



Microfinance and Poverty Alleviation: A case Study on Rgvn-Csp

KEYWORDS

Microfinance, Credit, Saving, NGO

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ABSTRACT *The paper tries to discuss the evolution of micro-finance as a tool for eradicating poverty. It also discusses the general model of operations of micro-finance in India with specific reference to Rashtriya Gramin Vikash Nidhi-Credit Savings Programme (RGVN-CSP). Micro-finance is affecting a significant development in poverty eradication and rural development. Therefore, by sharing experiences and materials derived from analyzing successes and failures can provide knowledge and guidelines to implement future micro finance programmes. This study analyses different schemes, their modus operandi of the implementation and the process the poverty alleviation especially in rural Assam with special reference to RGVN-CSP.*

1. Introduction:

Not very long ago, poor people of the country did not have any option of borrowings or savings. Ironically, borrowing and saving options for this lot were most essential. As such, village money lenders and petty lenders would always have field days as these people were easy to exploit and they were the neediest. Not many experts from the field of finance and economics, or for that matter, policy makers had any panacea for it.

In 1961, a US based Non Governmental Organization (NGO)², ACCION³ International, as a sort of Pre-peace Corps program working on community development with the poor in Latin America, developed the concept called 'Microfinance' which later on became the most effective panacea, so far, to the poverty stricken majority of the third world nations.

Microfinance is a special kind of financial service involving credit and savings to the needy and the poor or to them who primarily depend on their tiny business for income. These section of people are generally not considered bankable because of their lack of collateral thereby making them high risk clients for any self respecting bank. Robinson (1998) said that microfinance is like a small-scale financial services and here both credits and deposits are provided to lower income people either individually or collectively in groups, in both rural and urban areas, especially in developing countries.

In the 1970s, ACCION International experimented with the concept and developed a lending model. This organization comments that microfinance will succeed only when it serves the poor people since the poor people can pay for their need.

However, in course of time, ACCION did not remain as the sole flag bearer of microfinance rather many other NGOs and institutions got involved in the movement. In fact, in early 1990s, commercial banks in some parts of the world also tried to put in some effort in the field of microfinance. Bolivia's Bancosol is credited as the first commercial bank to be dedicated to microfinance in the year 1992. Similar kinds of banks were also established in places like Colombia, Peru, Mexico, Honduras, Ecuador, and Venezuela. In our subcontinent, it was none other than, Noble laureate Dr. Mohammad Yunus⁴ of Bangladesh took the micro-financing movement to a spectacular level. Bangladesh Grameen Bank became a pinnacle of Success with the microfinance initiatives of Dr. Yunus. And from then on it spread to different parts of subcontinent.

In India too, micro-finance schemes are fast becoming important tool of development for both Government Organizations (GOs) and NGOs. Till now, variety of schemes has been

floated and various approaches have been practiced by both GOs and NGOs. Credit has always been viewed as one of the missing inputs in the development sector and thus, emphasis on re-formulating and re-strengthening micro credit programmes is ever increasing. Some examples of microfinance has been spectacular successes and some not-so-successful. Some experienced high default rates and were unable to provide financial services in the long run but most have been getting very good yields.

Micro-finance is now evolved as a need-based policy and programme to cater to the target groups which were so far was somehow neglected whether intentionally or inadvertently (women, poor, rural, deprived, etc.). This is mainly based on the concern of all developing countries for empowerment of these sections and thereby alleviation of poverty. It has been proved beyond doubt that access to credit is a major input in upgrading downtrodden. Thus, development organizations and policy makers now have started including access to credit for poor people as a major aspect of almost all poverty alleviation programmes. Capital is a limited resource. Developmental capitals are even scarcer. Micro-finance programmes, in recent periods, have become a promising way of effective and efficient utilization of these funds. Moreover, quite a few micro-finance programmes have really made wonderful impact in the development field and beyond. The sole objective of micro-finance is simple and very clear that if these population, which are in real need and are in substantial number, are facilitated with access to financial services, including credit, it may not be very hard for them to start or expand a micro-enterprise. It is not the lack of skill or enterprising attitude which most of these people have rather the lack of proper support to build on their skill and entrepreneurial capabilities holds them to poverty. Micro-finance could be taken as the bridge which tries to reduce this gap.

The micro-finance programmes actually have succeeded in enabling the target segments of the society to increase their income levels. Because of this, the access to credit and the opportunity of this population started to expand which in turn helped micro-enterprises of these neglected or ignored lots, especially in comparison to other policy development initiatives, recognizable. This also enhanced the credibility of the individual group members. More often than not, micro-finance has actually acted as a catalyst for social and economic development of the class erstwhile considered as creditworthy.

As far as development practitioners are concerned, the success of micro-finance programmes is inspiring. In majority of the cases in the past, costly large-scale development initiatives have failed to achieve any sustainable benefits, especially after funds have dried up. Rather, these costly large

scale initiatives encouraged corruption and unwanted dirty results. In recent times, one of the most effective interventions for economic empowerment of the poor thus seems to be the microfinance initiatives.

2. Literature Review:

The concept of microfinance has grown very fast in the last decade with the realization that even poor people are bankable and are capable to invest. It is the Grameen Bank of Bangladesh which is the first to start such banking facility to the poor (Brandsma and Chaouli 1998:1).

Khosla & Gandhi (2006), in an article in *The Economic Times*, have cited different researchers' to highlight the achievement of Bangladesh in this field. In Bangladesh, almost 15 million families now benefit from micro-loans and other financial microfinance products such as micro-savings and micro-insurance. A total of around 40% of the overall reduction of rural poverty in recent years is now attributed to microfinance. Some of the other studies also suggests that the microfinance has been more effective on the poorest than on the poor (It is really heartening for the countries like India, Bangladesh etc.). Strong spillover effects of microfinance operations in the areas where it has brought significant economics gains are also evident on that of non-participating members of communities. Further more, the authors argues that well-managed microfinance institutions (MFIs) have shown a capacity to wean themselves off of subsidies and become sustainable within a few years. (Khosla, et.al, 2006).

Microfinance uses donors' investment which is then recycled and reused (Wright, 2000). This makes microfinance more cost effective. There are also evidences that site that fact that microfinance increases the income of the households (Murdoch and Haley 2002:5; Simanowitz and Walter 2002:20).

From the above discussions on the literatures, it is evident that the microfinance is playing a significant role in poverty alleviation and rural development, thus making it necessary to share experiences and materials which will help not only in analyzing successes and failures but also provide knowledge and guidelines to implement future micro finance programmes.

Social and economic liberty of the needy lots is the ultimate objective of all microfinance programs. Effectiveness of any microfinance model is dependent on how each of the stages of the intervention has been carefully analyzed, dealt and customized with actual situation. The capacity and the efficiency of the executing agencies in achieving the final goal should also needs to be properly accounted for, e.g., if credit is delivered without sound consolidation of SHGs⁵, it might trouble the self-sustainability and credit recovery of the agencies. However, banks, central and state governments also do have few schemes where direct credits to potential individuals are offered even if they are not members of SHGs. In general, the documentation of the developmental process of the individual becomes the base for the communication materials in the directory.

A typical micro-finance infused development process can be depicted with the help of following Chart (Chart-1).

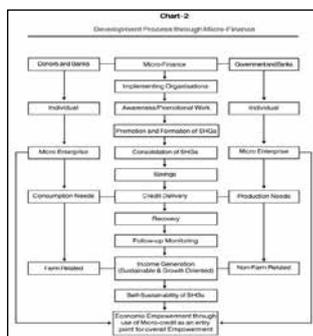


Chart-1 (Source: <http://www.un.org.in/iawg/icecd/section1.htm>)

3. Microfinance: delivery models

3.1 Self Help Group Model:

The Self Help Group (SHG) Model is based on the idea that poor can help themselves. It is a home grown co-operative of small group (usually with 10-15 members) which mobilizes savings among its members only. This delivers need based loans to the members for meeting their diverse needs. SHGs are largely promoted by NABARD⁶, public sector banks, other institutions (both Government and non Government). This delivery model is most popular for microfinance in India in spite of its mixed performance. (Upadhaya, et.el, 2007)

3.2. Grameen Bank Model:

Grameen Bank of Banglaesh actually happens to be the idea for this delivery model. It is a structured formal financial institution. The advantage of this model lies on the facts that it has a less formalities to disburse loans, very low transaction cost, void of any collateral requirements, small repayment installments etc.

3.3. Individual lending –BASIX⁷ and MAC⁸S

The convention of microfinance delivery has traditionally been based on group models despite its having some limitations. Probably, in view of these limitations, in recent times many organizations have started individual lending. In case of group lending, the advantage is of low risk whereas it also has disadvantage of collective responsibility.

4. Key Challenges

4.1 In true sense, till today, it is only micro credit which has been practiced largely in the name of microfinance. The first key challenge is to encompass all other aspects of microfinance into application.

4.2 All banks whether nationalized or others, those who have been participating in microfinance delivery, it seems, are doing only in letter and not in spirit. More involvement and commitment is still desired from these institutions.

4.3 There is also a requirement of reformation of the rural banks with reference to successful implementation of microfinance products delivery and innovation.

4.4 Another key challenge lies in revamping and reviving co-operative movement. The co-operative structure is no more as strong as it used to be during 70s & 80s.

4.5 There is a need for paradigm shift in the role of the state towards microfinance policies and models. Moreover the issue of separating politics from other sensitive issues of microfinance is the need of the hour.

4.6 The wholesome involvement of the targeted sections of the society in the microfinance movement is another issue to be addressed properly.

4.7 Organic & organized growth of MF institutions requires sorting of legal issues, removal of regional disparities, inclusion of left out urban poor etc.

4.8 Development of qualitative aspects of SHGs and expanding the diversity of products within the microfinance category like Savings, micro-insurance, micro-pensions, remittances, micro-housing loans etc. also do pose a stronger challenge for microfinance delivery.

The Asian Age, a National Newspaper, in a news report in 2008 says that the Indian Microfinance sector is expected to grow 10 times to reach Rs.25,000 Crore in the next 4 years. Today this sector is estimated to be at Rs.2,700 Crore. A study conducted by Sadhan⁹ in the year 2003 also confirms that, going by the current trends, the microfinance sector will have a Compound Annual Growth Rate (CAGR) of 76%. In India, both bigger and smaller organizations are engaged into micro finance and that too, both in the government sector as well as non-governmental sector. National financial institutions like the Small Industries Development Bank of India

(SIDBI), the National Bank for Agriculture and Rural Development (NABARD), as far as government agencies are concerned, are playing quite significant roles of big players in the field of micro credit. Some of the big names from the non-governmental sector in this field are PRADAN, ICECD, MY-RADA, SEWA etc. who have been successful in implementing micro finance schemes to the benefit of the poor. One such organization which has been doing a lot in this area is Rastriya Grameen Vikash Nidhi (RGVN) headquartered in Guwahati. This was founded as autonomous, non profit organization in April, 1990, to improve the quality of life of poor and under privileged. RGVN has a separate scheme called Credit Policy Scheme (CPS) which is currently being implemented in many districts of Assam. This study would like to analyse the different schemes, their modus operandi of the implementation and their impact in the poverty alleviation.

5. Credit and Savings Programme of RGVS-CSP:

5.1 Introduction:

RGVN is an indigenous development support organization to reach the downtrodden masses in the remote and less developed regions specially Northeastern and Eastern Region of India. Its prime operations in those areas where the mainstream approaches and institutions often fail to reach. It has started basically in Assam and Meghalaya in May 1995. With a loan of Rs.100 lakhs from the Small Industries Development Bank of India (SIDBI), RGVN launched the Credit and Savings Program. Later on NABARD and National Minorities Development Finance Corporation (NMDFC) roped in to enhance the scale of the said program.

The credit and savings Program of RGVN was initiated to provide credit and other financial services to the people who are unable to access the formal sector. Poor women Empowerment is their main criteria. To improve the quality of life of the poor and otherwise underprivileged rural and urban people through social action is the so called mission of this group. This is done basically through the Joint Liability Group (JLGs) and the Self Help Groups (SHGs). One more model for implementation is there which is known as Entrepreneurship Development Program (EDP) which is now modified as Entrepreneurship Development Loans (ENL).

5.2 The vision of RGVN-CSP is encrypted as follows:

- To enhance the livelihood of the underprivileged of the society who have little or no access to formal banking system. (Source: www.rgvnindia.org/credit.htm)
- To inculcate the habit of thrift amongst the poor. (Source: www.rgvnindia.org/credit.htm)
- Woman empowerment through income generating activities. (Source: www.rgvnindia.org/credit.htm)

The operation of RGVN-CSP though started in 1995, but it took a long time for them to prove their credibility among the masses. So, the initial period of more than 10 years is usually said as the set up period by them. It was only after 2005, the RGVN –CSP geared up their services. This is basically operating in twelve districts of Assam. There are almost forty three branches as on September 2008. There are eight area offices and they publish a magazine called Sarathi quarterly every year.

5.3 RGVN-CSP's Process of Intervention:

The operation of this organization is done in the following manner:

Area Survey: In order to intervene the market the first and foremost thing done is to know the population pattern. An interaction with the Gaon Panchayat is made and also a study on the Non Performing Assets of the Banks is performed. After that by using residue method the target client survey is done and also the competitors are analyzed.

Ensure Potentiality: Thorough analyses of the competitors are done and the credit needs of the customers are also justified.

Communication Programs: Public meeting in relation to credit and saving programs are done and also its modalities are discussed. This also discloses the clarifications related to the rate of interests.

Group Formation: Any area has a unit manager who promotes the group allocated in that area. In an SHG initially group meetings are held in 3 months and then each member is asked to contribute minimum of Rs.10/-. The money accumulated is then distributed inside the group at a rate of interest decided by them. This reveals the credibility of the group. Loaning starts only after the group attains maturity. This is not so in case of Joint Liability Group(JLG). Here the loaning starts only after the group is formed.

Individual Clients: In case of individual entrepreneurs loaning starts after the completion of one to three cycles of loan in either SHG or JLG mode. Such kind of product is a market driven one. May group borrowers also ask for such loans. It has less transaction cost.

Training of Group or clients: Training is given on group functions and management, bookkeeping and leadership, credit discipline. The entrepreneurs are motivated for the development and also training is provided for financial and risk management.

Group Recognition Test (GRT): In order to test whether the group, formed as SHG under this, are effective and powerful or not, a GRT is performed on the basis of certain special parameters.

Financial Transaction: After all these the loan disbursement process starts. The rate of interest charged changes over time to time depending on the economic situation prevailing.

Credit Plus Services: The basic credit plus services deals with training and micro insurance services.

With the objective of proving "Food", "Cloth" and "Shelter", the RGVN-CSP tries to minimize the exploitation of money lenders through proper canalization of the loans to them. These loans create opportunities for self employment. The main sources of fund for the organization are NABARD, IDBI, SIDBI, SBI, FWWB, ICICI, DCCL, NEDFi etc. Among all these SIDBI gives grant. The rest provide loans. NABARD gives grant for SHG's. The monitoring of the loans disbursed is mainly done by the Branch Head or the so called unit Head. There are two to five credit officers in a unit and one general purpose staff. The credit officers make the proposal and submit it to the Branch Head. After doing the verification the branch head makes the model.

5.4 Various Delivery Modes:

A. Joint Liability Groups (JLG): This is formed by five to six members comprising of both men and women who have experience of handling funds previously. Savings is made compulsory to such groups who take loan under this. Since the group has no treasurer so each member is individually liable to each other. Loan Size varies from Rs.3000/- to Rs30000/-. The rate of interest taken for loan is in between 7% to 10% per annum and time allotted for repayment of the loan varies from a week to a month.

B. Self Help groups (SHG): In this mode the, 10 to 20 members are there and all the members are women who have no knowledge of funds handling previously. Under this mode, savings is compulsory prior to lending. It is formed with the broader vision of sustaining even without outside credit and support. This group is headed by a leader and a treasurer. The loan size varies from Rs.4000/- to Rs.15000/- each member. Here also the interest is flat 10% and administrative charge is 5% maximum and the repayment is on weekly or monthly basis.

C. Entrepreneurship Development Program(EDP): An SHG or JLG loanee member who has good credit record

from last three months are those who have attained at certain level to absorb more credit. They must also show entrepreneurial ability by virtue of their work. This kind of loan varies from Rs.15000/- to Rs.40000/-. The same amount of interest is charged here also.

D. JLG Cluster Loan/ SHG Preliminary: In this kind of mode the individuals who are earning a very low income in urban, rural and semi urban groups are targeted. E.g. small vegetable sellers, fast food vendors, bangle sellers, rickshaw pullers etc. The maximum loan amount approved is Rs.2000/-. Here the rate of interest the CSP charges are as low as 7% per annum. Repayment time is same as above.

E. Micro Enterprise Loan: Here the target customer is different. They are the educated men and women who are unemployed showing entrepreneurial ability. The loan amount is higher that is from Rs.25000/- to Rs.50000/-. Interest rate is same as JLG Cluster loan but administrative cost is 5% in this case.

Table 1.1-Operational Highlights

Particulars	March'08	August'08	Percentage Growth
No. of Districts Covered	10	13	30
No. of Active Groups	3227	11152	245.6
No. of Members	44279	74922	69.2
No. of Active Borrowers (individual)	24147	55309	129.1
Outstanding Portfolio (Rs. in Lakh)	1322.34	3031.23	129.2
Average Loan size on outstanding portfolio (in Rs.)	5476.20	5533.58	1.048
Total Number of Loans	85935	134245	56.22
Cumulative amount of Loan Disbursed (Rs. in Lakh)	5721.07	11444.91	100
Average loan Size Disbursement Amount (in Rs.)	6657.43	8525.39	28.06
On Time Repayment percentage	96.73	95.47	-1.3
Portfolio at Risk (Defaulter for more than 60) percentage	4.00	2.98	-25.5
Operating Costs in percentage	9	7	-22.2

(Source: Monthly Operations Report-RGVN-CSP, September, 2008)

6. Conclusion:

The table almost has a picture perfect illustrations that any Micro-finance organizations would like to achieve. Except for a tiny negative growth in the "On-time Repayment Percentage" all other figures are positive. Specially, the reduction in Operating Cost and reduction in Risked Portfolio, the achievements are remarkable. The table also highlights the fact that the model adopted by RGVN-CSP has been a success in the achievement of the objectives that they have set for themselves, albeit at a smaller scale.

The total number of families to be benefiting from the RGVN-CSP's micro-savings and credit programme is around 75000 throughout 13 districts of Assam with a significant 69% growth in the penetration on previous quarter. The more notable fact that along with the penetration level the average loan disbursement amount is also increasing, which is from Rs. 6657.43 in March, 2008 to Rs. 8525.39 in August, 2008, with a growth of around 28%.

However, to have a noticeable impact on over all poverty situations, the need of the hour is to expand and scale-up this process. RGVN-CSP model has been a fairly successful in this venture and as such others, both NGOs and GOs working in this field do have a known path to walk down now!

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