



Microfinance for community development, poverty alleviation and natural resource management in peri-urban Hubli–Dharwad, India

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ABSTRACT This paper reports on the findings of a study of a microfinance and community mobilization initiative in six villages in the peri-urban zone of Hubli–Dharwad in Karnataka state, southern India, where a number of self-help groups established by two NGOs were studied over a three-year period (2001–2004). Despite deliberate targeting of the poor and very poor sectors, their representation in the self-help groups was found to be no different from their proportions in the populations of the villages. (Targeting of women was more successful, with 64 per cent of members being female.) However, the poor and very poor were more actively involved in microcredit than members of the other wealth classes. Over the life of the project, the poor moved above the state poverty level and their household savings increased by 647 per cent. More than 77 per cent of the funds mobilized through this programme were raised through self-help group subscriptions and a further 14 per cent came from linkages with banks. Findings point to the success of the NGO-mediated self-help group model of community mobilization and microfinance provision relative to other models.

KEYWORDS income-generating activity / microcredit / non-government organization / self-help group

I. INTRODUCTION

This paper describes a programme of community mobilization among the peri-urban poor in six villages located around the twin city of Hubli–Dharwad in Karnataka state, southern India. Starting in 2001, community mobilization was facilitated by two indigenous NGOs (India Development Service and BAIF Research and Development), and research was conducted by two academic institutions (the University of Agricultural Sciences, Dharwad, and Bangor University in the United Kingdom). The research was part of a series of linked research projects funded by the UK Department for International Development that commenced in 1997.

Hubli–Dharwad lies between Mumbai (Bombay), 600 kilometres to the northwest, and Bangalore, 420 kilometres to the southeast, and is linked to both by a major railway and a national highway, the NH4. The two city centres are 20 kilometres apart, although the space between them is rapidly being filled with building development. Their total population in the 2001 Indian census was 786,018. Dharwad is an academic and administrative centre, while Hubli is a railway junction and is more industrial in nature. Hubli also possesses a small airport, with daily scheduled flights to Mumbai and Bangalore.⁽¹⁾

The six villages selected for inclusion in the project varied in terms of their size, proximity to the city, accessibility and natural resource base (Table 1). Only one (Mugad) had experienced any appreciable NGO community development prior to commencement of the work described here, and in the remaining five, community mobilization was started *de novo*. All six villages still had a significant degree of agricultural activity, including Gabbur, which was officially administered by the Hubli-Dharwad municipal corporation. The remaining five villages fell under the jurisdiction of Dharwad district *Zilla panchayat*, the rural administration, and either had their own village council (*gram panchayat*) or were members of a shared council. All villages were connected to the city by bus services that ran at least hourly, and there was a considerable degree of daily commuting for work or other money-making activities. In composition, all the villages apart from Daddikamalapur had a range of Hindu castes and a significant minority of Muslims. Daddikamalapur was formed by a group called the *Gowlies*, who had migrated there sometime in the nineteenth century and who speak their own north Indian dialect. They specialize in dairying and, particularly, in the informal marketing of dairy products.

II. THE PROJECT

The approach taken by the two NGOs was to work with the poor and establish self-help groups (SHGs or *sangha*) as the primary means of community mobilization; the NGOs posted community officers to live in

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TABLE 1
Characteristics of the six study villages

Village name	Location	Population (2001 census)	Official status	Characteristics
Channapur	13 km southwest of Hubli	1,388	Rural	Medium-sized, poor village; high levels of illiteracy; low agricultural potential; least accessible of the project villages, 3 km from surfaced road.
Daddi-kamalapur	8 km west of Dharwad	592	Rural	Small village settled by the <i>Gowlie</i> people, who specialize in the production and marketing of milk; good access to the city, otherwise no facilities.
Gabbur	3 km south of Hubli	511*	Urban	Unofficial settlement falling within the city boundary but with distinct agricultural features; poor facilities; notable for wastewater-irrigated farming and dairying; good access to Hubli.
Kotur	12 km northwest of Dharwad	3,919	Rural	Large village lying close to NH4 and an industrial zone.
Mandihal	12 km west of Dharwad	1,345	Rural	Medium-sized village with many stone quarries; located on a good road to Dharwad.
Mugad	10 km west of Dharwad	4,696	Rural	Large village with fair facilities; good access to Dharwad; extensive previous NGO community development.

*Not a separate census district; population recorded by project staff.

Natural Resources Research Programme (Peri-urban Interface System) funded by the UK Department for International Development (DFID). The views expressed in this paper are not necessarily those of DFID.

1. More background on the location can be found in other publications by members of the same research and development team. See Halkatti, M, S Purushothaman and R M Brook (2003), "Participatory action planning in the peri-urban interface: the twin city experience, Hubli-Dharwad, India", *Environment & Urbanization* Vol 15, No 1, April, pages 149–158; also Bradford, A, R M Brook and C S Hunshal (2003), "Wastewater irrigation in Hubli-Dharwad, India: implications for health and livelihoods", *Environment & Urbanization* Vol 15, No 2, October, pages 157–170; and Brook, R M, S Purushothaman and C S Hunshal (editors) (2003), *Changing Frontiers – the Peri-Urban Interface, Hubli-Dharwad, India*, Books for Change, Bangalore, India, 146 + xii pages.

2. Snow, D R and T F Buss (2001), "Development and the role of microcredit", *Policy Studies Journal* Vol 29, pages 296–307; also Thorp, R, F Stewart and A Heyer (2005), "When and how far is group formation a route out of chronic poverty?", *World Development* Vol 33, pages 907–920.

the villages. In Mugad, where SHGs had been established previously, the NGO community officers encouraged members of poor households to form groups, either male or female. In the other five villages, due to the strong urban influence, there was some doubt about whether it would be possible to establish SHGs and, initially, there was a considerable degree of suspicion among villagers. To improve the level of trust, the NGOs arranged events of common benefit to the villages, such as a livestock vaccination "camp". The NGOs then arranged to take some of the villagers to nearby rural villages where they had successfully facilitated the formation of SHGs in previous programmes, so that they could talk to their peers about their experiences of SHG membership. Following this, in every case, SHGs quickly formed in the five project villages. Between the beginning and the end of the project, (October 2001 to September 2005), 45 SHGs were formed across the six villages, with 600 members overall, and an average membership of 13 or 14 and a maximum of 20. During the project period, one SHG ceased to operate, as some members migrated away for work and others joined other groups.

Each SHG was properly constituted, with a chair and a committee. Where there was no literate member, a literate person (usually a relative or a person with some association with a member of the SHG) was identified to act as recorder and bookkeeper. The community officer trained the SHG on how to operate the group, keep records and accounts, and manage conflict avoidance and resolution. Each group acted as what is known in the microfinance literature⁽²⁾ as a ROSCA (Rotating Savings and Credit Association), where at every weekly meeting each member would pay a subscription, usually Rs 10 (approximately UK£ 0.13), which was deposited in the SHG savings account.

III. METHODOLOGY

The data presented in this paper were collected from 18 (a 40 per cent sample) of the SHGs across the six villages over a three-year period from November 2001 to October 2004. The sample comprised 243 members and represented 221 households, as only a small minority of households had more than one member represented in the sample. Fifteen of the sample groups were for women and three for men, and 27 per cent of the membership of the SHGs surveyed were male, with men's groups tending to be larger than women's (even so, male groups were slightly under-represented in the sample).

Each SHG kept books with details of saving deposits, withdrawals, repayments and purposes of the loans taken. In addition, data on livelihood strategies were collected by a member of the research team, when visiting each group. As each village had been chosen for the project because of its distinct features, statistical comparisons between villages were not conducted.

This paper focuses on differences between wealth classes and the effects of easy availability of microfinance upon livelihood strategies. Data on household characteristics, occupations, uses to which loans were put, and changes arising from SHG membership and availability of easy microcredit were collected at group meetings, on those occasions when a member of the research team was present.

IV. SELF-HELP GROUPS: WEALTH AND LIVELIHOOD CHARACTERISTICS

During the period of SHG establishment, a series of participatory wealth assessment focus groups were held in each village to determine the number of people falling into each of the following nominated wealth classes: rich, higher-medium, lower-medium, poor and very poor. These exercises were conducted with a wide cross-section of the community, and they allocated each household to one of the five classes according to criteria of land holding, type of house, capital asset ownership, earner to dependent ratio, and occupation. In the two larger villages, these exercises had to be repeated in different locations, where the respondents were familiar with the households being classified.

Typical household criteria across all six villages for inclusion in the very poor category were as follows:

- they were landless or had very small land holdings (typically 0.2 hectares), often of unproductive land;
- they did not own a house and so lived in rented or government social housing;
- their housing was generally small (typically 25–50 square metres);
- they had irregular unskilled work such as agricultural labour or construction work;
- the earner to dependent ratio was low;
- they included more widows and elderly people, many female children and children with physical or mental handicaps;
- they often displayed such “bad habits” as gambling or excessive alcohol consumption; and
- they had large debts.

Typical characteristics of the poor households were as follows:

- they had a regular although low income from agricultural or unskilled labour;
- they had their own low-paying business (carpentry, tailoring, bangle selling) but were still just about able to meet the family's needs;
- they had small land holdings (0.5–1 hectares); and
- they owned a small house, but often housed many relatives.

Typical characteristics of lower-medium households were as follows:

- they had regular semi-skilled work or their own business, maybe a pension holder, and often more than one family member was working;
- they usually owned 1–3 hectares of land, sometimes poorer land within the village;
- they might own various livestock; and
- they might have many children or other dependents.

Typical characteristics of the higher-medium households were as follows:

- many members of the household had salaried jobs such as government employment, a skilled trade or a thriving small business;
- they owned 2–5 hectares of land, often with a borewell or some other means of irrigation;

- they owned various livestock that they could lease out (e.g. oxen for ploughing); and
- they owned a large house or maybe more than one house.

Typical characteristics of the rich households were as follows:

- there were several earners in the household, with professional employment, a skilled trade or a successful business;
- they owned between 3–10 hectares of land in the most productive areas of the village, often with irrigation;
- farms might be semi-mechanized with a tractor, trailer, borewell, threshing machine, car or lorry;
- they owned several oxen and/or buffalo; and
- they owned a large house or maybe more than one house.

These participatory wealth assessment focus groups determined that on average, out of the 2,114 households present in the six villages, 65 per cent met the criteria for being either very poor (44 per cent) or poor (21 per cent). Although the NGOs deliberately targeted the poor in community mobilization, 15 per cent were in the lower-medium and 10 per cent were in each of the higher-medium and rich classes. With the exception of Gabbur village, the ratios of the five wealth categories to each other were fairly similar across villages. Gabbur had a lower proportion of very poor households, for reasons to be explored below.

Among the 18 sampled SHGs, 7 per cent of members were classified as being in the rich category and 11 per cent in the higher-medium group (Figure 1). In most cases, wealthier participants were either relatives of other members, and were often included because of their literacy or book-keeping or other useful skills. For the lower-medium, poor and very poor categories, the respective proportions were 22 per cent, 21 per cent and

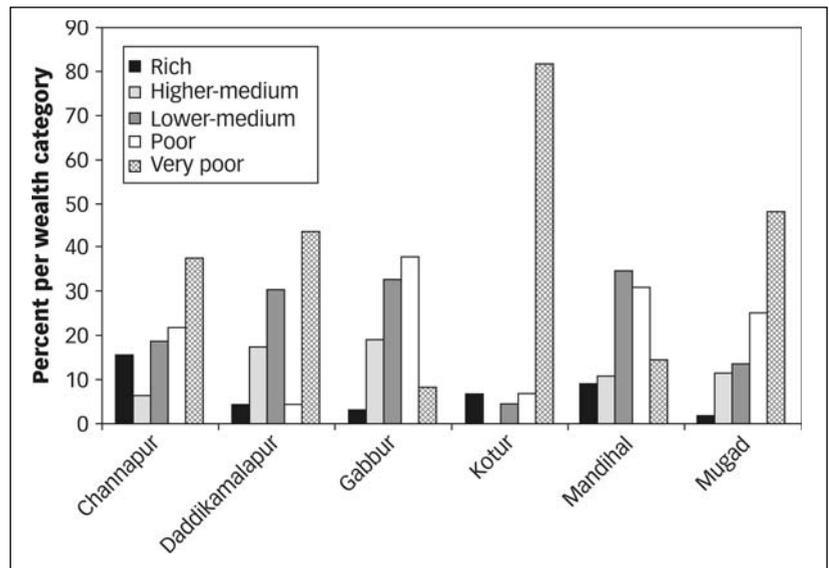


FIGURE 1
Wealth categories of sampled self-help groups by village

39 per cent, respectively. Thus, statistically, the very poor group was slightly under-represented relative to the make-up of the whole population, while the lower-medium group was slightly over-represented. This under-representation of the very poor was most notable in Gabbur, but the converse was true in Kotur, where the very poor were over-represented in the sample SHGs. When numbers of households in each wealth class in the sample SHGs were compared (using the χ^2 test), with numbers derived from the whole population, they did not differ significantly from expected, at $\alpha = 0.05$. This indicates that, while deliberate targeting of the poor and the very poor did not work, neither, on average, did the SHGs discriminate against the poorer categories. Given that the very poor and poorest sometimes display reluctance to commit to SHGs, the NGOs may have been rather more successful than average in encouraging those able to join groups to do so.

Other studies indicate that this pattern for SHGs is fairly typical in India and beyond. Holvoet⁽³⁾ describes similarly NGO-mediated groups in Tamil Nadu, southern India, and reported that 76 per cent of microfinance clients globally are women. In the project described in this paper, 64 per cent of groups were women's groups. Premchander⁽⁴⁾ describes a similar pattern in southern Karnataka state, India.

Views vary as to the advisability of having mixed wealth classes in SHGs. When discussing social capital in community groups, McCarthy et al. stated that: "*Heterogeneity in wealth, ethnicity and employment actually increases network capacity, but generally leads to lower organizational capacity.*"⁽⁵⁾ They also argue that great heterogeneity in wealth may diminish the capacity to establish common goals, as also reported by other observers.⁽⁶⁾ In the study villages near Hubli-Dharwad, it was found that the human capital that wealthier and better-educated members brought to SHGs appeared to facilitate their functioning rather than lead to internal divisions. These wealthier members often adopted responsible positions such as secretary or treasurer within the groups, and experience indicated that this was advantageous to the groups. The NGOs and the research team also had to consider the longer-term sustainability of the groups once the project funding had ended, and previous experience had taught them that groups with mixed wealth and educational status endured the test of time better.

As indicated in Table 1, Gabbur is an unofficial settlement falling within the urban boundary. Several decades previously, villagers had been relocated for health reasons to New Gabbur, two kilometres away, when the city diverted the sewers into the local stream,⁽⁷⁾ but they had to cross the busy NH4 to reach their fields. Gradually, the villagers migrated back and re-established the village of Old Gabbur. This gave them quite a strong sense of social cohesion and, in such a small village, take-up of SHG membership was very high; it would have been difficult to exclude better-off people, particularly because the proportion of very poor in the population was low compared to that in larger and more distant villages. One reason why the proportion of very poor people was lower than in the other five villages is that many of the landless (traditionally the poorest sector in rural India) were diversifying their livelihoods into dairying, using buffalo, and were directly retailing milk house to house in nearby Hubli, as reported by Brook et al.⁽⁸⁾ This had the effect of moving many of the landless out of the very poor and poor categories.

3. Holvoet, N (2005), "The impact of microfinance on decision-making agency: evidence from south India", *Development and Change* Vol 36, pages 75–102.

4. Premchander, S (2003), "NGOs and local MFIs – how to increase poverty reduction through women's small and microenterprise", *Futures* Vol 35, pages 361–378.

5. McCarthy, N, C Dutilly-Diané and B Drabo (2004), "Cooperation, collective action and natural resources management in Burkina Faso", *Agricultural Systems* Vol 82, pages 233–255.

6. Agrawal, A (2001), "Common property institutions and sustainable governance of resources", *World Development* Vol 29, pages 1649–1672; also Place, F, G Kariuki, J Wangila, P Kristjanson, A Makauki and J Ndubi (2004), "Assessing the factors underlying differences in achievements of farmer groups: methodological issues and empirical findings from the highlands of Central Kenya", *Agricultural Systems* Vol 82, pages 257–272.

7. As described by Bradford, Brook and Hunshal (2003), see reference 1.

8. Brook, R M, P Bhat and A Nitturkar (2006), "Livelihoods from dairying enterprises for the landless in the peri-urban interface around Hubli-Dharwad, India", in D F M McGregor, D Simon and

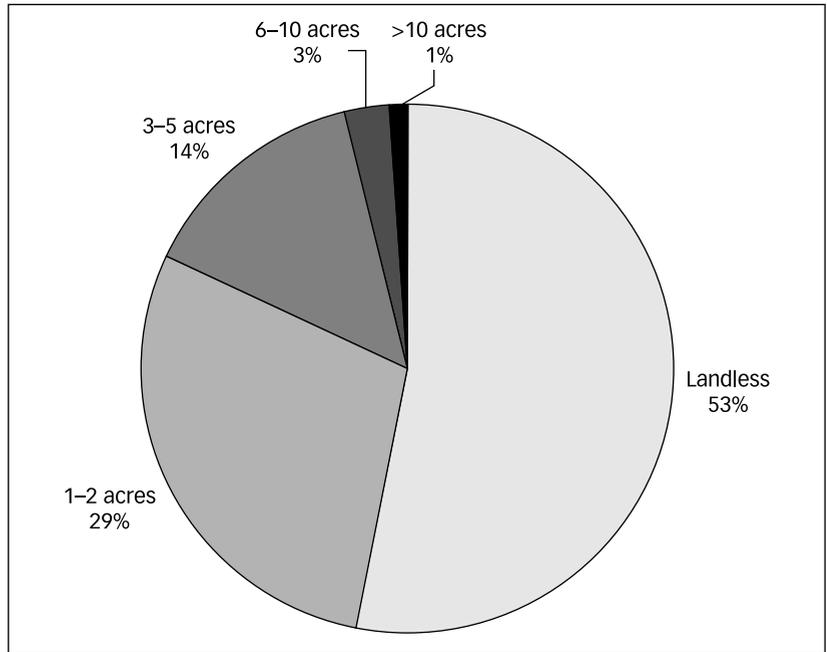


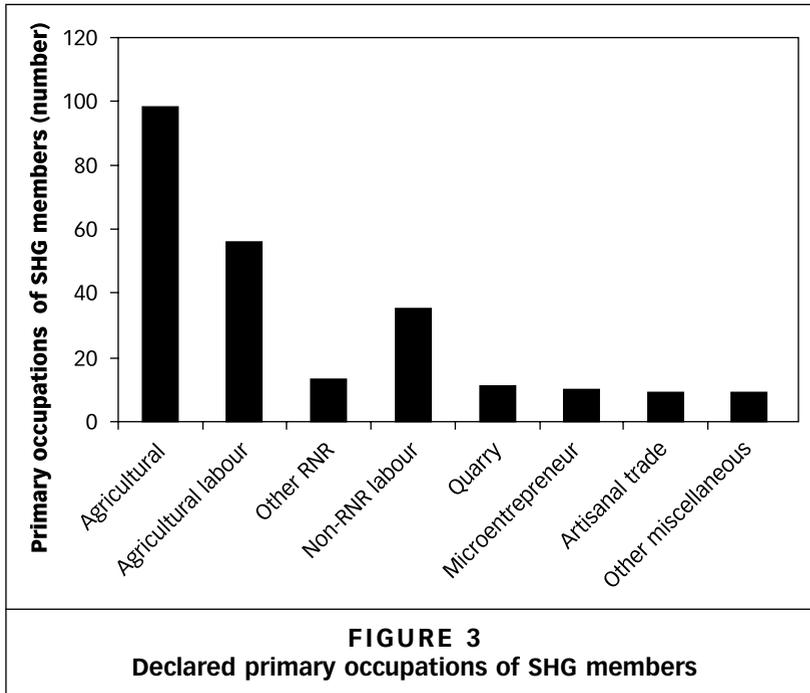
FIGURE 2
Categories of land holding size by members of self-help groups

NOTE: 1 acre = 0.4 hectares

D A Thompson (editors),
*The Peri-Urban Interface in
 Developing Areas: Approaches
 to Sustainable Natural and
 Human Resource Use*,
 Earthscan, London,
 pages 94–103.

Eighty-two per cent of sample SHG members were either landless or marginal farmers (owning less than two acres, or 0.8 hectares). While many of them undoubtedly were poor, clearly this 82 per cent is a greater proportion than is accounted for by the very poor and poor categories alone. This indicates that some of the wealthier groups also owned little land (Figure 2). Nevertheless, despite the generally small areas of land held, the great majority of sample members (69 per cent) still classified their main occupation as agriculture, agricultural labour or renewable natural resource-related (Figure 3). This indicates that, despite the proximity to the city, traditional occupation patterns still prevailed. However, a significant proportion declared their primary occupation to be outside the agricultural sector, which is indicative of the wider range of employment opportunities afforded by proximity to urban centres. The category of non-renewable natural resource (RNR) labour refers to manual labour, typically in construction. In Mandihal, and to a lesser extent in Mugad, many people worked in quarries that supply building stone, gravel and road ballast. Many others were petty traders (microentrepreneurs) of various descriptions.

A majority of SHG members (56 per cent) also declared a secondary occupation. Of those who said that their main occupation was agriculture (crop production), 21 per cent supplemented this with agricultural labour on others' land, indicating that their own land could not provide the entire household's income requirements. Agricultural labour is arduous (often 10–12 hours work per day) and poorly paid (women were typically



paid Rs 25 per day, and men Rs 40).⁹ On the other hand, 46 per cent had non-RNR labour as a secondary occupation (particularly during the dry season), and 10 per cent declared dairy production was their secondary occupation. Of those who said that agricultural labour was their main occupation, 73 per cent had no secondary occupation, indicating that they were tied to their village, which prevented them from taking advantage of the more remunerative occupations available in the nearby urban area. Seventy-nine per cent of those whose primary occupation was agricultural labour were classified as being either poor or very poor, whereas for those in the agriculture group (crop production), the corresponding figure was 49 per cent.

9. UK£ 1 = approximately Rs 75.

V. EFFECTS OF MICROFINANCE

Within this context, the two NGO partners implemented savings and loans systems within each SHG. Members paid their weekly deposits (typically Rs 10), and once the capital had built up sufficiently, members could then take out loans at a low interest rate (set by the group, but usually 2 per cent per month). These loans had to be repaid before new loans could be taken out. Consequently, and also due to internal group social pressure, defaulting was rare (Figure 5). When each SHG had accumulated sufficient capital and members felt ready, a bank account was opened. This stage was reached as quickly as possible to encourage engagement with banking institutions and to provide a safe location for each group's capital. The banks considered that lending to a properly constituted SHG was a worthwhile risk, and they were willing to lend.

SHG members took it in turns to visit the bank to deposit funds or to make withdrawals, and for many, particularly women, this was their first encounter with the banking system. Previously, the banks had not been considered by the poor and illiterate as suitable institutions for them, as they were perceived as bureaucratic and unwilling to help those without collateral. This perception changed dramatically during the life of the project, as SHG members became familiar with banking procedures and the advantages banks had to offer.

Approximately halfway through the project period (the exact timing depended on the readiness of the SHGs), SHG federations were established in each village. Each SHG elected two members to sit on an overseeing SHG, called a *mahasangha* in BAIF-facilitated villages, or a village development committee in IDS-facilitated villages. The role of these committees was to ensure that SHGs functioned according to their by-laws, to resolve disputes, and to sanction loans larger than an SHG's own savings could fund. Starting in April 2003, and again in April 2004, the project made available UK£ 2,000 (Rs 150,000) as a revolving loan fund, to be shared each year between the six participating villages and to be disbursed by these overseeing committees.

Over the three-year period, in the 18 SHGs being studied, 1,158 loans with an aggregate value of Rs 1.6 million (approximately UK£ 21,300) were made to 232 members, and 14 joint loans were made to small groups within the SHGs (Table 2). Eleven members from the SHGs being studied did not borrow any funds, although it is possible that households within this group may have had a family member in one of the other non-sampled SHGs. It is notable that 77.1 per cent of the funds raised for loans came from members' own subscriptions and the 2 per cent per month interest levied on loans, which was added to the SHG capital held; thus, the SHG system was a very effective means of redirecting finance within the community. A further 14.3 per cent was raised from bank loans, with the SHG raising the loan on behalf of individuals wishing to borrow. These loans had the advantage of lower interest rates (typically about half the rate levied by the SHGs), and members could take them out before an existing SHG loan had been repaid, so they were more flexible. The revolving fund proved to be very successful, and the SHGs sampled here took out slightly more than their fair share of the total of UK£ 4,000 made available. Once these loans are repaid to the overseeing SHG, they will be available in perpetuity, beyond the life of the project. The mean size of loans taken from these three sources was similar, with loans from the revolving fund being slightly larger than those from the banks or the

TABLE 2
Source and size of loans (2001–2004)

Source of loan	Total borrowed (Rs) 2001–2004	Per cent of total	Mean loan size (Rs)
SHG	1,238,221	77.1%	1,289
Bank	229,500	14.3%	1,396
Revolving fund	137,600	8.6%	1,529
Total	1,605,321		

SHGs. The smallest loans granted were for only Rs 100, a sum much too small for a bank to contemplate lending. The largest was Rs 7,500, and the mode was Rs 1,000.

As one of the objectives of the project was to facilitate the movement of the poor and very poor out of poverty, it was of great interest to understand the use this sector made of the easier availability of finance. Very poor members took out an average of just over five loans each (Table 3), although some very poor members took out 14 or even 15 loans over three years, repaying each one before a new one commenced (Figure 4). However, their mean loan size was significantly smaller than for other wealth classes, indicating an unwillingness to overstretch their ability to repay.

The wealth class that took most advantage of this microfinance was the poor group, with an average of more than seven loans taken per member during the study period (Table 3), and an average loan size not significantly different from the wealthier classes. There was also a gender dimension to borrowing, in that women's groups took out 74 per cent of the value of loans from SHGs and 82 per cent from the revolving funds, a greater amount than their proportional representation. The rich class did avail themselves of the microfinance facility but took out fewest loans, maybe because they had access to other sources of finance, or possibly because they were the lowest priority within each SHG if funds for loans were limited (although this is speculation, as we had no evidence of this).

It has been reported that microfinance made available by the more formal microfinance institutions, in the absence of facilitating agencies such as NGOs, may exclude the poor and vulnerable.⁽¹⁰⁾ In many countries with frequently reported microfinance programmes (the most famous examples being the Grameen Bank in Bangladesh and the Bank Rakyat Indonesia), the microfinance organizations are often large, and granting credit is their sole purpose. Shaw⁽¹¹⁾ and Amin et al.⁽¹²⁾ examined some aspects of such microfinance institutions, which operate without the agency inputs that NGOs provide. Amin et al.⁽¹³⁾ concluded that the poor were more likely to seek loans from a microfinance institution than the non-poor (in their study, these institutions were the Grameen Bank, the

10. Amin, S, A S Rai and G Topa (2003), "Does microcredit reach the poor and vulnerable? Evidence from northern Bangladesh", *Journal of Development Economics* Vol 70, pages 59–82; also Shaw, J (2004), "Microenterprise occupation and poverty reduction in microfinance programmes: evidence from Sri Lanka", *World Development* Vol 32, pages 1247–1264.

11. See reference 10, Shaw (2004).

12. See reference 10, Amin et al. (2003).

13. See reference 10, Amin et al. (2003).

TABLE 3
Effect of wealth class on mean size of loan and number of loans taken per member (2001–2004)

Wealth class	Mean size of loan (Rs)	Mean number of loans taken per member
Rich	1,598	5.08
Higher-medium	1,649	5.36
Lower-medium	1,347	5.25
Poor	1,346	7.60
Very poor	985	5.23
Probability	0.001	0.051

NOTE: Residuals of data were not normally distributed, therefore data were logarithmically transformed prior to analysis (one-way analysis of variance). Probability refers to the chance that the null hypothesis (that mean size or number of loans did not differ between wealth classes) was rejected.

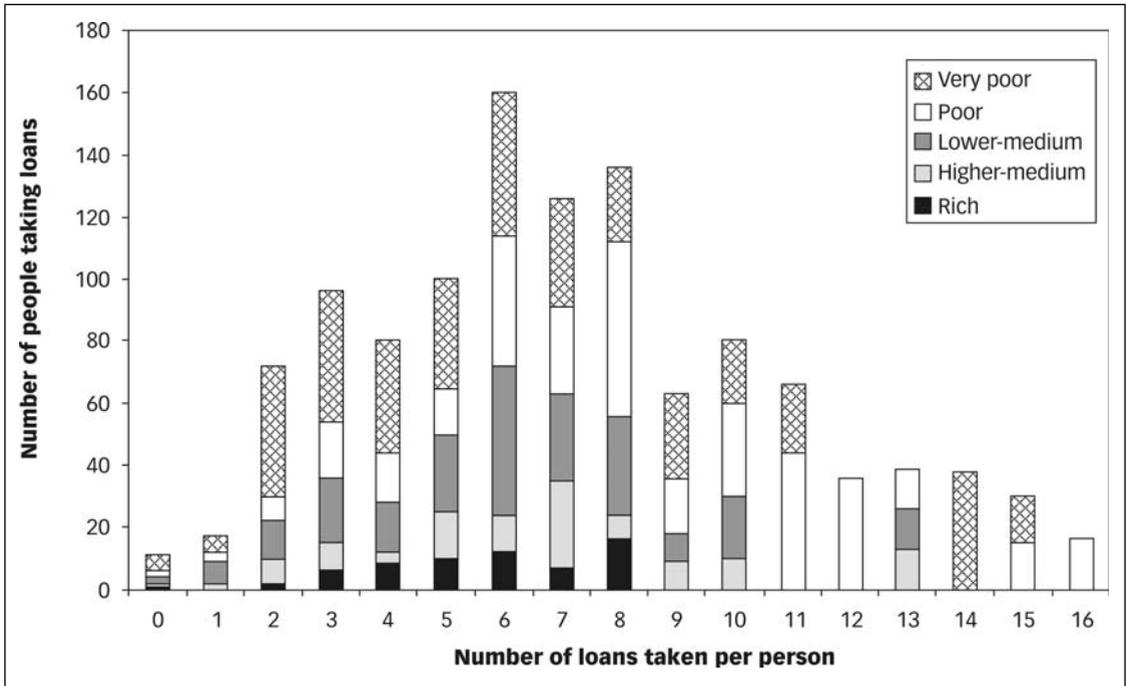


FIGURE 4
Number of loans taken per SHG member, including wealth class effects

14. See reference 3; also see reference 4.

Bangladesh Rural Advancement Committee (BRAC) and the Association for Social Advancement (ASA)). These institutions were less successful at reaching the vulnerable (and particularly the vulnerable **and** poor), whom they defined as being households that were unable to perfectly insure themselves in the event of a household-specific shock.

The current project (and others documented in India⁽¹⁴⁾) showed that NGO involvement in the formation of SHGs presented a distinct advance over the approach of microfinance corporations in a number of respects. Group-based savings and loans schemes can be established quickly in an area (if there are no pre-existing microfinance corporations); they can be more flexible with regard to the purpose for which loans are taken (e.g. so-called “non-productive” purposes); and they are less bureaucratic, which is important in cases where the poor and illiterate are intimidated by formal institutions (as was the case in Hubli-Dharwad). However, the question of whether the really poor can be engaged remains. The evidence from the current study is that the poor and very poor who were members did take advantage of microfinance. However, the number of poor and very poor joining SHGs was no greater than their proportion in the general population of the six villages, so many either did not or could not join SHGs, for reasons that were not rigorously determined. However, anecdotal evidence suggested that the very poorest felt excluded because they could not afford the Rs 10 weekly subscription, or they had dependents that they could not leave in order to attend meetings.

The purposes for which loans were taken were recorded. These were classified broadly into agriculture (inputs for crop or livestock production),

income-generating activities (IGAs, which also included investment in agriculture to increase outputs) and non-IGAs (or consumptive loans, such as smoothing out fluctuations in household budgets, health or school fees, and weddings). These were necessary to regularize household affairs and reduce obligations to others. This pattern of development and activity was also observed in other SHGs in India.¹⁵

Figure 5 shows trends in the purposes of loans over three years. Loans disbursed in the first year were low, as new SHGs were formed, accumulated savings and became accustomed to this new form of microfinance. Sums lent in 2003 and 2004 increased for all purposes, although loans for agricultural production did not increase materially between 2003 and 2004 (although only ten months of the latter were included in this study). The number of loans used for income generation (including agricultural production) formed 51.2 per cent of the total. Loans for agriculture accounted for 37.5 per cent of the total; those for non-agricultural but renewable natural resource-based income-generating activities (RNR IGAs) (e.g. fruit or flower businesses) accounted for 2.9 per cent of the total; and non-RNR IGAs (e.g. stocking small shops, bangle selling) accounted for 10.8 per cent of all loans. This illustrates the point that despite their peri-urban location, the majority of SHG members still wished to invest in agriculture- or RNR-based livelihoods.

Almost half of all loans (48.8 per cent) were for “non-productive” purposes. Predominant among these (and the largest single category of all loans) was domestic consumption shortfalls (28.1 per cent of all loans). Other purposes included: social events such as weddings; school fees and medical bills; house improvements, such as repairs; legalizing “informal” electricity connections; and in some cases, building extensions. Surprisingly few (only six) were used to pay off money lenders,¹⁶ maybe

15. See reference 3; also see reference 4; and Kumaran, K (1997), “Self-help groups: an alternative to institutional credit to the poor: a case study in Andhra Pradesh”, *Journal of Rural Development* Vol 16, Hyderabad, India, pages 515–530.

16. The rule for SHG loans was that a member had to pay off a loan fully before another could be taken out. Anecdotally, it was found that some thought this was inflexible and so took out bank loans if they needed more than one loan at a time. These six members used their SHG loans to pay off money lenders, thus incurring a debt with a much lower rate of interest.

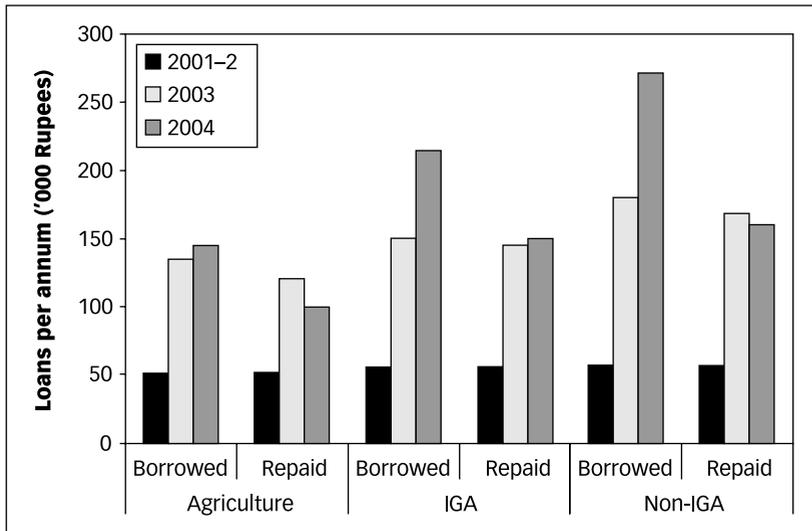


FIGURE 5
Trends over time for quantity of SHG funds utilized for agriculture, income-generating activities (IGAs) and non-income activities (non-IGAs)

indicating that people used these sources of finance (at usurious rates of interest, often 10 per cent per month) as a very last resort. Levels of debt were not recorded in this research, although anecdotal evidence indicates that SHG members reported payment of debt in kind, for example by providing labour in lieu of cash. This finding emphasizes the importance of not excluding “non-productive” loans in this system of microfinance, as happens with formal microfinance institutions, which tend to lend only for microentrepreneurial purposes. Regularizing household affairs may allow the lender to engage in IGA activities, if freed from such domestic anxieties. As found in other studies, the default level was very low, being almost zero in 2002, and 4 per cent, 7 per cent and 8 per cent for IGA, non-IGA and agriculture, respectively, in 2003. The outstanding amounts in 2004 were mostly on extant loans.

Identifying the different patterns among the villages was not a primary objective of this study, as the villages were so different from one another. However, the pattern in the number of loans taken out per SHG member (Figure 6) is noteworthy. The Gabbur and Mugad members took out the greatest number of loans (individual loans only, excluding the small number of within-SHG group loans). In Gabbur, there were two SHGs in the sample, one women’s and one men’s, with a total of 37 members, who took out 287 loans between them. Fifteen per cent (44 in number) of these loans were for dairy production, often for buying new buffalo stock. Mean loan size for dairy production was Rs 3,354, twice the average loan size. Other important reasons for production loans were for buying fodder (10 per cent) or buying stock for a fodder supply business (5 per cent). As reported by Brook et al.,⁽¹⁷⁾ dairying has proved to be an effective means of moving poor people out of poverty, and Gabbur, with its near-urban location, has a distinct advantage in this regard. For Gabbur, which was new to NGO microfinance facilitation at the start of the project, this represents an enthusiastic adoption of this means of access to microcredit. Mugad, on the other hand, had a much longer history of NGO activity,

17. See reference 8.

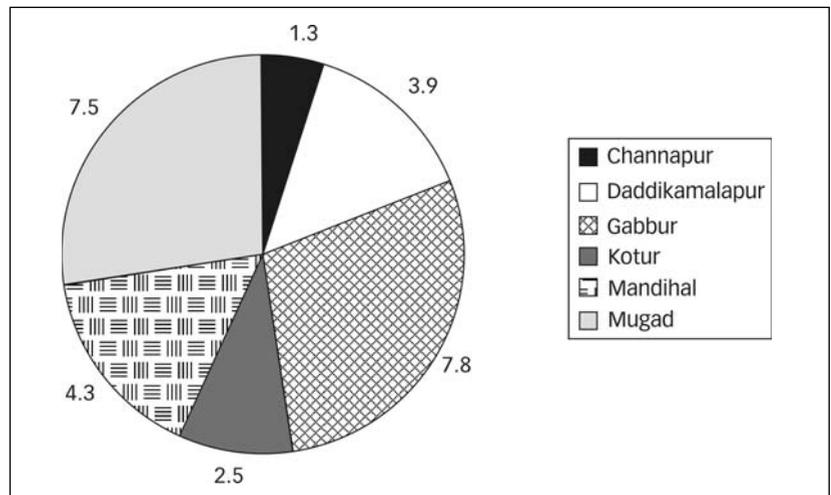


FIGURE 6
Average number of loans per person, per village

so high rates of loan uptake might not be surprising. These findings from Gabbur and Mugad may be compared to the other four villages, particularly Kotur and Channapur, both new to this kind of NGO activity, and without the great incentive to take up loans that dairying presented in Gabbur. Although more research over a longer period is required for confirmation, these findings may indicate that increased levels of uptake of this form of microcredit occur where there is either a long history of NGOs offering this service or where there is a readily identifiable commercial purpose for small loans.

The SHG model of community mobilization and the increased availability of microfinance had an effect upon livelihood strategies for the majority of members, with 67 per cent reporting an additional occupation, the expansion of an existing enterprise or a move to a new job. Of course, changes also occurred that were not directly related to SHG loans, but most of the changes reported were directly attributable to project effects. Of those who reported change, 15.2 per cent started poultry enterprises, and investment in new goat and dairy enterprises accounted for 14.6 per cent and 10 per cent, respectively. In response to a marketing and micro-enterprise development programme in Mugad village, 31 women set up a soap powder-making business, at one point selling more than 250 kilograms per month. In addition to the new enterprises, 13 members expanded their existing dairy enterprises and three enlarged their goat and poultry businesses.

An independent impact study⁽¹⁸⁾ of this project found that between 2001 (before the project) and 2005, mean household savings by poor SHG members⁽¹⁹⁾ increased by 647 per cent (from Rs 305 to Rs 2,278), while for the non-poor, the increase was 126 per cent (from Rs 4,229 to Rs 9,547). They found that household income had on average increased by 40 per cent, and that the poor SHG participants, especially women, had been catching up with the non-poor. Among poor households, the average income had increased to above the state poverty line.⁽²⁰⁾ Specifically, household income for poor SHG members increased by 52 per cent between 2001 and 2004, and by 35 per cent for the non-poor.⁽²¹⁾

VI. CONCLUSIONS

The formation of SHGs, primarily for the purpose of establishing informal microcredit systems and mutual support and encouragement, was a great success for the majority of those who became members. This was undoubtedly aided by the peri-urban location of the project villages, which significantly assisted in the identification and establishment of alternative enterprises or the expansion of existing ones (such as dairying, goats and poultry), as also found by Shaw⁽²²⁾ in Sri Lanka. It is very doubtful that the development outputs of the project could have been achieved without the agency of the NGO partners. New enterprises tended to reflect the existing agricultural expertise of the microentrepreneurs, unless particular effort was expended in training participants to explore other non-natural resource-based options. It was concluded that the NGO-mediated self-help group model of community mobilization and microfinance provision was largely successful in terms in increasing social, human and financial capital.

18. ITAD (2005), *Final Technical Report, NRSP Impact Assessment Case Studies – PU Suite 1*, PD 138, Report to DFID, London, 123 pages.

19. Here, "poor" refers to the wealth categories used by the impact study, which were approximately the same as "poor" and "very poor" as defined in this paper.

20. See reference 18, page 50.

21. These figures need to be compared to Gross State Domestic Product (GSDP) for Karnataka for the period 2000–01 to 2003–04. Agricultural sector domestic product shrunk to 69.4 per cent over the four-year period (largely due to a prolonged drought), while per capita GSDP grew by 6.9 per cent. Statistics were sourced from the government of Karnataka website, accessed 26 September 2007 at <http://des.kar.nic.in/SIP/sdp2.html>.

22. See reference 10 Shaw, (2004).

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