Asia Workshop on Next Generation Participatory Monitoring and Evaluation
9-11 November 2005, PRIA, New Delhi, India

Why Microfinance needs Participatory Impact Assessment: Case Analysis of SHG-Bank Linkage programme in India

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The paper stems out of author's decade long experience in the field of rural finance and the objective of the paper is to bring the focus back to the primary stakeholder i.e. client in operational paradigm of microfinance in India. The issue assumes significance in view of the fact that emergence of microfinance is directly related to pitfalls of state directed rural financial paradigm followed in India since independence and it is imperative that it stays clear of those proven pitfalls. The spread of microfinance has given a ray of hope in extending sustainable financial services to the rural poor and the task ahead is momentous in as much as 40 to 45% of population still remains out of reach of institutional financial services. As per ADB[1], around 95% of some 180 million poor households in Asia-Pacific region are the target market for microfinance.

At a time, when microfinance is being hailed as the new mantra for provision of sustainable financial services to rural poor and is poised for a quantum jump, the paper aims to examine the basic tenets of microfinance as opposed to supply led rural finance paradigm, critically evaluate the current parameters of success and offer alternate views to increase its efficiency based on empirical evidence. It is felt that from a policy angle, time is ripe for a mid term assessment of objectives and achievements of microfinance in India, so as to have correctives in place, before a point of no return is achieved.

In as far as SHG-Bank linkage model of microfinance has the major market share in India; the paper will limit the reference to microfinance in India to this model.

1. Emergence and Operational Paradigm of Microfinance in India

Confronted with high incidence of poverty coupled with predominantly rural population, eradication of rural poverty has remained the core focus of Indian policy makers. The Development policy pursued in India for poverty alleviation since independence, has centered around the twin instruments of direct government intervention in the form of labor market interventions through direct subsidy/wage employment programmes and credit market intervention

[1] Toward an ADB Microfinance Development Strategy, ADB, 1999

through extension of financial services to rural population through banks and cooperative credit institutions.

Flowing out of this broad policy objective, the Rural Finance paradigm has been driven by supply oriented approach of credit expansion through government owned or controlled Rural Finance Institutions (RFIs). Acceptance of the fact that extent of poverty depends upon the ownership of productive assets and access to gainful employment, institutional credit has been reckoned as an effective instrument of poverty alleviation. However, this broad paradigm of Rural credit also went through evolutionary process. The various stages in the evolution, with their operating paradigm and institutions are broadly indicated as under:

1950s to 1960's
Focus on overall growth and "Trickle down" approach.
Institutions – Private Commercial Banks & Cooperatives

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1970s to 1980s
Targeted credit at concessional rates to desired sectors of economy.
Poverty Alleviation Programmes
Nationalisation of Private banks.
Specialised institution- RRBs/NABARD

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1990s to till date
Financial Sector liberalisation
Removal of interest rate caps
Broadening the ambit of Priority sector lending.
Alternative means - Microfinance

The strategy enabled the establishment of a substantial network of RFIs and substantially reduced the share of reliance on informal sector of finance. It has ensured that there is at least one retail credit outlet for a population of 12800[2] and the access of rural poor to formal credit increased from 7% in 1951 to 66% by 1991[3].

However, the expansion of government led rural credit along with directing concessional credit to the priority sectors of economy also gave rise to major weaknesses in the banking system. Though, each agency like Commercial Banks, Cooperative Banks and Regional Rural Banks has agency specific problems, certain common trends became visible across the banking sector during early 1990's. The major ones being:

(a) high incidence of loan default leading to increase in their risk cost and reduced ability to recycle funds;
b) high transaction cost in retailing rural credit, yet lending at concessional rates leading to insufficient financial spread;
c) inability to meet the consumption/varied needs of poor in the absence of customised products and services;
d) insistence on collateral in lending, limited the coverage of poorest of the poor, who have little to offer as collateral;
e) the informal sector continuing to have a significant share in supply of rural credit.

The problems looked twofold, the institutional structure was neither profitable in rural lending portfolio nor serving the needs of the poorest.
In short, it had created a structure, "quantitatively impressive but qualitatively weak", especially in case of Regional Rural banks and Cooperative Banks.

Parallel to the problems/issues confronting the institutional credit structure in India, there was a worldwide growing appreciation of the success of microfinance services in reaching the poor and enabling them to escape the poverty trap. Micro finance has been defined as "provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and micro enterprises". Within this broad definition, there are varying types of microfinance models adopted in different countries. The "Grameen Bank" model of microfinance started by Prof.

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[2] Scaling up Microfinance for India's rural poor, World Bank/NCAER, 2005
[3] All India Debt & Investment Survey, RBI

Mohammad Yunus in Bangladesh in late 1970's is generally considered to be the pioneer of this concept.

In India, the existence of informal groups of poor in the rural areas, either spontaneously or promoted by NGOs, with the objective of pooling their meager resources to meet their emergent credit needs provided the basic ingredient. These groups were cohesive, had very high recovery rates, democratic set up and predominance of women members. However, exclusive reliance on their meager savings and thus low capital base prevented the members from going beyond smoothening of consumption expenditure. <u>It was felt that the relationship between the financial resources of the banking system and the viable operations of these groups could be mutually reinforcing</u>. The pilot project of linking these group of poor people with banks was launched by NABARD in 1992, with the objective of promoting and financing 500 groups across the country.

The programme has gained immense momentum and till 31 march 2004 - 1,079,091 SHGs have been linked to banks with credit support of Rs. 39.04 billion (US $867 million), thereby enabling about 16 million poor households to gain access to formal banking system[4].

2. Operational Framework and Performance Indicators (PI) being used in SHG-Bank linkage programme

The strategy involves forming ***SHGs***[5] among the poor, encouraging them to pool their thrift regularly and using the pooled thrift to make small interest bearing loans to members and in the process learning the nuances of financial discipline. Bank credit to such groups follows after members have inculcated the habit of savings and acquainted themselves with the small loaning process. The linkage of the group with the bank is facilitated in most cases by an NGO called SHPI (Self Help Promoting Institution) and in some cases directly by banks.

[4] NABARD website (www.nabard.org)

[5] A SHG is a group of about 20 people from a homogeneous class, who come together for addressing their common problems. First, they are encouraged to make voluntary thrift on regular basis and internal lending out of the pooled resources. The initial process inculcates habit of thrift and appreciation of recycling the limited resources. On satisfactory initial stage, banks are encouraged to make loans to SHG in certain multiples of the group savings and without any collateral.

Banks are coming forward willingly to take up microlending under the SHG-Bank linkage programme, basically on account of good repayment rate. NABARD as the Apex bank driving the mf movement in India, has set up a goal of reaching 5,85,000 new SHGs during 2004 to 2007. Govt. has also laid special emphasis on expansion of microcredit and the same is annually emphasised in the Union Budget. Thus, institutional microfinance is one of the main strategy for extending credit/financial services to the hitherto excluded segment of society.

The entire mf movement since its beginning has been ideologically split between "Poverty lending approach" and "Financial Systems approach". Though, the debate is more on "means" than "ends", the basic assumptions and operating paradigm are significantly different. The basic underpinning principles of the two approaches are as under:

PRINCIPLES & POLICIES

Poverty Lending Approach
1. Poor can't afford market rates.
2. Need of services like training, health to supplement credit.
3. Mobilisation of savings not a Core principle.
4. Donor/Government funds required.

Financial Systems Approach
1. Poor can afford market rates.
2. Focus on full cost recovery and savings.
3. Institutional sustainabilty as the core principle.
4. Government role limited to Regulation.

The fundamental arguments of sustainability camp in favour of commercial microfinance has been the fact that the vast unmet credit demand cannot be met by subsidised donor or government funds and the fact that most poor households in developing countries already pay high rates of interest on their borrowings from informal sector.

Marguerite Robinson[6] illustrates the point "credit subsidies to economically active poor – who could make good use of commercial credit – prevent them from having widespread access to available loans because subsidised loans are usually rationed" and goes on to say "Microfinance demand can be met on a

[6] The Microfinance Revolution, Marguerite Robinson, 2001

global scale only through the provision of financial services by self sufficient institutions".

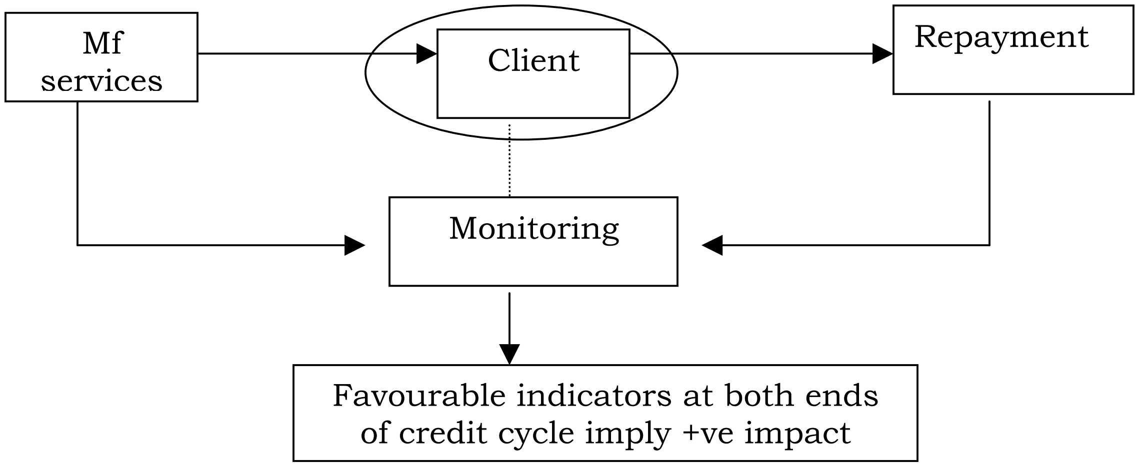
The origin of financial systems approach can be linked primarily to the Agricultural Economics Department of Ohio State University and has a strong neoliberal underpinning. Over the years, this has become the dominant thought and has been propounded by International agencies and its influence can be seen in the SHG-Bank linkage programme also.

The core principles of this approach are full cost recovery, institutional self sustainability and demand driven outreach and the same flow out of past negatives of supply led subsidized credit approach. The success of SHG- Bank linkage programme documented by NABARD and other agencies cite the dramatic increase in coverage, market related rates of interest-no subsidy, exceptionally high repayment rates and increased participation of banks in the programme, who now perceive lending to poor as sound business proposition. As per the latest figures[7], the cumulative number of SHGs credit linked to banks stands at 16.18 lakh as at March 2005, with 90% of women groups and recovery rate of 95%.

3. Critical Issues – uncovered

Going by the above, the situation looks very rosy and can be aptly termed as a "Win-Win" proposition, where both institutions and poor benefit. As seen earlier, the influence of institutional and commercial approach has ensured that the Performance indicators being talked about relate to a typical Top-down institutional approach, while assessment of poverty outreach or socio economic impact on clients has been left either to one-off random impact assessment by institutions or is being taken as implicit in design features and high recovery rate. On the design side, it is being assumed that SHG-Bank linkage programme by its operational feature targets the poor and good recovery rates imply productive use of credit, resulting in economic benefit to clients.
The approach can be graphically shown as under :

[7] NABARD Annual report, 2004-2005



This fact is also clearly stated by Simanowitz (2003) as part of the occasional paper under the aegis of ImPact[8] programme, wherein he says "sophisticated rating and assessment systems have been developed which help donors and managers assess the efficiency and cost effectiveness of MFOs, and to make necessary changes to improve performance. Poverty outreach, however, is a neglected area. Although it was a key motivation for microfinance, poverty is often an implicit rather than explicit objective." He goes on to say "Poverty outreach and poverty impact are almost never considered amongst the performance criteria for judging a well-functioning organisation…". In most cases, impact assessment or monitoring poverty outreach remains a occasional one off exercise to bolster the claims.

The critical issues left uncovered/barely touched or assumed as given without any comprehensive empirical evidence in the SHG-Bank linkage programme relate to:

(a) Absence of any comprehensive methodological framework/design to assess the Poverty Outreach and impact of mf programmes in terms of economic lives of customers on a continuous basis;

[8] ImPact is a global action research programme designed to improve the quality of microfinance services and their impact on poverty. The programme is a collaboration between 30 MFOs in 20 countries and a team of academics from UK universities of Bath and Sheffield and IDS, sussex.

(b) Poor need credit and good repayment rate implies productive use of credit;

(c) Design feature of the programme ensures poverty outreach.

The author's field research on the subject however found little evidence to support the claims/assumptions and the empirical realities necessitate a relook at the operational strategy.

The whole issue can be seen from two aspects – Poverty outreach and Socio Economic Impact. The SHG-Bank linkage programme has no explicit benchmarks to identify/include the poor/unbanked, except for general guidelines to participating agencies on identification of target group and factors to be seen like previous thrift and homogeneity of members. The issue gets further compounded at the ground level on account of operation of subsidy linked SGSY scheme by Government which also adopts the group approach. The SGSY scheme includes Below Poverty line (BPL) families within its ambit and the provision of subsidy to such BPL groups has created a situation, wherein BPL families are reluctant to come under non subsidized SHG-Bank linkage programme. Despite the obvious limitations of available subsidy vis-à-vis the number of BPL families, even the field functionaries of banks and govt. agencies were found to harbour the notion that only Above Poverty Line (APL) families should be included in SHG-Bank linkage programme. The mindset is so ingrained, that even the official govt. communications talk about BPL and APL or SGSY and Non SGSY groups. At this juncture, it would be worthwhile to mention that the guidelines for identification of BPL families too suffers from severe limitations of not being context specific, but as the same lies outside the scope of paper, the issue is not being dealt with in detail.

In the current context, the poverty outreach is thus implied indirectly through design feature of microcredit and a lot depends on the discretion of group forming agency. World over, it is being increasingly recognized the micro credit schemes by itself do not reach the poor. Simanowitz with Walter aptly say " This experience demonstrates that MFOs do not automatically reach the very poor with conventional design features such as small loan sizes, and that there is a need to explicitly consider the needs of the poor and very poor…."

Most microfinance programmes however, have certain explicit benchmarks to ensure that the programme is reaching the intended beneficiaries. Some major ones can be seen as under :

Mf Programme	Poverty Outreach Measurement
BRAC, Bangladesh	Targeting through land holding and occupation
PRIZMA, Bosnia-Herzegovina	Poor and low-income women and their families
CARD, Philippines	Housing, food security, education and assets. Means test form to screen clients on entry

On impact side, the focus on institutional sustainability and Top-Down approach has relegated the impact measurement to either a one–off exercise or an assumed byproduct of loan disbursement and repayment rates.

4. Why do we need PIA in microfinance

With regard to the SHG-Bank linkage programme, we have seen above that the critical issues being ignored relate to Poverty outreach and impact measurement on a continuous basis. The question is how can microfinance benefit the poorest if we don't know who the poorest are? How can we say we are reaching the poorest if we are not measuring this? And how can we call the programme a success, if we do not know the needs of the group members and the related aspect of measuring impact in the absence of knowledge about where clients start?

The resolution of assessing poverty outreach and impact measurement may appear to be a simple case of integrating specific entry targets and MIS for measuring rise in incomes during programme period. Infact, many microfinance programmes use them and are also propounded by international agencies like CGAP and World Bank.

The basic question relegated to the background in such an approach is that while the origin and operational paradigm of microfinance rests on documented failures of supply led and delivery of standardized products to the poor, the adoption of external benchmarks also falls into same folly. In the process, the basic fact of context specific and people oriented development is lost. Ease and simplicity of operation for the implementing agencies leads to a situation, wherein the poor are grouped as a homogenous lot and having similar developmental aspirations. Such an approach ignores the fact that development involves a complex system of interrelationships between people, socio economic processes and local conditions. Moreover, we have to realize that the primary stakeholder i.e. clients are not relegated to the background in pursuit of target oriented approach. The past failures clearly indicate that perceptions of the people are central to sustainability of any development intervention.

The importance of adopting a participatory approach as opposed to pre fixed benchmarks can be illustrated with reference to the two central points of microfinance, i.e. Poverty outreach and impact measurement.

Microfinance being an approach to extend financial services to the unreached poor, there can be no two views on the importance of knowing the target group. If the programme is targeted for the poor, or vulnerable sections of society having limitations in approaching the credit institutions, the common approach is to use benchmarks/eligibility norms like income level, housing etc. or more sophisticated tools like Poverty Assessment Tool (PAT) propounded by CGAP. While such an approach is better than having no benchmarks, its limitations become obvious if the same is to be applied uniformly or even with minor variations across the country. The critical issue in such an approach is emphasis on the concept of absolute poverty over relative poverty. It is obvious that perceptions of poverty and vulnerability differ across regions and cultures based on prevalent norms and development of the area. For ex. while in Western Maharashtra a household with landholding of 4 Acres may be considered as poor, the same may not hold true in Orissa. Neela Mukherjee[9] forcefully argues " But it is of great significance as to who defines such criteria and indicators of well being given the functioning of an individual and the complexities of rural livelihoods".

During author's field studies, participatory methods were used with existing group members to identify the vulnerable/needy sections of village and to my surprise the results varied from village to village and in the process it was discovered that the SHG-Bank linkage programme is not necessarily reaching the needy. In the village of Methewade in Sangola Block of Solapur District, the group members indicated physical disability, having no family and house as the determinants of most needy, while the SHGs formed had almost negligible coverage amongst such sections. The importance of using the local people's perceptions through participatory process in identification of target group, becomes significant in the light of limited resource availability. It not only can lead to better targeting but also instill sense of ownership in the local population.

[9] Participatory Rural Appraisal, Neela Mukherjee, 1994

Coming to the issue of impact measurement, the common approach is to have a set of well defined criteria like velocity of internal lending, repayment rate, rise in income/assets etc. Again without completely denouncing this, the empirical experience of author suggests gross deficiencies in these parameters. The common underlying assumption behind such parameters is belief in the linear cycle of credit, economic activities, rise in income/assets, repayment out of additional income as the panacea for development. The central role assigned to credit off take as opposed to local needs not only ignores the ground realities, but also risks the danger of leading the clients into debt trap. Influence of local environment plays such an important role in needs of group members that any approach which ignores it, may be counterproductive in the long run. One such example from author's field experience is recounted here to illustrate the point. Methewade village in Sangola Block of Solapur district in Maharashtra is rural hamlet of around 255 households. The author conducted needs assessment, livelihood analysis and dream map participatory exercise with the group members and it revealed a wide gap between needs of people and the emphasis on loaning placed by implementing agencies. The group members were unanimous that the most pressing needs relate to improving availability of water, putting an end to liquor vending in the village and availability of basic health facilities. The villagers do not possess any specific handicraft skills and have been traditional farmers and their vulnerability has been accentuated on account of lack of irrigation in the area. In such a scenario, the bank credit taken by them is used for consumption purposes and repaid later by curtailing expenditure and working overtime as agriculture labour. A clear case of counterproductive development and a shining example of knowing that microfinance is not a stand alone activity. Numerous such examples can be recounted to buttress the point. It also shows the fallacy of adopting a uniform credit centric approach and challenges to public policy in adopting a more context specific participatory approach to microfinance. The inconsistencies and flaws in development policy, in spite of plethora of stand alone programmes are not being discussed, being outside the scope of this paper.

Adoption of participatory approach can make microfinance interventions more relevant as also ensure long term sustainability inasmuch as the clients identify with the objectives and work towards it without much external help. However, this approach is hardly visible and is mostly discounted as being too complicated, difficult to monitor, absence of uniform quantifiable parameters etc. Simanowitz[10] illustrates the point aptly "Participatory approaches have not

[10] Making Impact Assessment more participatory, Anton Simanowitz, Im-Pact working paper no. 2, june 2000.

featured prominently within "minimalist" microfinance, nor have they been widely used by MFOs for impact assessment. Partly this results from the lack of background that most microfinance practitioners have in participatory methods, and partly due to a minimalist approach that does not give space for debate with clients about what services are provided and in what way. Financial services are typically delivered by organisations striving for financial self-sufficiency and client control of services or lengthy research may damage this goal".

This brings us to the critical questions – if the current approach does not take into account the aspirations and needs of clientele, how can we claim microfinance as a flexible and demand oriented paradigm? and what should be the aim of development interventions – ease of operation for agencies or taking into account the complex relationships governing the life of rural poor? in short, we have to choose between time bound target oriented microfinance and sustainable microfinance for lasting impact. Going by past experience, we hardly have the choice. Longer we continue to follow the Top-down uniform models, farther are we going from sustainable and effective development. It is high time, the issue is accorded the importance it deserves and public policy pays adequate attention to it, lest we risk the danger of lapsing into follies of past interventions. Microfinance has raised hopes among development community, but if these issues are not addressed at this juncture, there is high probability of wasting the opportunity. Successful microfinance is also being related to achievement of Millennium Development Goals (MDG), but the challenge as per Martin Greeley[11] is "The challenge for the industry is to manage scaling-up without losing sight of its social purposes".

Briefly about methods/tools, which can be used to make microfinance participatory, the biggest limitation to uninitiated is that there is no standardized tool kit, which can be prescribed. If it had standard methods, it would be no different from the Top-Down approach. Lot depends on the relevance of issue, local context and the comfort level of clients with methods and excellent literature on Participatory Methods is available. The Im-Pact programme[12] in

[11] Microfinance Impact and the MDGs: Why we need Social Performance Management, Martin Greeley, 2005, Paper presented at Microfinance India Conference.

[12] ImPact is a global action research programme designed to improve the quality of mf services and their impact on poverty. The Programme is a collaboration between 30 MFO's in 20 countries and a team of academics from UK universities of Bath, Sheffield and IDS, Sussex.

particular has come out with exhaustive papers on use of participatory methods in microfinance.

For sake of illustration, the author during his field study used the following methods for specific purposes:

Method@	Used for
Social Mapping, PWR	Poverty analysis
Livelihood Analysis	Analysis of critical issues/concerns
Problem ranking	- do-
Dream Map	Needed intervention
Impact diagram/FGD	Measuring impact

@ The above methods are only illustrative

5. Challenges and Limitations of using Participatory Methods

If this microfinance intervention is to be made people and context specific using participatory methods, the biggest challenge would come in convincing the international and national agencies, who are accustomed to look through the prism of quantitative, target and time oriented interventions. It is to be realized that when interventions deal with complex realities of life in a dynamic interface of social and economic capital, there can be no fixed targets or pre decided norms of success. Mileposts are necessary to judge the progress but we must avoid the error of focusing on milepost and avoidance of actual journey. Increasingly the microfinance movement in India is drifting towards this approach with adoption of yearly targets and talk of covering a specific no. of households by a certain time. The believers in participatory and democratic development have to see this as a challenge and build consensus and induce attitudinal changes.

At a micro level, the challenges to this approach lies in the fact that participatory methods also demand a different level of skill set from field staff, vastly different from routine loaning and deposit transactions. It is here that role of organizations like PRIA and NGOs becomes critical in capacity building of bank staff. Training institutions of banks also need to gear up to reorient their training modules. The fear of complexities and time investment in use of participatory methods needs to be replaced with the joy of bringing about "real" development. These skill needs, besides adequate training would place a greater level of responsibility on field staff for facilitating the gathering and analysis of impact information. These changes would pose challenges to the organisational systems for assessing performance, which have to move from quantity to quality. It has to be understood that positivist “scientific” impact assessment is not necessarily more objective that PIA, and it is not necessarily more rigorous, it depends to a large extent on what it chooses to measure and include or exclude in the process.

Simanowitz[13] sums up the issue aptly “However, whilst it is true that PIA is unlikely to have a clear boundary between “objective” assessors and beneficiaries, there are many aspects of the design of PIA that can ensure rigorous results. A key aspect is the use of “triangulation” where questions are addressed from a number of perspectives, and the “truth” is arrived at through the combination and comparison of data from different sources – this can include quantitative data”.

It is more a question of mindset and approach which brings objectivity and rigour, rather than a blind application of either scientific or participatory methods.

6. Conclusion

The Indian economy at present is at crossroad, on one hand, the optimists are talking of India being among the top 5 economies of the world by 2050 and on the other is the presence of 260 million poor forming 26 % (1999-2000) of the total population[14], of which 193 Million reside in rural area. The enormity of the task can be gauged from the above numbers and if India is to stand among the comity of developed nations, there is no denying the fact that poverty alleviation & reduction of income inequalities has to be the top most priority. India’s achievement of the MDG of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on successful poverty alleviation strategy.

In this backdrop, the impressive gains made by SHG-Bank linkage programme and other variants of microfinance in coverage of rural population with financial services offer a ray of hope. However, the empirical evidence suggests that increasingly the deficiencies of past ‘one hat fits all” approach in rural development are seeping into the programme. The significance of bringing the focus back to “people” from “institutions” and adoption of localized people centric approach can hardly be overemphasized. These issues are central to the

[13] Making Impact Assessment more participatory, Anton Simanowitz, Im-Pact working paper no. 2, june 2000.
[14] Planning Commission- Budget Approach paper based on calorie intake criteria

current Indian context as sole focus on institutional sustainability may slowly reduce the entire microfinance movement to a numbers game.

The adoption of Bottom-up participatory approach presents significant challenges in reorienting the mindset of policy makers and nurturing a different skill set in field workers of implementing agencies.

Hope lies in the fact that challenges will make the journey more rewarding for practitioners as well as clients.