

Emerging Microfinance Practices: with special reference to Forest Dwelling community in Andhra Pradesh and Madhya Pradesh states.

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Abstract: *Poverty in India is one of the persisting problems since long time. Governments have been striving to alleviate poverty. A variety of welfare strategic programs like IRDP have been activated to address the problem. These programs could not attain the desired results effectively. Undeterred by this the Governments quest for alternative endeavors is a continuous process. This in turn gave birth to the concept of microfinance with buzzword SHG (Self-Help Groups) emerging since late 80's. This evolution has been proving to be result oriented and effective. The people living below poverty line usually need small financial assistance for subsistence, health etc. Major sources available for financing these needs includes moneylender/landlords, SHGs, etc. The awareness among the people about emergence of SHGs alike systems is high. The amount and purpose for micro finance varies with landholding size. The micro-credit deliver models includes SHG, Grammen, Cluster-Federation, DWCRA, and SJSY model.*

Introduction

The age-old adage “India is a rich country where poor people live”, the Indian government has been toiling to make the efforts to bring the poor population above the poverty line through various developmental programmes. It has been activating many programmes since independence through 5-year plans. One of the serious problem India is facing to make the institutional rural credit system accessible to the poors. Present system is not meeting the requirement and have lengthy/tedious credit sanctioning and disbursements process. The government has been making efforts to replace this all by an effective credit delivery system.

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After Independence the credit delivery system in rural areas was mostly confined through Co-operatives. In order to give boost to the rural finance through Commercial Banks (CBs), in 1969 the Government nationalized the commercial banks. However this Nationalization also could not extend the credit in rural areas as desired, mainly due to non-availability of equivalent physical co-lateral security from the poor. Though this nationalization resulted in the increase in the out reach but could not replace the existing informal credit supplies in rural areas through money lenders, which was easily accessible to the poor without much of hassles. During 1975, the concept of Regional Rural Banks (RRBs) also mooted which were having combined characteristics of Commercial and Co-operative Banks. It was hoped that such RRBs could have edge over CBs due to their regional focus and better acquaintance with the local rural requirement of the credit and the conditions. However, the role of the moneylender remained dominant in the rural credit sector. Therefore, in financial reforms which were initiated in 1991, lot of emphasize was given to the evolution of the Micro-finance institutions (MFIs), with the major objective to provide the easy accessibility of credit to the poor, that too without physical collateral. The Reserve Bank of India also set up a special Cell in 1999 to take care of the requirement of the Micro-finance sector. In the meanwhile the NABARD started a pilot project and evolved various models to extent the micro-finance through self-help groups, linking them to commercial Banks. This Commercial Bank and SHG linkage programme is proving to be a good model for extending the Micro-finance in the rural sector.

During the recent past, due to emergence of liberalization and globalization and consequent entry of Multinational Banks, competition in Indian banking sector is heating up and hence they are bound to quest out niches for their business in rural areas which otherwise are not having competitive advantage for Multinational Banks. Thus NABARD's success model of SHG-bank linkage on one side and upcoming competition in urban areas through multinational banks on other, most CBs are giving priority to micro finance activities to maintain their business. The Small Industries Development Bank of India (SIDBI), has also realized the scope of micro finance for the development of micro enterprises which fits into its mandate of promoting small and micro enterprises, has launched a micro finance scheme

in 1994. Subsequently a separate SIDBI Foundation for Micro Credit (SFMC) has been established with a main objective of creating a national network of strong, viable and sustainable MFIs. Taking note of these successes of NABARD's and SIDBI's micro finance initiatives, other major financial institutions like Housing Development and Financial Corporation (HDFC), Industrial Credit and Investment Corporation of India Ltd. (ICICI) have plunged into micro finance activities. Other major financial institutions are also considering to enter into this arena. However, there is a need to tackle the other issues like dissemination of technology and providing marketing outlets for the poor along with micro-finance will prove to be total success for establishing NWFP based micro enterprise in rural areas.

The micro finance can(*Pethiya and Teki 2000*) be defined "as a loan fund especially meant for micro enterprises (including agricultural, forestry, agro-forestry, horticultural, animal husbandry, handicrafts, processing of NWFPs for value addition, fisheries, bamboo and jute crafting, mushroom cultivation etc.) to provide required start-up capital to needy local people in an organised manner."(Pethiya). The financial assistance rendered by various agencies to the village/country poor people towards self-employment, enhancing income levels through better utilization of available resources and income generating activities (Teki).

Results and discussion

It has been observed during the field survey that forest dwellers largely depend on NWFPs for their survival and growth. They win their bread by way of harvesting and trading of NWFPs. The seasonality of NWFP availability compels the forest dwellers to source their micro finance requirement from the thirsty usury system that is predominant in the local vicinity. These greedy moneylenders exploit the forest dwellers, not only lending at very high interest rate but also snatching the NWFPs at un-remunerative prices many a time without any value addition. And the poor forest dwellers are forced to surrender his/her NWFP inventory immediately after harvest to the local traders/money lenders. This is all largely because of the advances taken from these trader/money lenders. If the forest dwellers are provided with micro finance advances and given them a privilege to repay these advances

in small installments, suitable to their cash in flow, they will certainly be relieved from the heavy clutches of the moneylenders and local traders. This step further enable them to think over value addition options. Thus this kind of intervention by providing the micro finance for NWFP value addition will certainly go as an effective tool for the poverty alleviation that can raise the income of forest dwellers.

The simple credit delivery system, without being asked for physical collateral, provision of existing social collateral which is more effective with efficient transaction cost will accelerate the motivation to take the advantage of micro credit. During the survey it was found that there are some forest dwellers who are progressive and questing ways to relieve themselves from vicious circle of the age old existing usury system (indigenous baker/moneylenders) . They also know the ways to come out from the vicious circles, but unable to do so due to lack of alternatives for micro financial assistance that otherwise would have given them an impetus to think beyond money lender. On the other hand various government/non-government organizations evolving appropriate technologies which can be adopted by the forest dwellers for value additions also requires micro finance apart from the institutional support. It was also observed that there is some gap between technology evolvment and extending it to the target group. Many appropriate technologies are just confined to research laboratories are at the most as demonstration units due lack of proper dissemination and access to credit for adopting such technology. Hence, extending micro financial assistance to the forest dwellers certainly gives an impetus for adopting appropriate technology for NWFP value additions. The exiting scenario with reference to prevailing micro finance practices in the study area in two states of India, namely, Madhya Pradesh (M.P.) and Andhra Pradesh (A.P.) are discussed in following para. The two blocks (small revenue segments) were covered are in these states.

Micro Finance Scenario in the study area of MP and AP

Table 1.1 Sources for micro finance of forest dwellers in the study area

Name of the range	Ghughari		Tamia		Araku and Paderu		Total	
	Score*	% of score	Score*	% of score	Score*	% of score	Score*	%
Moneylender	12	36	19	54	21	31	52	38
Banks/ Government	01	3	02	06	09	13	12	09
SHG/DWCRA group	20	61	07	20	24	35	51	38
Relatives and friends/others	0		07	20	14	21	21	15
Total	33	100	35	100	68	100	136	100

Score- Individual responses for a particular source for meeting micro finance requirement including multi responses.*

The major objective of the NGOs working in the study area like MP Vigyan Sabha, CARD etc is to facilitate the forest dwellers in availing the value added advantage in NWFPs through processing and marketing interventions. However managing individual forest dwellers in large numbers can create practical difficulties, hence these NGOs are promoting the concept of forming Self Help Groups (commonly called as SHG's or Samities) which is a collection of members (normally between 5 to 20). They are also encouraging the forest dwellers to source-out their micro finance requirements from the their own SHGs. The group is vested with autonomous powers and can take its own decisions.

Every group by principle, has a bank account of their own which is operated by the group leader. Normally every group has about minimum 1 or maximum of 2 group leaders, based on the size of the group.

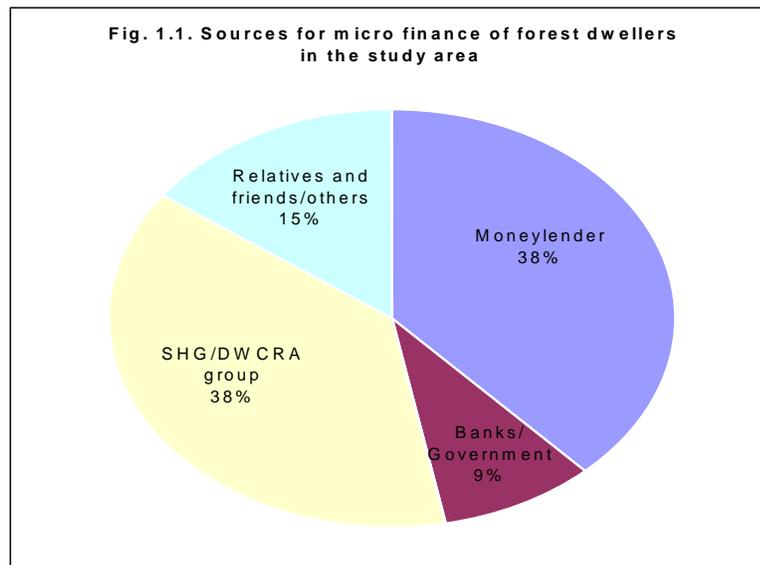
In SHGs, every member of the group is required to have regular savings on weekly or fortnightly or monthly bases. In Patalkot area, it was observed that the members of SHGs have daily savings, as they save the fixed amount from their daily earnings. The frequency of savings and group meetings may vary but are mandatory. Once these savings are regular, then depending upon the need of the members and quantum of savings, group gets into credit activity. In this fashion, the forest dwellers by forming SHGs, manages their own revolving fund to meet their micro finance requirements. However, catalytic support and guidance by NGO's and forest department officials is required for effective functioning. Thus, the NGO remains with the group from formation stage till it reaches the take-off level, which in case of forest dwellers may be bit long.

During the field survey, it was observed that NGO's and SHG's functioning have been able to cater primary micro finance needs of forest dwellers on a cost-effective basis.

The common characteristics of SHG functioning as collected *from various secondary sources* are narrated below:

1. The Self Help Groups usually creates a common fund by contributing small amount of savings on a regular basis.
2. SHG's evolve flexible systems of operations, often with the help of NGO's and manage common pooled resources in a legal manner.
3. Groups in the periodic (weekly/bimonthly) meetings consider loans requested.
4. Micro-Finance activity improved access of rural poor to financial services, both savings and credit.
5. Loaning is mainly on the basis of mutual need and trust with minimum documentation and without any tangible security.
6. As observed, usually the loan amounts are small, frequent and for very short duration's, and are mainly for unconventional purposes.
7. The rate of Interest varies from group to group, depending on the purpose of loan as well.

8. The rates of interest are often higher than that of banks but lower than that of moneylenders.
9. At periodical meetings besides collection of money, emerging socio-economic issues are discussed.
10. The SHG and NGO involvement as micro financing institution ensures that the tribal dependence on the moneylenders will decrease.
11. Micro-Finance can be a powerful instrument initiating a cyclical process of growth and development.
12. This could also help in strengthening poor families' resistance to external shocks and reducing dependence on moneylenders.
13. The predominance of borrowing for crop cultivation reflects support for meeting working capital needs.



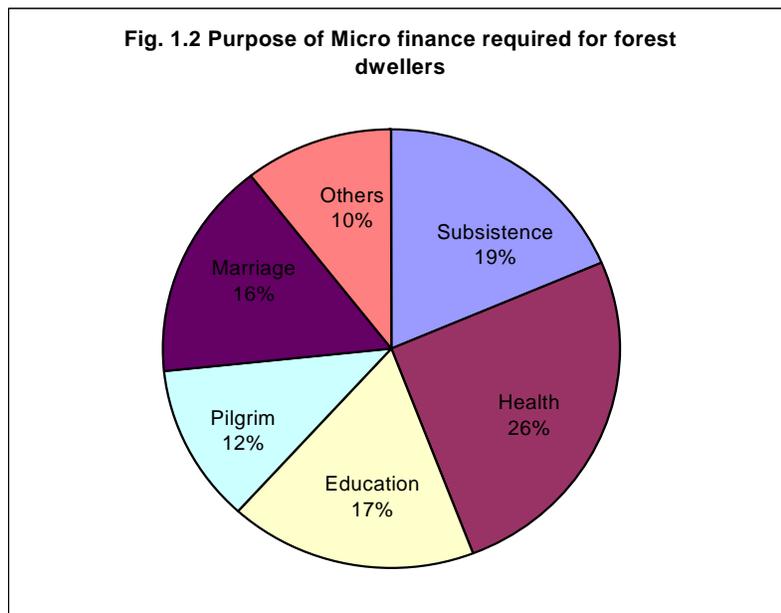
From the above table 1.1 and figure 1.1 it can be interpreted that, in Ghughari range, SHG is accounting for 61% of the total micro finance needs, followed by money lender accounting for 36% and the rest 3% is accounted from Banks/Government schemes. In Tamia range, moneylender is the major source of micro credit, accounting for 54%, followed by SHG and Relatives & friends/others 20% each and the rest 6% is accounting from banks/government schemes. In Araku and Paderu ranges in AP, DWCRA group is the major source of micro

finance accounting for 35%, followed by money lender 31%, relatives and friends 21% and Banks accounting only 12% of the total micro finance requirement in this area. In the entire study area, the SHG/DWCRA groups (The definition of SHGs has been discussed in the latter parts of this paper) combinely accounting for 38% share, money lender is also accounting for 38%, followed by relatives friends/others -15% and the rest accounting for 9% from banks/government schemes. It can be concluded that gradually the SHG/DWCRA groups are proving to be better a source to finance the forest dwellers' micro finance needs and thus paving an exit path to the moneylenders.

1.2 Purpose of Micro finance required for forest dwellers

Name of the range	Araku and Paderu	
	Score	% of Score
Subsistence	16	18.6
Health	22	25.6
Education	15	17.4
Pilgrim	10	11.6
Marriage	14	16.3
Others	9	10.5

(source: field survey 2002)



From the above table 1.2 and figure 1.2 it can be inferred that the major purpose of micro finance to the forest dwellers is for health purpose which is accounting for 25.6%, followed by subsistence accounting for 18.6 %, education accounting for 17.4% and marriage accounting for 16.3%. People also borrow for pilgrimage, accounting for 11.6% and other purposes like observing rituality etc. accounts for 10.5%.

Sources of micro-finance services

The different (www.apmas.org) sources of funds for savings and credit groups and their federations are:

- ◆ Banks (RRBs, Commercial bank rural branches)
- ◆ Government (through DWCRA, etc.)
- ◆ Apex Institutions (RMK, SIDBI, NABARD, HUDCO)
- ◆ Specialized Micro finance Institutions (FWWB, BASIX)
- ◆ Others (Relatives, local money lenders, etc.)

Banks: Banks were encouraged by NABARD to finance SHGs when it issued policy guidelines in February 1992. Several training programs were conducted for bank managers to explain the concept of SHG and motivate them to lend. Initially, bankers were reluctant to lend, as they felt that lending to SHGs without any collateral security was very risky. In 1995, the RBI appointed a working group on credit through NGOs and SHGs. This group issued various simplified guidelines for bank lending to SHGs directly as well in conjunction with NGOs. Since 1996, the momentum of bank lending to SHGs has considerably picked up in AP, which leads the country in this regard.

Bank financing to SHGs/NGOs is refinanced by NABARD. The interest rate by NABARD to banks has been 6.5%, from banks to SHGs 12% and from banks to NGOs, the interest rate has been 10.5%, with the NGOs expected to lend to SHGs at 12%. There is no restriction on lending rates by SHGs to members and usually they charge 24%. The spreads

of NGOs and banks are low and NABARD is being asked to allow a higher on lending rate by banks/NGOs to SHGs.

In AP, the banks have cumulatively financed Rs 20 crores to 9924 groups as on March 31, 1999. Bank linkage has substantially increased during 1998-99, Rs 14.4 crores was lent to 7779 groups. As per NABARD figures, the highest linkage took place in East Godavari district where 3,424 groups were given credit to the extent of Rs 8.9 crores during the last year. The second highest bank linkage took place in Ranga Reddy district: Rs 1.73 crores to 937 groups during 98-99, followed by Nellore with Rs 2.2 crores to 800 SHGs.

Micro Finance Requirement

As per our survey and observation, the credit requirement of the primary collectors is classified according to their landholding patterns.

Land-holding Size	% of Category of Landholding	Micro Finance Requirement as per the discussion with respondents*
> 10 Acres	Category III: 20%	A + B
5 To 10Acres	Category II: 18%	B + C
0 To 5 Acres	Category I: 62%	C

* People in the study area of M.P. borrow money for various purposes viz. Subsistence, NWFP value additions, and purchase of machine implements etc. which are classified into three different categories stated below for the convenience of making inferences.

Fig. 1.3 Showing Micro Finance Requirement Based on Landholding Pattern in Study area of Madhya Pradesh

Table 1.3 Codification for Purpose of Micro Finance based on landholding size

Purpose for which micro finance is required	Code
Fixed Capital mainly to purchase, agricultural implements, Machinery.	A
Working Capital for NWFP Processing.	B
Subsistence requirements	C

From the figure 1.3, it can be inferred that the category III primary collectors need micro finance for purchasing agricultural implements, machines, and working capital for NWFP processing, etc. which can be denoted as fixed (long term) capital requirements, where as category I primary collectors need micro finance for mainly meeting subsistence requirement. And category II looks far beyond sheer subsistence requirement and also need micro finance for working capital requirements for NWFP processing.

During the field survey it has been observed that the micro finance requirements has a relationship with the size of land holdings in general and specifically with forest dwellers. The size of land holdings influences the micro finance requirements of the people living in and around the forest. The higher the land holding size, the more amounts is needed for their different activities and purposes. The micro finance requirements of these people also based on the purpose. The research team has inferred from field observations that the category III people can afford to adopt appropriate technology at the village/community level and thus have a potential to venture into NWFP value addition significantly. Where as the category II people can think beyond mere harvest care and they can go for NWFP value addition by way of drying, cleaning, grading and processing up to some possible extent by imparting low cost technology. But category I, can strive to add value only with the help of their inherent skills and traditional human based technology (primitive technology) without any sophisticated technology.

Commercial lending (*Tiwari, et al.*) institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self-employed households is not stable regardless of its size.

A large number of small loans are needed to serve the poor, but lenders (banks) prefer dealing with large loans in small numbers to minimize administration costs. Side-by-side they look for the one with a clear title as many low-income households do not possess proper documents with regarding to the ownership rights of their assets except some deed sort of thing, which might have been taken from their ancestors. In addition bankers tend to consider low-income households a risk imposing extremely high information depicting the costs on operation.

Processing of NWFP for local markets i.e. with low value addition can be carried out in micro-enterprise units, which can be small, dispersed/ scattered, using primitive technology, with low infrastructure and requiring persons without training and that too on part time basis. In such situation cooperative institution could also be a viable proposition which has another advantage of using better technology and having better access to market. More-over cooperative can link production to a reliable/captive source of raw material supply from the members.

As per (www.gdrc.org) the survey, the key target group for micro-finance programmes for the micro financing institution and the micro enterprises is women. As it has observed that the best borrowers are poor women. As the regular financial institutions also started to take interest in the women borrowers. The proven positive impact on women's livelihood in of providing micro finance services to female entrepreneurs in the informal sector:

- i) Leading to higher income that will help women to better perform their reproductive role as brokers of the health, nutritional, and educational status of other household members,
- ii) Increasing women's employment in micro enterprises and in improving the productivity of women's income-generating activities, and
- iii) Enhancing their self-confidence and status within the family as independent producers and providers of valuable cash resources to the household economy.

Table 1.5 Awareness about SHG/ DWCRA groups and membership held

Name of the range	Number. of respondents	Awareness of SHG/ DWCRA Groups				Membership held			
		Aware		Not-aware		Yes		No	
		Num ber.	%	Num ber.	%	Numb er.	%	Num ber.	%
Gughri	30	24	80.0	6	20.0	11	37.0	19	63.0
Tamia	30	25	83.0	5	17	20	66.7	10	33.3
Araku and Paderu	32	28	87.5	4	12.5	24	75.0	8	25.0
Total	92	77	83.7	15	16.3	55	60.0	37	40.0

Source field survey -2002

From the above table it can be inferred that awareness amongst the forest dwellers in Araku and Paderu is high 87.5%, followed by Tamia 83.0% and 80.0% in Gughri. The overall total awareness about SHG/DWCRA Groups is 83.7%, hence it can be concluded that the awareness amongst the forest dwellers in the study area is very high. The membership held by the respondent forest dwellers in the study area is high in Araku and Paderu having 75% of the surveyed population, followed by Tamai with 66.7% and in Ghughari , it was the lowest 37.0%. The overall, total 60% of the surveyed population have membership. This shows a gap between awareness which is accounting 83.7%, but out which only 60% population having membership. The rest 23.7% who are aware about SHG moment but not yet become the members, efforts should be geared up to convert this awareness into membership by forest department, other government agencies and NGOs.

As observed by (Shetty .S. L., 2002) the group that the development of the banking institution has to be pursued with the promotion of the micro finance programme in the particular villages. Viability is difficult to achieve for institutions that provide credit to low-income groups only. By adopting group technologies, micro financial institutions (MFIs)

may greatly increase their outreach, particularly to low-income people; and that's too will be done cost-effectively.

In 1990's when MFI have been canvassed in official policies, considerable structural deterioration has occurred in the working of the banking system: rural bank branching has been neglected and credit-deposit ratios of rural branches have consistently declined.

Micro-Credit Delivery Models

The popular micro-credit models in India are basically two:

1. SHG Bank linkage Model
2. Grameen Model

In SHG Bank Linkage Model, first the interested members form the group (known as Self-Help Group). After six months of their operations, they can get the loans from Commercial Banks, known as linkages between SHGs and the Bank. The model was designed by NABARD through a pilot project in the year 1990-91 and proved to be a very successful model. This is an example of group landing. NABARD has formulated 3 sub models for SHG-Bank linkages, which are described as follows:

1. Linkage Models:
 - (a) NABARD-Bank-SHG
(Bank directly financing SHGs without invention/facilitation of any NGO)
 - (b) NABARD-Bank-SHG
(Bank directly financing SHGs with NGOs acting as facilitator. This is the most popular model)
 - (c) NABARD -Bank-NGO-SHG
(Indirectly to SHGs through on-lending to NGOs)
2. Eligible Institution: CBs/RRBs/SCBs/on behalf of DCCBs/SCARDBs

Under Grameen model, it is more of individual loaning, five members forms the group, then seven to eight groups form the center and number of center form the branch. The decision

making in case of Gramin bank is not de-centralized and always facilitated by the Bank employees. The Gramin bank models is basically a model of "Individual banking- Joint liability" model.

Now the third model is emerging which is the Cluster/Federation model, in which the Banks have linkages with the Federation or Cluster of SHGs, thus can reduce the transaction cost substantially. Since, they will be dealing with number of SHGs through Federation/Cluster and thus size of loan will be much higher which will reduce the transaction cost. However, this model is yet to get popularized and at present at evolving stage only.

Other models like DWACRA (Development of Women and Children in Rural Areas) and SJSY (Swarana Jayanthi Swarojigari Yojana) groups mainly animated by government agencies. Under these model the amount in form of loan or grant will be given to members of that group and in turn members of that group distributes the amount amongst themselves. The DWACRA model is existence the Andhra Pradesh part of the study (Vishkhapatnam district) and SJSY model is prevalent in Madhya Pradesh of the study.

Conclusion: Poor people require microfinancial assistance for subsistence, health etc. Major sources available for financing these needs includes moneylender/landlords, SHGs, etc The evolution of microfinance system has been proving to be result oriented and effective. The efforts should be geared up by forest department, other government agencies and NGOs to enhance awareness amongst the people who are not yet aware of the microfinance movement and convert the people who are aware of the microfinance movement but not yet become members of any group. The catalytic support and guidance by NGO's and forest department officials is required for effective functioning of SHGs. Thus, the NGO should remains with the group from formation stage till it reaches the take-off level, which in case of forest dwellers may be bit long. The amount and purpose for micro finance varies with landholding size.

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