self Help Group Micro Finance Institutions	4.04
Joint Liability Group Micro Finance Institutions	3.69
Micro Finance Institutions operating with minimalist approach	4.23
Micro Finance Institutions operating with Integrated approach	4.24
Micro Finance Institutions operating in less than two states	4.18
Micro Finance Institutions operating in more than two states	4.29

Table 24: H1 = the operating effectiveness of the respondent micro finance institutions influences their social performance
Independent Variable = Operating Effectiveness

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	-403924	0.486	18602.347	1.575	0.154	No Impact
2	Percentage of Women borrowers	97.401	0.226	0.174	0.655	0.531	No Impact
3	Number of Loan Accounts	-539718	0.510	22972.568	1.676	0.132	No Impact
4	Average Loan Balance	5231.906	0.045	216.361	0.128	0.901	No Impact
5	Deposits	296.150	-.016	55.305	-.044	0.966	No Impact

Table 25: H1 = the institutional arrangements of the respondent Micro Finance Institutions influences their social performance
Independent Variable = Institutional Arrangements

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	-517195	0.568	19112.995	1.954	0.086	No Impact
2	Percentage of Women Borrowers	96.351	0.330	0.184	0.990	0.351	No Impact
3	Number of Loan Accounts	45575.277	0.553	24273.035	1.878	0.097	No Impact
4	Average Loan Balance	3833.678	0.169	232.918	0.485	0.640	No Impact
5	Deposits	137.855	0.041	60.303	0.116	0.911	No Impact

Table 26: H1 = the quality of management of the surveyed micro finance institutions influences their social performance
Independent Variable = Quality of Management

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	-517195	0.568	19112.995	1.954	0.086	No Impact
2	Percentage of Women Borrowers	96.351	0.330	0.184	0.990	0.351	No Impact
3	Number of Loan Accounts	-630367	0.553	24273.035	1.878	0.097	No Impact
4	Average Loan Balance	3833.678	0.169	232.918	0.485	0.640	No Impact
5	Deposits	137.855	0.041	60.303	0.116	0.911	No Impact

Table 27: H1 = the overall managerial performance of the surveyed Micro Finance Institutions influences their social performance
Independent Variable = Overall Managerial Performance

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	-398168	0.537	65404.236	1.803	0.109	No Impact
2	Percentage of Women Borrowers	100.849	-0.190	0.638	-0.546	0.600	No Impact
3	Number of Loan Accounts	-510334	0.544	81584.959	1.836	0.104	No Impact
4	Average Loan Balance	4063.938	0.174	776.955	0.499	0.631	No Impact
5	Deposits	75.665	0.074	200.937	0.209	0.840	No Impact

-Impact of Operational Performance of Micro Finance Institutions on their Social Performance

· The operating expenses to loan portfolio of the respondent Micro Finance Institutions do not impact their Social Performance.

· The personnel expenses to loan portfolio of the respondent Micro Finance Institutions do not impact their Social Performance.

· The cost per borrower of the respondent Micro Finance Institutions does not impact their Social Performance.

· The borrowers per staff of the respondent Micro Finance Institutions do not impact their Social Performance.

· The loans per staff of the respondent Micro Finance Institutions do not impact their Social Performance.

· The borrowers per loan officer of the respondent Micro Finance Institutions do not impact their Social Performance.

· The loans per loan officer of the respondent Micro Finance Institutions do not impact their Social Performance.

· The operational performance of the respondent Micro Finance Institutions does not influence their Social Performance.

Table 28: H1 = the Operating expenses to loan portfolio of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	68414.604	0.135	7682.508	0.386	0.709	No Impact
2	Percentage of Women Borrowers	99.076	0.137	0.064	0.392	0.705	No Impact
3	Number of Loan Accounts	77118..789	0.154	9608.489	0.439	0.672	No Impact
4	Average Loan Balance	6109.478	-0.154	77.933	-0.441	0.671	No Impact
5	Deposits	-11.682	0.401	18.451	1.239	0.250	No Impact

Table 29: H_1 = the Personnel expenses to loan portfolio of the respondent Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	39141.601	0.299	13472.529	0.886	0.401	No Impact
2	Percentage of Women Borrowers	99.231	0.077	0.118	0.220	0.832	No Impact
3	Number of Loan Accounts	45494.320	0.302	16880.305	0.895	0.397	No Impact
4	Average Loan Balance	6382.023	-0.310	136.557	-0.921	0.384	No Impact
5	Deposits	-40.272	0.531	31.079	1.772	0.114	No Impact

Table 30: H_1 = the Cost per Borrower of the respondent micro finance institutions impacts their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	55935.695	0.153	173.285	0.439	0.672	No Impact
2	Percentage of Women Borrowers	99.421	-0.020	0.001	-0.058	0.955	No Impact
3	Number of Loan Accounts	65724.092	0.157	217.169	0.451	0.664	No Impact
4	Average Loan Balance	4703.887	0.323	1.688	0.966	0.362	No Impact
5	Deposits	221.111	0.041	0.455	0.117	0.910	No Impact

Table 31: H_1 = the Borrowers per Staff (BPS) of the surveyed micro finance institutions impacts their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	140198.1	-0.082	738.169	-0.234	0.821	No Impact
2	Percentage of Women Borrowers	99.123	0.065	0.006	0.184	0.858	No Impact
3	Number of Loan Accounts	184675.2	-0.103	923.910	-0.293	0.777	No Impact
4	Average Loan Balance	4305.177	0.306	7.174	0.908	0.391	No Impact
5	Deposits	351.241	-0.083	1.918	-0.235	0.820	No Impact

Table 32: H_1 = the Loans per Staff of the respondent micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	67583.161	0.070	751.036	0.199	0.847	No Impact
2	Percentage of Women Borrowers	98.513	0.203	0.006	0.587	0.574	No Impact
3	Number of Loan Accounts	85327.206	0.065	942.188	0.184	0.859	No Impact
4	Average Loan Balance	4317.533	0.272	7.369	0.800	0.447	No Impact
5	Deposits	357.902	-0.080	1.950	-0.226	0.827	No Impact

Table 33: H1 = the Borrowers per Loan Officer of the respondent Micro Finance Institutions impacts their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	123402.8	-0.052	429.684	-0.147	0.887	No Impact
2	Percentage of Women Borrowers	98.712	0.198	0.004	0.572	0.583	No Impact
3	Number of Loan Accounts	124780.8	0.003	539.567	0.008	0.994	No Impact
4	Average Loan Balance	6657.178	-0.235	4.254	-0.684	0.513	No Impact
5	Deposits	184.143	0.068	1.115	0.192	0.852	No Impact

Table 34: H1 = the Borrowers per Loan Officer of the respondent Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	77820.857	0.054	460.397	0.154	0.881	No Impact
2	Percentage of Women Borrowers	98.447	0.239	0.004	0.696	0.506	No Impact
3	Number of Loan Accounts	50579.876	0.131	573.246	0.373	0.719	No Impact
4	Average Loan Balance	6915.997	-0.257	4.532	-0.753	0.473	No Impact
5	Deposits	200.665	0.045	1.197	0.126	0.903	No Impact

-Impact of Financial Performance of Micro Finance Institutions on their Social Performance

· The amount of "investments in assets" of the respondent Micro Finance Institutions impacts two out of five sub-measures of Social Performance; "number of active borrowers (standard error of 0.440) "and "number of outstanding loans (standard error of 0.865)". However it does not affect the other sub-measures of Social Performance.

· The "capital to assets ratio "of the respondent Micro Finance Institutions does not affect all the sub-measures of Social Performance.

· The "debt to equity ratio" of the respondent Micro Finance Institutions does not affect the sub-measures of Social Performance.

· The "deposits to loans ratio" of the respondent Micro Finance Institutions impacts only one out of five sub-measures of Social Performance; "deposits (standard error of 6.821)". However it does not affect the other sub-measures of Social Performance.

· The "deposits to assets ratio" of the respondent Micro Finance Institutions impacts only one out of five sub-measures of Social Performance; "deposits (standard error of 11.561)". However it does not affect the other sub-measures of Social Performance.

· The "gross loan portfolio to assets ratio" of the respondent Micro Finance Institutions does not affect the sub-measures of Social Performance.

· The "return on assets" of the respondent Micro Finance Institutions does not affect all the sub-measures of Social Performance.

· The "return on equity" of the respondent Micro Finance Institutions does not affect the sub-measures of Social Performance.

· The "Operational self sufficiency "ratio of the respondent Micro Finance Institutions impacts only one out of five sub-measures of Social Performance ; "average loan balance (standard error of 18.057)". However it does not affect the other sub-measures of Social Performance.

· The "financial revenue to total assets" ratio of the respondent Micro Finance Institutions does not affect all the sub-measures of Social Performance.

· The "profit margin" ratio of the surveyed Micro Finance Institutions impacts only one out of five sub-measures of Social Performance; "average loan balance (standard error of 7.237)". However it does not affect the other sub-measures of Social Performance.

· The "yield on gross loan portfolio "ratio of the respondent Micro Finance Institutions does not affect all the sub-measures of Social Performance.

· The" total expenses" ratio of the respondent Micro Finance Institutions does not affect all the sub-measures of Social Performance.

· The "financial expenses" ratio of the surveyed Micro Finance Institutions impacts only one out of five sub-measures of Social Performance; "average loan balance (standard error of 178.879)". However it does not affect the other sub-measures of Social Performance.

· The "provision for loan impairment" of the respondent Micro Finance Institutions does not affect all the sub-measures of Social Performance.

· The "operating expenses to assets" ratio of the respondent Micro Finance Institutions does not affect the sub-metrics of Social Performance.

· The "Personnel expenses to assets" ratio of the respondent Micro Finance institutions does not affect all the sub-metrics of social performance.

· The "administrative expenses to assets" ratio of the respondent Micro Finance Institutions does not affect the sub-measures of Social Performance.

· The "portfolio at risk 30" ratio of the respondent Micro Finance Institutions does not affect the sub-metrics of Social Performance.

· The "portfolio at risk 90" ratio of the respondent Micro Finance Institutions does not affect the sub-measures of Social Performance.

· The "write off ratio "of the surveyed Micro Finance Institutions impacts only one out of five measures of Social Performance; "deposits (standard error of 191.575)". However it does not affect the other sub-metrics of Social Performance.

· The "loan loss reserve" ratio of the respondent Micro Finance Institutions does not affect the sub-parameters of Social Performance.

· The "risk coverage ratio" of the respondent Micro Finance Institutions does not affect the sub-measures of Social Performance.

· The "non earning liquid assets as a per cent of total assets" ratio of the respondent Micro Finance Institutions does not affect the sub-parameters of Social Performance.

· It is found that all the sub- measures of financial performance of the Micro Finance Institutions do not influence their Social Performance uniformly. Some impacts on a higher extent and the others do not affect the sub-metrics of the Social Performance at all.

Table 35: H_1 = the amount of investment in assets of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	16477.619	0.993	0.440	23.575	0.000	Impact is found
2	Percentage of Women Borrowers	99.231	0.189	0.000	0.545	0.601	No Impact
3	Number of Loan Accounts	18916.848	0.982	0.865	14.891	0.000	Impact Is found
4	Average Loan Balance	5712.880	-0.003	0.038	-0.008	0.994	No Impact
5	Deposits	283.219	-0.129	0.010	-0.369	0.722	No Impact

Table 36: H1 = the capital to assets ratio of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	83647.011	0.114	6190.927	0.323	0.755	No Impact
2	Percentage of Women Borrowers	98.980	0.285	0.055	0.842	0.424	No Impact
3	Number of Loan Accounts	87559.541	0.189	8374.970	0.544	0.601	No Impact
4	Average Loan Balance	5813.606	-0.062	69.045	-0.177	0.864	No Impact
5	Deposits	381.334	-0.301	16.849	-0.892	0.398	No Impact

Table 37: H1= The debt to equity ratio of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	126595.7	-0.201	4708.575	-0.579	0.578	No Impact
2	Percentage of Women Borrowers	98.964	0.369	0.017	1.124	0.293	No Impact
3	Number of Loan Accounts	148222.6	-0.134	2710.546	-0.383	0.711	No Impact
4	Average Loan Balance	5454.908	0.192	21.775	0.553	0.595	No Impact
5	Deposits	346.446	-0.272	5.453	-0.800	0.447	No Impact

Table 38: H1 = the deposits to loans ratio of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	126595.7	-0.201	4708.575	-0.579	0.578	No Impact
2	Percentage of Women Borrowers	99.350	0.020	0.040	0.055	0.957	No Impact
3	Number of Loan Accounts	157223.0	-0.209	5893.796	-0.605	0.562	No Impact
4	Average Loan Balance	6250233	-0.449	43.695	-1.419	0.194	No Impact
5	Deposits	-3.578	0.838	6.821	4.336	0.002	Impact is found

Table 39: H1 = the deposits to assets ratio of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	138564.8	-0.263	7543.799	-0.771	0.463	No Impact
2	Percentage of Women Borrowers	99.406	-0.032	0.065	-0.092	0.929	No Impact
3	Number of Loan Accounts	171008.1	-0.263	9459.261	-0.772	0.462	No Impact
4	Average Loan Balance	6370.855	-0.478	69.846	-1.541	0.162	No Impact
5	Deposits	-36.060	0.822	11.561	4.086	0.004	Impact is found

Table 40: H1 = the gross loan portfolio to assets ratio of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	404414.2	-0.228	5574.207	-0.663	0.526	No Impact
2	Percentage of Women Borrowers	101.051	-0.152	0.047	-0.435	0.675	No Impact
3	Number of Loan Accounts	466369.9	-0.205	7026.679	-0.594	0.569	No Impact
4	Average Loan Balance	1450.712	0.317	55.234	0.945	0.372	No Impact
5	Deposits	2019.040	-0.514	12.755	-1.696	0.128	No Impact

Table 41: H1 = the return on assets ratio of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	97887.801	0.084	16652.914	0.239	0.817	No Impact
2	Percentage of Women Borrowers	99.422	-0.107	0.139	-0.303	0.770	No Impact
3	Number of Loan Accounts	114184.0	0.162	20679.576	0.465	0.655	No Impact
4	Average Loan Balance	6012.053	-0.502	146.969	-1.644	0.139	No Impact
5	Deposits	245.045	0.058	43.341	0.164	0.874	No Impact

Table 42: H1 = the return on equity ratio of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	117190.4	-0.196	416.359	-0.564	0.588	No Impact
2	Percentage of Women Borrowers	99.288	0.132	0.004	0.377	0.716	No Impact
3	Number of Loan Accounts	137787.0	-0.126	528.137	-0.360	0.728	No Impact
4	Average Loan Balance	5764.036	-0.072	4.307	-0.204	0.843	No Impact
5	Deposits	282.862	-0.152	1.090	-0.435	0.675	No Impact

Table 43:H1 = the operational self sufficiency of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	212.365	0.139	2342.658	0.398	0.701	No Impact
2	Percentage of Women Borrowers	99.298	0.011	0.020	0.032	0.975	No Impact
3	Number of Loan Accounts	-83190.2	0.226	2889.552	0.658	0.529	No Impact
4	Average Loan Balance	10667.785	-0.661	18.057	-2.491	0.037	Impact is found
5	Deposits	-22.393	0.144	6.081	0.412	0.691	No Impact

Table 44: H1 = the financial revenue to total assets ratio of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	-36515.5	0.239	10757.383	0.696	0.506	No Impact
2	Percentage of Women Borrowers	99.583	-0.044	0.093	-0.124	0.905	No Impact
3	Number of Loan Accounts	-90342	0.296	13269.649	0.877	0.406	No Impact
4	Average Loan Balance	6821.156	-0.187	110.694	-0.539	0.604	No Impact
5	Deposits	-196.319	0.297	27.479	0.880	0.404	No Impact

Table 45: H1 = the profit margin of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	105734.5	0.198	1693.72	0.573	0.583	No Impact
2	Percentage of Women Borrowers	99.407	0.316	0.014	0.943	0.374	No Impact
3	Number of Loan Accounts	130521.6	0.239	2104.441	0.695	0.507	No Impact
4	Average Loan Balance	5575.869	-0.911	7.237	-6.261	0.000	Impact is found
5	Deposits	263.161	0.245	4.353	0.714	0.495	No Impact

Table 46: H1 = the yield on gross loan portfolio of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	-7117.099	0.239	6937.700	0.697	0.506	No Impact
2	Percentage of Women Borrowers	98.474	0.245	0.058	0.715	0.495	No Impact
3	Number of Loan Accounts	-60890.3	0.342	8384.285	1.030	0.333	No Impact
4	Average Loan Balance	6433.834	-0.163	71.406	-0.468	0.653	No Impact
5	Deposits	-100.292	0.313	17.557	0.931	0.379	No Impact

Table 47: H1 = the total expenses to assets ratio of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	46213.430	0.126	9178.676	0.359	0.729	No Impact
2	Percentage of Women Borrowers	99.945	-0.146	0.078	-0.417	0.688	No Impact
3	Number of Loan Accounts	51806.035	0.132	11501.246	0.376	0.717	No Impact
4	Average Loan Balance	5154.670	0.121	93.416	0.346	0.738	No Impact
5	Deposits	-13.087	0.228	23.400	0.664	0.526	No Impact

Table 48: H1 = the financial expenses to assets of the surveyed micro financial institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	101472,8	0.017	28970.147	0.046	0.965	No Impact
2	Percentage of Women Borrowers	98.751	0.141	0.205	0.403	0.698	No Impact
3	Number of Loan Accounts	-416122	0.256	29909.569	0.748	0.476	No Impact
4	Average Loan Balance	9444.812	-0.701	178.879	-2.783	0.024	Impact is found
5	Deposits	7.446	0.181	63.028	0.521	0.616	No Impact

Table 49: H1 = the provision for loan impairment ratio of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	4342.644	0.438	77008.500	1.379	0.205	No Impact
2	Percentage of Women Borrowers	99.733	-0.238	0.620	-0.692	0.508	No Impact
3	Number of Loan Accounts	13299.483	0.493	83168.717	1.602	0.148	No Impact
4	Average Loan Balance	6462.853	-0.405	708.880	-1.253	0.245	No Impact
5	Deposits	-24.447	0.587	160.342	2.050	0.075	No Impact

Table 50: H1 = the operating expenses to assets ratio of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	57939.511	0.191	10047.132	0.550	0.598	No Impact
2	Percentage of Women Borrowers	98.945	0.215	0.084	0.623	0.551	No Impact
3	Number of Loan Accounts	57670.985	0.232	12484.670	0.675	0.519	No Impact
4	Average Loan Balance	6875.829	-0.487	90.952	-1.575	0.154	No Impact
5	Deposits	40.585	0.349	24.919	1.053	0.323	No Impact

Table 51: H1 = the personnel expenses to assets ratio of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	21266.715	0.325	20981.869	0.971	0.360	No Impact
2	Percentage of Women Borrowers	99.264	0.050	0.186	0.142	0.891	No Impact
3	Number of Loan Accounts	21411.185	0.332	26236.122	0.997	0.348	No Impact
4	Average Loan Balance	6431.707	-0.282	216.476	-0.832	0.429	No Impact
5	Deposits	-21.854	0.422	52.234	1.318	0.224	No Impact

Table 52: H1 = the administrative expenses to assets ratio of the respondent Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	95735.420	0.029	19984.772	0.083	0.936	No Impact
2	Percentage of Women Borrowers	98.852	0.254	0.162	0.743	0.479	No Impact
3	Number of Loan Accounts	104619.5	0.071	25009.052	0.201	0.846	No Impact
4	Average Loan Balance	6470.426	-0.308	193.509	-0.914	0.387	No Impact
5	Deposits	91.405	0.258	50.187	0.754	0.473	No Impact

Table 53: H1 = the portfolio at risk 30 of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	81967.703	0.185	31076.334	0.532	0.609	No Impact
2	Percentage of Women Borrowers	99.697	-0.347	0.248	-1.046	0.326	No Impact
3	Number of Loan Accounts	103548.0	0.160	39144.307	0.457	0.660	No Impact
4	Average Loan Balance	6037.365	-0.284	308.357	-0.839	0.426	No Impact
5	Deposits	193.682	0.205	80.397	0.593	0.570	No Impact

Table 54: H1 = the portfolio at risk 90 of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	29599.824	0.630	67517.919	2.294	0.051	No Impact
2	Percentage of Women Borrowers	99.729	-0.370	0.676	-1.126	0.293	No Impact
3	Number of Loan Accounts	39332.385	0.596	87576.124	2.097	0.069	No Impact
4	Average Loan Balance	6025.554	-0.266	852.276	-0.782	0.457	No Impact
5	Deposits	79.632	0.577	184.458	1.998	0.081	No Impact

Table 55: H1 = the write off ratio of the respondent micro finance institutions influences their social performance

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	78571.635	0.306	95245.208	0.908	0.390	No Impact
2	Percentage of Women Borrowers	99.244	0.229	0.821	0.664	0.525	No Impact
3	Number of Loan Accounts	100175.4	0.316	119872.9	0.943	0.373	No Impact
4	Average Loan Balance	5909.023	-0.298	978.409	-0.883	0.403	No Impact
5	Deposits	137.886	0.681	191.575	2.634	0.030	Impact is found

Table 56: H1 = the loan loss reserve ratio of the surveyed micro finance institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	79780.447	0.309	94656.222	0.920	0.384	No Impact
2	Percentage of Women Borrowers	99.240	0.255	0.815	0.745	0.478	No Impact
3	Number of Loan Accounts	101546.0	0.324	119420.5	0.969	0.361	No Impact
4	Average Loan Balance	5886.132	-0.285	981.410	-0.841	0.425	No Impact
5	Deposits	149.857	0.661	196.296	2.489	0.08	No Impact

Table 57: H1 = the risk coverage ratio of the respondent micro finance institutions impacts their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	108391.5	-0.126	0.051	-0.358	0.730	No Impact
2	Percentage of Women Borrowers	99.299	0.190	0.000	0.548	0.599	No Impact
3	Number of Loan Accounts	130036.3	-0.070	0.064	-0.198	0.848	No Impact
4	Average Loan Balance	5699.221	0.025	0.001	0.070	0.946	No Impact
5	Deposits	270.677	-0.146	0.000	-0.418	0.687	No Impact

Table 58: H1 = the non-earning liquid assets as a percentage of total assets of the surveyed Micro Finance Institutions influences their social performance.

S.No.	Dependent Variable	Constant (a)	Beta coefficient	Standard Error	t	Significance	Result
1	Number of active borrowers	22882.495	0.388	5686.598	1.189	0.269	No Impact
2	Percentage of Women Borrowers	98.555	0.374	0.052	1.140	0.287	No Impact
3	Number of Loan Accounts	31059.817	0.292	8012.406	0.863	0.413	No Impact
4	Average Loan Balance	6618.931	-0.344	63.811	-1.035	0.331	No Impact
5	Deposits	13.993	0.355	16.221	1.075	0.314	No Impact

SUGGESTIONS

- The surveyed Micro Finance Institutions are suggested to improve their average loan balance by product innovations, process improvements, and expanding operations. The average loan balance automatically goes up when a Micro Finance Institution starts offering more of repetitive loans (progressive lending) and opening more branches in the untouched geographical areas.
- The deposits of Indian Micro Finance Institutions are lower than that of the Industry Benchmark. Deposits are considered to be the low cost source of funds for financial institutions. So, the policy makers and regulatory authorities can permit the micro finance institutions operating in India to mobilize deposits from their clients. In fact, this move may allow the Indian Micro Finance Institutions to reach better outreach levels. The regulatory authorities may come out with similar prudential norms such as BASEL framework followed in the banking industry for monitoring the performance of the MFIs.
- The Non-NBFC Micro Finance Institutions reveal a relatively poorer Social Performance compared to the NBFC Micro Finance Institutions. This is surprising compared to the generalized view stating Non-NBF Micro Finance Institutions are social oriented while the NBFC Micro Finance Institutions are commercial oriented. Hence, the Non-NBFC Micro Finance Institutions need to improve their growth rates in all the five sub- measures of Social Performance.

- The Minimalist Micro Finance Institutions need to exhibit increasing trend in their average loan balance. It is possible for them to do so, only by building the capacity of the clients, which requires the Minimalist Micro Finance Institutions to follow the Maximalist Approach in their operations.
- The Micro Finance Institutions operating in more than two states relatively underperform those operating in less than two states in the Social Performance sub-metrics. This is in contradiction to the expectation that the Micro Finance Institutions with less concentration risk in operations perform better than the others in Social Performance. Therefore, the diversified Micro Finance Institutions (operating in more than two states) ought to exhibit growth rates in deposits. It is to be noted that the diversified Micro Finance Institutions usually have the NBFC formats, which does not allow them to accept deposits from the clients. So, there is a need for the policy makers to allow the Micro Finance Institutions irrespective of the legal format to accept deposits from their clients.

CONCLUSION

It is concluded that the Organizational Characteristics of the respondent Micro Finance Institutions have influence on their Social Performance. The self rating offered by the respondent Micro Finance Institutions about their Managerial Performance is appreciable, though it is found that the Managerial Performance of the surveyed Micro Finance Institutions both individually and collectively do not impact their social performance. It is observed that the performance of the Indian Micro Finance Institutions exceeds that of the industry benchmark in the sub-metrics of Social Performance. It is also found that the Operational Performance of the surveyed Micro Finance Institutions do not influence their Social Performance. It is also found that the all the sub- measures of Financial Performance of the Micro Finance Institutions do not influence their Social Performance uniformly. Some impacts on a higher extent and the others do not affect the sub-metrics of the Social Performance at all.

Scope for Further Research

This research work offers scope for further research work in

- Comparative social performance of Indian and Bangladeshi Micro Finance Institutions[because Bangladesh has occupied geographical importance in the microfinance map]
- Comparative social performance of the European, African, Asian, and Latin American Micro Finance Institutions.
- Social performance assessment of Micro Finance Institutions[all the MFIs] listed in the Micro Finance Information Exchange.
- Comparative social performance of Indian Micro Finance Institutions with the Commercial Banks and Regional Rural Banks operating in India
- Social performance assessment of Micro Finance Institutions reporting to Sa-DHAN.
- Comparative social performance of the Indian Micro Finance Institutions operating urban areas with that of the MFIs operating in rural areas.
- Comparative social performance among the Indian Micro Finance Institutions listed with 1, 2, 3,4 and 5 diamonds in the Micro Finance Information Exchange

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PROGRESS AND PERFORMANCE OF SHG AFFILIATED MICRO ENTERPRISES IN INDIA AND ITS IMPACT ON WOMEN EMPOWERMENT WITH FOCUS ON KERALA

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Abstract

In spite of the enhanced global wealth creation during the last several years, the number of people on chronic poverty has been on increase. To address the issues of poverty reduction Micro enterprises development programme have been initiated. The SME sector, estimated to be comprised of almost over 90% of all enterprises in the world, accounts for 50% to 60% of total employment and holds a major share of the industrial production and exports. Poverty reduction programme based on micro credit and micro enterprises have been attempted in many countries including India. This paper is an attempt to high light the progress of micro enterprises in India with special reference to SHG affiliated micro enterprises in Kerala and its impact on women empowerment.

PART-1

1.1 Introduction

It is an accepted fact that industrialisation holds the key to economic growth of a developing nation. In a country where capital is scarce, labour is abundant and a major proportion of the population is below poverty line, the role of small and micro enterprises is widely accepted. Micro enterprises are an important source of income and employment for a significant proportion of the poor. In fact, this sub sector is perceived to be an essential part of the survival strategy of poor house holds throughout the world. Worldwide, micro enterprises have been accepted as the engine of economic growth and for promoting equitable development by alleviating poverty and gender inequality. The present study is conducted in this context.

1.2 Objectives

The main objective of the study is to evaluate the performance and progress of micro enterprises in India with special reference to SHG affiliated micro enterprises in Kerala and its impact on beneficiaries. The specific objectives are:

1.2.1 To examine the progress and role of micro enterprises in India

1.2.2 To analyse the performance of SHG affiliated micro enterprises in Kerala

1.2.3 To measure the impact of the micro enterprises programme on the beneficiaries.

1.3 Methodology

1.3.1 Period of the study:

For performance evaluation a four year period from 2004-05 to 2007 -08 has been taken.

1.3.2 Sources of Data:

Both primary and secondary data were used. Primary data were collected by administering two sets of questionnaires, one for enterprises and the second set for beneficiaries.

1.3.3. Sampling

The largest number of operating SHG affiliated group micro enterprises is concentrated in Kerala. So Kerala has been taken for performance evaluation. In Kerala the largest number of micro enterprises is working in Ernakulam district. So this district has been selected. 204 group micro enterprises having at least 4 years existence are operating in Ernakulam district.10% of these has been selected at random. Thus 20 group enterprises and all the beneficiaries of the selected enterprises(369) constitute the samples for the present study.

1.3.4 Tools for analysis:

Statistical tools like correlation, regression, Empowerment Index etc .were used.

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PART-2

2.1 Micro Enterprises in India

In India, over 260 million live in poverty. The poor are plagued by high levels of unemployment, low incomes and significant debt. The crux of poverty alleviation programmes in India lies in the employment generation potential leading to income generation. The origin and growth of micro enterprises in India can be traced to lack of employment opportunities and inadequate income generation. To address the issues of poverty reduction, creation of employment and income opportunities in rural areas, the government has initiated Micro Enterprise Development Programme. Micro enterprise development is viewed as an opportunity for providing gainful employment to the people below poverty line, thereby improving their income and standard of living.

Micro enterprises are small undertakings run by individuals or groups who take up responsibility of managing a business venture and are often involved in the family activities. The micro enterprises suit the life style of women because of their multiple roles and need to re-organise time. Micro enterprises commonly share certain characteristics like low capital, low technology and a few workers. Micro enterprises come into existence out of either market driven or non market driven forces. Market driven ones are managed and controlled by the entrepreneurs themselves. In non-market driven enterprises a government agency or a NGO plays an active role. Non-market driven micro enterprises are fostered by Government or its agencies as a part of poverty alleviation.

According to 2001 census, micro enterprises sub-sector accounts for 25% of employment of all main workers. The growth prospects for this sub-sector are promising. A large proportion of the poor still rely on livelihood enterprises for subsistence. Study conducted by Swiss Development Corporation and NABARD in 1994 has revealed that those with annual income in excess of Rs.6,000/- were the border line poor, and they derived more than 60% of their income from micro enterprise initiatives.

In recent years the potential for micro enterprises has become quite apparent. The rural economy has been showing clear positive signs of opportunity for the micro enterprises in a few sub sectors such as manufacturing, trade and services. The growing commercialisation of rural economy and mobilisation of savings towards income generating activities have opened up new vistas for the micro enterprise sector. In India the micro enterprise sector is under the Ministry of Micro Small Medium Enterprises and is administered by Micro Small Medium Enterprises Development (MSMED) Act, 2006.

The processes of economic liberalisation and market reforms have opened up several possibilities of access to larger markets and stronger and deeper links of micro, small enterprises (MSEs) with global enterprises. The high growth in this sector stimulates not only policy changes but also makes the sector more competitive in the present global scenario. The government has been focusing on the MSEs ever since new economic reforms have taken place in the country and have been working as a facilitator to bring Indian MSEs on par with global players. The MSEs get support in terms of infrastructure, technology, finance, export marketing etc.

With this support and encouragement, the MSEs in India constitute an important segment of the economy contributing around 39% of country’s manufactured out put and 34% of its exports (US $ 31,500 million) in 2005-2006. It provides employment to around 30 million people in rural and urban areas of the country. As of today, the number of MSEs in the country is around 12.34 million (91% of total industrial units) manufacturing more than 8,000 different products.

Though MSE Sector showed rapid progress, several studies on micro enterprises have emphasised that the profitability as well as viability of these enterprises can be enhanced further if they are provided access to credit at reasonable terms. Here comes the importance of integrating the micro credit with the micro enterprise sector.

The SHGs in different parts of the country, whenever properly trained, rightly exploit the opportunity of micro enterprises. The linking up of micro enterprise and micro credit through SHGs can enable them to become financially self-sustaining. The promoting institutions are required to understand the economic environment in which micro enterprises have to operate. Financial, institutional and human resources are to be integrated for building the micro enterprise potential. Approximately 1,000 Indian NGOs have emerged to help the poor to acquire loans and to start micro enterprises. With continuing help and financial support, these micro enterprises/micro finance institutions can empower the poor through education, training and micro loans that will drastically improve their financial possibilities.

The government of India started its first programme on micro credit – called Development of Women and Child in Rural Areas (DWCRA) in 1982 as a part of the poverty eradication initiative called IRDP. The idea was to start micro enterprises by women groups. Even though it worked well in some states, the approach was top to down and people's participation was lacking in general.

After reviewing IRDP, a new programme, Swarnajayanthi Gram Swarozgen Yojana (SGSY) was launched by Central Government in April 1999. SGSY aims at establishing a large number of micro enterprises in rural areas, keeping twin objectives in mind, viz., the ability of the poor and the potential of the local area. SGSY has put more emphasis on the organising the poor at the grass roots level, through a process of social mobilisation to alleviate the incidence of poverty.

In recent years, the individual approach to poverty alleviation programmes has been increasingly replaced by group approach. This is particularly true when delivering micro finance to the poor. Studies have shown that the delivery of micro finance to the poor and formation of micro enterprises are smooth, effective and inexpensive, if they are organised into Self Help Groups. Self Help Groups in India are promoted or sponsored by Central Government, State Government and by NGOs.

2.2 Definition of micro enterprises

There is no widely accepted definition for the micro enterprises except the one given by MSMED Act, 2006. Development institutions such as Planning Commission, NABARD and SIDBI have their own definitions based on the size of investment and on the number of people employed.

Micro Small Medium Enterprises Development Act, 2006, defines micro enterprises as those enterprises for which investment does not exceed Rs.25 lakhs in the case of manufacturing enterprises and Rs.10 Lakhs in the case of service providing enterprises.

Rural Micro Enterprises Department, NIRD defined it as "Enterprises engaged in processing, production and distribution of goods and services which employ less than 10 workers provided such units employ power or less than 20 workers if not using power".

In the context of basic characteristics of micro and small enterprises in Botswana, Vinod Anand, defined micro enterprises as a unit in the unincorporated sector, not registered with the Registrar of Companies, and producing and/or supplying goods (capital or consumer) or services, and engaging a maximum of 10 persons including the owner(s).

Micro enterprise, the smallest type of entrepreneurial enterprise, come in all shapes and forms, from subsistence businesses to firms that use relatively sophisticated production methods, display rapid growth, and are directly linked to larger firms in vendors, metal shops, tailors and more (Alisan Beck, 2001).

Kudumbashree mission in Kerala has defined micro enterprises, on the basis of its characteristics, as enterprises:

· having investment between Rs.5,000/- and Rs.2.5 lakhs

· being formed by individual or group based poor people

· where the entrepreneurs are able to get monthly income worth Rs.1,500/-

· having the turnover between Rupees one lakh and Rupees five lakhs (yearly) and,

· fully owned, managed and operated by members themselves, preferably, by women from below poverty line families as entrepreneurs.

PART-3

3.1 Micro Enterprises in Kerala.

Kerala stands unique among the states in India with high indicators of human development. It has achieved an impressive position in the area of women development. It has a high female literacy rate of 88% while the national literacy rate is 54%; a low infant mortality rate of 6.4 (against the national average of 80); a sex ratio of 1058 females/1000 males, high life expectancy rate of 75 for females and 72 for male etc. In spite of this, the role of women in public domain is not impressive. The system of patriarchy has conditioned majority of women in the state to play a secondary role to men in social, economic and political activities. As a result, they lag behind in empowerment despite their achievements in education and health. While, in India, the female work participation rate has increased from 19.7% to 22.7% between 1991 and 2001, in Kerala the ratio has declined from 16% to 15.3%. The unemployment rate among females in Kerala is 5 times higher than that among males. Educated female unemployment is a crucial problem in Kerala particularly among those with school level education. Micro enterprises are identified as a feasible solution to these problems.

In Kerala, Micro Enterprise is considered to be an emerging process which starts with low capital, low risk and low profit at the initial stage, gains momentum and later switches from a low to a medium capital and from low risk to medium risk. At an advanced stage, it can reach medium capital medium risk and medium profit with appropriate technology, emerging technology or even with low technology. To achieve their objectives, micro entrepreneurs need to be supported by technical know how, institutional finance and an effective marketing network for their products. For this, women entrepreneurs in Kerala are assisted in: (a) Identification of innovative and creative activities suited to the specific environment in which they are living and help to solve the problems faced by the community by using the technological know how already available, (b) In the absence of entrepreneurial skills, continued support is provided by means of 'hand holding' and 'support services', (c) Training in functional areas of management like production, finance, marketing and human resources,(d) Utilising the existing potential of resource persons available in and around the state for developing entrepreneurship and (e) experimenting the marketing network system.

In addition to the above, the entrepreneurs of SHG linked micro enterprises receive various financial assistance and subsidies. They are provided with funds ranging from one lakh to nine lakhs as special assistance from various Grama Panchayats for financing micro enterprises. Challenge fund, matching grant, revolving fund, etc. are other forms of assistance given to SHGs for micro enterprises. Innovative funds are provided to innovative projects ranging from rupees one lakh to Rs.1.25 lakhs subject to 50% subsidy. Technological funds are provided for launching enterprises using new technology. A series of training programmes are arranged on the functional areas of management. USEP, DWCRA and other central government funds are made available to supplement the financial requirements. Assistance from banks and other financial institutions including thrift and credit societies formed by state government were channeled for achieving the objectives of micro enterprises. All SHG linked micro enterprises are linked with banks and a minimum of 50% of the project cost has to be obtained through bank loans. The subsidy components are limited to 50% of the total project cost and the entrepreneur's share is limited to 50% of the total project cost.

Inspired by the encouragement provided by Central, State Governments and NGOs, the number of micro enterprises (both urban and rural) increased from 10, 604 individual and 681 group micro enterprises in 1999-2000 to 21,754 individual micro enterprises and 5054 group enterprises in 2007-2008. District wise list of micro enterprises in 1999-2000 and 2007-2008 is given in Table 1.

Table 1 District wise list of SHG linked Micro enterprises in Kerala as on 31-03-2000 and 31-03-2008

Sl. No.	District	1999 - 2000		2007 - 2008	
		Group	Individual	Group	Individual
1.	Thiruvananthapuram	79	1,421	601	3,133
2.	Kollam	25	1,150	308	2,048
3.	Pathanamthitta	16	337	195	961
4.	Alappuzha	70	1,458	398	1,881
5.	Kottayam	17	390	179	1,100
6.	Idukki	8	92	528	338
7.	Ernakulam	201	937	789	2,850
8.	Thrissur	63	688	363	1,090
9.	Palakkad	34	1,146	421	2,210
10.	Malappuram	41	542	310	1,255
11.	Kozhikode	64	1,032	520	1,819
12.	Wayanad	8	64	81	133
13.	Kannur	43	1,101	203	1,865
14.	Kasaragode	12	246	159	1,061
	Total	681	10,604	5,054	21,754

Source: Complied from record of the office of MSME, Thrissur, NGO Head Quarters, Kudumbashree, Thiruvananthapuram.

These enterprises are set up across the State covering urban, semi urban and rural areas, ranging from traditional enterprises like animal husbandry, food processing units to waste management and IT units (Table 2)

Table 2 Activity wise details of group micro enterprises in Kerala

Sl. No.	Activity	Number of group enterprises
1.	Food processing	854
2.	Animal Husbandry	118
3.	Fish Vending units	318
4.	Agricultural nurseries	216
5.	Lease land farming	418
6.	Dairy Development	94
7.	Handicraft	143
8.	Paper Products including book binding	355
9.	Ready made garments	702
10.	Herbal products	188
11.	Office Stationery	80
12.	Electrical and Electronic	127
13.	Coir products	124
14.	Soap making units	122
15.	Solid waste processing unit	216
16.	Canteen and catering service units	384
17.	Direct marketing units	202
18.	IT units	291
19.	Miscellaneous	102
	Total	5054

Source: Micro Enterprises Survey Report 2007

Table 2 reveals that the SHG linked micro enterprises are engaged in activities connected with agriculture, industry and service sectors. These enterprises are using both traditional and modern technologies (Table 4)

Table 3 Type of technology used by group micro enterprises in various sectors

Sl. No.	Sector	Modern		Traditional		Total	
		No. of units	%	No of units	%	No. of units	%
1.	Agriculture	202	20	1,816	80%	2,018	100
2.	Industry	1,558	78	437	22	1,995	100
3.	Service	251	24	790	76	1,041	100
	Total	2,011		3,043		5,054	

Source: Micro Enterprises Survey Report 2007

Both in agriculture and service sectors, traditional technology still dominate. Contrary to this, 78% of micro enterprises in the industrial sector use modern technology. Type of technology always depends upon the availability of finance.

Amount disbursed as financial aid under central and state government schemes to micro enterprises has increased from Rs.784.142 lakhs in 1999-2000 to Rs.1, 537.85 lakhs in 2007-2008. District wise details of cumulative financial aid to group micro enterprises in Kerala as on 31.03.2008 is provided in Table 4

Table 4 District wise details of cumulative financial aid to group micro enterprises in Kerala as on 31.03.2008

Sl. No.	District	Cumulative financial aid (Rs. In lakhs)
1.	Thiruvananthapuram	153.63
2.	Kollam	86.68
3.	Pathamthitta	51.79
4.	Alappuzha	109.23
5.	Kottayam	46.00
6.	Idukki	245.25
7.	Ernakulam	144.17
8.	Thrissur	94.38
9.	Palakkad	153.40
10.	Malappuram	145.43
11.	Kozhikode	165.29
12.	Wayanad	32.40
13.	Kannur	54.50
14.	Kasargode	55.70
	Total	1,537.85

Compiled from records of kudumbashree and NGO Offices

The financial aid is disbursed to micro enterprise through various funding agencies. It is evident from the table 5 that the percentage of micro enterprises aided by Kudumbashree, the State Poverty Eradication Mission, constituted by the government of Kerala, is the highest.

Table 5 Details of funding agencies of micro enterprises in Kerala

Sl. No.	Funding agency	Number of units assisted	Percentage
1.	Grama Panchayat	1,162	23
2.	Block Panchayat	454	9
3.	District Panchayat	51	1
4.	Kudumbashree	1,315	26
5.	Rural Development Departments	1,213	24
6.	Other Government Departments	606	12
7.	NGOs	101	2
8.	Others	152	3
	Total	5,054	100

Source: Report on Micro Enterprises survey conducted by Kudumbashree, Kerala.

All the group micro enterprises mentioned above are bank linked under the SHG Bank Linkage Programme (SBLP). Commercial banks, Regional Rural banks and Co-operative banks are the main participants of SBLP. A scrutiny into the funding of micro enterprises by banks reveals that 62% of group micro enterprises in Kerala are funded by commercial banks followed by Co-operative banks (23%).

Table 6 Bank wise Funding of Group Micro Enterprises in Kerala

Sl. No.	District	Number of micro enterprises	Percentage
1.	Commercial Banks	3,134	62
2.	Co-operative Banks	1,162	23
3.	Regional Rural Banks(RRBs)	404	8
4.	NHGs/SHGs	202	4
5.	Others	152	3
	Total	5,054	100

Source: Reports of NABARD

Contrary to the trends in India, RRBs were the second major participant in SBLP, Co-operative banks today holds the second position as a participant of SBLP in Kerala.

From the above discussion, it is evident that the number of micro enterprises as well as the amount disbursed as credit and subsidies to these enterprises shows a tremendous increase. Hence it is essential to examine whether the increase in the number of micro enterprises is supported by operational efficiency and how far these enterprises have succeeded in empowering its poor micro entrepreneurs. The next part of the paper is in this direction.

PART-4

4.1 Performance Evaluation of Micro Enterprises in Kerala

Financial health is the foundation of growth and survival of any business unit including micro enterprises. The financial health of the business unit is influenced and reflected by lucrative ness of the unit. Therefore, an evaluation of the performance of these enterprises is found desirable. This part is an attempt to analyse the performance of micro enterprises based on data related to financial, management and marketing aspects. For this 10% of operating micro enterprises having at least years 4 years existence in Ernakulam district has been taken. Thus 20 group micro enterprises constitute the sample size for this study. .

4.1.1 Financial Evaluation

4.1.1.1 Source of Finance

Financial management of an enterprise includes raising capital as well as the effective utilisation of funds. For SHG linked micro enterprises studied, sources of finance consist of capital contributed by members, subsidy to the extent of 50% of bank loan, revolving fund to the extent of Rs.25, 000/- received from the government, and loan from SHG/NHG and banks. Discussions with the respondents revealed that all the 20 units studied had availed all the schemes of assistance from the governments, SHGs and linked banks.

All the units studied are bank linked. Of the 20 units studied, 11 (55 %) are linked with commercial bank, 6 (30 %) with co-operative banks and 3 (15 %) with Regional Rural Banks. 12 (60 %) units availed loan between Rs. 1,00,000 to Rs.2,00,000 and 8 (40 %) enterprises between Rs.50,000 and Rs.1,00,000.

An enterprise is said to be successful only if these funds are effectively used. To evaluate this, financial performance of enterprises was analysed for a period of 4 years from 2004-05 to 2007-08

4.1.1.2 Financial Performance

Here an attempt is made to recapitulate the major findings on performance and position of these units based on data from Profit and Loss Accounts and Balance sheets.

A Findings on Performance Analysis

1) Of the twenty units studied, only 7 units i.e., one unit agricultural sector one unit in industrial sector and five units in service sector, showed net profits during the four year period (2004 - 05 to 2007 -2008) of study.

2) Total income and operating income were same for all the enterprises studied.

3) The only non- operating expense incurred by all the units consisted of interest on borrowings

4) Average Operating Ratio for the entire period of study in respect of 6 units was observed to be more than 100 percent. Reason for high operating costs can be traced to high material and labour costs. Purchase of materials in uneconomic quantities from local supplies and improper human resource management had resulted in high material and labour costs respectively.

5) Analysis of Debt Equity Ratio revealed that the average debt- equity ratio of 6 units was found to be negative due to the erosion of funds by losses and excessive drawings by members.

6) A cursory reading of data on short term solvency has revealed that current ratio of only 4 units were found reasonable during the entire 4 years period of study. For majority of the units this ratio was found high because of high closing stock and this leaves ground for doubt about the efficacy of working capital management.

7) To test whether the profitability and product categories are related, operating profit has been taken as the profitability measure as it is the best indicator of the operational efficiency of a business unit. Simple correlation between operating profit and turn over reveals that correlation between operating profit and turn over was significant at 1% level(r is 0.643).

8) Simple regression was used to study the influence of turnover on the profitability of enterprises. Regression equations were fitted with operating profit as dependant variable and turnover as independent variable. Analysis reveals that influence of turnover on operating profit was significant(R-square 0.413 and t-value of slope 7.408). Slope co-efficient is positive indicating that as the sales turnover increases, profit also increases.

PART-5

5.1 Impact on Empowerment

Empowerment is a process that addresses all sources and structures of power. The process has to work both at individual and collective level. Individually poor women can not overcome powerlessness. They can do it only collectively. Hence it is suggested that women have to be organised and have to be acknowledged as a political force. It involves equal participation in decision making, control over resources, and mechanisms for sustaining these gains. In this context organising women through the formation of SHGs deserve special attention. Here an attempt is made to measure the extent of empowerment achieved by beneficiaries after the formation of micro enterprises.

To measure the degree of empowerment, Empowerment Index based on Five point Likert Scale was used. For this 10 variables representing empowerment were placed before 369 respondents to mark their choice showing their degree of agreement or disagreement to each variable. The points for choices were assigned as for strongly agree [2], Agree [1], undecided [0] Disagree [-1], Strongly Disagree [-2]. To measure the extent of empowerment the following decision criteria was used:

Zero and below Zero = No empowerment

Between Zero and Below 33.33 = Low empowerment

Between 33.33 and 66.67 = Moderate empowerment

Above 66 .67 = High empowerment

Table 7 Extent of Empowerment

No.	Variables	No. of respondents					EI
		SA	A	NO	D	SD	
1.	Self confidence	69	196	48	38	18	70.5
2.	Social status	40	278	3	29	19	78.9
3.	Mobility	38	169	103	25	34	41.2
4.	Involvement in public activities	67	218	42	20	22	78.0
5.	Awareness in legal and political matters	53	138	78	64	36	29.3
6.	Decision making in the family	103	79	105	66	16	53.4
7.	Health and hygiene	122	106	80	48	13	74.8
8.	Leadership	90	106	104	40	29	50.9
9.	Communication	112	140	93	18	6	90.5
10.	Creativity	96	155	86	20	12	82.1
	Composite Index						64.96

SA - Strongly agree D- Disagree

NO- No opinion SD- Strongly disagree

A- Agree

It can be seen from the table 7 that the composite index on empowerment was 64.96 and it was below 66.67. From this, it can be inferred that the level of empowerment achieved by the beneficiaries was only moderate. The average indices among the variables varied between 29.3 and 90.5. The highest average index was on the variable communication and the least was on awareness in legal and political matters. The SHG affiliated micro enterprises provide ample scope for the members to express their views especially in their meetings and this is the main reason for high empowerment in the area of communication. Of the ten variables , 6 showed high level of empowerment, 3 showed moderate level and one showed low level of empowerment. Discussions with the respondents reveal that they are not interested in political matters and this is mainly because of the stress due to their dual role. But they are interested to acquire awareness in legal matters. But only very few of the groups provide classes on legal matters.

As the composite index on empowerment was below 66.67, it can be concluded that the level of empowerment achieved through SHG affiliated micro enterprises is moderate. But empowerment is a time consuming process and it is hoped that they will achieve high level in the near future.

The participation of members in SHG based micro enterprises made a significant impact on their empowerment. This type of positive impact had gone a long way in improving the quality of life of the members.

CONCLUSION

World wide, micro enterprises have been accepted as the engine of economic growth and equitable development by alleviating poverty and gender inequality. Recognising the significance of this sector, government extends support in terms of infrastructure, technology finance and marketing. Though this sector showed progress in physical terms, profitability and viability leave much to be desired. Micro enterprises sector in India is facing competitive environment in the economy. Financial and marketing strains and technological obsolescence restrict the viability of this sector. Financial crisis in the economy further worsened their competitive strength. In this context, these enterprises must be competent enough for their survival and growth. Otherwise they will collapse creating unemployment and poverty at an alarming rate.

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A VALUE CHAIN FOR INCLUSIVE GROWTH A CASE STUDY ON "BAKERY"

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Abstract

Microenterprises and Micro entrepreneurs are the engines of economic growth and development of any nation. Women-owned micro enterprises are one of the fastest growing segments of microenterprise. It increases the income in the hands of women. It instills a sense of independence, self esteem and self confidence. As micro entrepreneurs, women make a huge contribution to national income, create reliable social safety nets for their families, and become part of the value chains for inclusive growth. This paper, a case study approach is an attempt to present a case of Chitra a woman micro entrepreneur who runs a bakery in Trichy, Tamilnadu. She took up the business of running her own bakery after working under someone for decades. It is an account of a less educated woman who has demonstrated a strong desire to take up the activity, willingness to undertake risks, capacity to deal with uncertainty and achieved something great in her life. And so she is the source of inspiration and she is a testimony of self confidence.

Introduction:

Women, who constitute around half of the Indian Population, are today regarded as better half of the society. And women entrepreneurs constitute 10% of the total number of entrepreneurs in India.[1] Hence it is heartening to observe that women are entering into all spheres of life and they are coming out of the four walls to participate in all sorts of activities. An attempt is made here to narrate the case of a woman entrepreneur in Trichy, Tamilnadu who took up the business of running her own bakery. It tells how less educated woman has demonstrated a strong desire to take up the activity, willingness to undertake risks, capacity to deal with uncertainty and achieved something remarkable in her life and so she is the source of inspiration and she is a testimony of self confidence.

Micro Enterprise:

Women-owned businesses are one of the fastest growing segments of microenterprise. It increases the income in the hands of women. As micro entrepreneurs, women not only make a huge contribution to national income, but they also create reliable social safety nets for their families and communities. Micro enterprise is an enterprise whose total cost including working capital but excluding cost of land, is over 1 million not more than 40 million and labour size of between 11 and 35 is a micro enterprise[2]. A micro enterprise is one which engages the resources available in local area and provides self employment with few more employment opportunities[3] . Micro enterprise is "any business unit which is located at rural and semi-urban areas with the capital of not more than three lakhs. These units engage the available resources of local area and not defined on high technology. These units may be engaged in production, trading, servicing, finance and other local activities"[4] . The Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 defines Micro enterprise as follows:[5]

	Investment in Plant and Machinery/Equipment (excluding land and building)	
	Manufacturing Enterprises	Service Enterprises
Micro	Up to Rs 25 lakhs	Up to Rs 10 lakhs
Small	More than Rs 25 lakhs and up to Rs 5 crore	More than Rs 10 lakhs and up to Rs 2 crore
Medium	More than Rs 5 crore and up to Rs 10 crore	More than Rs 2 crore and up to Rs 5 crore

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From the above definitions, it is learnt that micro enterprise is an informal economic category which is considered a bottom-up solution to a wide range of unemployment, poverty alleviation and overall growth. Micro enterprises give sense of independence. They generate employment opportunities, provide steady source of income and are considered engines of growth of Indian economy.

Case Study:

According to Stuart A Queen the case study is “the examination of a single situation, persons, groups or institutions as complex wholes in order to identify types and process”[6] . “a case study is generically a story; it presents the concrete narrative detail of actual, or at least realistic events, it has a plot, exposition, characters, and sometimes even dialogue” (Boehrer 1990).[7] The case study method allows investigators to retain the holistic and meaningful characteristics of real life events – such as individual life cycles, small group behavior, organizational and managerial processes, neighbourhood change, school performance, international relations, and the maturation of industries.[8] Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context. As a form of qualitative descriptive research, it looks intensely at an individual or small participant pool, drawing conclusions only about that participant or group and only in that specific context.[9] Case studies aim to provide a complete understanding of an event or situation and it is possible through an examination and interplay of the all variables. It is a process which involves an in-depth description of the entity. Thick description also involves interpreting the meaning of demographic and descriptive data such as cultural norms and mores, community values, ingrained attitudes, and motives. The goal of a case study is to offer new variables and questions for further research.[10] Therefore case study refers to the collection and presentation of detailed information about a particular participant or small group, frequently including the accounts of subjects themselves.

Methodology:

Case study method has been adopted. Locations visits and interaction with the respondent form the basis for description and analysis. For a better, proper collection and analysis of the data, the responses were recorded and noted down in the check list.

CASE OF “BAKERY”

Mrs Chitra, a hindu, is 37 years old. She lives in a nuclear family with three children. She has finished her primary education. She belongs to backward class category. She is the owner an urban based bakery. Her experience of working under another person in Nirmala bakery for 27 years a bakery is the motivating factor for starting her own bakery. Her bakery is four years old. The entire unit is operated from a leased place which houses both bakery and home. Education of her children is partially supported by the management of the schools. Two employees who work under her came along with her when she left the previous unit.

The initial investment in the machinery was Rs 2,00,000. She has obtained a business loan of Rs 30,000 from ASA-GV, a Micro Finance Institution based in Trichy. She pays Rs 1300 per week as interest for the loan. Writing of accounts is done by her daughters at night. Hence she has no problem of maintaining simple accounts. Bills and vouchers are not issued at the time of sales. No proper book of accounts is maintained. Most of the profit she earns is utilized for expanding the business besides meeting the education of her children. She also has got gold loan of Rs 10,000 from ASA-GV for which she pays interest separately. During times of emergency and urgency, money rotation is undertaken for settling the loan from money lenders for higher interest.

Raw materials are purchased from wholesalers. Cash purchase is undertaken normally on weekly basis. The major monthly expenditure are paying of interest, education of children, maintenance of machines etc. She works six days a week. Flexibility is maintained regarding working hours per day. She supplies finished products three times a day: 8.30 am, 11.00 am and 3.30 pm. There is no inventory system in practice.

Her work place is the selling point. She has no problem of marketing as she has regular orders from 10 schools, a few colleges and a few shops. Need for employing sales persons does not arise as the customers themselves take the delivery. Fixed price system is followed. She is proud of her loyal customers. “I am able to retain my customer because of the quality and taste I maintain” she says. Cash sales are entertained. She is keen on two aspects namely satisfaction of the customers (quality and taste) and timely delivery. The products cover Trichy district in general and Trichy town in particular. On daily basis she supplies around 1500 pubs, 100 bans and breads. The average net profit she makes per week is around Rs 15,000. No storage facility is required as delivery takes place on daily basis. She does not feel the need for any advertisement as she strongly believes in the quality and taste of her product.

There are three employees under her. The wage paid for one employee is Rs 100 per day and the other two get Rs 50 each per day. Price fixing and other decisions are normally made by her and she consults the employees too. The three employees are given bonus of Rs 3000 per year. All of them try to manage and share the work load when one of them is sick or absent due to some reasons. The atmosphere is not that of Master- Servant but a sense of collaborators.

Expansion of business is her dream. Realizing her dream would not be a problem as she demonstrates a strong will power, determination, commitment etc. She is confident of retaining the existing customers till the end. After starting the unit she has created and built up some assets like leased house, Refrigerator, machineries for the business Television, Gold, furniture etc. Though the respondent is aware of the various legal security schemes available for such entrepreneurs, she does not know the details of it and so she has not tapped the available facilities.

One of the challenges she faces is unexpected closure of institutions. She does not face any competition as it is still a household activity. She is clear that she would face stiff competition when she establishes her own shop in the main place. Another major challenge is financial difficulty.

Intervention: She proudly admits that she has come up to this level because of the intervention of ASA-GV, a leading Micro Finance Institution operating in the entire country, having its strongest presence in Tamilnadu. According to her the intervention of ASA-GV was timely, supportive and useful for sustaining her initiatives. She is very positive about the weekly payment of interest.

This value chain for inclusive growth points to the following:

1. Move from "Feeling of nobody" to "Feeling of somebody": Feeling of nobody or feeling of un-wantedness in every sphere of life is on the increase. But this success story depicts how a person can change this mindset if the person has strong desire to achieve helps move from mindset.

2. Creation and building up assets: The person is able to create and build up assets for the family and increase their capacity in the society. Assets in the form of gold, cot, machinery, TV, refrigerators, vehicles etc have been achieved due to this activity.

3. Gaining and increasing recognition: women, the most vulnerable section of the society, is gaining recognition and increasing their presence due to establishment of enterprise. They are able to contribute their share for the growth of the family and the society at large. They also become the centers of vision and growth and development.

4. Financially included: The respondent has been financially included as she realized the need and importance of saving for sustainability of the business as well as family.

5. Quality consciousness brings happiness and hope: The person is definitely quality conscious as she has to retain the customers. She is also very clear that quality and timely delivery should be the important aspects of business.

6. Enhancement of self net worth: Definitely the case indicates that a person gains sense of acceptance in the society irrespective of the education level, social background, gender etc. The person also feels empowered if there is sense of determination and achievement. Conviction and commitment have enhanced the sense of net worth of a person. The intervention of ASA-GV has boosted the confidence level of the respondent.

7. Fair sense of target people: The respondent, it is observed, has clarity regarding the target customers which really helps her to go ahead without any difficulty.

8. Not economic well being alone: The entire self is growing and developing when someone becomes an entrepreneur. This case also depicts how an individual shapes one's life by hardships provided there is will power and perseverance.

9. Requires formal training and updating: Though experience is one of the most important motivating factor, continuous and constant updating and training of skills and talents is mandatory. The respondent, since

a woman, definitely needs to update her knowledge and skill. But it is absolutely impossible for the respondent to go for a training unless an agency comes forward to offer such training with stipend

10. Capitalizing on the existing skills to sustain: The respondent has clearly capitalized her ability, skill, experience etc

11. Strong backer: The case presents to us the need for a strong backer to come up in life. In this case, there are two strong backers namely her previous experience and the financial assistance provided by ASA-GV, friends, and money lenders.

12. Tough times never last: The case is pregnant with meaning. It shows that all people face tough times. But when the level of self confidence, determination, and commitment are high, it is possible to achieve something worthwhile and valuable in life. Any type of struggle comes to an end when there is positive attitude towards anything that comes on way. This sort of attitude and approach of the respondent ensures a real and fair sense for ensuring better and steady growth

SWOT: SWOT (Strength, Weakness, Opportunity and Threat) is one of the strategies adopted in case study method for analyzing the case under study. From the above, the SWOT of this case can be summed up in this way:

Strengths	Weakness
Deepest level of self confidence Commitment, self esteem Job Provider Reliable and committed employees Loyal customers Timely delivery Attaining ownership Increased her self net worth Steady and permanent returns Decision making ability Confidence building Financial and social security	Less chance for updating skills and talents Less mechanism for expansion of the technology Limited space Being a woman Not having own place for home and shop Lack of technical knowledge Inadequacy of finance
Opportunity	**Threat**
Scope for future expansion Good, reliable and regular customers Expansion of customer base Planning for a own shop Better exposure to the society Increase of net working and linkages Stable demand for the product Supportive schemes by the government	Large number of competition in future Technological advancement Globalizations, Inflation Power shut down Political situation Uncertainty about customers’ loyalty due to competition and globalization Fear of political interference Shortage of labour

Hence we could easily observe a shift from Low levels to a Higher level as a person has own business. The shift is……

FROM	TO
Sense of “insecurity”	Sense of security “security”
Feeling of “Nobody”	Sense of “somebody”
Inferiority	Equality and superiority
Non-recognition	Recognition
Low self confidence	High self confidence
Low self esteem	Increased the net worth
Less courage	Ability to face any situation
Uncertainty about income	steady income
Learning by studying	learning by doing
Job seeker	Job Provider
Dependency	Independency

The following questions arise regarding the establishing, running and sustainability of the enterprise so as to balance the Strengths and Weakness against Opportunities and Threats

· Can such micro enterprise function in an overall strong competitive position?

· Can it continue to pursue and survive in the current globalised business scenario?

· What would be required to motivate the micro entrepreneurs to turn the weaknesses into strengths and threats into opportunities?

· Do the micro entrepreneurs especially women micro entrepreneurs have the capacity do this?

· How to ensure the support of the Government to these micro entrepreneurs so that they sustain in this competitive society and accomplish the dreams?

Conclusion:

One day a farmer, walking down the street in a small town came across a large stone in the middle of his path. The farmer complained: "Who could be so careless as to leave such a big stone on the road? Why does someone not remove it?" He went away complaining. The next day, the same thing happened with a milkman. He too went away grumbling but left the stone as it was. Then one day, a student came across the stone. Worried that someone may fall over it and hurt himself, he decided to push is aside. He pushed long and hard all by himself and eventually managed to remove the stone from the path. He came back and noticed a piece of paper where the stone was kept. He picked the paper and opened it. Inside was written, **"You are the true wealth of the nation."**

Without any doubt, it can be boldly declared that, not like the passersby in the story above, but like the student, the micro entrepreneurs are the true wealth of the world, nation and the society. Micro entrepreneur and micro enterprise engines for growth and development are the tools for eradicating poverty and the problem of unemployment. The level of motivation, self confidence, will power, and desire to achieve something in life has included the respondent among the inspirers of the nation. And this case illustrates how a woman could take advantage of an opportunity and demonstrate the latent leadership and inherent drive and become vibrant and visible in the society. She is the testimony of self confidence and beacon of hope for future generation.

An Entrepreneur: "marries passion and process with a good dose of perseverance"[11]

Footnotes

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· **(If it is an article in a journal)**: Hannan, M.T. and Freeman, J. (1977) The Population Ecology of Organizations,*American journal of Sociology,* 82 (5): 929-964.

· **(If it is an article in an edited book)**: Kanter, R.M. (1988) When a Thousand Flowers Bloom. In B. Staw and L. Cummings (eds), *Research in Organizational Behaviour,* pp.169-211, Greenwich, CT: JAI Press.

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