

# Microcredit and the Rural Poor

## A Review of the Maharashtra Rural Credit Project

by Raghav Gaiha

**Abstract:** An attempt is made to review the Maharashtra Rural Credit Project (MRCP)—a microcredit scheme—by focusing on the process of implementation and its implications for targeting, empowerment of women, and trade-off between coverage of the poorest and sustainability of this scheme. Attention is drawn to deficiencies in the design and implementation of this scheme that limit the participation of the poorest and the benefits accruing to them. Moreover, it is argued that there is a risk of overstating the trade-off between the coverage of the poorest and sustainability of the MRCP if these deficiencies are overlooked.

### Introduction

The Maharashtra Rural Credit Project (MRCP), funded by International Fund for Agricultural Development (IFAD), among others, was launched in 1994. Since its inception, it has made substantial progress (UNOPS, 1997, 1998; IFAD, 1997, 1999). The present study is a *selective* review of the process of implementation of this project, focusing on the targeting of the poorest, women's control over the assets acquired, and trade-offs between coverage of the poorest and sustainability of this project. Although aspects of the impact of the MRCP

are considered, these are not central to the analysis. The analysis is based on interviews of agencies involved in its implementation and a small sample of households in three villages in Pune District (Maharashtra). Although it is risky to generalize from a small survey—especially in view of the variation in the performance of the MRCP in different districts—some useful insights into its functioning are obtained.

According to a recent estimate, barely 20% of the rural poor and 10% of the poor women had access to institutional credit ( IFAD, 1999). Unavoidably, they continue to depend largely on the informal sector (e.g., money lenders, traders, friends, and relatives). Apart from high interest rates—ranging from 5–10% per month—usually informal credit sources do not cater to productive needs. There is thus a large unmet demand for credit among the rural poor. Also, there is demand for savings and insurance services. Savings are valued as they enhance family security—provide insurance during periods of stress, a source of consumption smoothing, and margin money for asset purchase loans. Various forms of insurance—life insurance, health insurance, and crop insurance—are desired for providing protection against contingencies (e.g., accidents, illness, drought).

## The MRCP

### Rationale

It was against this background of a large unmet demand for microfinance services that the MRCP was designed. More specifically, the purpose was to “develop and test through field implementation, an alternative approach to the Integrated Rural Development Program (IRDP) that could efficiently provide improved financial services to the rural poor.” If successful, the approach could be “incorporated into the large IRDP program, thereby not only improving its efficiency but also its

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targeting of the deserving poor” (IFAD, 1997, p. 2).<sup>1</sup> The wide-ranging financial and economic reforms initiated in mid-1991 reinforced this concern. An apprehension was that the emphasis on efficiency and profitability could force closing down unprofitable bank branches, thereby further reducing the access of the rural poor. The MRCP aims to demonstrate that a *sustainable* improvement in the delivery of financial services to the rural poor is feasible.

### **Objectives**

Broadly, the MRCP was designed to (1) improve access of the rural poor to financial services, (2) to make them bankable clients, and (3) promote savings mobilization among them through self-help groups (SHGs).

### **Scale**

The project with an outlay of US\$48.35 million is supported by an IFAD loan of US\$29.20 million. The contribution of the government of India (GOI) and the government of Maharashtra (GOM) is US\$14.97 million and of the participating banks is US\$1.65 million. The projected co-finance of US\$2.5 million has not yet materialized. The loan agreement was approved on 1 June 1993 and became effective on 6 January 1994 (UNOPS, 1998).

In the initial phase, the project covered four districts (Pune, Chandrapur, Yavatmal, and Nanded). Following the Mid-Term Review and Evaluation in October 1997, seven more districts were added (Thane, Dhule, Jalgaon, Amravati, Bhandara, Gadchirali, and Beed). With the proposed expansion (in phase II), the project benefits are expected to cover 91,250 borrowers including 54,300 members of SHGs (UNOPS, 1998).

### **Salient Features**

The target group consists of households below the poverty line (i.e., with annual household income up to Rs.11000 at 1991-92 prices).<sup>2</sup> Priority is given to those with incomes up to Rs.8,500.

This subset comprises mostly small/marginal farmers, landless, artisans, and tribals.

In order to make the MRCP truly participatory, a village development assembly (VDA) comprising all households in a village is formed. This serves as a forum for a preliminary dialogue on the problems, prospects, and process of development. Out of the VDA, a village development council (VDC)—comprising 10–12 members—is constituted. The VDA prepares a people's action plan (PAP), focusing broadly on social development of the village—especially credit requirements and support systems. The VDC is responsible for its implementation.

Two channels of credit are used: individuals and SHGs. Using the list of poor households, eligible (individual) beneficiaries are identified in a meeting of the VDC, attended by the members of the council and representatives of the NGO, the CB (commercial or participating banks) and other implementing agencies. SHGs, on the other hand, are formed either by Mahila Arthik Vikas Mahamandal (MAVIM) directly through its sahyoginis (SYGs)/field workers or through NGOs contracted by it or by the banks directly or through NGOs contracted by them. Both individual and group borrowers are charged an interest rate of 12% per annum. Individual borrowers are given loans for specific activities. SHGs, on the other hand, are required to mobilize savings first. After achieving some financial discipline, SHGs are allowed to borrow against their savings deposits from a CB. The loans are distributed among the members in accordance with their own priorities/rules (about loan use, amount, interest rate, repayment, and penalty). The rate of interest is typically 2–3% per month. Consumption loans are permitted. Eventually, when the credit worthiness of SHGs is established, it is expected that they will be able to borrow independently from CBs.

Coordination committees were set up at the national, state, and district levels. A task force coordinates at the block level. VDAs/VDCs, assisted by village level workers, do so at the village level.

Considerable importance is attached to information about investment opportunities, skill formation, and technical advice. Several agencies (MAVIM, Maharashtra Industrial and Technical Consultancy Organization [MITCON] and Maharashtra Centre for Entrepreneurship Development [MCED]) provide these services to the borrowers. Moreover, members of VDCs are trained to perform their functions efficiently, as also are the sahyoginis. Bank staff, on the other hand, are trained to deal more sympathetically with poor borrowers with limited financial skills and training. Some major deficiencies of the IRDP are avoided, as the poor borrowers are better equipped to use the loans productively and the implementing agencies (e.g., CBs) are more sensitive to their special needs. Under the MRCP, while CBs lend at 12% per annum, the average cost of funds for them is 9–10%. As this spread does not cover their costs, NABARD provides full refinance at 6%.

### Issues

Earlier review points to the rapid expansion of the MRCP. However, attention is also drawn to a few weaknesses. Firstly, there is some concern that the targeting has been unsatisfactory. As of March 1997, out of the 11,000 members of SHGs, about 32% were nonpoor, or not below the poverty line (non-BPL). Out of the four districts in phase 1, Yavatmal had the best record in this respect, with about 82% of the members classified as BPL. Given the data constraints and credit delivery system, it is suggested that a share of about one third of non-poor beneficiaries is about right (UNOPS, 1998). But this view is contestable on several grounds. One difficulty is of course the unreliability of the list of BPL households. Often it includes 80–90% of all households in a village. But more seriously, excessive coverage of non-BPL households in some areas is largely a consequence of inactive VDCs or their manipulation by locally influential persons. Secondly, although SHGs have been instrumental in channeling credit to poor rural women and in imparting self-confidence to them, there is some

concern that linkage to the banks has been slow.<sup>3</sup> The reasons include cumbersome procedures (e.g., elaborate documentation), relative unimportance of MRCP loans in the banks' portfolios, and lack of incentives to field officers (FOs). Finally, despite the emphasis on market intelligence, skill formation and technical assistance, the promotion of off-farm activities has been unimpressive. Evidently, the information and training provided warrant some reorientation. For example, it is not obvious how useful Entrepreneurship Development Programs (EPDs) are for poor rural women without any exposure to markets.

Given this overview, a selective review of the MRCP was undertaken for a deeper understanding of its functioning. The review focuses on the following issues.

1. One is whether there is scope for better targeting on the poor. In particular, an issue is whether the exclusion of the poorest is deliberate (i.e., due to the bias of the implementing agencies, e.g., banks).
2. Another major concern is whether women have any control over assets and incomes accruing from them, as it has important implications for household welfare.<sup>4</sup> In male dominated communities, there is a danger that women may be used as conduits for obtaining loans. In fact, there is some evidence that repayment difficulties resulted in violence against women in Bangladesh (Rahman, 1998). An issue is whether there are some assets or activities that allow women greater flexibility in combining them with household chores.
3. Since the MRCP was designed to demonstrate the superiority of an alternative approach to that of the IRDP, an issue is whether closer involvement of the community in the MRCP makes a difference.

Given the objective of this study and the sample design, precise inferences about these aspects cannot be drawn. Rather, the focus will be on some broad outcomes and the underlying processes.

## Methodology

Considering that the focus of the present study is on the process of implementation of the MRCP, it was decided to conduct detailed interviews of representatives of implementing agencies and a few participating and nonparticipating households (constituting the control group). The interviews were based on structured questionnaires. Thus a composite account of the functioning of this project is obtained.

## Sample Design

### Villages

Pune District was chosen largely because of its diversified rural economy. Given the time and budget constraints, three villages (Kanhewadi, Mohkal, and Kaman) were chosen. As described below, these villages reflect wide variation in socioeconomic conditions.

Apart from variation in opportunities for gainful employment in agriculture (associated with variation in irrigated area), the composition of the village population—particularly the share of the poorest groups—also varies considerably. Kanhewadi has the highest share of scheduled caste/scheduled tribe (SC/ST) population (48.60%), followed by Mohkal (19.60%) and Kaman (15.78%). The occupational distribution of workers also differs. Considering the shares of cultivators and agricultural labourers, Kanhewadi's shares are 61.50% and 26.10%, Mohkal's 78.06% and 18.50%, and Kaman's 74.90% and 13.30%.

### Households

Although the sample was purposive, some attention was given to its representativeness with a view to better understanding the exclusion of the poorest and inclusion of nontarget groups and the diversity of experiences of the beneficiaries. This is done through a random selection of households from broadly specified groups. Although a small sample of 30 households did

not allow much flexibility, some broad considerations consistent with the objectives of this study are noted below.

### **Individual Beneficiaries**

Fifteen individual beneficiaries were interviewed. Ten of these were supposed to be poor. However, using some broad correlates of poverty (i.e., whether the beneficiary belonged to a SC/ST, agricultural labour, or smallholder household), the actual count of poor in the sample turned out to be seven, and of the relatively affluent, eight.<sup>5</sup>

### **Control Group**

Seven nonparticipating households were interviewed, belonging to SC/ST, agricultural labour, and smallholder groups.

### **SHGs**

Women belonging to five SHGs with a satisfactory track record of savings mobilisation and bank loans were interviewed. Out of these, four belonged to SC/ST, agricultural labour, or smallholder households, while one belonged to a relatively affluent household.

### **Control Group**

The control group comprises SHGs that were not linked to a bank. Three women representing such SHGs were interviewed. All three belonged to SC/ST households.

### **Implementing Agencies**

A few individuals representing official agencies (NABARD, DRDA, DPCC, MAVIM, MCED, and MITCON), participating banks (State Bank of India [SBI], Bank of Maharashtra [BOM]), an NGO (Chaitanya), local community organizations (VDAs/VDCs), and field-workers (Sahyoginis) were interviewed.

## Targeting of MRCP

Two aspects of targeting are considered below: one is participation of the poor in the MRCP and the other is the benefits accruing to them.

### Individual Beneficiaries

The sample consisted of fifteen individual beneficiaries, four from Kanhevadi, three from Mohkal, and eight from Kaman. Although it was intended to have a larger number of poor participants than nonpoor participants, the latter turned out to be larger. As the number of poor participants is seven, less than 50% are poor. Among the poor, three are extremely poor (i.e., their household incomes were Rs. 2500 per annum). There are two widows: one owns 0.50 acre of land and the other is landless. Among the poor beneficiaries (as also in the complete sample), the single largest occupational group is agricultural labourers (i.e., 6).

Even after making an allowance for the difficulties of excluding non-BPL households altogether, their overrepresentation among the beneficiaries is indisputable.<sup>6</sup> Among them, one beneficiary owned 20 acres and another 12 acres. As these beneficiaries would be generally deemed affluent, it is likely that their inclusion was manipulated.

### SHGs (or Group Beneficiaries)

Although the number of SHGs in the sample is small (five), it is significant that four representatives are poor (all women).<sup>7</sup> Out of the poor, two belong to SC/ST households. Three of the poor representatives own small quantities of land (ranging from 0.5 acre to 1.75 acres). The main sources of income are cultivation and agricultural labour. The only affluent representative (from Mohkal) owns 8 acres of land and belongs to an upper caste household. Her main source of income is cultivation. Considering the composition of SHGs, it is a fair presumption that the share of poor participants is higher among the SHGs than among the individual beneficiaries. As the loan amounts are small and their use is unrestricted (in other words,

consumption loans are allowed), self-selection of the poor is an important contributory factor. To the extent that NGOs are involved in awareness building among the deprived groups, the self-selection process is strengthened.

### **Loan Amount**

Confining to *individual* beneficiaries, a notable difference between the poor and the nonpoor is that the latter secured much larger loans. Their loans ranged from Rs.10,000 to Rs.25,000 while those of the poor ranged from Rs.5,000 to Rs.11,000. Although this is undoubtedly partly a result of the difference in their absorptive capacities for loans, it cannot be ruled out that larger loans to the relatively affluent also reflect their influence with the implementing agencies (VDCs and banks).

### **Uses**

Although detailed data on loan use could not be obtained, some differences are indicated. The nonpoor use their loans in more diverse ways than the poor. Specifically, they use their loans for buying livestock, digging wells, trading in fruit and vegetables, and fishing. The poor, on the other hand, use their loans for buying livestock, goats, and fishing nets. More importantly, except for two nonpoor beneficiaries, the remaining earned surpluses over and above the loan dues. On the other hand, while the poor earned enough to repay the dues, two experienced difficulties—one because of seasonally low yields (in fishing) and another because of a contingency (illness).

To sum up, among the individual borrowers, the number of relatively affluent was nonnegligible. More seriously, even their benefits were substantially larger.

## **Self-Help Groups (SHGS)**

As SHGs are an innovative feature of the MRCP, their functioning and impact are reviewed in detail. The five successful cases are reviewed first.

## Functioning

As noted earlier, except for one, all representatives belonged to poor households (including SC/ST households). Given the group homogeneity, it follows that the share of the poor was higher among SHGs than among individual beneficiaries. The self-selection of the poor in SHGs owed much to the efforts of Grameen Mahila Swayam Sevak Sangh (a women's group) and Chaitanya (an NGO). Moreover, as a result of training received, their awareness of how the scheme operated was much better.

Usually, a group leader is elected to conduct the meetings of the SHG. The size of the meeting varies from 15–20 persons. The meetings are held once a month on a fixed date. The agenda are announced in advance. Items include minutes of the previous meeting, disbursement of loans, collection of savings, fines, and other related matters. Records of loans and savings are maintained by a member of the SHG or the group leader. These are verified by a representative of Chaitanya and are sometimes audited by an external agency. The members are fully aware of the entry and exit rules. A new member, for example, has to pay all dues. Members are discouraged to leave before five years. When a member leaves, all her savings with interest are returned.

The time taken for borrowing from a bank varies with the SHG. Usually, the minimum period is 1–3 years. Savings mobilisation through small weekly or monthly installments is impressive. The monthly savings of the SHG in Mohkal, for example, are Rs.2000 and the total (accumulated savings inclusive of interest) Rs.1,10,000. Savings are deposited in a bank (in a savings account) against which a loan is obtained. Usually, the ratio of credit to savings is 2:1, although it is allowed to vary from 1:1 to 4:1 (Karmakar, 1999). The average amount borrowed by an SHG ranges from Rs.20,000 to Rs.25,000. Loans are given to members in accordance with the priorities of the SHG at an interest rate of 2–3% per month. The rate of interest is slightly lower for productive purposes than for con-

sumption. Use of the loan is decided by the member. It is repaid in monthly installments over a year. Even though the interest rate is much higher than that charged by banks, some members prefer it to direct borrowing from banks because of the ease of borrowing (i.e., simpler and quicker procedures). No defaulters among the members were reported, confirming a high degree of financial discipline. Equally, from the point of view of the banks, based on the experience of bank managers interviewed, the recovery rate is impressive (well over 90%).<sup>8</sup>

### Impact

Although detailed data on loan use and yields were not collected, the fact that there were virtually no defaulters suggests that repayment at high rates of interest was not a problem for poor borrowers. However, it is a moot point whether there are more than a *few* activities—especially in the nonfarm sector—which would yield returns in excess of 24–36%. In that case, the range of viable investment options would be limited. Also, as the loans are relatively small (compared with individual loans under the MRCP), the options would be further restricted. But the gains to the poor in terms of easier access to credit and financial discipline must not be underestimated. Moreover, as elaborated later, despite the control exercised by male members in the choice and use of the assets, there is some evidence—by no means conclusive—suggesting that the status of women both *within* and *outside* the household has improved. The benefits to the poor rural women—many of whom might not have had access to formal credit channels—through SHGs may thus be substantial. But whether the costs are high too is not implausible. Although it takes six months to form an SHG and 1–3 years for it to borrow from a bank, much depends on the initiative of NGOs and banks. The potential for reducing the costs may thus be substantial.

## Exclusion of the Poorest

Exclusion of the poorest from microcredit schemes is well known. However, the reasons for their exclusion remain uninvestigated. Indeed, there is often a presumption that the moderately poor are less likely to default than the acutely poor. In that case, targeting the moderately poor is likely to be more sustainable financially. So exclusion of the poorest may well be connected with a concern for financial sustainability. The present study explores the reasons for the exclusion of the poorest in the sample villages.

### Lack of Awareness

Few among the control group for individual beneficiaries—mostly very poor households—knew anything about the MRCP. There were two (out of the seven) who seemed vaguely aware of this scheme through information disseminated by the VDC and bank officers. The lack of awareness among two tribal women (out of the three) in the control group for group beneficiaries was equally glaring. Although more than a few poor beneficiaries—especially individual borrowers—were also not fully informed about some aspects of the MRCP (e.g., repayment obligations), they owed their participation either to their own initiative or to their previous experience in the IRDP. Among the group beneficiaries—mostly very poor—however, much of the credit for their participation goes to the initiative of Grameen Mahila Swayam Sevak Sangh and the support and training provided by Chaitanya. It is not implausible that the neglect of SHGs in the control group was related to their extreme poverty.

### Social Exclusion

Although extreme poverty and social exclusion tend to go together, some insights into the latter acting as a barrier to participation in the MRCP are obtained from the responses of a few SC/ST households in the two control groups (i.e., one for individual beneficiaries and another for SHGs). Despite con-

siderable initiative, one SC/ST respondent in Kanhewadi lamented that he was not allowed to join an SHG. Another SC/ST respondent in the same village narrated a similar experience, pointing to the uncooperative attitude of the village community. A third tribal respondent in Kaman was apprehensive that his efforts to join an SHG might provoke a hostile reaction from village and local authorities. In contrast, the two tribal women belonging to the control group for group beneficiaries in Mohkal accepted their social exclusion passively.

### **Collusion**

The inclusion of affluent households—with two owning 12 and 20 acres of land in Mohkal—reflects collusion among bank staff, Sarpanch/Gram Sevak, and VDC. In each of the three sample villages, most of the nonpoor households were nominated either by a Sarpanch or Gram Sevak and duly recommended by the VDC. The case of a vice chairman of the VDC in Kaman nominating himself for a loan without any objection from the VDC members or bank staff (who normally attend VDC meetings) or Panchayat members is a glaring example of collusion among them. The fact that all nonpoor beneficiaries belonged to upper castes may not be a mere coincidence, as their domination of local bodies is well known.

In contrast, SHGs represent the poor better in our sample, largely because of their self-selection, induced by small loans unrestricted in their use. This process of self-selection was aided considerably by the initiative and support of Grameen Mahila Swayam Sevak Sangh and Chaitanya.

But above all the identification procedure is unsatisfactory. Even though it is well known that the list of poor households is faulty—often 80–90% of the households in a village are classified as poor—that is the only basis for identifying the eligible households. What is worse, the list is maintained by the Gram Sevak, giving him undue importance in the selection process. Instead of the BPL list being in the public domain—it is meant to be displayed in the Village Panchayat office or some other

prominent place—it is usually the Gram Sevak's declaration that counts.

### **Loan Appraisal and Follow up**

The poorest—especially from SC/ST households—faced difficulties not just in the selection process but also in their bank transactions. The documentation was expensive and time consuming. These difficulties were compounded by their illiteracy, their lack of familiarity with the procedures, and the unhelpful attitude of the bank staff. As a result, the processing of loan requests of the poor took much longer (1–6 months, as against 1–2 months in case of the nonpoor).

In general, bank staff gave hardly any loan related advice. In fact, unless the applicant took the initiative, repayment obligations were seldom fully disclosed. Nor was there any follow-up of loan use. As the poorest would have benefited more from such advice and follow-up (e.g., in terms of productive use of assets), its absence had serious implications for them.

### **Financial Stringency**

Too much financial discipline or stringency—strict repayment requirements, penalties for delays, etc.—could deter the poor from joining a microcredit scheme or could limit duration of their participation in it (Montgomery, 1996). These effects are present in our sample but in a somewhat weak form. Among individual beneficiaries, one SC/ST respondent reported that he defaulted once and therefore had to pay two installments together. Two other respondents drew attention to the seasonal variability of income from fishing constraining their repayment ability. Apart from social exclusion, one nonparticipant SC/ST respondent (from the control group for individual beneficiaries) was skeptical of joining an SHG because of his seasonal employment. A (tribal) widow, who belonged to the control group for group beneficiaries, was equally diffident about borrowing under the MRCP because of the irregularity of her income. None of the participants, however, dropped out of the scheme.

These responses point to the need for flexibility in the repayment of individual loans from banks (with monthly or quarterly or annual installments over a period of 2–5 years) as well as in loans given by SHGs (with monthly installments over a period of 1 year), with a view to enhancing the participation of the poorest—many of whom are subject to uncertain or (seasonally) fluctuating incomes.

Surprisingly, even though loans from SHGs were costlier (2–3% per month as against 12% per annum from a bank), some members—including the poorest—were emphatic that the ease of obtaining loans and flexibility in their use more than compensated for the higher cost. However, some poor individual beneficiaries would prefer membership in SHGs provided the loan amounts are larger and interest rates lower.

To sum up, while some of the poorest failed to participate in the MRCP either because of their lack of awareness or inability to overcome their social exclusion, many more were excluded because of arbitrariness in the selection of beneficiaries by VDCs and inadequate flexibility in the design of the scheme (more specifically, in repayment requirements). To the extent that the default rate is negligible and SHGs better represent the poor, further extension of the coverage of the MRCP mainly through SHGs may well be sustainable provided of course the special needs of some backward sections (e.g., tribal groups) stemming from their social exclusion and irregularity of income are systematically addressed.

### **Community Involvement**

In principle, VDAs/VDCs have an important role in identifying beneficiaries, arranging for loans, and following up on the loans. Their formation, representativeness, and functioning are thus crucial to the targeting of the MRCP. However, the picture that emerges from our survey of three villages in Pune District is far from reassuring.

### **Formation**

The VDCs were constituted by the participating banks somewhat hastily and in an ad hoc manner to launch the MRCP. Locally influential persons or groups, along with a few SC/ST representatives, were inducted. A few Panchayat members—including the Sarpanch—were also included. The relationship between the VDAs and VDCs is somewhat vague. Although bank officers and NGOs are supposed to participate in the VDC meetings, their participation is usually a ritual.

### **Representativeness**

Since there are no elections and the bank usually nominates SC/ST and other members, the VDC is not a representative body. Moreover, the nominated SC/ST members are unaware of the objectives, procedures, and decisions. One woman SC/ST member of the VDC (in Mohkal), for example, knew nothing about the MRCP. She did, however, assert that the VDC was dominated by influential persons.

### **Functioning**

The VDC meets once a month. The agenda are not announced. The venue is a Gram Panchayat (village council) office or a temple. As there is no requirement for a quorum, the meeting is held even if there are more than a few absentees. Selection of MRCP beneficiaries is seldom discussed. Either the Sarpanch (chairperson of the village council) or the Gram Sevak (the village level worker) nominates the beneficiaries. The list of poor households (i.e., those below the poverty line) is in the custody of the Gram Sevak. Although the lists are faulty (sometimes 80–90% of the households in a village are included), no questions are asked about their reliability. Even self-nomination of influential persons (a vice-president of a VDC, for example, nominated himself) is seldom challenged. If the poorest get included in the list of potential beneficiaries, it is either through the initiative of NGOs and Sahyoginis or through their own efforts. Attention is also drawn to the nexus between bank staff and VDC, resulting in substantially higher

loans to relatively affluent persons. The minutes (including the list of beneficiaries) are usually in the custody of the chairperson or the secretary of the VDC. That exclusion of the poorest was to some extent deliberate cannot, therefore, be ruled out.

To sum up, the functioning of the VDCs was neither participatory nor transparent. Given the weak accountability mechanisms, arbitrary selection of beneficiaries remained uncontested. An issue therefore is whether the replacement of VDC and VDA by Gram Panchayat and Gram Sabha (village assembly), respectively, would make a difference. Although “capture” of Panchayats by a few influential persons is not unusual, the fact that they are elected bodies with a statutory basis renders them more representative of and accountable to the village communities. As a result, exclusion of the poorest *may* be reduced (Gaiha, 2000, Gaiha, Kaushik, & Kulkarni, 2000).

### **Loan Use Control and Related Issues**

A few recent studies (e.g., Goetz and Sen Gupta, 1996; and Rahman, 1998) have drawn attention to the difficulties of targeting credit on rural women. In particular, attention is drawn to women being used as a conduit for obtaining credit with hardly any role in the choice of assets and no control whatsoever on the incomes accruing from them. Yet the responsibility for the repayment of loans is often exclusively that of women. In fact, failure to repay loans sometimes results in violence against them in poor households. The current survey throws some light on these issues.

#### **Asset Selection and Use**

Out of the four women who responded in detail to questions concerning asset selection and use, a widow—an individual beneficiary—insisted that the asset (bullocks) was chosen by her. But later on she admitted that the actual transaction was done by her brother-in-law because he knew more about bul-

locks. The remaining respondents pointed out that the decision was either that of the entire family or that of husband and wife. Subsequently, however, it was revealed that a so-called joint decision of husband and wife was in fact dictated by the husband. Thus, except for the widow, all other women beneficiaries had a limited role in the selection of assets.

Except for one woman who bought goats, all other women bought bullocks. As bullocks are used primarily by men (e.g., for plowing and transportation), it is unlikely that the women had any control over the bullocks. But whether intrahousehold distribution of power was reinforced in favour of male members seems unlikely, going by the responses of a few women and other members of the village community.

None of the women beneficiaries complained that the assets purchased interfered with their household chores. If feeding of bullocks and goats is not exclusively a female responsibility or not a strenuous activity, it may not add much to a day's work.

### **Income**

In most cases—including a widow who bought goats and reared them herself—the incomes accrued either to the family or other relatives. The only exception was another widow who bought bullocks and claimed that the income accrued to her since the bullocks were registered in her name. Among the former, one respondent was emphatic that the income accruing from the asset was considered family income. It could not be ascertained whether this response was culturally conditioned (i.e., whatever belongs to a woman also belongs to the family) or simply tactful.

### **Repayment**

Two respondents confirmed that, since the asset belonged to the family, the repayment of the loan was also a joint responsibility. The widow who owned and managed the asset herself (i.e., the owner of bullocks) was of course responsible for the repayment of the loan. The second widow (i.e., the owner of

goats ), however, had no control over the income from the asset but the repayment of the loan was her responsibility.

### **Status**

Despite limited autonomy, two women respondents reported emphatically an improvement in their status both within the household and outside. As the assets are jointly registered in the names of husband and wife, the women are seen as performing a productive role. Although the extra income earned is modest, the “cost” to women in terms of extra hours worked is negligible. No cases of violence against them were reported. Indeed, initial male resistance waned as loans augmented household incomes.

To sum up, while the benefits of enhancing the access of poor women to credit are by no means insubstantial, they are likely to be greater provided they have greater control over the assets and incomes accruing from them.

## **Awareness, Skills, and Training**

### **Awareness**

In general, the awareness of the MRCP was limited to a few features (e.g., it provides loans to the poor) and a small group. In the control group for individual beneficiaries, most of the respondents were unaware of the MRCP. In contrast, while the beneficiaries were better informed about this scheme, subsets of them knew little about repayment obligations. Among the members of SHGs with a good track record, all except one woman were very well informed about the objectives of the scheme, loan options, procedural requirements, and repayment obligations. But, as in the case of the control group for individual beneficiaries, members of the control group for SHGs knew virtually nothing about the MRCP. The fact that participants and nonparticipants were distinguishable in terms of awareness levels suggests that limited access to information about the scheme acted as a barrier to participation. That the barrier was harder to overcome for the poor is indicated by the fact that

they relied mostly on the Gram Sevak or occasionally on an enthusiastic field officer of a bank while others had multiple sources of information (e.g., BDOs, Panchayats, bank officials, representatives of official agencies, and mass media).

Overcoming this barrier was not enough for the poor, as the procedures (e.g., documentation, and loan sanction) took longer as well. While the nonpoor individual beneficiaries took 1 to 2 months to secure a loan, the poor took 1 to 6 months. The longer delay reflected (1) greater difficulty of document preparation, and (2) indifferent or unhelpful attitude of the bank staff.

### **Skills**

Most of the respondents were emphatic that they did not require specialized training or skills for nonfarm activities. A few activities (e.g., making pickles, making spices, sewing, and selling vegetables) were mentioned that required traditional skills which they possessed. However, their vision was conditioned by their illiteracy and limited exposure to markets. In particular, there was little awareness of whether traditional products (e.g., pickles or handicrafts) could be more efficiently produced (e.g., as a group activity on a larger scale) or marketed better through existing channels (e.g., cooperatives) and whether there were ways of avoiding business risks (e.g., withholding supplies when the price is likely to fall). The information and training imparted by MCED, MITCON, and NGO/Sahyoginis is reviewed from this perspective.

### **Training**

NGOs are sponsored by MAVIM or by the participating banks to nurture SHGs in the initial stages.<sup>9</sup> Sahyoginis are the link between NGOs and SHGs. They are trained by MAVIM (as well as by NGOs). They perform a wide range of functions, e.g., awareness building, attending group and block meetings, maintaining records, training women in nonfarm activities, and arranging trips to banks. Much of awareness building and training is imparted through group discussions and demonstrations,

street plays, and cultural programs. In the sample of villages studied, the duration of training given to SHG members was 1–3 days.

Even though the interaction and training of SHG members was limited in duration, its favourable effects were noticeable. These were reflected in greater self-confidence, awareness, and willingness to undertake small businesses or trades among them. Since SHGs in the sample villages correspond largely to different caste and social groups (in other words, there is little intermixing of different castes), the composition did not come in the way. Nor did illiteracy pose any problems, given the format of training. However, it seems unlikely that SHGs can dispense with the guidance and support of Sahyoginis/NGOs.<sup>10</sup> In particular, the special requirements of SC/ST households warrant greater attention and involvement.<sup>11</sup>

*Maharashtra Center for Entrepreneurship Development (MCED)*

MCED has a different focus. It trains entrepreneurs and assists them through market surveys, documentation and management counseling. Usually, the training is given in groups of 30–60 persons. It is residential and lasts 12–13 days. Among the successes claimed, a notable case was gunny bag manufacturing by women. This had a strong demonstrative effect. However, its focus on the poor with some business experience reflected the inability of its staff to design suitable training modules for the very poor.

*Maharashtra Industrial and Technical Consultancy Organization (MITCON)*

MITCON's major function is to provide quality consultancy for small and medium enterprises at affordable fees. Specifically, project reports in Marathi, prepared by its staff, are supplied to potential entrepreneurs. After a project is selected, MITCON monitors its progress. Shortage of field staff—especially females—is a constraint.

### **Assessment**

Some deficiencies came to light. The Sahyoginis were overburdened, as they covered a large number of SHGs—one of the two Sahyoginis interviewed, for example, is involved with 21 SHGs. Moreover, considering the nature of the work (e.g., frequent travel), the remuneration (Rs.1500 per month) is inadequate. Finally, as remuneration is not linked to performance, there is no incentive for them to induce the poorest to participate in the scheme. On the other hand, MCED and MITCON do not appear to be suitable for the rural poor, as their focus is largely on small and medium enterprises. Residential entrepreneurial development programs offered by MCED and supply of project reports by MITCON may be not just too exacting but also inappropriate for large sections of the rural poor—especially women—lacking literacy, numeracy, and exposure to markets. The training provided by NGOs and Sahyoginis, on the other hand, seems far more useful because of its emphasis on problem-solving skills in a village environment. An option, therefore, is to strengthen this component of training, by broadening the range of expertise of Sahyoginis, through their closer interaction with the poorest, and more remunerative salaries linked to performance.

### **Other Issues**

Some issues that require further analysis are briefly discussed below.

1. Although some acutely poor women did not mind paying high interest rates (2–3% per month) as members of SHGs, and a few insisted that the ease of borrowing compensated for the difference between the interest paid and that charged by the banks (12% per annum), it is not clear whether the urgency of consumption and other needs (e.g., festivities or sickness) mattered too (since banks do not normally lend for such purposes). There is thus a need to examine carefully whether a more than moderate lowering of the interest rates is feasible.

2. A few responses pointed to difficulties in the repayment of loans due to seasonal fluctuations in yields (e.g., fishing) and contingencies (e.g., sickness). It is therefore necessary to supplement the present analysis through an investigation of *types* of assets financed by the MRCP, their retention rates, and yields.
3. The size of SHGs and their regulation are linked. If an SHG has more than 20 members, it will attract the provisions of Section 11 (2) of the Companies Act, 1956.<sup>12</sup> As a result, SHGs usually consist of 15–20 members. Whether this is an optimal group size is not self-evident. Indeed, given the emphasis on savings mobilization, slightly larger groups may be more appropriate and not necessarily less cohesive. But, since they handle large amounts of public funds, there is a case for regulation.
4. A concern is whether group cohesiveness is synonymous with homogeneity of social background (e.g., caste affiliation) and/or economic status. In our sample, for example, there was little intermingling of different castes. But in a larger sample there were a few mixed groups that functioned well (Shankar, 2000). This suggests that under certain conditions group heterogeneity is not a barrier to group cohesiveness. An issue, therefore, is whether the village environment (i.e., whether there is a great deal of intermingling of different castes in village events, e.g., a major festival) has a role in cohesiveness. Some insights into how various forms of differentiation are overcome or why they do not matter in a certain context would be valuable for expanding the social capital (i.e., trust, reciprocity, and networks of mutually beneficial relationships) through SHGs. Appropriate policy instruments could then be devised.

### Concluding Observations

A selective summary of the findings is given below.

1. When key correlates of poverty are applied, the nonpoor beneficiaries of individual loans under this scheme turned

out to be more than the poor. What was more surprising was the presence of a few quite affluent persons among them. However, SHGs with a good track record consisted mostly of poor women.

2. Exclusion of the poorest (e.g., tribals) was partly a result of their own lack of awareness about the MRCP and diffidence about their ability to repay loans. But more seriously their exclusion also reflected their social isolation, the resistance of upper castes, and the nexus among the bank staff, Sarpanch, and VDC.
3. Among the individual borrowers, not just the selection but also the benefits varied somewhat depending on whether the borrower belonged to a poor or affluent household. The loan processing time was much longer for the poor. Moreover, the affluent secured much larger loans.
4. The financial discipline demonstrated by the SHGs was impressive. This was reflected in high rates of recovery of loans *both* by the banks and by the groups themselves.
5. While no case of violence was reported, there were indications of male dominance in the selection and the use of the assets.
6. Combining financial services with some forms of insurance (e.g., against illness and accidents) would make the MRCP more attractive to the rural poor, as their ability to deal with contingencies is limited. Willingness to pay for additional services is not lacking among them provided the benefits are carefully explained to them.

To sum up, the effectiveness of a microcredit scheme such as the MRCP is likely to depend on whether it has the flexibility to induce the participation of the poorest and whether it enables them to acquire the basic skills to benefit from it.

## Abbreviations and Acronyms

BDO	Block Development Officer
BOM	Bank of Maharashtra
BPL	Below Poverty Line
CB	Commercial Bank
DCCB	District Cooperative Credit Bank
DPCC	District Project Coordination Committee
DRDA	District Rural Development Agency
EDP	Entrepreneurial Development Program
FO	Field Officer
GOI	Government of India
GOM	Government of Maharashtra
IFAD	International Fund for Agricultural Development
IRDP	Integrated Rural Development Program
MAVIM	Mahila Arthik Vikas Mahamandal
MCED	Maharashtra Center for Entrepreneurship Development
MITCON	Maharashtra Industrial and Technical Consultancy Organization
MRCP	Maharashtra Rural Credit Project
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organization
PAP	Peoples' Action Plan
RBI	Reserve Bank of India
RRB	Regional Rural Bank
SBI	State Bank of India
SC/ST	Scheduled Caste/Scheduled Tribe
SHG	Self-Help Group
SYG	Sahyogini
SGSY	Swarnjayanti Gram Swarozgar Yojana
VDA	Village Development Assembly
VDC	Village Development Council

## Glossary

Gram Sabha	Village Assembly
Gram Panchayat	Village Council (an elected body)
Gram Sevak	Village Level Worker
Sarpanch	Chairperson of Village Council
Sahyoginis	Field Workers

## Notes

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1. The Integrated Rural Development Program (IRDP), operating since 1978–79, is a major credit program designed for the rural poor. However, several reviews point to its mistargeting, corruption, preponderance of animal husbandry schemes, absence of linkages, lack of adequate follow-up, and consequent high overdues of banks (Dreze, 1990; Gaiha et al., 1998; Gaiha et al., 2000; Gaiha et al., 2001).

2. The official exchange rate in 1991–92 was Rs. 17.95 to the dollar. At the time of the fieldwork in 1999–2000, it was approximately Rs. 44 to the dollar.

3. As it takes 1–3 years after a group is formed to borrow from a bank, it is not surprising that out of a total of 2006, barely 815 SHGs were linked to the banks (UNOPS, 1998).

4. Income in the hands of women has different effects on household decision making than income accruing to men. For instance, wage employment is generally observed to result in improved women's bargaining position within the household and in higher energy intakes for children. For a review of the evidence, see Deolalikar and Gaiha (1996).

5. The classification of households into poor and nonpoor takes into account these characteristics as well as whether household income was  $\leq$  Rs. 12,000 per annum (for a household of five) at current prices, among others.

6. Going by IFAD (1997), a share of non-BPL households exceeding 20% is considered excessive.

7. Note that the group of SHGs not functioning satisfactorily (abbreviated as NFS) is classified as the control group. The observations that follow are therefore confined to SHGs functioning satisfactorily (abbreviated as FS).

8. What is interesting to note is that repayment rates for individual borrowers were nearly as high. The reasons include VDC monitoring of loans, loss of reputation of defaulters, and the realization that the loans had to be repaid.

9. Each NGO is assigned six villages under the MRCP.

10. One Sahyogini (operating in Mohkal) pointed out that attempts to reduce her contact with SHGs caused confusion among the members. This is plausible, as it was corroborated by two representatives of financial institutions as well.

11. Alcoholism among men and women, attachment to traditional practices, and low acceptance of strangers makes establishing connections with tribals more challenging. (I owe this observation to Shylashri Shankar).

12. No company or association or partnership consisting of more than 20 persons shall be formed for carrying on business that has for its object the acquisition of gain by the company or by the individual members thereof, unless it is registered under the Act.

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